MOODY'S

Rating Action: **Moody's changes Jigsaw's outlook to stable from negative, A2 ratings affirmed**

23 Feb 2024

London, February 23, 2024 -- Moody's Investors Service (Moody's) has today affirmed the A2 long-term issuer rating of Jigsaw Homes Group Limited (Jigsaw) and the A2 senior secured debt rating of Jigsaw Funding plc and changed the outlooks for both to stable from negative. Jigsaw's Baseline Credit Assessment (BCA) has also been affirmed at a3.

RATINGS RATIONALE

RATIONALE FOR CHANGING OUTLOOKS TO STABLE FROM NEGATIVE

The change in outlooks to stable from negative reflects Moody's view that Jigsaw's debt will grow at a slower pace than initially envisioned, spending less than planned on development, supporting its debt metrics. It also reflects Moody's expectation that Jigsaw's operating performance will strengthen relative to results recorded in fiscal 2023.

Due to the slower debt growth than previously anticipated, Moody's expects Jigsaw's gearing metrics will remain in lin with the A2-rated peer median at 49% over fiscal years 2024-26. Capital spending is lower than planned, as Jigsaw outperformed its prudent forecast. Jigsaw plans to build 4,000 units in five years by fiscal 2026 and will have delivered half of those by the end of fiscal 2024. Jigsaw's net capital expenditure relative to turnover is projected to decrease below peers from fiscal 2025, after a peak in fiscal 2024, limiting its exposure to development risk. Jigsaw also benefitted from higher grants and cash receipts than planned in fiscal 2024, limiting the debt growth.

Jigsaw's operating performance will recover from its fiscal 2023 dip as it benefits from additional rental income. Moody's expects Jigsaw's operating margin to average 27% over the next three years, up from 21% in fiscal 2023. Jigsaw expects to deliver over 900 new units by March 2024, compared to 701 units in fiscal 2023, which will boost its income. In addition, similarly to peers, Jigsaw will benefit from rent increases of 7.7% beginning April 2024, as well as from the gradual decrease in inflation.

RATIONALE FOR BCA AND RATINGS AFFIRMATIONS

The BCA and ratings affirmations reflect Jigsaw's risk-averse financial management and its strong focus on social housing lettings (SHL). This is a credit strength as SHL generates stable cash flows and benefits from strong demand. Jigsaw has limited exposure to market sales, as it only develops shared ownership units, which represent less than 5% of annual turnover in fiscal 2023 and over the next five years.

The affirmations also incorporate Jigsaw's strong liquidity, which increased following its December 2023 debt refinancing. Based on its current levels of liquidity, Jigsaw will not need to borrow again until March 2027. The refinancing also improved its covenant headroom and security position. Jigsaw's exposure to variable rate and refinancing risk were also slightly reduced and both are in line with peers.

Credit challenges will remain broadly unchanged over the next 2 years, including lower interest coverage ratios than peers. Moody's expects social housing letting interest coverage to slowly increase to 1.4x by fiscal 2026, from 1.2x in fiscal 2023, which will compare negatively to peers, with the A2-rated peer median at 1.7x in fiscal 2026. The increase in debt, although muted compared to the initial forecast, will lead to higher interest payments.

Jigsaw's A2 issuer rating combines a BCA of a3 and one-notch uplift based on Moody's assessment of a strong probability that the UK government would act in a timely manner to prevent a default.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

The overall impact of ESG risks on Jigsaw's ratings is limited (CIS-2).

Jigsaw has material exposure to environmental risks (E-3) because of significant expenditure required to meet energy efficiency standards by 2030. It also has material exposure to social risks (S-3) through sector-wide legislative requirements to improve the safety of rented social housing and uncertainty on social rent policy from fiscal 2026. Jigsaw does not have material exposure to governance risks (G-2). Its policies and management are fit for purpose and treasury risks are limited with low interest rate risk.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade could result from significantly improved gearing, interest coverage ratios or a significant increase in government support for the sector.

A downgrade could result from a ramp-up in capital spending beyond fiscal 2024, that would lead to material increase 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.

The methodologies used in these ratings were European Social Housing Providers published in April 2018 and available at https://ratings.moodys.com/rmc-documents/64685, and Government-Related Issuers methodology published in January 2024 and available at https://ratings.moodys.com/rmc-documents/406502. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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