

Research Update:

# U.K.-Based Housing Association Platform Housing Group Rating Affirmed At 'A+'; Outlook Stable

January 26, 2022

## Overview

- We forecast that the strong performance of Platform Housing Group Ltd.'s (Platform's) core social housing portfolio and its expanding asset base would support a gradual recovery in EBITDA.
- We project that the group will maintain a solid interest coverage, benefiting from a favorable cost of debt.
- While we expect that Platform's increasing investment in existing assets will marginally reduce profitability, it will likely remain more favorable and resilient in comparison with many of the group's peers.
- We affirmed our 'A+' long-term issuer credit rating on Platform. The outlook remains stable.

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## Rating Action

On Jan. 26, 2022, S&P Global Ratings affirmed its 'A+' long-term issuer credit rating on U.K.-based housing association 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 Platform will continue to have 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, 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 manages to contain existing cost pressures such that its EBITDA margins materially improve 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 across the Midlands.

## Rationale

The rating affirmation reflects our expectation that the group's financial metrics will remain relatively resilient despite a weakening operating environment and rising costs associated with its investment needs. The strong focus on stable low-income housing rental activities and growing asset base should help contain the pressure stemming from increasing investment needs, keeping the S&P Global Ratings-adjusted EBITDA margins comfortably above 30% and interest coverage above 2x. We continue to assess the group's liquidity as very strong.

Platform owns and manages a large portfolio of over 46,000 homes, spread across the entire Midlands area of England. The group's relatively low average social and affordable rent, which we estimate to be below 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 vacancy rates of 1.3% on an average over the past three years, which we estimate to be slightly below the sector's average.

We assess the regulatory framework under which registered providers of social housing in England operate as strong, underpinned by their public policy mandate to provide affordable homes. We also consider that the sector benefits from solid ongoing oversight by the Regulator of Social Housing (RSH). Offsetting these strengths, we consider that providers in England receive relatively low levels of grant funding for the development of affordable homes. We note that providers in England can develop homes for outright sale, using the proceeds as an alternative funding source; however, we think this exposes them to risks and potential volatility compared with providers in other regions. Providers in England are also subject to negative intervention from the U.K. government in the form of rent-setting constraints or additional spending responsibilities, without adequate additional funding. This weighs on our view of the regulatory framework assessment.

We believe there is a moderately high likelihood that Platform would receive extraordinary support from the government via the 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). As 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 view positively Platform's proactive liquidity management, its pre-funding of the development program, and the group's ongoing efforts to refinance legacy debt, which will generate future interest cost savings. The group's strategy remains prudent and focuses on expanding its asset

base organically. We expect the group to deliver close to 4,000 new homes over our three-year forecast horizon, with most of its development plan (about 70%) consisting of social and affordable homes. With this, we estimate that the group's exposure to sales activities will remain limited to about 15% of revenue on average over the same period.

We forecast that Platform's S&P Global Ratings-adjusted EBITDA margins through the forecast period to financial year (FY) ending March 31, 2024 will drop to below 40%, which we consider still strong compared with peers. This will mainly be the result of the expected increase in investments in existing assets and lower margin on sale activities. Historically, the group has been engaged primarily in first-tranche sales in shared ownership units. However, starting FY2024, we expect the group to add a small portion of outright sale units into its tenure mix. We anticipate that both outright and first-tranche sales activities will carry lower margins than the group's traditional lettings tenure.

We forecast that the group's debt service metrics will remain relatively strong, albeit on a declining trend. With the group progressing toward delivering on its development plan, we expect capital expenditure (capex) to ramp up over the next two to three years, funded through a mix of new debt intake, grant funding from Homes England, and proceeds from the disposal of untenanted properties. We project the debt to nonsales adjusted EBITDA to reach close to 16x from about 11x in FY2021, with the nonsales adjusted EBITDA interest coverage remaining solid and averaging about 2.2x over FY2022-FY2024.

## **Liquidity**

We assess liquidity as very strong, underpinned by the group's comprehensive liquidity policy. We estimate sources of liquidity will cover uses by 2.6x over the next 12 months, although we see a risk that the liquidity coverage ratio could slightly decline thereafter in line with growing capex. We continue to view Platform's access to external liquidity as satisfactory.

We expect sources of liquidity over the next 12 months will include:

- Cash flow from operations, adding back noncash cost of sales of about £133 million;
- Current cash and liquid investments of £298 million;
- Fixed-asset sales receipts of just under £18 million;
- Committed and undrawn facilities expiring beyond 12 months of about £530 million; and
- Grant receipt of just over £25 million.

We expect uses of liquidity over the same period will include:

- Capex including development spending on homes for sale of just over £325 million; and
- Interest and principal repayments of about £56 million.

## **Key Statistics**

Table 1

### Platform Housing Group Ltd.--Key Statistics

(Mil. £)	--Year ended March. 31--				
	2020a	2021a	2022bc	2023bc	2024bc
Number of units owned or managed	45,516	46,151	47,378	48,291	49,602
Adjusted operating revenue	252.5	264.5	276.6	282.4	315.7
Adjusted EBITDA	113.1	126.7	110.8	105.4	116.1
Nonsales adjusted EBITDA	107.0	120.6	105.1	101.1	108.2
Capital expense	183.6	163.6	252.6	349.7	372.4
Debt	1,162.0	1,292.9	1,479.5	1,561.4	1,742.9
Interest expense	44.5	43.9	46.5	48.0	51.0
Adjusted EBITDA/Adjusted operating revenue (%)	44.8	47.9	40.1	37.3	36.8
Debt/Nonsales adjusted EBITDA (x)	10.9	10.7	14.1	15.4	16.1
Nonsales adjusted EBITDA/interest coverage(x)	2.4	2.7	2.3	2.1	2.1

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	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**

- Social Housing Outlook 2022: Green Agenda Takes Root In Investment Plans, Nov. 23, 2021
- How U.K. Public Finance Sectors Fare Under Latest Spending Review, Nov. 11, 2021
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 22, 2021
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers Published, June 8, 2021
- Building Up Debt: U.K. Social Housing Sector Braces Itself For Borrowing, March 16, 2021
- Outlook 2021: Strong Liquidity Should Help Social Housing Providers Remain Resilient, Dec. 8, 2020
- ESG Industry Report Card: Public And Nonprofit Social Housing Providers Outside The U.S., Aug. 4, 2020

## **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.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect 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.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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