MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
28 January 2022

Rate this Research

RATINGS

Jigsaw Homes Group Limited

Domicile	United Kingdom
Long Term Rating	A2
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.

Contacts

Maylis Chapellier **+44.20.7772.1429**
Analyst
maylis.chapellier@moodys.com

Csaba Szontagh **+44.20.7772.8738**
Associate Analyst
csaba.szontagh@moodys.com

Sebastien Hay **+34.91.768.8222**
Senior Vice President/Manager
sebastien.hay@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

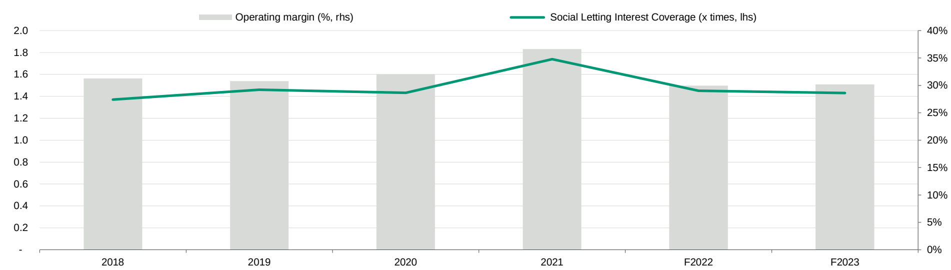
Jigsaw Homes Group Limited (United Kingdom)

Update to credit analysis

Summary

The credit profile of Jigsaw Homes Group Limited (Jigsaw, A2 stable) reflects the group's strong financial metrics and improved financial management, with a modest appetite for market sales. It also incorporates the group's moderate debt metrics, set to increase, as well as its increased development ambitions, although they are less risky than those of its peers. Jigsaw also benefits from the strong regulatory framework governing English housing associations (HAs), and our assessment of a strong likelihood that the Government of the United Kingdom (UK, Aa3 stable) would intervene if Jigsaw faces acute liquidity stress.

Exhibit 1
Strong operating margins underpin Jigsaw's strong interest cover ratios



F: Forecast.
Source: Jigsaw and Moody's Investors Service

Credit strengths

» Strong financial performance

» Risk-averse financial management with a modest appetite for market sales

» Supportive institutional framework

Credit challenges

» Increased development ambitions, which weaken liquidity coverage

» Debt burden is moderate but will increase in the next three years

Rating outlook

The stable outlook on Jigsaw's rating reflects our expectation that its financial performance will remain strong and in line with its peers with an A2 rating and its financial management will continue to be risk averse. The stable outlook also reflects the stable operating and policy environment for English HAs.

Factors that could lead to an upgrade

Upward pressure on Jigsaw's rating would result from a reduction in gearing (debt to assets at cost) below 40% on a sustained basis, and social housing letting interest coverage (SHLIC) at or above 2.0x on a sustained basis.

Factors that could lead to a downgrade

One or a combination of the following key factors would result in downward pressure on Jigsaw's rating: a material increase in borrowing, gearing increasing above 50%, increased market sales exposure or underperformance of market sales, or further scaling up of development risk and capital spending. In addition, a weaker regulatory framework or a dilution of the overall level of support from the UK government could strain the rating.

Key indicators

Exhibit 2

Jigsaw Homes Group Limited	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22 (F)	31-Mar-23 (F)
Units under management (no.)	33,945	34,442	34,696	35,198	35,328	36,495
Operating margin, before interest (%)	31.3	30.8	32.0	36.6	30.0	30.2
Net capital expenditure as % turnover	29.4	5.7	13.5	1.1	52.6	29.7
Social housing letting interest coverage (x times)	1.4	1.5	1.4	1.7	1.5	1.4
Cash flow volatility interest coverage (x times)	2.0	2.0	2.0	2.4	1.6	1.6
Debt to revenues (x times)	3.9	3.7	3.9	3.6	3.7	4.0
Debt to assets at cost (%)	51.4	49.6	48.5	47.1	49.3	49.4

*Cash flow volatility interest coverage (CVIC) for fiscal 2018 and 2019 use a proxy, because fiscal 2019 is the first year of operations for Jigsaw as a merged entity, and therefore 2018 is a restated statement. F: Forecast.
Source: Jigsaw and Moody's Investors Service

Detailed credit considerations

Jigsaw's A2 rating combines a Baseline Credit Assessment (BCA) of a3 and a strong likelihood of extraordinary support from the UK government in case of acute liquidity stress.

Baseline credit assessment

Strong financial performance

Jigsaw's financial performance is strong, with a 37% operating margin in fiscal 2021, significantly outperforming its initial budget and its peers with an A2 rating (median of 29%). The group's operating margin increased significantly from 32% in 2020 through efficiency savings and pandemic-induced delays in costs. Similar to its peers, Jigsaw experienced a maintenance backlog because of lockdowns, but it caught up with this backlog in September 2021. We expect Jigsaw to continue to outperform its peers — although not as significantly as in fiscal 2021 because of the backlog recovery — averaging 31% over the next three years.

Jigsaw's performance in the social housing letting business has been strong, with an average margin of 37% over the past three years. However, its margin on first-tranche shared ownership (FTSO) decreased to 16% in fiscal 2021 from 26% the year earlier because of disruptions to the housing market caused by the pandemic. Underpinned by strong margins, Jigsaw's SHLIC of 1.7x and CVIC of 2.4x are both in line with peer medians.

Risk-averse financial management with a modest appetite for market sales

Jigsaw maintains a modest risk appetite. The merged entity is focused on low-risk social housing, averaging 84% of turnover over the past three years; and it has a minimal appetite for higher-risk market sales. Social housing lettings tend to generate stronger and more stable financial performance than market sales activities, as demand for social housing remains high across the country, and as a significant proportion of social or affordable rents are paid via government transfers in the form of housing benefits. Market sales exposure peaked at just 8% of turnover in fiscal 2021. The exposure will decrease to a low 4% of turnover over the next five years, significantly below the A2 peer median of 18% over the same period.

Jigsaw has streamlined its structure and governance since its creation in April 2018, following the merger of New Charter Group and Adactus Housing. The group now has four registered providers (RPs, including the group and three other RPs covering different locations), a development provider, a support entity and a treasury vehicle. The group also participates in two joint ventures, both for HAs with one to deliver projects on employment and the other dealing with procurement. Although this simplification is positive, the structure remains more complex than those of peers with four registered providers (including the parent). Further consolidation is difficult because of contract differences. Despite the relatively complex organisation, Jigsaw was awarded a G1/V1 rating by the regulator.

Jigsaw also streamlined its debt structure by establishing a treasury vehicle, which simplifies monitoring processes because most of its debt is now under one set of covenants. This has also allowed the Group to release additional borrowing capacity from over-secured loans and has removed restrictive debt covenants from its main loan agreement. Further simplification of the debt structure is likely, which is a credit positive.

Supportive institutional framework

The sector's credit quality will continue to benefit from the strong institutional framework governing English HAs reflected in an Operating Environment score of a2 and a Regulatory Framework score of a1. These scores are assigned at a national level and reflect the following credit considerations:

The English regulator maintains strong oversight through quarterly returns, long-term business plans, annual reviews, and by undertaking biennial In-Depth Assessments (IDAs) for large and complex HAs. In response to the pandemic, the regulator adapted some aspects of its oversight temporarily, for example, extending its liquidity monitoring, briefly pausing the programme of IDAs and delaying regulatory submissions to reduce the operational burden on HAs. The regulator has a strong track record of intervention in cases of mismanagement or financial stress with powers to provide financial assistance and/or make manager appointments where there has been a breach of regulatory standards.

The operating environment for English HAs has improved under more supportive policies for social rent increases and capital grant. Following four years of social rent reductions, HAs now benefit from a return to inflation-linked rent increases from April 2020 for five years. In addition, the government has committed to increased capital grant on more flexible terms for new social housing.

Counterbalancing the improvements, we expect policy to drive increased borrowing and development risk in the sector as it responds to the government's objective to deliver a significant increase in the construction of new homes.

Increased development ambitions will weaken liquidity coverage

Jigsaw's liquidity coverage decreased to 0.8x as of September 2021 because of the expected increase in capital spending. The HA holds cash and cash equivalents of £57 million and additional immediately available facilities of £77 million.

Jigsaw plans to increase its capital spending to around 40% of turnover over the next three years, compared with the average of 7% over the past three years. The increase is in line with two of its corporate priorities; to (1) achieve 800 units per annum by fiscal 2022, compared with 536 units in fiscal 2021 and to (2) become a carbon neutral business by fiscal 2050.

Jigsaw's development programme includes around 3,700 units between fiscal 2022 and 2026. Of these, 83% are likely to be for social or affordable rent and 17% for shared ownership. Jigsaw is likely to fund a significant proportion, 28%, of its five-year development programme with operating cash flow, relying on its highly cash-generative core social housing business. The HA also expects grant funding to cover an additional 23% its development, through its continued market engagement with Homes England, a credit positive as it limits debt funding.

The increase in capital spending also reflects the estimated costs to retrofit social housing stock and other energy efficiencies to achieve carbon neutrality by year 2050, in line with Jigsaw's Sustainability Strategy.

Despite the weakened liquidity coverage, liquidity risk is limited because of Jigsaw's treasury policies. Jigsaw's third golden rule is to maintain liquid funds equal to its forecast net cash outflow for a rolling-six-month period, plus a contingency amount of £5 million, and short-term funds equal to its forecast net cash flow outflow for a rolling-12-month period. Its treasury management strategy states that the group will ensure that it has sufficient liquidity to meet its contractually committed obligations in less than 18 months. This is in line with peers' and supports its credit profile. Jigsaw's fourth and last golden rule is to retain capacity to cope with a sudden 10% increase in operating costs or stop additional development programmes, which further support its ability to cope with economic shocks.

Debt burden is moderate but will increase in the next three years

Jigsaw's drawn debt was £697 million as of fiscal 2021, a slight decrease from £702 million in fiscal 2020. The debt burden is moderate with debt/revenue at 3.6x, below those of its peers with an A2 rating (median of 4.1x), and gearing (debt to assets at costs) at 47%, in line with those of its peers with an A2 rating.

Jigsaw plans to increase its debt to fund its development programme and retrofitting expenses. We expect Jigsaw's debt metrics to weaken to 4.4x revenue and 50% gearing by fiscal 2024. This will be lower than the level for its peers with an A2 rating, with medians of 3.8x and 49% forecast in fiscal 2024. Despite the expected debt increase, we note that Jigsaw will retain strong headroom against its debt covenants.

Jigsaw’s debt structure is relatively low risk, with a low proportion of variable-rate debt (22% as of September 2021, in line with its first golden rule, which limits the exposure to 30%) and moderate refinancing risk, with 23% of drawn debt maturing in the next five years, but very few bullet maturities (8% of total drawn debt). It has roughly £229 million in additional borrowing capacity based on unencumbered assets.

Extraordinary support considerations

Jigsaw Homes Group Limited has a strong level of extraordinary support, reflected by the wide-ranging powers of redress available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. Recent history has shown that the UK government is willing to support the sector because housing remains a politically and economically sensitive issue. The strong support assumption also factors in increasing exposure to non-core social housing activities in the sector, which adds complexity to HA operations; and the weakening of the sovereign’s financial resilience. Thus, an extraordinary intervention is slightly more difficult. In addition, our assessment that there is a very high default dependence between Jigsaw and the UK government reflects their strong financial and operational linkages.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Jigsaw Homes

We take into account the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Jigsaw, the significance of ESG factors to its credit profile is as follows:

Environmental considerations are significant to Jigsaw's credit profile. Although the impact of physical climate risks such as water shortages and flood risk are unlikely to be significant to HAs' credit profiles as they are managed by government authorities, energy efficiency and decarbonisation are becoming an increasingly acute priority for HAs with a target of all homes in England obtaining an energy performance certificate (EPC) of C or above by 2035. We expect this effort to require significant levels of capital spending, which would either divert cash flow away from development programmes or increase debt. Jigsaw has included achieving EPC C for all its properties by 2030 and to achieve zero carbon by 2050 in its business plan.

Social risks are significant to HAs’ credit profiles. In particular, the sector is exposed to risks stemming from socially driven policy agendas affecting social rents, benefits and capital grants in addition to the impact of demographic trends on demand which are captured in our assessment of the operating environment. We view the coronavirus pandemic as a social risk under our ESG framework because of its impact on health and safety. HAs are also affected by customer relations and product quality. The Grenfell fire tragedy in

June 2017 encouraged higher health and safety standards, with many HAs planning to increase spending on the quality of their existing stock.

Governance considerations are also important for HAs' credit profiles and are captured in our assessment of governance and management. In general, HA governance is strong with multiyear strategies supported by detailed forecasts, conservative liquidity policies and robust risk management (including stress testing).

Further details are provided in the "Baseline credit assessment" section above. Our approach to ESG risks is explained in our cross-sector methodology, General Principles for Assessing Environmental, Social and Governance Risks.

Rating methodology and scorecard factors

The assigned BCA of a3 is close to the scorecard-indicated BCA of baa1. The methodologies used in this rating were European Social Housing Providers, published in April 2018, and Government Related Issuers, published in February 2020.

Exhibit 3
Fiscal 2021

Jigsaw Homes Group Limited			
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%	35,198	a
Factor 3: Financial Performance			
Operating Margin	5%	36.6%	aa
Social Housing Letting Interest Coverage	10%	1.7x	a
Cash-Flow Volatility Interest Coverage	10%	2.4x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.6x	baa
Debt to Assets	10%	47.1%	ba
Liquidity Coverage	10%	0.8x	baa
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Suggested BCA			**baa1**

Source: Jigsaw and Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
JIGSAW HOMES GROUP LIMITED	
Outlook	Stable
Issuer Rating -Dom Curr	A2

Source: Moody's Investors Service

REPORT NUMBER 1317065

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
PUBLIC SECTOR EUROPE