

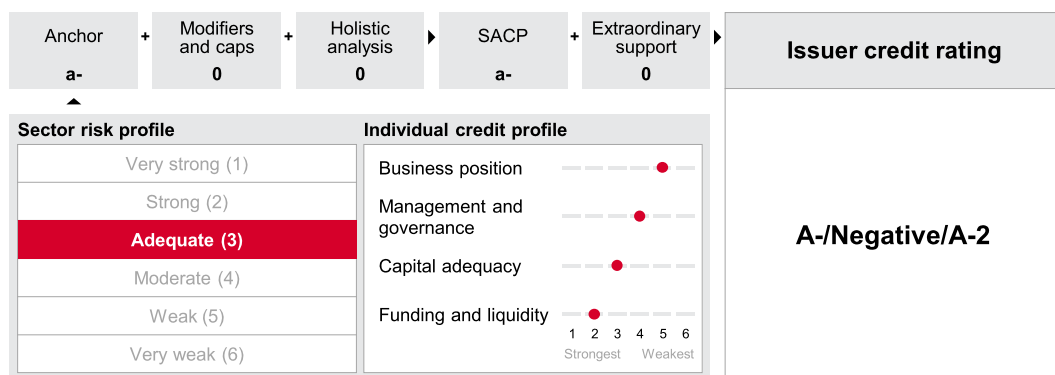
Research Update:

U.K. Public Sector Funding Agency MORhomes PLC

'A-' Rating Affirmed; Outlook Negative

December 6, 2024

Ratings Score Snapshot



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Overview

- We believe the credit quality of U.K.-based pass-through vehicle MORhomes PLC's borrowers has stabilized.
- The company's business volumes remain subdued with no new lending provided in fiscal 2024 (ended March 31, 2024).
- We still project that new lending will remain muted in fiscal 2025 with the demand for MORhomes' funding from the U.K. housing associations set to pick up over fiscal 2026.
- We therefore affirmed our 'A-/A-2' long- and short-term issuer credit ratings on MORhomes and maintained the negative outlook.

Rating Action

On Dec. 6, 2024, S&P Global Ratings affirmed its 'A-/A-2' long- and short-term issuer credit ratings on MORhomes PLC. The outlook remains negative.

We also affirmed our 'A-' long-term issue rating on MORhomes' £5 billion euro medium term note program.

Outlook

The negative outlook reflects risks that MORhomes' loan portfolio growth will remain very slow, if there is any, which will likely prevent the company from becoming structurally profitable.

Downside scenario

We could lower our ratings if over the next 24 months MORhomes fails to expand its lending portfolio while remaining loss-making. We could also lower the ratings if our view of the credit quality of its borrowers deteriorates materially.

Upside scenario

We could revise the outlook to stable if over the next 24 months MORhomes increases its market share and strengthens its business position. This might result in the organization breaking even sooner as well as improved diversification of its borrowers.

Rationale

We affirmed the rating to reflect that the stagnation of MORhomes' business activity and low market share are counterbalanced by the relatively strong creditworthiness of MORhomes' borrowers, its adequate capital position supported by the existence of contingent convertible notes, and its strong liquidity.

Sector risk profile (SRP): Moderate risks for lending to English social housing providers underpin our adequate SRP assessment.

We view the overall SRP assessment for MORhomes as adequate. The company lends to U.K. social housing providers, with 86% loan book exposure to England and 14% to Wales, as of Nov. 30, 2024.

The English social housing sector remains naturally anti-cyclical and enjoys strong government oversight via regulators, which we believe are likely to step in to prevent a default in the sector. However, the U.K. government regularly intervenes in the rent regime, grant allocation, and development plans, which negatively impacts the providers' credit quality. (see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published on Oct. 23, 2023, on RatingsDirect).

We view social housing sectors globally as carrying low industry risk, which is the starting point of our assessment. We view the regulatory framework for Wales as stronger, and therefore we

capture the risk exposure to Wales-based housing providers within our low industry risk assessment.

Individual credit profile: Slow business growth with subdued demand from housing providers while operating under a match-funding principle and strong liquidity support the assessment.

With interest rates falling, we project moderate growth of MORhomes' loan portfolio in the next 24 months. That will represent a turnaround from its track record over the past few years. During fiscal 2024 and between April and November 2024, MORhomes didn't provide any new lending and the total amount of loans provided as of Nov. 30 was £512.4 million.

The company's market of operations remains very competitive and demand from social housing providers is subdued, which is still making it increasingly challenging for MORhomes to attract new borrowers. We believe with the projected moderate loan portfolio growth, MORhomes will likely become at least break even versus currently loss-making, excluding the one-off gain it got from a loan prepayment in fiscal 2024.

We view the company's risk management policies as sophisticated; it assesses credit risk effectively and closely monitors the asset quality of its lending portfolio. MORhomes operates with a small permanent staff, which exposes the company to key-man risk, and outsources most functions. Nevertheless, ultimate decision-making lies with the board members, who have experience in the housing and banking sectors.

Under our revised criteria, we assume the capital assessment for pass-through vehicles (like MORhomes) as initially adequate. Although we think the loan portfolio is rather concentrated with the 10 top loans accounting for 66% of the loan book, we also incorporate the robust risk management and the subordinated contingent convertible notes, which we view as supporting MORhomes' risk position assessment. The notes comply with our requirements to qualify for intermediate equity content. Therefore, the notes have loss-absorption features that enable the company to operate as a going concern. Furthermore, the notes have maturities of more than 20 years.

MORhomes' match-funding policy, which ensures that the company will not form significant funding or liquidity gaps, supports the company's funding and liquidity ratios. With our cash-flow-based approach, MORhomes' liquidity assessment remains strong. Its liquidity ratios are sustainably above 1x, with a one-year ratio of 1.18x, and benefit from the £5 million of undrawn liquidity facilities.

Our funding assessment is neutral because we do not foresee the company operating with significant funding gaps, and we consider the domestic market deep.

Selected indicators

Table 1

MORhomes PLC selected indicators

Mil. £	--Year ended March 31--					
	2024	2023	2022	2021	2020	2019
Business position						
Total adjusted assets	529.8	560.2	542.2	477.7	318.1	261.8

Table 1

MORhomes PLC selected indicators (cont.)

Mil. £	--Year ended March 31--					
	2024	2023	2022	2021	2020	2019
Customer loans (gross)	526.0	556.7	539	474.2	315.7	259.2
Growth in loans (%)	-5.5	3.3	13.7	50.2	21.8	N.M.
Interest income	17.9	18.4	16.5	13.5	10.4	1.1
Noninterest expenses	0.9	1.1	1.1	1	1	0.9
Capital and risk position						
Total liabilities	519.0	550.1	532.7	469	312.1	256.6
Total adjusted capital	6.4	4.5	4.5	4.3	2.9	2.7
Assets/capital	82.3	124.5	120.5	111.1	108.5	95.3
Gross nonperforming assets/gross loans	0.0	0.0	0.0	0.0	0.0	0.0
Funding and liquidity						
Liquidity ratio with loan disbursement (one year)	1.2	1.5	1.4	N.M.	N.M.	N.M.
Liquidity ratio without loan disbursement(one year)	1.2	1.5	1.4	N.M.	N.M.	N.M.
Funding ratio (one year)	1.4	1.73	1.8	N.M.	N.M.	N.M.

N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

MORhomes PLC ratings score snapshot

Issuer credit rating	A-/Negative/A-2
Senior secured debt	A-
Sector risk profile	Adequate
Individual credit profile:	
Business position	Weak
Management & governance	Moderate
Capital adequacy	Adequate
Funding & liquidity	Strong
Anchor	a-
Overriding factors and caps	0
Holistic analysis	0
Stand-alone credit profile	a-
Extraordinary support	0

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies, July 26, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- U.K. Social Housing Borrowing 2024: Borrowing capacity remains constrained, March 6, 2024
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023

Ratings List

Ratings Affirmed

MORhomes PLC

Issuer Credit Rating A-/Negative/A-2

MORhomes 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/sourceld/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.

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