CREDIT OPINION

19 November 2024

Update

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RATINGS

Peabody Trust

Domicile	London, United Kingdom
Long Term Rating	A3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Peabody Trust (United Kingdom)

Update to credit analysis

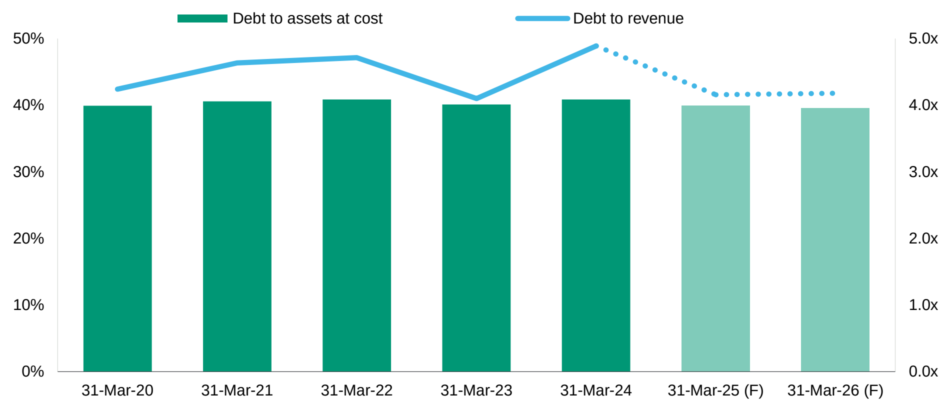
Summary

The credit profile of Peabody Trust (Peabody, A3 stable) reflects its scale as one of the largest housing associations in the UK, its strong debt metrics and its solid liquidity. Its credit profile also reflects weakened financial performance and risks relating to market sales. Peabody benefits from the strong regulatory framework governing English housing associations and our assessment that there is a strong likelihood that the government of the United Kingdom (Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1

We expect Peabody's gearing to remain stable, and debt to revenue to strengthen over the medium term

Debt to assets at cost (%, LHS) and debt to revenue (RHS), fiscals 2020 to 2026



Source: Peabody and Moody's Ratings

Credit Strengths

» Large housing association with strong balance sheet and robust debt metrics

» Solid liquidity

» Supportive institutional framework in England

Credit Challenges

» Weakened financial performance

» High exposure to market sales

Rating Outlook

The stable outlook reflects our view that Peabody's financial performance will improve and its debt metrics remain broadly stable over the medium term.

Factors that Could Lead to an Upgrade

Upward pressure on the ratings may occur if financial performance is substantially better than expected, a significant reduction in debt or a marked increase in government support for the sector.

Factors that Could Lead to a Downgrade

The ratings could face downward pressure if financial performance deteriorates further, debt growth is much higher than anticipated or if there is less government support for the sector.

Key Indicators

Exhibit 2

Peabody Trust

	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25 (F)	31-Mar-26 (F)
Units under management (no.)	65,588	66,257	66,916	105,531	106,917	107,121	108,698
Operating margin, before interest (%)	23.7	22.9	20.0	16.7	17.3	22.6	20.6
Net capital expenditure as % turnover	39.6	51.0	58.9	28.2	49.9	38.5	30.4
Social housing letting interest coverage (x times)	1.8	1.8	1.7	0.9	0.8	1.0	1.1
Cash flow volatility interest coverage (x times)	3.0	(1.3)	(0.5)	1.6	0.5	1.4	1.7
Debt to revenues (x times)	4.2	4.6	4.7	4.1	4.9	4.2	4.2
Debt to assets at cost (%)	39.9	40.6	40.9	40.1	40.9	39.9	39.6

Source: Peabody and Moody's Ratings

Detailed Rating Considerations

Peabody's A3 ratings combine: (1) its Baseline Credit Assessment (BCA) of baa2; and (2) a strong likelihood of extraordinary support coming from the UK government in the event that Peabody faced acute liquidity stress.

Baseline Credit Assessment

Large housing association with strong balance sheet and robust debt metrics

Peabody has demonstrated a consistent ability to expand through both organic growth and strategic mergers and acquisitions, including merging with Catalyst Housing Association in April 2022. This has positioned Peabody as one of the UK's largest housing associations, with a large portfolio of over 106,000 units under management primarily in London and the Home Counties. This scale not only enhances Peabody's market presence and political leverage but also strengthens its financial resilience, underscored by the 40,000 unencumbered properties that bolster its borrowing capacity with an estimated £3.8 billion available for future borrowing needs.

Despite a slight increase in gearing from 40% in fiscal year 2023 to 41% in fiscal year 2024, Peabody's gearing remains well below the A3 peer median of 51%, and is likely to remain so. This is due to management decisions to reduce development and instead to focus expenditure on improving its existing stock. Peabody is also targeting consistent levels of fixed asset sales over the next five years, which could lower its gearing to below 35% of assets at cost by fiscal 2029.

Peabody's debt to revenue increased to 4.9x in fiscal 2024 from 4.1x in fiscal 2023, attributed to lower than expected income from market sales. We anticipate the debt to revenue ratio to peak in fiscal 2024, with a projected decline from fiscal 2025 onwards as capital expenditure declines compared to previous trends.

Solid liquidity

Peabody maintains solid liquidity, underpinned by stringent liquidity management practices. As of August 2024, the organisation's liquidity resources surpassed £1 billion, comprising £133 million in cash and £893 million in readily accessible, undrawn, secured credit facilities. This liquidity level comfortably exceeds 1.3 times the forecast cash requirements for the next two years.

Peabody also has access to an additional £380 million in extended, undrawn facilities, including a fully secured £100 million retained bond maturing in 2048 and £280 million in uncommitted shelf facilities. The organisation's liquidity policy mandates maintaining sufficient cash and committed credit facilities to cover 18 months of planned expenditures, a threshold that extends to three years when uncommitted facilities are considered.

Supportive institutional framework in England

The sector's credit quality will continue to benefit from the strong institutional framework governing English housing associations (HAs) reflected in an Operating Environment score of a3 and a Regulatory Framework score of a1. These scores are assigned at a national level and reflect the following credit considerations:

The regulator maintains strong oversight through quarterly returns, long-term business plans, annual reviews, and regular programmed inspections for HAs with more than 1,000 units. The regulator has a strong track record of intervention in cases of mismanagement or financial stress.

The operating environment for English housing associations remains supportive. Demand for social housing is very high and English housing associations retain some expenditure flexibility, with a track record of controlling costs to mitigate lower income. The UK government confirmed that for fiscal 2026, rent increases within the English sector will be pegged at the September Consumer Price Index (CPI) plus 1%. A consultation is currently ongoing to extend the policy out to at least fiscal 2031, which would provide more certainty to the sector.

Weak financial performance

Peabody's operating margin remains low at 17% in fiscal 2024, consistent with the prior year and underperforming in comparison to peers. This is largely due to high levels of repairs and maintenance expenditure within its social housing lettings business. Although it does expect its margin to improve over the medium term, it is unlikely to return to pre-pandemic levels as repairs volumes are consistently higher, Peabody still has a considerable amount of building safety expenditure to complete, and other issues like damp and mould remediation are likely to continue.

Peabody's social housing letting interest coverage (SHLIC) ratio is anticipated to stay low in the medium term, recorded at 0.8x in fiscal 2024 below the A3-rated peer median of 1.0x. This is attributed to increased interest costs due to sharp debt growth. However, an improvement in the SHLIC ratio to an average of 1.1x over the next three years is forecast, supported by a recovery in operating performance and limited interest cost growth owing to reduced funding requirements. Nonetheless, potential deviations from expected market sales or planned fixed asset sales could alter this trajectory.

High exposure to market sales

Peabody's strategy remains significantly tied to the cyclical nature of the housing market. Market sales, including income from joint ventures, made up 15% of its total revenue in fiscal 2023, a sharp fall from 34% in the same period due to project delays. Over the next three years, we predict an uptick in the proportion of revenue from market sales, expected to average 24% of turnover over this period. This strategy heightens the variability in Peabody's operating cash flows, as indicated by the dip in its cash flow volatility interest coverage (CVIC) ratio to 0.5x in fiscal 2024 from 1.6x in fiscal 2023, primarily because of diminished market sales receipts in fiscal 2024. An improvement in the CVIC ratio to above 1.0x over the coming three years assumes successful realisation of market sales.

Peabody collaborates with commercial developers in joint ventures to mitigate risks associated with market sale schemes. The Thamesmead waterfront, its largest joint-venture, delivered in partnership with Lendlease, plans to create 15,000 homes of mixed tenure within the extensive 30-year Thamesmead regeneration scheme in southeast London, delivered over multiple phases. The scope of the plan will be contingent upon the proposed Docklands Light Railway (DLR) extension to Thamesmead by Transport for London (TfL, A2 stable).

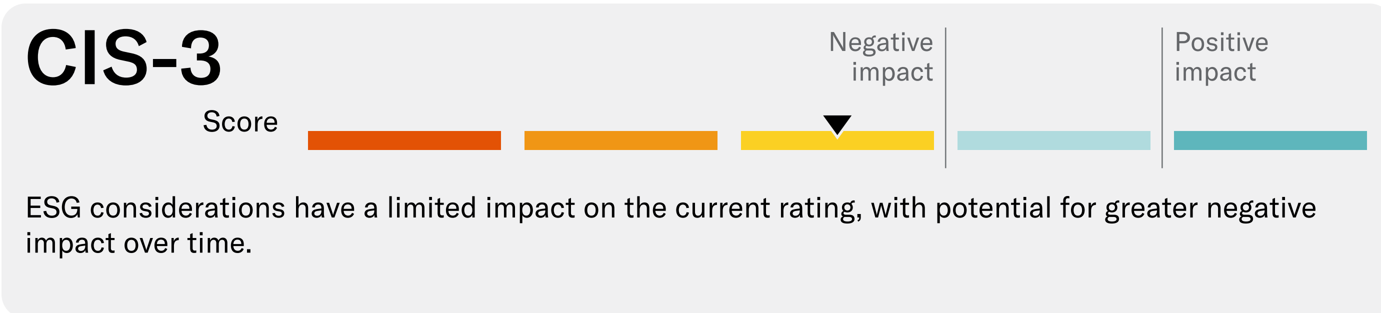
Extraordinary Support Considerations

The strong level of extraordinary support factored into the ratings reflects our view of the UK government's support for the housing association sector due to its political, economic and social importance. Extraordinary support for the sector is predominantly exercised through sector regulators whose wide-ranging powers in cases of financial distress include facilitating mergers. However, this process can be protracted and is reliant on housing associations agreeing to merge, which is more challenging in a weakened operating environment, with high expenditure pressures and high borrowing costs. In addition, our assessment that there is a very high default dependence between Peabody and the UK government reflects their strong financial and operational linkages.

ESG considerations

Peabody Trust's ESG credit impact score is CIS-3

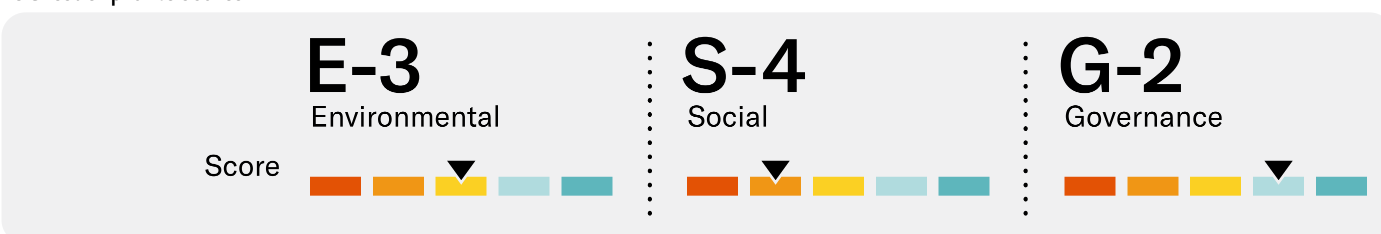
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Peabody's **CIS-3** reflects our view that ESG risks have a materially negative impact on its rating. In particular, expenditure requirements related to carbon transition and building and safety will weaken margins and increase financing needs, as well as affordability constraints for low-income tenants, which have led to government-imposed sub-inflationary rent caps.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Peabody has a material exposure to environmental risks (**E-3**), relating to a significant proportion of its stock requiring retrofit to meet energy efficiency standards by 2030 (carbon transition risks), leading to increased expenditure.

Social

Peabody is highly exposed to social risks (**S-4**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks) for which Peabody has considerable expenditure requirements, which will weigh on its margins and interest coverage over the medium term. Peabody is also affected by cost of living or affordability pressures on social tenants (demographic and societal trends), which led to the UK government capping social rent increases below inflation in fiscal 2024 in England, which will also have a negative impact on margins.

Governance

Peabody has limited governance risks (**G-2**). Its governance is fit for purpose, with strong financial management policies and processes, detailed reporting and a somewhat more complicated organisational structure due to significant joint ventures, but we consider this mitigated by the group's strong management and governance practices. The regulatory framework also supports good governance in the sector.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating Methodology and Scorecard Factors

The assigned BCA of baa2 is the same as the scorecard-indicated BCA outcome.

The methodologies used in this rating were European Social Housing Providers, published in July 2024, and Government-Related Issuers, published in January 2024.

Exhibit 5

Fiscal 2024 scorecard

Peabody Trust			
Baseline Credit Assessment	**Sub-factor Weighting**	**Value**	**Score**
Factor 1: Institutional Framework			
Operating Environment	10%	a	a
Regulatory Framework	10%	a	a
Factor 2: Market Position			
Units Under Management	10%	106,917	aa
Factor 3: Financial Performance			
Operating Margin	5%	17.3%	baa
Social Housing Letting Interest Coverage	10%	0.8x	b
Cash-Flow Volatility Interest Coverage	10%	0.5x	b
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.9x	ba
Debt to Assets	10%	40.9%	ba
Liquidity Coverage	10%	1.3x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa2**
Assigned BCA			**baa2**

Source: Peabody and Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
PEABODY TRUST	
Outlook	Stable
Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	A3
Senior Secured MTN -Dom Curr	(P)A3
Senior Unsecured MTN -Dom Curr	(P)A3
PEABODY CAPITAL NO 2 PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3
PEABODY CAPITAL PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Ratings

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454