FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Platform Housing Group Ltd at 'A+'; Outlook Negative

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Fitch Ratings - London - 17 Oct 2023: Fitch Ratings has affirmed Platform Housing Group Ltd's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A+'. The Outlooks are 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.

We view Platform as a government-related entity of the UK (AA-/Negative), with a support score of 12.5 points. This results in a bottom-up approach, with a one-notch uplift from the 'a' Standalone Credit Profile (SCP) for the 'A+' Long-Term IDR, reflecting modest links with the government, capped at the sovereign rating minus one notch, leading to the Negative Outlook.

KEY RATING DRIVERS

Status, Ownership and Control: 'Strong'

Platform is a private, not-for-profit, registered provider (RP) of social housing (SH) in the UK 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 Regulator of Social Housing (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: 'Moderate'

Platform receives financial support through grants from Homes England (HE) at varying levels for social and affordable development. This is 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: 'Moderate'

In the unlikely event of financial default, other RPs could 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: 'Weaker'

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 'Stronger'

The wide geographic spread of Platform's properties in the UK significantly limits risk of value fluctuation in specific regions. Due to the high levels of demand for low cost accommodation across the country there is no concern about demand for Platform's social housing.

Fitch views Platform's pricing characteristics as 'Stronger' as it is allowed to increase social rents in line with inflation +1% (with the exception of April 2023 when a cap was employed at 7%) and is allowed to develop for sale, both privately and through shared ownership. This should enable Platform to cover its growing costs and cross-subsidise development. Fitch also considers that a rent increase within the legal cap should not affect the demand level. Platform's average weekly rents for affordable and social properties remain 65% or below of market rent, allowing headroom for increases.

Platform has developed increasing numbers of shared ownership properties in recent years and expects this to be a key facet of its operations (in the financial year to 31 March 2023 (FY23) first-tranche sales accounted for roughly 12% of operating revenue). Platform has had no issues with the sale of shared ownership properties due to high demand in the areas it is developing. Many properties are sold off-plan before the development has been completed.

Operating Risk 'Stronger'

Platform has well-identified cost drivers and low potential volatility in major items. Platform Property Care provides repairs and maintenance, allowing Platform to continue reinvesting in existing stock at competitive rates. The direct labour operation actors into staffing costs for Platform and inflates them slightly compared with peers. Platform's staff costs are in line with peers in the sector who also undertake repairs in-house, at around 38% of cash-outflows.

Platform has very limited exposure to fire and building safety costs, budgeted at GBP34.5 million for capital and operating across the next five years. This is very low compared with peers and is primarily due to the types of property it owns, with very few high-rise blocks that require significant remediation. Platform has no supply constraints for labour or resources in terms of amount, cost or timing.

To finance their investment programmes, UK RPs have strong ongoing cashflows from the social rental aspect of their business as well as high levels of liquidity provided by the financial markets and grant funding. Platform has formed a strategic partnership with Homes England as part of its 2021/2026 Affordable Homes Programme, involving over GBP250 million in grant funding for affordable homes development.

Platform developed approximately 1,000 units in FY23 (FY22: around 1,000) and aims to develop around 7,500 units over the next five years, including land-led development to manage costs efficiently and provide a quality service to customers.

Financial Profile 'Stronger'

Fitch's rating case expects Platform's operating turnover to average GBP432 million in FY24-FY28 (FY23: GBP296 million) with EBITDA averaging GBP164 million a year (FY23: GBP119 million). Fitch forecasts Platform's net debt to increase to about GBP1.9 billion by FY28 from GBP1.3 billion at FY23. However, Fitch-calculated EBITDA net debt is expected to be maintained at around 10x.

Fitch believes Platform will continue to demonstrate strong financial performance in the medium term. Strong demand for low-cost housing, expected cost efficiencies and cross subsidisation from shared ownership sales should allow Platform to maintain consistent cash flows and sufficient revenue to service debts and support its development plan.

Platform has maintained low net adjusted debt/EBITDA, which our rating case forecasts on average at around 10x. We see a gradual decrease in leverage ratios throughout the rating case, as the reduction in development plan filters through.

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.

Short-Term Ratings

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

Debt Ratings

Net debt at end-FY23 had risen to GBP1.3 billion from GBP1.2 billion at end-FY22, and is expected to peak at GBP1.9 billion by FY28.

In September 2021, Platform issued a GBP250 million bond under its EMTN programme. This is rated in line with the IDR at 'A+'.

Liquidity and Debt Structure

Platform has strong liquidity with GBP114 million in available cash and GBP410 million in committed undrawn facilities as at FY23. The EBITDA coverage ratio remains above 2x historically and throughout the rating case. Platform's debt is a diverse mix of capital markets, private placements, term loans and revolving credit facilities.

Issuer Profile

As at 31 March 2023, Platform owned and managed about 48,000 housing units, making it one of the largest SH RPs in the UK.

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 upward revision 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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 Negative
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	A+ Rating Outlook Negative	Affirmed	A+ Rating Outlook Negative
	LC ST IDR	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

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APPLICABLE CRITERIA

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

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Apr 2023) (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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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset

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