S&P Global Ratings

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Platform Housing Group Ltd.

January 26, 2023

PRIMARY CONTACT

Mahek Bhojani
London
44-2071760846
mahek.bhojani
@spglobal.com

SECONDARY CONTACT

Karin Erlander
London
44-20-7176-3584
karin.erlander
@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview

Enterprise profile	Financial profile
Platform Housing Group Ltd.'s (Platform's) robust management track record, contained exposure to market sale activities, and strong market position will continue to build resilience in the group's business model.	Prudent cost management and an expanding asset base, along with a contained debt build-up, will to some extent help Platform navigate through rising inflation, increasing investment in existing stocks, and tightened funding conditions.
-- Platform's primary focus on social and affordable tenures remains a strength, because revenue from these activities is more predictable and less cyclical in nature.	-- We project the current pressures will slightly weaken the group's financial performance, yet it will likely remain more favorable than many of the group's peers'.
-- Platform continues to operate in areas of high housing demand.	-- Lower funding needs and interest cost savings will help balance the pressure on S&P Global Ratings' nonsales adjusted EBITDA, supporting the group's solid interest coverage.
-- We view favorably the management's expertise and prudent planning process, which allow Platform the flexibility to cope with current sector headwinds.	-- Liquidity remains very strong, supported by solid levels of cash and available facilities.

Outlook

The stable outlook reflects our view that Platform will retain sufficient headroom to maintain its key financial metrics as projected under our base case, despite short- and medium-term challenges related to high investment needs.

Downside scenario

We could lower the rating if management's strategy changed to incorporate significantly higher levels of market sales. In our view, in combination with increased investment needs in existing and new homes, this could weigh on the group's margins and lead to debt accumulation beyond our current expectations.

Upside scenario

We could raise the rating on Platform if the group managed to contain existing cost pressures such that its EBITDA margins materially improved above our current projections, supporting a strengthening of the group's debt service metrics. We also consider that the group's market position could strengthen from a growing portfolio size across the Midlands, as this could help reduce the group's exposure to operating volatility and build significantly more resilience in its business.

Rationale

Platform owns and manages a large portfolio of over 47,000 homes, spread across the entire Midlands area of England. We think that the group's average social and affordable rent, which we estimate to be just under 70% of the average market rent across its area of operations, supports the strong demand for Platform's properties. This is also evidenced in the average vacancy rates of 1.4% over the past three years, which we estimate to be broadly in line with the sector average.

In our view, Platform's management has extensive experience in the social housing sector and a good understanding of its business opportunities and challenges.

We think that the group’s strategy continues to place strong emphasis on asset quality and achieving sustainability targets such as energy efficiency and carbon neutrality. This is evidenced in the group's commitment to achieve EPC B and above for new builds, and in its financial plans, which already include provisions to get homes to net-zero carbon emissions.

Taking into consideration the current market uncertainties and operating challenges such as cost pressures and supply-chain issues, the group reprofiled and downscaled its development program. We expect Platform to complete slightly over 3,800 new homes over our forecast horizon (from financial year ending March 31, 2023, to financial 2025), with most of its development (about 60%) being social and affordable homes. With this, we estimate that the group's exposure to sales activities will remain contained to below 15% of revenue on average over the same period.

We expect Platform's adjusted EBITDA margins to comfortably remain above 30% over financial year 2023-financial year 2025, though at slightly weaker levels when compared with our previous base case. We project this weakening to stem from cost inflation materially exceeding the increase in rents along with the rising need to invest in existing stock. Furthermore, we think that the relatively low margins associated with the group's market sale activities will continue to weigh on EBITDA. Historically, the group has been engaged primarily in first-tranche sales in shared ownership units, but toward the end of our three-year forecast horizon we expect the group to add a small portion of outright sale units into its tenure mix.

We forecast that Platform's debt intake will be lower in comparison with our previous base case, mainly owing to the reduced delivery of homes. The lower funding needs, in combination with some interest cost savings (from the group's ongoing efforts to refinance legacy debt) will help balance out the projected pressure on EBITDA, keeping the debt to nonsales EBITDA ratio comfortably below 20x and interest coverage close to 2x on average over financial years 2023-2025.

We believe there is a moderately high likelihood that Platform would receive extraordinary support from the government via the Regulator of Social Housing (RSH) in case of financial distress. This is neutral to the rating, which is at the same level as the stand-alone credit profile (SACP). Because one of the key goals of the RSH is to maintain lender confidence and low funding costs across the sector, we believe the RSH is likely to step in to try to prevent a default in the sector. The RSH has a record of mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and we think this would apply to Platform.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (for more information, see "Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers," published June 8, 2021).

Liquidity

We assess Platform's liquidity as very strong, underpinned by the group's comprehensive liquidity policy. We estimate sources of liquidity will cover uses by 2.2x over the next 12 months. We continue to view Platform’s access to external liquidity as satisfactory.

Liquidity sources include:

- Cash and cash equivalents of about £167 million;
- Our forecast of cash from operations of about £133 million, adding back the noncash cost of sales;
- Available facilities maturing beyond the next 12 months of £410 million;
- Proceeds from fixed asset sales of under £22 million; and
- Grant funding of about £56 million.

Liquidity uses include:

- Capital expenditure of about £281 million, including spending on units for sale; and
- Interest and principal repayments of just under £72 million.

Environmental, Social, And Governance

We think that U.K.-based social housing providers are exposed to elevated environmental and social risks that relate to affordability of services and increased investment in existing homes.

These include inflationary pressures along with the need to enhance the quality of social housing stock, in particular around fire and building safety, as well as the government's environmental agenda to achieve energy efficiency and net-zero carbon.

We think these risks apply to Platform in line with the sector, although the group has limited exposure to fire safety spend.

Key Statistics

Platform Housing Group Ltd.-- Key Statistics					
	--Year ends March 31 --				
Mil. £	**2021a**	**2022a**	**2023bc**	**2024bc**	**2025bc**
Number of units owned or managed	46,151	47,119	48,125	49,184	50,307
Adjusted operating revenue	264.5	291.9	289.4	317.1	359.7
Adjusted EBITDA	126.7	112.6	97.5	104.1	121.7
Nonsales adjusted EBITDA	120.6	102.9	92.6	98.5	113.0
Capital expense	163.6	205.9	299.7	274.1	273.7
Debt	1292.9	1451.5	1461.3	1577.3	1641.5
Interest expense	43.9	45.8	48.7	51.6	55.6
Adjusted EBITDA/Adjusted operating revenue (%)	47.9	38.6	33.7	32.8	33.8
Debt/Nonsales adjusted EBITDA (x)	10.7	14.1	15.8	16.0	14.5
Nonsales adjusted EBITDA/interest coverage(x)	2.7	2.2	1.9	1.9	2.0
a--Actual. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.					

Rating Component Scores

Platform Housing Group Ltd.--Ratings Score Snapshot	
	Assessment

Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	3
Management and Governance	2
Financial risk profile	3
Financial performance	3
Debt profile	3
Liquidity	2

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022
- Non-U.S. Social Housing Sector Outlook 2023: The Most Negative Bias Since 2018 Implies Significant Pressure On Ratings, Dec. 1, 2022
- Inflation To Erode The Performance Of U.K. Public Finance Sectors, Nov. 29, 2022
- Cap On Rent Increases Is Consistent With Our Base case For English Social Housing Providers, Nov. 17, 2022
- United Kingdom, Oct. 24, 2022
- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 2022
- Economic Outlook U.K. Q4 2022: Under The Pump, Oct. 3, 2022
- United Kingdom Outlook Revised To Negative On Rising Fiscal Risks; 'AA/A-1+' Ratings Affirmed, Sept. 30, 2022
- Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022
- Rated U.K. Social Housing Providers' Creditworthiness Could Suffer If The Gap Between Rent And Cost Increases Persists, Aug. 1, 2022

- Non-U.S. Social Housing Providers Ratings Risk Indicators: July 2022, July 27, 2022
- Non-U.S. Social Housing Providers Ratings History: July 2022, July 27, 2022
- Non-U.S. Social Housing Providers Ratings Score Snapshot: July 2022, July 27, 2022
- U.K. Social Housing Sector Borrowing Needs to Rise To Fund Investment In New Homes, March 31, 2022
- Global Regulatory Framework Report Card: Public And Nonprofit Social Housing Providers, June 8, 2021

Ratings Detail (as of January 25, 2023)*

Platform Housing Group Ltd.	
Issuer Credit Rating	A+/Stable/--
Senior Secured§	A+
Issuer Credit Ratings History	
26-Mar-2020	A+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees. §Issued by Platform HG Finance PLC. Platform HG Finance PLC was set up for the sole purpose of issuing bonds and lending the proceeds to the group, and as such we view it as a core subsidiary of Platform.