

Research Update:

# U.K. Social Housing Provider Platform Housing Group 'A+' Rating Affirmed; Outlook Stable

January 19, 2024

## Overview

- We expect U.K. social housing provider Platform Housing Group Ltd.'s (Platform's) increased investment in existing stock to weaken its financial performance, but this will be largely contained.
- We anticipate a combination of rent growth exceeding inflation and a shift toward in-house maintenance will help Platform's S&P Global Ratings-adjusted EBITDA margins recover through fiscal 2026.
- We also believe that the group will maintain solid interest coverage given its low cost of debt relative to peers.
- We therefore affirmed our 'A+' long-term issuer credit rating on Platform. The outlook is stable.

## Rating Action

On Jan. 19, 2024, S&P Global Ratings affirmed its 'A+' rating on U.K.-social housing provider Platform. The outlook is stable.

At the same time, we affirmed our 'A+' issue rating on Platform HG Finance PLC's £350 million and £250 million senior secured bonds and the senior secured £1 billion-euro medium-term note (EMTN) program. Platform HG Finance PLC was set up for the sole purpose of issuing bonds and lending the proceeds to the group, and we view it as a core subsidiary of Platform.

## Outlook

The stable outlook reflects our view that the pressures associated with higher investment costs are largely balanced by the strong social housing portfolio, appropriate risk management, and low cost of debt.

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## Downside scenario

We could lower the rating if Platform significantly increased its exposure to sales activities, or if its development aspirations exceeded our expectations and increased the group's debt needs, signaling management's higher risk appetite. Under these scenarios we would expect the group's S&P Global Ratings-adjusted EBITDA interest cover, among other financial metrics, to come under further pressure.

## Upside scenario

We could raise the rating on Platform if the group were to limit maintenance costs beyond our current expectations by delivering on cost efficiencies, structurally increasing the adjusted EBITDA margins. This would contribute to a stronger debt profile.

## Rationale

The rating affirmation reflects our view that the group's debt metrics will remain resilient despite weaker adjusted EBITDA margins. We anticipate that an increase in capitalized repair costs will cause adjusted EBITDA margins to slip below 30% through fiscal 2026, with a small recovery from fiscal 2024 driven by rent exceeding inflation and also thanks to internal cost efficiencies. This recovery includes maintaining interest cover above 1.75x; this reflects the group's low exposure to variable interest rates and a development pipeline that has sufficient grant funding. We continue to assess the group's liquidity position as very strong.

## Enterprise profile: Platform has strong management supported by prudent debt and liquidity policies

Platform generates most of its earnings in the countercyclical and predictable social housing sector, with a moderate exposure to sales activities. The group owns and manages nearly 50,000 units spread across the English Midlands, made up of social, affordable, and shared ownership. The group's properties are in reasonably strong demand, driven by low average social and affordable rents and service charges at about 65% of the average market rent. This leads to fairly low vacancy rates, in line with the sector average, of 1.5% of all properties.

We continue to view Platform's management positively given its prudent risk management and proactive approach to tackling asset quality issues. The group has maintained low exposure to variable interest rates, and so has contained its interest costs over our two-year forecast period. We anticipate that Platform will continue its organic growth strategy, with an estimated 3,600 new units across our forecast period consisting primarily of social and affordable homes. We expect its exposure to sales activities to increase in fiscal 2026, but remain below 25% of turnover.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023, on RatingsDirect).

## Financial profile: Debt profile remains resilient despite pressures from weaker EBITDA margins

We expect Platform's adjusted EBITDA margins to weaken in fiscal 2024 and remain below 30% through fiscal 2026. This weakening is largely driven by an increase in capitalized repairs amid inflationary pressures. In our view, Platform will experience a moderate recovery as rents once again exceed inflation and the group expands its in-house maintenance team. We expect this recovery to be limited in fiscal 2026 by Platform pursuing some small exposures to market sales.

We anticipate Platform's debt metrics will weaken in fiscal 2024 and recover thereafter. This will be largely driven by increased investments in existing stock, which will pressure adjusted EBITDA margins and, in turn, the group's debt coverage metrics. We forecast a recovery stemming from an improvement in financial performance and the group's low exposure to interest rate volatility. Our assessment is further supported by the large amount of grant funding complementing Platform's development pipeline, containing the effect on its debt metrics.

We forecast Platform's liquidity position to remain very strong over the next 12 months, with a sources-to-uses ratio of 1.9x. We estimate the group's liquidity sources to total nearly £750 million, comprising cash, undrawn and available credit facilities, asset sales, grant receipts and cash from operations (adding back the noncash cost of sales). We also forecast liquidity uses to reach nearly £400 million, primarily driven by committed capital expenditure and payments for debt servicing. Platform has a track record of accessing the debt capital markets, and as such we continue to view the group's access to external liquidity as satisfactory.

## Government-related entity analysis

We see a moderately high likelihood that Platform would receive timely extraordinary government support from the U.K. government in case of financial distress. This is currently neutral to our rating on Platform. As one of the key goals of the Regulator of Social Housing (RSH) is to maintain lender confidence and low funding costs across the sector, we think it likely that the RSH would step in to try and prevent a default in the sector. We base this view on previous instances of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress, and we assume this would apply to Platform.

## Selected Indicators

Table 1

### Platform Housing Group Ltd.--Financial statistics

Mil. £	--Year ended March 31--				
	2022a	2023a	2024bc	2025bc	2026bc
Number of units owned or managed	47,119	48,082	49,289	50,522	51,755
Adjusted operating revenue	291.9	294.9	337.7	379.8	429.0
Adjusted EBITDA	112.6	93.8	90.0	107.7	119.1
Nonsales adjusted EBITDA	102.9	87.9	82.4	98.2	105.5
Capital expense	205.9	225.9	324.6	316.4	336.3
Debt	1,451.5	1,405.3	1,506.2	1,620.5	1,773.6
Interest expense	45.8	47.3	49.9	57.1	59.9
Adjusted EBITDA/Adjusted operating revenue (%)	38.6	31.8	26.6	28.4	27.8
Debt/Nonsales adjusted EBITDA (x)	14.1	16.0	18.3	16.5	16.8

Table 1

**Platform Housing Group Ltd.--Financial statistics (cont.)**

Mil. £	--Year ended March 31--				
	2022a	2023a	2024bc	2025bc	2026bc
Nonsales adjusted EBITDA/interest coverage(x)	2.2	1.9	1.7	1.7	1.8

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

**Ratings Score Snapshot**

Table 2

**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	4
Debt profile	3
Liquidity	2
Stand-alone credit profile	a+
Issuer credit rating	A+

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "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

## Related Research

- Non-U.S. Social Housing Sector Outlook 2024: At A Turning Point?, Nov. 29, 2023
- Non-U.S. Social Housing Providers Ratings Score Snapshot: November 2023, Nov. 15, 2023
- Non-U.S. Social Housing Providers Ratings Risk Indicators: November 2023, Nov. 15, 2023
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023
- U.K. Social Housing Providers' Credit Headroom Could Tighten If The Operating Environment Deteriorates, Oct. 4, 2023
- U.K. Social Housing Borrowing 2023: On Pause, March 28, 2023
- Non-U.S. Social Housing Providers Ratings History: March 2023, March 27, 2023
- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022

## Ratings List

### Ratings Affirmed

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#### Platform Housing Group Ltd.

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Issuer Credit Rating A+/Stable/--

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#### Platform HG Financing PLC

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Senior Secured A+

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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