S&P Global Ratings

RatingsDirect®

Peabody Trust

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This report does not constitute a rating action.

Credit Highlights

Overview

Enterprise profile	Financial profile
In S&P Global Ratings' view, Peabody Trust (Peabody)'s strong market position and focus on traditional social housing activities underpin its credit quality.	We project that financial metrics will strengthen through fiscal 2026 (ending March 31, 2026) but remain relatively weak, despite management's mitigating actions.
--Peabody's focus on social and affordable housing lettings, and relatively contained exposure to more cyclical sales activities, should provide predictable revenue.	--Under our base case, Peabody's financial performance will be subdued due to the rising cost base amid inflation and substantial investment needs in existing homes.
--We consider that demand for Peabody's properties should remain high, supported by significantly lower average general needs rents than market rent in its areas of operations across London and Southeast England.	--We expect that reduced new homes development and increasing disposals of noncore assets will moderate debt intake, but debt metrics remain under pressure due to a high interest rate environment.
--We view positively that management is taking mitigating actions to manage current cost pressures, however, we expect a slow recovery from its currently weak position with a time lag for improvements to materialize.	--We estimate the group's liquidity will remain very strong, backed by large undrawn facilities.

We expect that Peabody's management will take actions that may gradually lead to stronger credit metrics through fiscal 2026, from the weak level estimated in fiscal 2024 amid the current challenging economic environment. In line with our previous review, we understand that the group is significantly scaling back the development of new homes while continuing to dispose of noncore assets, which we believe will limit debt build-up.

Following the rent cap in fiscal 2024, we predict that Peabody can increase rents to appropriately compensate for potential cost inflation in the coming two to three years, based on the regulatory regime for English social housing providers. At the same time, we expect elevated investments in existing homes will continue to pressure adjusted EBITDA. Also, despite about 80% of the total debt carrying a fixed rate, high interest rates in the near term will affect the group's interest costs, constraining the recovery of its debt metrics. We see a risk that the improvement could be further delayed if the unfavorable economic environment continues.

Outlook

The negative outlook reflects our view that elevated investments required in existing homes and high interest rates, amid inflationary pressure, could further weaken Peabody's financial metrics, despite management's mitigating actions.

Downside scenario

We could consider lowering the ratings on Peabody over the next 18 months if management fails to mitigate inflationary cost pressures or if investments in existing homes exceed our base-case expectations. Pressure on debt metrics could also stem from higher-than-anticipated debt-funding of new homes development or rising interest costs.

Furthermore, we could lower the rating if we were to revise downward our view of the likelihood of extraordinary support to Peabody from the U.K. government in the event of financial distress.

Upside scenario

We could revise the outlook to stable if we notice a gradual strengthening of Peabody's debt metrics in line with our base case. Specifically, we would consider a stable outlook if management succeeded in reining in costs, resulting in a sustained improvement of nonsales adjusted EBITDA. Under this scenario, we would expect the group's nonsales S&P Global Ratings-adjusted EBITDA interest coverage to improve toward 1x.

Rationale

Enterprise profile: Strong market position and continued focus on traditional social housing activities support the credit metrics

Peabody is one of the largest housing associations in England. With more than 105,000 units in its portfolio across more affluent regions of London and Southeast England, it has more financial and operational resources than most peers to absorb external shocks. We think that demand for its properties will remain high, because its average general needs rent, at about 50% of the prevailing market rent, is relatively low compared with peers. The strong demand is also evident in the group's average vacancy rate of 1.3% over the past three years, slightly below the sector average in England.

We expect that Peabody will remain focused on the social and affordable housing letting sector, for which revenue is more predictable and countercyclical than sales activities. In our view, the group will lower its exposure to market sales in tandem with its plan to reduce new home development. We project that the exposure to sales income, including that generated by joint ventures, will be contained at about 20% of the group's adjusted revenue on average in the next two to three years.

We recognize management's proactive approach to prevent its financial position from further deteriorating amid headwinds in the sector. The group is scaling back its new development and identifying noncore assets for sale, in addition to its regular asset disposal program, which will provide more financial headroom without jeopardizing the long-term sustainability of operations. Still, we expect a slow recovery from its currently weak credit metrics as the improvements take time to materialize. Also, we view that the economic environment in the U.K. remains difficult, with inflationary pressure and high interest rates. Considering that Peabody will still need to invest heavily in its existing stock, to meet regulatory requirements--in terms of fire safety or energy efficiency, for example--we think that it could become challenging to execute the strategy as planned while maintaining the entity's financial resilience.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023, on RatingsDirect).

Financial profile: Credit metrics will remain weak despite management's mitigating actions

We forecast financial performance will remain depressed because we assume the group is still facing rising costs due to inflation and considerable investments in its existing stock. We project that adjusted EBITDA and EBITDA margins will erode in the current fiscal year because the government's 7% cap on rent increases is limiting revenue growth while inflation keeps pushing up the cost base. From next year, we expect the group will introduce rent increases that can slightly outpace inflation, contributing to a modest improvement. Meanwhile, we assume the group will receive funding, including via the Building Safety Fund and the Social Housing Decarbonisation Fund, which will partly offset some of the related costs. That said, financial performance could face greater pressure if high inflation persists and management cannot fully achieve its plan on cost efficiencies.

We anticipate that Peabody will contain its debt intake since it is reducing new homes development, which is in line with our previous expectations. We also consider that it will receive additional cash proceeds from the disposal of high value, noncore assets on top of its regular asset disposal program. This will support investments in existing homes and help partly fund its development, although we note some of the planned disposals are still at an early stage. However, debt metrics will still face strain because we estimate that the cost of debt is rising in the current year due to interest expense from the portion of debt at variable rates. We project interest rates will gradually decrease toward fiscal 2026, which should reduce some of the interest expense burden despite rising debt levels. Nevertheless, we think the recovery of debt metrics will be slow.

We continue to view that Peabody has a very strong liquidity but also see a risk that some liquidity sources from the sale of noncore assets might take time to materialize. The group's liquidity sources cover uses approximately 1.9x in the next 12 months. We forecast liquidity sources of about £1.8 billion--comprising cash, undrawn and available revolving credit facilities, asset sales, grant receipts, and cash from operations (adding back the noncash cost of sales). This will cover liquidity uses of about £940 million--mainly capital expenditure and debt service payments. At the same time, we believe Peabody retains strong access to external liquidity when needed.

Government-related entity analysis

We believe there is a moderately high likelihood that Peabody would receive timely extraordinary support from the U.K. government in the case of financial distress. This provides two notches of uplift from the stand-alone credit profile. Since one of the key goals of the Regulator of Social Housing (RSH) is to maintain lender confidence and low funding costs across the sector, we believe it is likely that the RSH would step in to try and prevent a default in the sector. We base this view on previous instances of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress, and think this would also apply to Peabody.

Environmental, Social, And Governance

We think U.K.-based social housing providers are exposed to elevated environmental and social risks that relate to affordability of services and increased investment in existing homes.

These include inflationary pressures, along with the need to enhance the quality of social housing stock, especially around fire and building safety, as well as the government's environmental agenda to achieve energy efficiency and net-zero carbon emissions.

We think these risks apply to Peabody, in line with the sector. However, we note that the group is continuing to Invest In fire and building safety as well as energy efficiency.

Key Statistics

Peabody Trust--Financial statistics

	--Year ended March 31--				
Mil. £	**2022a**	**2023a**	**2024bc**	**2025bc**	**2026bc**
Number of units owned or managed	105,293	107,449	108,024	108,267	109,253
Adjusted operating revenue	942.3	1,097.0	1,068.3	1,037.4	1,091.2
Adjusted EBITDA	165.8	142.0	167.6	175.3	216.0
Nonsales adjusted EBITDA	138.1	110.0	144.4	161.9	200.7
Capital expense	546.7	465.0	623.8	519.1	557.3
Debt	4,435.3	4,554.0	4,738.0	5,019.5	5,265.5
Interest expense	151.1	176.0	254.4	239.5	212.9
Adjusted EBITDA/Adjusted operating revenue (%)	17.6	12.9	15.7	16.9	19.8
Debt/Nonsales adjusted EBITDA (x)	32.1	41.4	32.8	31.0	26.2
Nonsales adjusted EBITDA/interest coverage(x)	0.9	0.6	0.6	0.7	0.9

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

Rating Component Scores

Peabody Trust--Ratings score snapshot

Enterprise risk profile	3
Industry risk	2
Regulatory framework	3

Peabody Trust--Ratings score snapshot

Market dependencies	1
Management and governance	4
Financial risk profile	4
Financial performance	5
Debt profile	6
Liquidity	2
Stand-alone credit profile	bbb
Issuer credit rating	A-

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Non-U.S. Social Housing Sector Outlook 2024: At A Turning Point?, Nov. 29, 2023
- Non-U.S. Social Housing Providers Ratings Score Snapshot: November 2023, Nov. 15, 2023
- Non-U.S. Social Housing Providers Ratings Risk Indicators: November 2023, Nov. 15, 2023
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023
- U.K. Social Housing Providers' Credit Headroom Could Tighten If The Operating Environment Deteriorates, Oct. 4, 2023
- United Kingdom Outlook Revised To Stable From Negative On Moderating Fiscal Risks; 'AA/A-1+' Ratings Affirmed, April 21, 2023
- U.K. Social Housing Borrowing 2023: On Pause, March 28, 2023
- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2023, March 27, 2023

- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2023, March 27, 2023
- Non-U.S. Social Housing Providers Ratings History: March 2023, March 27, 2023
- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022
- Non-U.S. Social Housing Sector Outlook 2023: The Most Negative Bias Since 2018 Implies Significant Pressure On Ratings, Dec. 1, 2022
- Inflation To Erode The Performance Of U.K. Public Finance Sectors, Nov. 29, 2022
- Cap On Rent Increases Is Consistent With Our Base Case For English Social Housing Providers, Nov. 17, 2022
- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 2022
- Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022
- Rated U.K. Social Housing Providers' Creditworthiness Could Suffer If The Gap Between Rent And Cost Increases Persists, Aug. 1, 2022
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers, June 8, 2021

Ratings Detail (as of December 15, 2023)*

Peabody Trust	
Issuer Credit Rating	A-/Negative/--
Senior Secured	A-
Issuer Credit Ratings History	
07-Oct-2022	A-/Negative/--
20-Aug-2021	A-/Stable/--
08-Jul-2019	A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.