FitchRatings

RATING ACTION COMMENTARY

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

Fri 18 Oct, 2024 - 6:52 AM ET

Fitch Ratings - London - 18 Oct 2024: 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+'.

Fitch has also affirmed the senior secured bonds issued by Platform's subsidiary, Platform HG Financing, Plc at 'A+'.

The revision of the Outlook reflects the deterioration in Platform's financial profile.

Fitch has 'Strong expectations' of support from the state for Platform. Combined with a Standalone Credit Profile (SCP) assessed at 'a', which is two notches below the sovereign, this leads to a one-notch uplift. Continuing high demand for social and affordable housing and ongoing cash flow from rented properties continues to support Platform's credit, despite a challenging economic environment.

KEY RATING DRIVERS

Support Score Assessment 'Strong expectations'

We consider have 'Strong expectations' of extraordinary support from the UK for Platform in case of need, reflecting a support score of 20 (out of a maximum 60) under Fitch's Government Related Entities (GRE) criteria. This reflects a combination of responsibility to support and incentive to support factors assessment as below.

Responsibility to Support

Decision Making and Oversight 'Strong'

Platform is a private not-for-profit social housing registered provider (RP). As such, it is not under the ownership of the UK government due to its structure and status. In strict terms there is no legal owner, with all surpluses reinvested to provide social housing. We consider the regulatory framework for English social housing as having a robust legal basis, and the Regulator of Social Housing as maintaining sound control and tight monitoring of RPs.

The regulator's history of oversight and (non-financial) intervention in (rare) cases of distress is a key factor behind the sector's solidity. In the event of financial distress, a transfer of assets and liabilities to another RP within the sector under the direction of the regulator is likely.

Precedents of Support 'Strong'

Platform receives financial support through grants from Homes England at varying levels for social, affordable and shared ownership development. This is on an ongoing basis to support additional subsidised housing, not to finance debt or prevent default.

Fitch takes into account the support mechanisms the RPs can benefit from, or have benefited from, via their sponsor, the UK. Policy influence is supportive of financial stability, with very few RPs entering financial difficulties and none reaching a default scenario. Regulatory restrictions on government support are unlikely to prevent timely intervention in exceptional circumstances.

Incentives to Support

Preservation of Government Policy Role 'Strong'

Social housing is a crucial public service. There would be no immediate impact on the service in case of default, but there would be a medium-term impact on the provision of service as RPs rely on external financing for their maintenance capex and new investments. In the unlikely event of financial default, other RPs can act as substitutes with only temporary disruption to their service, and in the medium-term diminished service provision due to reduced financial resilience and access to finance.

Contagion Risk 'N/A'

Default would have only a minimal impact on either the availability or cost of domestic financing for the UK. Fitch considers that if a default occurred, it would be treated as an isolated case of mismanagement or viability concerns. Consequently, this should not affect the sector at large. However, it could raise questions about the role of the regulator and sponsor.

Standalone Credit Profile

Platform's SCP reflects the combination of a 'Stronger' risk profile and 'bbb' financial profile. The 'a' SCP is in line with stronger peers in the sector.

Risk Profile: 'Stronger'

Fitch assesses Platform's risk profile at 'Stronger', reflecting the combination of assessments:

Revenue Risk: 'Stronger'

Demand for social and affordable housing across England remains very strong, with more than 1 million applicants still on the waiting list and macroeconomic factors making market rents more unaffordable for many. Platform's provision of social and affordable homes continues to deliver a key public policy mission for the UK government when spending power for both customers and government is diminished.

The wide geographic spread of Platform's properties in the UK significantly limits risk of value fluctuation in specific regions. Current economic conditions are limiting development in both the social and market sectors, which have maintained property prices due to constraints on supply.

Fitch views Platform's pricing characteristics as 'Stronger' as it can increase social rents in line with inflation +1% (with the exception of April 2023 when there was a 7% cap) and is allowed to develop for sale, both privately and through shared ownership. This should enable Platform to cover rising costs and cross-subsidise development.

Expenditure Risk: 'Stronger'

Platform has well-identified cost drivers and low potential volatility in major items. Platform Property Care, which provide repairs and maintenance, enables Platform to continue reinvesting in existing stock at competitive rates. The Direct Labour Operation is factored into Platform's staffing costs, which inflates them slightly compared with peers. Platform's staff costs are broadly in line with peers that also undertake repairs in-house, at around 38%. Platform has very limited exposure to fire safety costs, budgeted at GBP33 million for capex and opex in the next five years.

Fitch assesses investment planning as 'Stronger'. Platform has adequate mechanisms for capital planning and funding, and has demonstrated generally effective management. The regulator closely monitors these mechanisms through the 30-year financial forecast returns it requires, and regulatory judgements. Debt maturity is well within the expected economic life. Platform has partnered with Homes England to deliver approximately 4,750 homes with GBP250 million in grant funding.

Platform developed more than 1,200 units in the financial year ending 31 March 2024 (FY24; FY23: 1,100) and aims to develop around 7,500 units in the next five years. The tenure is generally split into 20% social, 30% affordable housing, 50% shared ownership, with some market sales assumed in future.

Liabilities and Liquidity Risk: 'Stronger'

At FYE24, Platform had about GBP1.5 billion drawn debt. It operates in a fully developed financial market (UK) with full access to banks, debt capital markets and private placements. Above 90% of net debt (99%) is fixed-rate, limiting exposure to fluctuations in the capital markets. The weighted average life of debt is 23 years due to long-dated bonds, loans and private placements. Platform has no off-balance-sheet risks.

At FYE24 Platform had GBP1.9 billion agreed debt, with significant additional unallocated charged security available to issue under its EMTN programme. The sector currently has around GBP140 billion in outstanding debt, with Platform a major borrower. Platform has a liquidity policy that stipulates minimum cash holdings of GBP10 million and minimum cash and available facilities that are sufficient to finance the following 18 months of projected net cash requirements.

Financial Profile

Fitch's rating case expects Platform's operating turnover to average GBP435 million in FY25-FY29 (FY24: GBP332 million) with EBITDA averaging GBP165 million a year (FY24: GBP123 million). In its rating case, Fitch forecasts Platform's net debt to increase to about GBP2.2 billion by FYE29 from GBP1.5 billion at FYE24. However, Fitch-calculated EBITDA net debt is expected to be maintained at about 11x.

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

Platform has maintained adequate net adjusted debt/EBITDA, which our rating case forecasts on average at just above 11x. We expect leverage to stabilise throughout the rating case, as increased capex on existing assets filters through. Overall the leverage ratio has moved closer to the lower end of the 'bbb' category, indicating the SCP could fall to the lower end of the 'a' category. This resulted in a revision of the Outlook to Negative.

Additional Risk Factors Considerations

We assess all asymmetric risk attributes as 'Neutral' due to a strong regulatory framework, transparent reporting of information and a risk averse debt structure. The debt is mostly fixed rate (99%) and vanilla in issuance (sterling bonds and bank debt). The regulator assesses governance and management at the highest level, G1. Platform operates under English law, considered strong, and the Country Ceiling is 'AAA'. Information quality is strong, with external publications internally and externally audited.

Derivation Summary

The 'a' SCP is driven by a 'Stronger' risk profile and 'bbb' financial profile, and comparison with peers.

We view Platform as a GRE in the UK, with a support score of 20 points. This results in a bottom-up approach, with a one-notch uplift to the SCP to 'A+' Long-Term IDR.

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

Short-Term Ratings

Platform's 'F1+' Short-Term IDR is the higher of two available options for a 'A' Long-Term IDR due to a 'Stronger' assessment of liabilities and liquidity risk assessment and liquidity coverage score above 'a'.

Issuer Profile

At end-March 2024, Platform owned and managed about 49,000 housing units, making it one of the largest social housing RPs in the UK.

KEY ASSUMPTIONS

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A sovereign downgrade, inability to return net debt/EBITDA to levels below 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

The Outlook could be revised to Stable if net debt/EBITDA moves structurally towards 10x.

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 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

Public Policy Revenue-Supported Entities Rating Criteria (pub. 12 Jan 2024) (including rating assumption sensitivity)

Government-Related Entities Rating Criteria (pub. 09 Jul 2024)

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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