S&P Global
Ratings

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Research Update:

U.K.-Based Social Housing Provider bpha Ltd. 'A+' Rating Affirmed; Outlook Stable

October 25, 2023

Overview

- We project U.K. social housing provider bpha Ltd.'s tight control on investments in existing and new homes to support the group's robust financial indicators, despite current headwinds in the housing sector.
- Together with the projected improvement in S&P Global Ratings-adjusted EBITDA, this will support bpha's relatively solid non-sales adjusted EBITDA interest coverage, and liquidity remains very strong.
- We therefore affirmed our 'A+' long-term issuer credit rating on bpha. The outlook remains stable.

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Rating Action

On Oct. 25, 2023, S&P Global Ratings affirmed its 'A+' long-term issuer credit rating on bpha.

We also affirmed our 'A+' issue rating on the £350 million senior secured bond issued by bpha Finance PLC, a core subsidiary set up for the sole purpose of issuing bonds and lending the proceeds to the group.

Outlook

The stable outlook reflects our view that management will prudently execute its business plan while keeping enough financial headroom to mitigate the current operating challenges.

Downside scenario

We could lower the rating on bpha if management is unable to control costs, such that they increased markedly beyond our base-case assumptions, or if the group significantly expanded its development plans and risk appetite. Such a change in strategy could result in a material weakening of the group's financial indicators.

Upside scenario

A positive rating action would hinge on bpha's ability to demonstrate a significant and sustained strengthening of the S&P Global Ratings non-sales adjusted EBITDA interest coverage to about 2x. This could happen if EBITDA improved materially beyond our current projections, debt remained contained, and the group's variable debt exposure diminished.

Rationale

The affirmation reflects our view that strong demand for bpha's properties and management's sound practices will help maintain solid financials amid elevated inflation, increasing investment needs in existing assets, and tightened funding conditions. We project moderate growth of repair costs, backed by the group's solid asset quality, to support the strengthening of the group's adjusted EBITDA.

Furthermore, we expect the group's debt buildup to be lower than previously projected because of the scaling back of the development program. In our view, this reduction of funding needs, will help offset pressure from rising interest rates, keeping the group's debt to non-sales adjusted EBITDA well below 20x and non-sales adjusted EBITDA interest coverage above 1.3x on average over financial year ending March 31, 2024, to financial year ending March 31, 2026.

Enterprise profile: Strong demand, robust cost management, and only limited exposure to open-market sales underpin solid operational metrics

We view bpha as a traditional social housing provider, with solid demand for its properties. bpha owns and manages a portfolio of close to 20,000 homes across the East of England, with the majority of its footprint in Oxfordshire, Bedfordshire, and Cambridgeshire. We think the group's relatively low social and affordable rents, which we estimate to be about 60% of the market average in areas where it operates, point to strong affordability of its housing units. The high demand for bpha's services 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 bpha's management has extensive experience in the social housing sector, along with a good understanding of its business opportunities and challenges. In our view, the strengths in the group's strategy and planning have supported bpha's solid credit indicators amid challenging times for the sector.

We view as favorable the flexibility bpha has over its investments in new and existing homes. We understand the group is targeting to deliver some cost efficiencies. This, along with its solid existing asset quality, owing to relatively new assets and robust energy efficiency with more than 85% of its properties carrying energy performance certificates labelled C or better, will provide bpha the flexibility to adjust costs, if needed. In terms of new development, we understand that a material part (more than 50% on average) of the group's development program remains uncommitted, providing the group with the flexibility to scale back spending if needed.

Most of the development program will continue to constitute social and affordable homes, keeping the group's exposure to sales activities at less than 15% of revenue on average.

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: Robust performance, lower debt buildup, and solid liquidity support bpha's financial metrics

We expect the group's financial performance to remain robust, with adjusted EBITDA margins projected to be comfortably above 30% through to financial year 2026. In our view, the narrowing of the gap between cost and rent increases, reduction in low-margin sales activities, and prudent cost management will support the gradual improvement in adjusted EBITDA.

We anticipate that lower funding needs will support the group's relatively solid interest coverage, although the recovery would be slightly slower than previously projected. In response to rising interest costs and because about 25% of the group's debt is at variable interest rates, bpha has significantly scaled back and derisked its development program. We expect the group to now develop about 700 new homes over financial year ending March 31, 2024, to financial year ending March 31, 2026, which is almost 40% less than we previously estimated. We forecast the lower debt buildup and projected improvement in non-sales EBITDA to support the strengthening of the group's interest coverage through to financial year ending March 31, 2026.

We assess bpha's liquidity as very strong, reflecting the group's prudent liquidity policy. We estimate sources of liquidity will cover uses by about 2.1x over the next 12 months. This is based on our forecast of liquidity sources of about £221 million (mainly cash and undrawn available facilities, grant receipts, proceeds from fixed asset sales, and cash from operations after adding back the noncash cost of sales) compared with liquidity uses of about £103 million (primarily capital expenditure, interest, and principal repayments). We also consider that bpha has satisfactory access to external funding if needed.

Government-related entity analysis

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. One of the key goals of the Regulator of Social Housing (RSH) is to maintain lender confidence and low funding costs across the sector. As such, 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.

Selected Indicators

Table 1

bpha Ltd.--Key Statistics

	--Year ended March 31--				
Mil. £	**2022a**	**2023a**	**2024bc**	**2025bc**	**2026bc**
Number of units owned or managed (no.)	19,618	19,757	19,946	20,083	20,229
Adjusted operating revenue	143.9	132.5	143.2	150.1	157.3
Adjusted EBITDA	53.1	48.4	53.2	53.8	54.5
Non-sales adjusted EBITDA	47.0	46.8	52.0	52.7	53.2
Capital expense	54.2	54.1	43.9	59.1	72.6
Debt	856.4	864.8	863.8	886.3	908.8

Table 1

bpha Ltd.--Key Statistics (cont.)

	--Year ended March 31--				
Mil. £	2022a	2023a	2024bc	2025bc	2026bc
Interest expense	36.0	35.0	40.0	38.4	36.1
Adjusted EBITDA/Adjusted operating revenue (%)	36.9	36.5	37.2	35.8	34.6
Debt/Non-sales adjusted EBITDA (x)	18.2	18.5	16.6	16.8	17.1
Non-sales adjusted EBITDA/interest coverage(x)	1.3	1.3	1.3	1.4	1.5

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

Ratings Score Snapshot

Table 2

bpha Ltd.--Ratings Score Snapshot

Assessment	Score
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
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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 20, 2023
- U.K. Social Housing Borrowing 2023: On Pause, March 28, 2023
- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2023, March 27, 2023
- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2023, March 27, 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
- Non-U.S. Social Housing Sector Outlook 2023: The Most Negative Bias Since 2018 Implies Significant Pressure On Ratings, Dec. 1, 2022
- Inflation To Erode The Performance Of U.K. Public Finance Sectors, Nov. 29, 2022
- Cap On Rent Increases Is Consistent With Our Base Case For English Social Housing Providers, Nov. 17, 2022
- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 2022
- Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022
- Rated U.K. Social Housing Providers' Creditworthiness Could Suffer If The Gap Between Rent And Cost Increases Persists, Aug. 1, 2022

Ratings List

Ratings Affirmed	
bpha Ltd.	
Issuer Credit Rating	A+/Stable/--
bpha Finance PLC	
Senior Secured	A+