MOODY'S INVESTORS SERVICE

CREDIT OPINION
29 February 2024

Update

Send Your Feedback

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
*AVP-Analyst*
maylis.chapellier@moodys.com

Sinan Li +44.20.7772.8652
*Ratings Associate*
sinan.li@moodys.com

Sebastien Hay +34.91.768.8222
*Associate Managing Director*
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 |

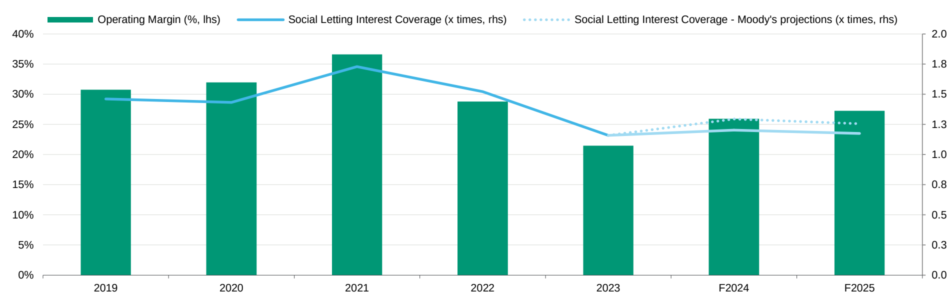
# Jigsaw Homes Group Limited (UK)

## Update following affirmation of A2 stable


## Summary

The credit profile of Jigsaw Homes Group Limited (Jigsaw, A2 stable) reflects the group's adequate gearing and sound financial management, with a modest appetite for market sales (particularly no outright sales). It also incorporates the group's maintained high development ambitions despite the challenging operating environment and the resulting increase in debt metrics. 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 act in a timely manner to prevent a default.


Exhibit 1
**Weakened operating margin and interest cover, but expecting to moderately improve**




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

## Credit strengths

» Operating margin in line with peers, although recently weakened

» Sound management with a modest appetite for market sales (with no outright sales)

» Supportive institutional framework

## Credit challenges

» Maintained high development ambitions, but liquidity coverage remains adequate

» Debt burden to increase in the next three years

## Rating outlook

The stable outlook reflects our expectation that Jigsaw's operating performance will recover thanks to rent income increase and cost control. It also reflects Jigsaw's stable risk-averse strategy, with low exposure to market sales.

## Factors that could lead to an upgrade

Upward pressure on the ratings could result from significantly improved gearing, interest coverage ratios or a significant increase in government support for the sector.

## Factors that could lead to a downgrade

Downward pressure on the ratings could result from a ramp-up in capital spending beyond fiscal 2024, that would led to material increases in debt levels, a significant sustained weakening in operating margins and interest coverage ratios, a significant deterioration in liquidity or a significant scaling up in market sales exposure. A weakening of the regulatory framework or dilution of the overall level of support from the UK government could also lead to downward pressure on the ratings.

## Key indicators

Exhibit 2

Jigsaw Homes Group Limited

| | 31-Mar-19 | 31-Mar-20 | 31-Mar-21 | 31-Mar-22 | 31-Mar-23 | 31-Mar-24 (F) | 31-Mar-25 (F) |
|---|---|---|---|---|---|---|---|
| Units under management (no.) | 34,442 | 34,696 | 35,198 | 35,732 | 35,992 | 37,312 | 38,266 |
| Operating margin, before interest (%) | 30.8 | 32.0 | 36.6 | 28.8 | 21.5 | 25.9 | 27.3 |
| Net capital expenditure as % turnover | 5.7 | 13.5 | 1.1 | 19.7 | 42.8 | 79.5 | 29.5 |
| Social housing letting interest coverage (x times) | 1.5 | 1.4 | 1.7 | 1.5 | 1.2 | 1.2 | 1.2 |
| Cash flow volatility interest coverage (x times) | 2.0 | 2.0 | 2.4 | 2.0 | 0.8 | 1.2 | 1.4 |
| Debt to revenues (x times) | 3.7 | 3.9 | 3.6 | 3.6 | 4.1 | 4.3 | 4.4 |
| Debt to assets at cost (%) | 49.7 | 48.5 | 47.1 | 45.1 | 46.2 | 50.6 | 51.2 |

Cash flow volatility interest coverage (CVIC) uses a proxy for fiscal 2019, as it is the first year of operations for Jigsaw as a merged entity. F: Forecast based on 2023 FFR.
*Source: Jigsaw and Moody's Investors Service*

## Detailed credit considerations

On 23 February 2024, Moody's affirmed Jigsaw's A2 ratings and changed the outlook to stable from negative.

Jigsaw's A2 rating combines a Baseline Credit Assessment (BCA) of a3 and a strong likelihood that the UK government would act in a timely manner to prevent a default.

### Baseline credit assessment

**Operating margin in line with peers, although recently weakened**

Jigsaw's operating margin weakened to 21% in fiscal 2023, significantly down from 29% in fiscal 2022. Whilst Jigsaw used to outperform peers, its operating margin is now in line with them. The decrease was driven by increased maintenance and major repairs and inflationary pressures including on utility costs. Additionally, in response to the anticipated cost pressures and to hedge themselves against further cost increases, the group initiated maintenance works that were originally scheduled in fiscal 2024, which contributed to the weakening of fiscal 2023 operating margin.

Jigsaw expects its operating margin to recover, averaging 27% over the next three years, driven by additional rent revenue from development completions.

Similar to peers, Jigsaw's performance continues to be pressured by cost inflation, increased repairs and maintenance demand as well as development delays due to labour and material shortages. In response to increased demand of repairs, Jigsaw has hired additional staff in fiscal 2024 to reduce the use of subcontractors and limit cost increases.

**Sound financial management with a modest appetite for market sales (with no outright sales)**

Jigsaw's financial resilience is supported by its well-defined, modest appetite for market sales, with no exposure to higher-risk outright sales. Jigsaw focuses on low-risk social housing lettings (SHL), which averaged 85% of turnover over the past three years. SHL tend to generate stronger and more stable cash flows than market sales activities, as demand for social housing remain 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.

The group structure is more complex than peers with four registered providers due to previous mergers - but the HA is looking into a potential simplification. Jigsaw is involved in two joint ventures, without financial or development risk. Both are for social housing with one to deliver projects on employment and the other dealing with procurement. In July 2023, Jigsaw retained its G1/V1 rating by the regulator.

**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 by undertaking biennial In-Depth Assessments (IDAs) for large and complex 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 remains supportive. Demand for social housing remains very high and the government has committed to increased capital grant on more flexible terms for new social housing. English HAs retain some expenditure flexibility and have a track record of reducing costs to mitigate lower income.

However, due to high rates of inflation in 2022, the government implemented a 7% ceiling on social rent increases from April 2023 for one year. The ceiling of 7% results in an adverse differential between rental income and cost growth, which we expect will drive lower margins and interest coverage across the sector in FY2024. The UK government has confirmed that the English sector will return to rent increases of consumer price inflation (CPI) plus 1% in FY2025, which will be favourable resulting in a rent increase of 7.7% in April 2024, compared to the recent reduction of CPI to 3.9% in November 2023.

**Maintained high development ambitions but liquidity coverage remains adequate**

Jigsaw plans to maintain high net capital spending at 41% of turnover over fiscal 2024-26. This is higher than A2-rated peers, with a median at 34% on average over the next three years. The increase is due to the group's more ambitious development targets introduced in fiscal 2022 and maintained despite the high inflation.

Jigsaw's development programme includes 4,305 units between fiscal 2024 and 2028. Of these, 73% are for social or affordable rent, 15% rent-to-buy, and 13% for shared ownership. The HA expects grant funding to cover 20% of its development costs, a credit positive as it limits debt funding.

The elevated capex also reflects the estimated costs to retrofit social housing stock to achieve EPC C by 2030. In fiscal 2023, Jigsaw successfully secured £1.7 million of match funding from the Social Housing Decarbonisation Fund to support energy efficiency improvements.

Despite the increased capital spending, liquidity risk is limited as illustrated by Jigsaw's liquidity coverage of 1.5x in December 2023, in line with A2-rated peers. In addition, Jigsaw's unencumbered asset position could support around £400 million of additional borrowing capacity. Jigsaw does not require any additional funding before March 2027.

**Debt burden to increase in the next three years**

Jigsaw plans to increase its debt at a faster pace than anticipated last year, due to the maintained development targets despite high inflation, with debt reaching £0.9 billion by fiscal 2026 (Moody's projections) from £0.8 billion in fiscal 2023. We expect Jigsaw's debt to revenue to remain high at an average of 4.1x over the next three years, significantly above the A2-rated peers median of 3.6x. The group's gearing is expected to increase, and will weaken against A2-rated peers, averaging 49% over the next three years, from 46% in fiscal 2023.

Jigsaw's debt structure is relatively low risk, with a low proportion of variable-rate debt at 5% as of December 2023, and a modest share of debt maturing in the next five years: 13% of drawn debt.

The increase in debt will also weigh negatively on Jigsaw's interest coverage ratios and limit their recovery after the 2023 decrease due to inflation and accelerated spending mentioned above. The group's social letting interest coverage (SHLIC) is expected to slowly improve over the next three years to 1.4x in fiscal 2026 (Moody's projections), with the additional revenues from new developments at relatively low marginal servicing costs. Similarly, Jigsaw's CVIC is expected to improve to an average of 1.5x over the next three years (Moody's projections). Both will remain below peers and below historical averages.

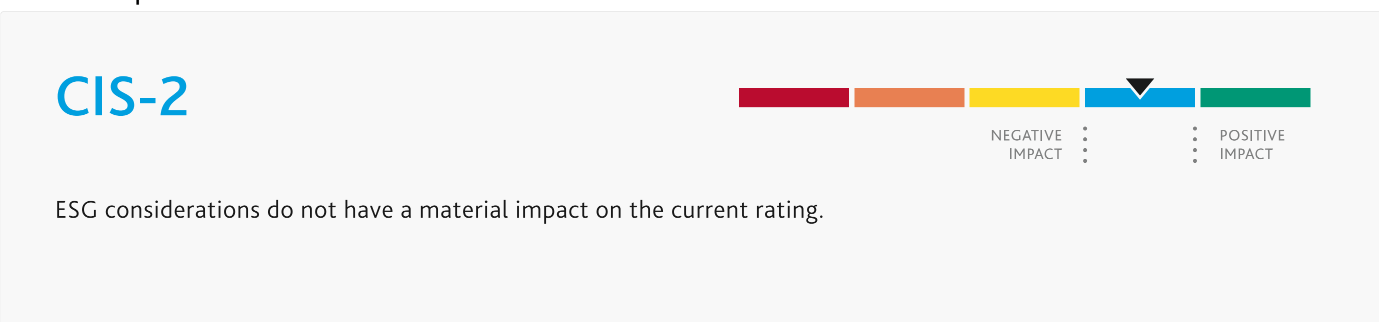
### Extraordinary support considerations

The strong level of extraordinary support factored into the rating 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 HAs 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 Jigsaw and the UK government reflects their strong financial and operational linkages.

## ESG considerations

### Jigsaw Homes Group Limited's ESG credit impact score is CIS-2

Exhibit 3
**ESG credit impact score**




*Source: Moody's Investors Service*

Jigsaw's **CIS-2** indicates that ESG risks have a limited impact on its rating. Although carbon transition risks and social risks are prevalent we consider that Jigsaw has the ability to effectively mitigate them through its strong governance and management practices. We also consider that the supportive regulatory framework for the sector offsets some ESG risks.

Exhibit 4
**ESG issuer profile scores**


*Source: Moody's Investors Service*

### Environmental

Jigsaw 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 2035 (carbon transition risks), leading to increased expenditure.

### Social

Jigsaw has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks) which weighs on expenditure and operating margins, and the impacts of 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

Jigsaw 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 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 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 January 2024.

Exhibit 5

**Fiscal 2023**

| Jigsaw Housing Group | | | |
|---|---|---|---|
| **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% | 35,992 | a |
| **Factor 3: Financial Performance** | | | |
| Operating Margin | 5% | 21.5% | baa |
| Social Housing Letting Interest Coverage | 10% | 1.2x | baa |
| Cash-Flow Volatility Interest Coverage | 10% | 0.8x | b |
| **Factor 4: Debt and Liquidity** | | | |
| Debt to Revenue | 5% | 4.1x | ba |
| Debt to Assets | 10% | 46.2% | ba |
| Liquidity Coverage | 10% | 1.3x | a |
| **Factor 5: Management and Governance** | | | |
| Financial Management | 10% | a | a |
| Investment and Debt Management | 10% | baa | baa |
| **Scorecard - Indicated BCA Outcome** | | | **baa1** |
| **Assigned BCA** | | | **a3** |

*Source: Jigsaw Homes Group, Moody's Investors Service*

## Ratings

Exhibit 6

| Category | Moody's Rating |
|---|---|
| **JIGSAW HOMES GROUP LIMITED** | |
| Outlook | Stable |
| Baseline Credit Assessment | a3 |
| Issuer Rating -Dom Curr | A2 |
| **JIGSAW FUNDING PLC** | |
| Outlook | Stable |
| Senior Secured -Dom Curr | A2 |

*Source: Moody's Investors Service*

REPORT NUMBER 1395450

### CLIENT SERVICES

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