FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Platform Housing Group Ltd's Outlook to Negative; Affirms IDRs at 'A+'

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Fitch Ratings - London - 19 Oct 2022: Fitch Ratings has revised the Outlook on Platform Housing Group Ltd's (Platform) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to Negative from Stable, and affirmed the IDRs at 'A+'. The Outlooks have been revised to Negative to reflect those of the UK (AA-/Negative).

Fitch has also affirmed the senior secured bonds issued by Platform's subsidiary Platform HG Financing Plc at 'A+'. A full list of ratings is below.

The ratings of Platform reflect continuing high demand for social and affordable housing, despite Covid-19 and Brexit, across the UK. Ongoing cash flow from rented properties supports robust financial performance, alongside considerable grant funding from Homes England within an industry that is tightly regulated by the Regulator of Social Housing (RSH).

KEY RATING DRIVERS

Status, Ownership and Control:

Platform is a private, not-for-profit, registered provider (RP) of social housing (SH) in the UK, and as such it is not under the ownership of the UK government due to its structure and status (in strict terms it has no legal owner). We view the regulatory framework for

English SH as having a robust legal basis, and the RSH as maintaining sound control and tight monitoring of RPs. The RSH's history of oversight and (non-financial) intervention in (rare) cases of distress is a key factor behind the sector's robustness. In the event of financial distress, we expect a transfer of assets and liabilities to another RP within the sector under the direction of the RSH.

Support Track Record:

Platform receives financial support through grants from Homes England (HE) at varying levels for social and affordable development. This is on an ongoing basis to support development, not to finance debt or prevent default. The regulator assesses governance and financial viability every 18-36 months, dependent on an RP's size, to assess need for intervention, and Platform's current regulatory judgement is G1/V1, the highest grading, despite a strong development programme.

Socio-Political Implications of Default:

In the unlikely event of financial default, other RPs can act as substitutes with only minor or temporary disruption to the service offered by Platform. Platform's development plan may have to be scaled down to adapt to its new financing capacity, which limits its ability to provide housing in general.

Financial Implications of Default:

Default would have a minimal impact on either the availability or cost of domestic financing of other RPs. Fitch believes that a default would be treated as an isolated case of mismanagement or viability issues and should, therefore, not affect the sector at large.

Standalone Credit Profile

Revenue Defensibility:

The 'Stronger' assessment is driven by high demand for social and affordable housing in the UK, and considers material sales activity of shared-ownership properties, with expected strong returns. Demand is expected to be exacerbated by inflationary pressures on individual households caused by the current economic environment.

The regulatory regime aims to maintain compensation for SH services at levels that would consistently support the solvency of not-for-profit RPs. This assessment considers that the impact of any outcome from the rent cap consultation currently outstanding would support Platform's solvency.

Platform's core SH business has limited revenue flexibility, as the UK government determines social-rent changes allowable year-to-year, with the possible cap in place this year being a slight variation on existing regulation. The existing regulation allows RPs' to increase rents by the consumer price index (CPI) plus 1% for five years from 1 April 2020; we anticipate this will be re-imposed after the expected cap lapses.

Platform anticipates cross-subsidisation through shared-ownership sales, which should offer some flexibility on pricing. Fitch sees limited risk for shared-ownership sales, given considerable demand for this product across the country, with further stimulus provided by government policies in place. The predominant funding sources will continue to be ongoing cash flow from core operations and Homes England grants, supported by surpluses from shared-ownership sales. Platform has been confirmed as a strategic partner of Homes England for the 2021-2026 programme and will receive GBP250 million in grants to develop about 4,700 new homes by 2026.

Operating Risk:

The 'Stronger' operating risk assessment reflects staff costs being broadly in line with peers' on average at 35% of cash operating expenditure. This is marginally higher than some peers', as Platform operates an in-house maintenance division, but is in line with those that maintain a Direct Labour Operation.

Platform has well-identified cost drivers and low potential volatility in major items. It has a conditional, phased development plan for material capex in the medium term that is funded through multiple streams of liquidity. Platform has limited costs in relation to fire safety in the medium term, as it maintains a low-rise asset base, but all fire remediation costs have been included in its current business plan. The sector is expected to face challenges in meeting decent homes 2, EPC C and net zero requirements, but we expect Platform to have sufficient capacity to cover these additional costs.

Regarding resource-management risk, Platform has no specific supply constraints on labour or resources in amount, cost or timing. It has flexible expenditure and limited committed operating spending on staff. Brexit has had an impact on the sector, as a whole, with fewer maintenance workers available, and shortages and price increases of materials. This has also been coupled with a general inflationary environment caused by world events that has affected all sectors. We expect this to lead to higher operating costs across the sector, which has been factored into our financial assessment.

Financial Profile:

Platform has maintained its strong performance despite sector challenges in recent years. Continued high demand for social and affordable housing, cost-efficiency measures and diversification into the non-core business should allow Platform to maintain sufficient revenue to service debts and cross-subsidise its development of new social and affordable homes.

Platform developed about 1,200 units in the financial year to end-March 2022 (FY22; compared with FY21: 900) and it aims to develop up to a total of 8,000 units over the next five years, including land-led development to manage costs efficiently and provide a quality service to customers. The tenure is split into 20% social rent, 41% affordable rent and 39% shared ownership for development in FY22.

Fitch expects Platform's solid performance to continue, with net leverage peaking at about 10.5x in FY23 when we should see a reduction, with the ratio returning to about 9x by FY27. Fitch's conservative rating-case forecasts net debt/EBITDA to average just above 9x through the five-year rating case to FY27, in line with 'A' category peers'. In FY22, Platform had an operating revenue of GBP297 million (FY21: GBP291 million), excluding asset disposals.

Fitch expects the share of non-SH activity over the medium term to average 5% of turnover, with 95% from SH lettings and first tranche sales.

Platform's underlying credit strength is supported by a strong, high-value asset base with a market value of up to GBP8 billion, and strong EBITDA/cash interest coverage at above 2.5x throughout the rating case.

Derivation Summary

The 'a' SCP is driven by our assessment of 'Stronger' revenue defensibility, operating risk and financial profile, and a comparison with peers in the sector.

We view Platform as a government-related entity in the UK, with a support score of 12.5 points, based on our above-mentioned assessments. This results in a bottom-up approach, with a one-notch uplift to the SCP to arrive at the Long-Term 'A+' IDR, reflecting modest links with the government, capped at the sovereign rating minus one notch, leading to a Negative Outlook.

Platform's Short-Term 'F1+' IDR reflects the combination of a 'Stronger' revenue defensibility and a strong liquidity cushion and liquidity coverage ratio.

Short-Term Ratings

Platform's 'F1+' Short-Term IDR is in line with its 'A+' IDR and takes into account the neutral liquidity assessment.

Issuer Profile

As at 31 March 2022, Platform owned and managed about 47,000 housing units, making it one of the largest SH RPs in the UK. The ratings reflect Platform's moderate debt, stable debt metrics and strong liquidity, which we expect to remain stable despite the company's revised, yet still ambitious development plans to deliver 8,000 homes over the next five years.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A sovereign downgrade, deterioration of net debt/EBITDA to above 11x on a sustained basis or an adverse change to the assessment of the key rating factors could result in a downgrade.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

A revision of the sovereign Outlook, or an upgrade of the SCP could result in a revision of Platform's Outlook. An upgrade of the sovereign, combined with net debt/EBITDA below 9x in our rating case, could lead to an upgrade of Platform's IDRs.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Platform HG Financing Plc				
senior secured	LT	A+	Affirmed	A+
Platform Housing Group Ltd	LT IDR	A+ Rating Outlook Negative	Affirmed	A+ Rating Outlook Stable
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	A+ Rating Outlook Negative	Affirmed	A+ Rating Outlook Stable
	LC ST IDR	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Platform HG Financing Plc	UK Issued, EU Endorsed
Platform Housing Group Ltd	UK Issued, EU Endorsed

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