CREDIT OPINION
7 February 2025

Update

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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.

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Jigsaw Homes Group Limited (UK)

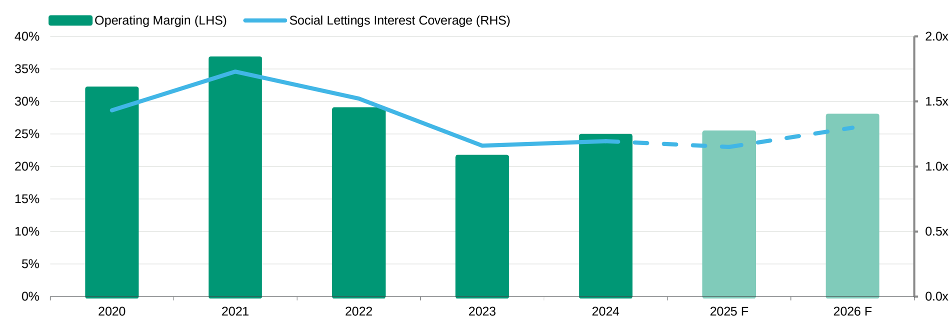
Update to credit analysis

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. It also incorporates the group's weaker interest coverage ratios and the expected 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

Operating margin and interest cover are expected to moderately improve



F: Forecast.
Source: Jigsaw and Moody's Ratings

Credit strengths

» Operating margin expected to continue to recover

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

» Supportive institutional framework

Credit challenges

» Debt burden to increase, weighing on ratios

» Interest covers to remain low

Rating outlook
The stable outlook reflects Jigsaw's stable risk-averse strategy and our expectation that operating performance will continue to recover from a low point in fiscal 2023.

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 that would led to higher 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-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.)	34,696	35,198	35,732	35,992	36,856	38,460	39,333
Operating margin, before interest (%)	32.0	36.6	28.8	21.5	24.7	25.2	27.8
Net capital expenditure as % turnover	13.5	1.1	19.7	42.8	49.0	41.5	20.0
Social housing letting interest coverage (x times)	1.4	1.7	1.5	1.2	1.2	1.1	1.3
Cash flow volatility interest coverage (x times)	2.0	2.4	2.0	0.8	1.2	1.5	1.6
Debt to revenues (x times)	3.9	3.6	3.6	4.1	3.9	3.8	4.0
Debt to assets at cost (%)	48.5	47.1	45.1	46.2	47.9	50.1	50.1

F: Forecast.
Source: Jigsaw and Moody's Ratings

Detailed credit considerations
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 expected to continue to recover
Jigsaw expects its operating margin to recover, averaging 27% over the next three years, driven by additional rent revenue from development completions. Should the rent settlement be implemented, Jigsaw will benefit from above inflation rent increase, as the HA only incorporated CPI flat increases in its business plan beyond fiscal 2026. Jigsaw's operating margin bounced back in fiscal 2024 to 25% from a low point the year before. Fiscal 2023 was low due to inflationary pressures and high demand on repairs, but also because Jigsaw decided to accelerate certain elements of its major works programme in face of rising inflation. In response to increased demand of repairs, Jigsaw also hired 56 additional staff in fiscal 2024 to reduce the use of subcontractors and limit cost increases.

Jigsaw is exiting a cycle of low required replacement as the majority of its kitchens and bathrooms were installed in between 2005 and 2014 and only need to be replaced now. Jigsaw has budgeted for the increased cycle of component replacement in its business plan and is working with consultants to smooth out the replacement peak.

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 86% 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. Jigsaw retained its G1/V1 governance and viability scores from the Regulator of Social Housing in January 2025.

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 to fiscal 2031, which would provide more certainty to the sector.

Debt burden to increase, weighing on ratios

Jigsaw plans to increase its debt to £1 billion by fiscal 2027, from £0.8 billion in fiscal 2024, to fund its capex. We expect Jigsaw's debt to revenue to remain high at an average of 4x over the next three years, above the A2-rated peers median of 3.5x. The group's gearing is expected to increase, and will weaken against A2-rated peers, averaging 50% over the next three years, from 48% in fiscal 2024.

Jigsaw's development programme includes 3,435 units between fiscal 2025 and 2029. Of these, 71% are for social or affordable rent, 16% rent-to-buy, and 13% for shared ownership. The HA expects grant funding to cover 23% of its development costs, a credit positive as it limits debt funding.

The capex also includes £33 million of energy efficiency costs to retrofit social housing stock to achieve EPC C by 2030. The vast majority of Jigsaw's stock is at EPC-C or above but the HA still needs to retrofit around 5,800 units or 17% of its stock. Jigsaw has secured £12 million from the Social Housing Decarbonisation Fund to support energy efficiency improvements. Lastly, the capex includes fire safety costs, with two buildings over 18 meters to remediate and seven buildings over 11 meters. Spending will peak in fiscal 2025 at £10 million before decreasing significantly as work has started on all of those buildings, with one exception, to start in fiscal 2026.

Despite the increased capital spending, liquidity risk is limited as illustrated by Jigsaw's liquidity coverage of 2.1x in September 2024, above A2-rated peers (1.8x). In addition, Jigsaw's unencumbered asset position could support around £400 million of additional borrowing capacity.

Jigsaw does not require any additional funding before October 2027. Nonetheless, Jigsaw is about to complete another treasury restructure which will increase its additional borrowing capacity to £477 million, push back the next funding need to end of 2029, increase its unencumbered asset position, reduce cost of debt, align covenant definitions and remove a near-term repayment.

Jigsaw's debt structure is relatively low risk, with a low proportion of variable-rate debt at 9% as of September 2024, and a modest share of debt maturing in the next five years: 9% of drawn debt.

Interest covers to remain low

The increase in debt will weigh negatively on Jigsaw's interest coverage ratios and limit their recovery. Net interest payments are expected to increase to £49 million by fiscal 2027 from £39 million in fiscal 2024, weighing on interest covers.

The group's social letting interest coverage (SHLIC) is expected to slowly improve over the next three years to 1.3x in fiscal 2027, from 1.2x in fiscal 2024. SHLIC is supported by the additional revenues from new developments at relatively low marginal servicing costs. Similarly, Jigsaw's cash flow volatility interest cover (CVIC) is expected to improve to an average of 1.7x over the next three years. Both will remain below peers and below historical averages.

However, Jigsaw hasn't forecast any cash interest received, or any fixed asset sales - both of which slightly lower its funding needs every year. The treasury restructure is expected to decrease interest payments by £0.7 million a year, a positive. Those could lead to a slightly better SHLIC and CVIC than currently anticipated.

Jigsaw's interest cover covenant headroom is sufficient throughout its business plan, a credit positive. The aforementioned treasury restructure will add £4 million of covenant headroom.

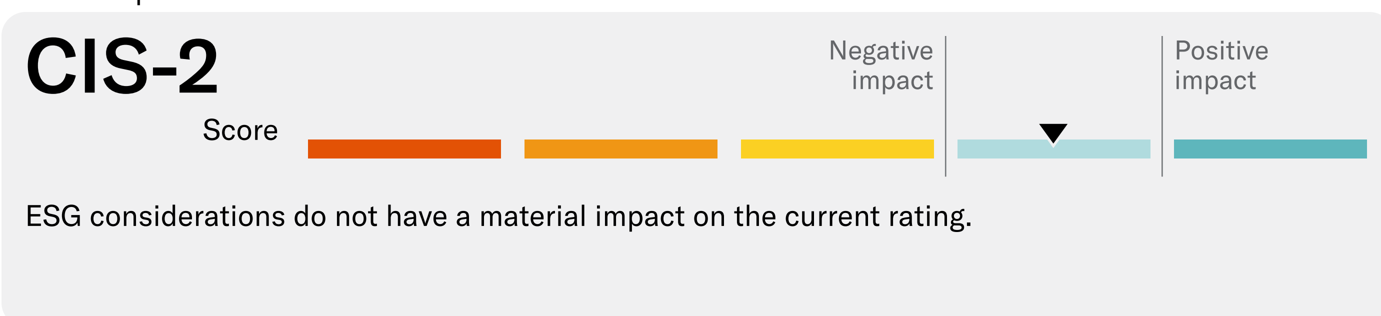
Extraordinary support considerations

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

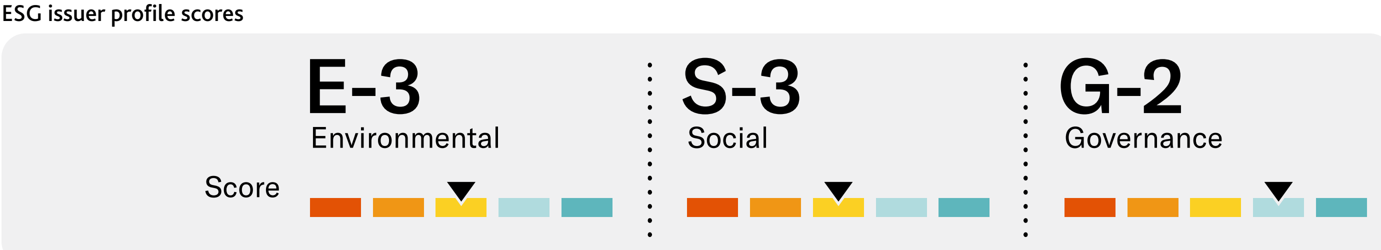
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

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 Ratings

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 2030 (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 and quality of existing stock (responsible production risks) and the vulnerability of the sector to tenant affordability considerations through the government's social rent policy. Those risks can materialise in the form of reduced operating margin and interest cover metrics.

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 July 2024, and Government Related Issuers, published in January 2024.

Exhibit 5
Fiscal 2024

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%	36,856	a
Factor 3: Financial Performance			
Operating Margin	5%	24.7%	baa
Social Housing Letting Interest Coverage	10%	1.2x	baa
Cash-Flow Volatility Interest Coverage	10%	1.2x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.9x	baa
Debt to Assets	10%	47.9%	ba
Liquidity Coverage	10%	2.1x	aa
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 Ratings

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 Ratings

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