S&P Global
Ratings

RatingsDirect®

bpha Ltd.

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This report does not constitute a rating action.

Credit Highlights

Overview

Enterprise profile	Financial profile
bpha Ltd's (bpha's) robust management track record, contained exposure to market sale activities, and strong market position will continue to build resilience amid general sector challenges.	Prudent cost management and expanding asset base along with contained debt build-up will, to some extent, help bpha navigate through times of rising inflation, tightened funding conditions, and added policy uncertainty.
--bpha's primary focus on social and affordable tenures remains a strength as revenues from these activities are more predictable and less cyclical in nature.	--We project the pressures stemming from rising inflation and increasing investments in existing assets to slightly weaken the group's financial performance.
--bpha continues to operate in areas of high housing demand, also evidenced in void levels being contained to about 1%.	--Lower funding needs and interest cost savings will help balance the pressure on S&P Global Ratings nonsales adjusted EBITDA, supporting the group's relatively solid interest coverage.
--We favorably view the group's management expertise and its robust strategic planning process, supporting relatively stable financial metrics.	--Liquidity remains very strong, supported by solid levels of cash and available facilities.

Outlook

The stable outlook reflects our view that strong demand for bpha's properties and prudent planning will somewhat offset the pressures associated with costs exceeding rent increases and growing investments in existing and new assets.

Downside scenario

We could lower the rating on bpha if the group's margins and debt metrics significantly weakened. This could happen if costs increased materially beyond our base-case assumptions or bpha expanded its development ambitions and risk appetite, such that its revenue relied more heavily on low margin sales activities.

Upside scenario

We could raise the rating on bpha if its exposure to market-related risks subsided and the company improved its EBITDA materially above our current projections through solid cost management.

Rationale

bpha owns and manages a portfolio of close to 20,000 homes across the East of England, with majority of its footprint in Oxfordshire, Bedfordshire, and Cambridgeshire. We think that the group's relatively low social and affordable needs rents, which we estimate to be just under 60% of the market average rent across the area of operations, reflects strong affordability levels that support the high demand for bpha's properties. This high demand is also demonstrated by vacancy rates of about 1% on average over the past three years, which we estimate to be slightly below the sector's average.

We think that bpha's management has extensive experience in the social housing sector along with a good understanding of its business opportunities and challenges. Putting to use its additional cash buffers, the group terminated two of its stand-alone derivatives over the past few months. We positively view this treasury planning because it would help bpha to generate interest cost savings.

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 about 82% of its stock already meeting Energy Performance Certificate (EPC) C standards (or higher). bpha's development strategy continues to be aligned to its capabilities, as evidenced in the group's plan to scale down its development program in response to current operating challenges. This, along with more than 50% of this program being uncommitted, will provide the group with additional flexibility to react to market conditions and pull back on capital expenditure (capex), if required. We expect bpha to complete slightly more than 1,100 new homes over financial year ending March 31, 2023, to financial year 2025, with close to 60% being social and affordable homes. With this, we estimate that the group's exposure to sales activities will remain contained to below 20% of revenues on average over the same period.

We expect bpha'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, which includes the refurbishment work of its tower blocks. Furthermore, we think that the relatively low margins associated with the group's market sale activities will continue to weigh on EBITDA.

We forecast bpha's debt intake to be slightly lower in comparison with our previous base case, mainly owing to the reduced delivery of homes and subsequent lower capex. The lower funding needs, in combination with some interest cost savings, will help balance out the projected pressure on EBITDA, keeping the debt to nonsales EBITDA ratio below 20x and interest coverage above 1.3x on average over financial year 2023-financial year 2025.

We believe there is a moderately high likelihood that bpha would receive timely extraordinary government support in case of financial distress. This is neutral to the rating, which is at the same level as the stand-alone credit profile. As one of the Regulator of Social Housing's (RSH's) key goals is to maintain lender confidence and low funding costs across the sector, we believe it is likely that the

RSH would step in to try and prevent a default in the sector. We base this view on previous records of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to bpha.

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 bpha's liquidity as very strong, underpinned by the group's comprehensive liquidity policy. We estimate sources of liquidity will cover uses by about 2.3x over the next 12 months. We continue to view bpha's access to external liquidity as satisfactory.

Liquidity sources include:

- Cash and cash equivalents of about £27 million;
- Our forecast of cash from operations of about £69 million, adding back the noncash cost of sales;
- Available facilities maturing beyond the next 12 months of close to £203 million; and
- Grant funding and other inflows close to £7 million.

Liquidity uses include:

- Capex of about £90 million, including spend on units for sale; and
- Interest and principal repayments of slightly exceeding £47 million.

Environmental, Social, And Governance

bpha's ESG performance is broadly in line with its sector peers'. We think that social housing providers face social risks stemming from higher inflation and slower economic growth. However, bpha's focus on its core business of affordable social housing, which provides predictable and relatively stable earnings, should help mitigate some of these risks.

We think that environmental factors, owing to enhanced building and fire safety standards, and the government agenda to improve energy efficiency in the sector, could weaken social housing providers' profitability and put further pressure on debt service capacity. In the near to medium term, this focus on increasing investments in existing homes could stress bpha's performance. However, its current high quality of assets makes the group relatively more resilient when compared with sector peers.

Key Statistics

bpha Ltd.--Key Statistics

	--Year ended March 31 --				
Mil. £	**2021a**	**2022a**	**2023bc**	**2024bc**	**2025bc**
Number of units owned or managed	19464	19618	19763	19965	20296
Adjusted operating revenue	131.2	143.9	137.2	153.0	174.8
Adjusted EBITDA	59.1	53.1	47.1	50.0	59.4
Nonsales adjusted EBITDA	55.5	47.0	44.1	46.8	55.0
Capital expense	47.4	54.2	61.6	119.0	122.0
Debt	869.0	856.4	844.7	906.8	950.5
Interest expense	37.4	36.0	34.1	35.1	37.3
Adjusted EBITDA/Adjusted operating revenue (%)	45.0	36.9	34.4	32.7	34.0
Debt/Non-sales adjusted EBITDA (x)	15.6	18.2	19.2	19.4	17.3

Non-sales adjusted EBITDA/interest coverage (x)	1.5	1.3	1.3	1.3	1.5

a--Actual. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Rating Component Scores

bpha 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	4
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

- United Kingdom Outlook Revised To Negative On Rising Fiscal Risks; 'AA/A-1+' Ratings Affirmed, Sept. 30, 2022
- Bulletin: Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022
- Regulatory Framework And Systemic Support Assessments For Nonprofit Social Housing Providers, Aug. 15, 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 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 For Public And Nonprofit Social Housing Providers, June 8, 2021

Ratings Detail

Ratings Detail (as of October 21, 2022)

bpha Ltd.	
Issuer credit rating	A+/Stable/--
Senior Secured§	A+
Issuer Credit Ratings History	
22-Oct-2021	A+/Stable/--
04-Oct-2018	A+/Negative/--
04-Jul-2016	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 bpha Finance PLC. bpha 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 bpha.