S&P Global Ratings

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Research Update:

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

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Overview

- We project bpha Ltd.'s debt to grow faster than our previous expectations owing to the group's increased growth appetite and development programme.
- However, tight cost controls and flexibility built into management's plans will prevent a weakening of the group's robust financial indicators.
- We therefore affirmed our 'A+' long-term issuer credit rating on bpha. The outlook is stable.

Rating Action

On Oct. 22, 2024, 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 the group's growth ambitions, achieved through new homes and potential acquisitions, are balanced by management's prudent cost controls and flexibility in bpha's capital program. This will result in the group's financial indicators remaining largely stable over our base case, despite the debt buildup.

Downside scenario

We could lower the rating if bpha's management proves to be less efficient, resulting in costs increasing markedly beyond our base-case assumptions, or if the group significantly expands its growth ambitions 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 significantly strengthening its credit metrics, all else being equal. This could result from a sustained improvement in S&P global ratings-adjusted EBITDA, which, in combination with a contained increase in debt, would support a material strengthening of the group's debt metrics.

Rationale

The affirmation of the rating reflects our view that bpha will continue to manage its business prudently with the ample flexibility built into their plans. This has resulted in the group having significant headroom in their financial indicators. Therefore, we think that despite our understanding that bpha will pursue further debt-funded growth in new homes, the credit metrics will remain stable through our base case. We understand bpha expanded its debt-funded development program compared to our previous expectations, following some refinancing exercises earlier this year.

With relatively modest investment growth in existing homes, underpinned by the group's solid asset quality, we project bpha's financial performance will remain strong. We think projected growth in non-sales adjusted EBITDA will further support the group's relatively strong debt metrics.

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

In our view, bpha benefits from generating most of its earnings in the predictable and countercyclical social housing sector, supported by a solid market position and generally cautious approach to market sales. bpha owns and manages a portfolio of about 20,000 homes across the East of England, with a clear focus on social and affordable homes, keeping the group's exposure to sales activities at less than 15% of revenue on average.

We think the group's relatively low social and affordable rents, which we estimate to be slightly above 60% of the market average in areas where it operates, point to strong affordability of its housing units, thereby supporting demand. This is also demonstrated by the group's vacancy rates of close to 1% on average over the past three years, which we estimate to be slightly below the sector's average.

We positively view bpha's extensive management experience in the social housing sector, which we believe will help the group swiftly adapt to changing market challenges and opportunities. In our view, bpha's flexibility over its investments in new and existing homes will provide the group with financial headroom to adjust costs, if needed. The group's solid existing asset quality is supported by its relatively new asset base and robust energy efficiency. Close to 90% of its existing stock already meets Energy Performance Certificate C standards (or higher), which we view as more favorable than sector peers. In terms of the group's own development program, we understand about 50% remains uncommitted, on average. This flexibility would help the group accommodate potential stock acquisition opportunities, in our view.

Further, we think bpha's good understanding of its stock quality results in relatively lower pressures to invest in existing assets compared to some of its sector peers. This gives the group more capacity to grow and develop. We expect bpha to pursue growth in delivery targets through a potential combination of stock acquisitions and internal development. bpha's strategy to consider stock acquisition as part of its growth plans could add some volatility to the group's financial trajectory. However, we think management will prudently assess any such opportunity, such that its strong financial position is sustained.

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 and high levels of liquidity buffers underpin 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 fiscal year 2027, ending March 31. We think the group's tight cost controls, expanding asset base, and growing rental income will support the gradual strengthening of adjusted EBITDA.

This projected improvement in non-sales adjusted EBITDA, along with the expected improvement in the interest rate environment (about a third of the groups debt is at variable rates) will largely offset the anticipated increase in nominal debt related to the group's capital program. We therefore expect the debt ratio to remain below 20.0x and interest at about 1.3x on average over fiscal 2025-fiscal 2027. Just before the end of fiscal 2024, the group sold £75 million of its retained bond, resulting in a higher debt intake than previously projected for the year. The proceeds from the bond tap were largely used to terminate legacy embedded fixed-rate swaps as part of the group's program to restructure its syndicate banking facilities. This resulted in lowering the group's ongoing interest costs to some extent, which in turn allowed the group to increase borrowing to fund its growth strategy.

We assess bpha's liquidity as very strong, reflecting the group's prudent liquidity policy. We estimate sources of liquidity will cover uses by slightly under 2.5x over the next 12 months. This is based on our forecast of liquidity sources of about £347 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 £140 million (primarily capital expenditure, interest, and principal repayments). We also consider bpha has satisfactory access to external funding, if needed.

Government-related entity analysis

We think 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 think 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. £	2023a	2024a	2025bc	2026bc	2027bc
Number of units owned or managed	19,757	19,987	20,198	20,500	20,720
Adjusted operating revenue	132.5	148.9	154.6	157.4	175.8
Adjusted EBITDA	48.4	54.3	53.1	53.5	57.9
Non-sales adjusted EBITDA	45.9	52.3	51.7	52.2	54.9
Capital expense	53.7	60.9	84.3	102.5	70.0
Debt	864.8	914.3	949.3	1,008.3	1,007.5
Interest expense	35.0	40.6	41.3	41.5	41.0
Adjusted EBITDA/Adjusted operating revenue (%)	36.5	36.5	34.4	34.0	32.9
Debt/Non-sales adjusted EBITDA (x)	18.8	17.5	18.4	19.3	18.4
Non-sales adjusted EBITDA/interest coverage(x)	1.3	1.3	1.2	1.3	1.3

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
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 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

Related Research

- United Kingdom, April 22, 2024
- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2024, March 11, 2024
- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2024, March 11, 2024
- Non-U.S. Social Housing Providers Ratings History: March 2024, March 11, 2024
- U.K. Social Housing Borrowing 2024: Borrowing capacity remains constrained, March 6, 2024
- European Housing Markets: Forecast Brightens Amid Ongoing Correction, Jan. 25, 2024
- Non-U.S. Social Housing Sector Outlook 2024: At A Turning Point?, Nov. 29 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 Providers Set Their Sights On Cyber Risks, Dec. 16, 2022

Ratings List

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

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 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/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at 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. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.