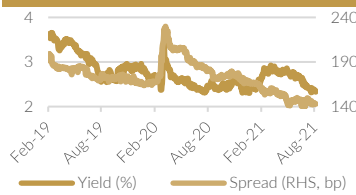


**Bond yield and spread over gilt (%)**


Source: Refinitiv

**Market data**

EPIC/TKR (LSE)	61DP
Bonds outstanding (£m)	438.2
Spread over gilt (bp)	143
12-month spread high (bp)	184
12-month spread low (bp)	140
Registration	Andrew Morton,
contact for tap	Deputy CEO &
issues	CFO

[andrew.morton@morhomes.co.uk](mailto:andrew.morton@morhomes.co.uk)
**Description**

MORhomes (MH) is a pooled borrowing vehicle for the social housing sector. Over 60 major borrowing housing associations came together to set up a PLC, whose public debt is traded on the London Stock Exchange (LSE). The International Securities Market (ISM) is designated for professional investors, and the notes are not admitted to the Official List of the Financial Conduct Authority (FCA). MH raises bond market finance, and lends it on to housing associations. The first issue of £250m was completed in February 2019.

**Company information**

CEO	Patrick Symington
Deputy CEO & CFO	Andrew Morton
Chairman	Neil Hadden

[morhomes.co.uk](http://morhomes.co.uk)
**Key shareholders**

63 housing associations (none &gt;5%)

**Diary**

Sep'21 AGM

**Analyst**

 Mark Thomas 020 3693 7075  
[mt@hardmanandco.com](mailto:mt@hardmanandco.com)

# MORHOMES 3.4% NOTES 2038/40

## Sustainable bond framework and earnings

In this note, we examine MH's eligibility to issue sustainable bonds. Its strong ESG credentials were explored in detail in our 11 September 2020 initiation, *Low-risk issuer in a low-risk market*, with its borrowers providing social housing in an environmentally friendly manner. Critically, MH now has the processes, audit trail and multi-layered independent verification to evidence compliance with sustainability bond requirements, and so access this new investor base. The housing association (HA) market is low-risk, and MH has taken the incremental steps to further reduce risk, driving sustainability in earnings as well.

- ▶ **Sustainable Bonds:** MH's Sustainable Housing Assessment will align with the International Capital Markets Association's (ICMA) "Sustainability Bond Guidelines" by documenting social and environmental benefits. We believe they were a core philosophy before, but that now they can be demonstrably evidenced.
- ▶ **Independently reviewed:** Further enhancing the audit trail, MH has involved third parties throughout this process. Sustainalytics has independently reviewed MH's framework and provided a positive second-party opinion. NatWest's Sustainable Finance Team and Ritterwald also supported its development.
- ▶ **Valuation:** As a new issuer, with a modest number of existing borrowers, MH's cost of funds is above its expected, long-term level. Its spreads have already started to tighten (47bps, 25% since launch); and, as the business grows and matures, further tightening, and so capital appreciation, may result.
- ▶ **Risks:** For credit risk to be an issue, we believe it requires i) a material change in government policy, ii) customer behaviour to change, and iii) house prices to fall. Most regulatory changes have seen little effect, although the impact of Universal Credit (UC) has yet to be fully felt. Liquidity risk is tightly controlled.
- ▶ **Investment summary:** MH is a pooled borrowing vehicle with a unique position in the low-risk HA mid-market. It was established by many of a competitor's borrowers, who wanted a more flexible, quick and low-cost service available to more of them. It focuses on the middle market, and, with robust credit procedures, significant capital support, borrower alignment of interest and good security, risk is further reduced in a low-risk market. Growth will deliver economies of scale and reduce interest costs, making MH even more appealing to borrowers, we believe.

**Financial summary and valuation**

Year-end Mar (£000)	2019	2020	2021	2022E
Total income	114	790	780	1,265
Impairments	-54	21	-16	-33
Costs	-940	-974	-975	-1,150
Pre-tax profit	-880	-163	-211	83
Total loans	259,157	315,636	474,156	725,029
Cash	2,347	1,903	3,033	6,742
Contingent convertible debt	0	3,269	4,814	11,563
NAV	2,501	2,746	3,471	5,020
Cost:income ratio	825%	123%	125%	91%
No. of borrowing entities	11	13	17**	25
No. of shareholders	62	62*	62	66
Average loan size	23,560	21,042	27,892	29,001

\*two new shareholders offset by two mergers of existing ones, \*\*five new in 2021, but one group did an internal re-organisation, combining two of their loans;

Source: Hardman & Co Research

# Sustainable bond framework

## Summary

MH always operated in sustainable manner, but, with enhanced documentation and review of processes, it can now access new investor base

Until recently, MH issued “social bonds”, reflecting the strong benefits its lending brought to society. There is, however, a strongly growing cohort of investors who invest in “sustainability bonds”, which require evidence not only of social benefit but also environmental ones. We believe MH’s approach has always followed such thinking, but, to qualify as a sustainability bond, this needs to be evidenced. It is our view that the dangers of greenwashing – where a company claims ESG credentials but, in practice, is not adopting them – mean that both an audit trail of compliance, and also multi-layered independent verification, will become increasingly valuable. MH’s processes and reviews appear to be in line with best practice. Sustainability investing is a rapidly growing asset class where investor demand appears to be rising faster than the supply of appropriate investments. By accessing this investor base, MH should be able to reduce its own cost of funds and diversify its funding.

## Background

Sustainable bond framework put in place in February 2021

On 11 February 2021, MH launched its *Sustainable Bond Framework* and innovative new Sustainable Housing Assessment (SHA), which will apply to prospective borrowers. By adopting these schemes, MH can now issue a sustainability bond that will be one of the first for the housing sector with a sustainability accreditation and going one step further than its original social bond, the framework for which was published in 2018. We note that MH has already piloted the framework with five HAs; Melin Homes, for example, scored 75% (when a pass is achieved at just 50%). MH is now able to apply two distinct labels: i) “sustainability” bonds – housing association projects that provide both social and environmental benefits; and ii) “social” bonds – housing association projects that provide predominantly social benefits.

## Why sustainable bonds?

PIMCO highlights the advantages of issuing sustainable bonds

Rather than present our own views on this question, we have gone straight to the horse’s mouth. The section below is a direct quote from PIMCO’s website, *Why invest in Sustainable (Green, Social, Sustainability and Sustainability-linked) Bonds?*

“Sustainable bonds, which include green, social, sustainability and sustainability-linked bonds, can offer a range of potential benefits, including:

Mitigating physical, transition, and long-term sustainability risk and seizing potential opportunities

- ▶ The long-term challenge of decarbonizing the economy in a socially equitable way comes with risks, but it also offers opportunities for active investors. We recognize that ESG factors are increasingly essential inputs when evaluating global economies, markets, industries and business models. Material ESG factors are also important considerations when evaluating long-term investment opportunities and risks for all asset classes, public and private markets.

Meeting investor demand

- ▶ Sustainable bond issuance is rising, regulations are setting global standards, client interest in ESG practices is increasing and, most importantly, responsible investing is becoming more mainstream. We expect that the COVID-19 crisis could cause even more investors to look for sustainable investment choices, and we have observed growing issuance in social, SDG, and specifically pandemic-related bonds on top of a growing green bond market. Focusing on sustainability supports growth over the medium and long term in an inclusive way.

### Aligning with sustainability goals

- ▶ Sustainable bonds provide investors with a means of aligning their asset allocations with sustainability objectives in a meaningful way. We believe fixed income is an important asset class to drive material ESG change. The global bond market is almost double the size of the equity market and, unlike equity securities, which are in perpetuity, bonds mature, prompting companies to return to the market to refinance. By engaging with companies when they need to fundraise, investors can help push for sustainability commitments or specific sustainable issuance, and accelerate positive social and environmental change.”

Accessing a rapidly growing market, already \$150bn globally, with a number of global investment banks entering the market

## What does it mean for MH?

The same article highlights the exponential growth in the sustainable bond market, from less than \$100bn in 2016 to more than \$1tr as at September 2020. Most of these bonds are green bonds, but the target investor market that MH is now accessing already invests ca.\$150bn in sustainable bonds (which combine green and social projects). On 15 February 2021, Goldman Sachs launched its inaugural sustainability bond (\$800m). We note that the NatWest February issue (see below) was at a 3bp lower cost than its comparable social bonds and 8bps below conventional debt.

Proof of credentials will be hugely important, and needs best-in-class disclosure and independent verification

## Proving sustainability credentials

We believe that proving robust, sustainable credentials will become increasingly important, as some issuers try to “greenwash” their bonds with more presentation than substance of social/green benefits. In this regard, both disclosure and having third-party reviews of MH’s policies, processes and disclosure should give investors comfort in their veracity. Again, we emphasise that MH’s model has been delivering these benefits for some time, but now it is able to provide evidence.

MH is an early adopter of the Sustainability Reporting Standard (SRS) for Social Housing.

## Disclosure

The SRS standard was launched in November 2020 by the ESG Social Housing Working Group – a collaboration of 18 banks and investors, housing associations, service providers and impact investing organisations. The SRS is a voluntary reporting framework, covering 12 themes and 48 criteria across ESG considerations, such as zero-carbon targets, affordability and safety standards. From 2021, the standard will be overseen by the Social Housing Sustainability Reporting Standards Board, providing an independent review of the disclosures.

Use of proceeds

## Sustainalytics’ second-party opinion

Sustainalytics has independently reviewed MH’s framework and provided a positive *Second Party Opinion*. The key points it highlighted were:

“The eligible categories for the use of proceeds – Affordable Housing and Green Buildings – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 11.

**Project evaluation and selection**

MORhomes' internal process for evaluation and selecting eligible projects is managed by the Socially Responsible Investment Committee (SRIC), which is comprised of four members of the Board. The Housing Associations financed by bond proceeds will be responsible for implementation of the financed projects. The SRIC ensures that Housing Associations comply with the Framework criteria. Sustainalytics considers this process to be in line with market practice.

**Management of proceeds**

MORhomes' social and sustainability bond proceeds will be immediately lent to eligible Housing Associations and will be tracked using the associated loan documentation. Net proceeds will be applied on a 'back-to-back' basis by the paying agent to a series of identified loans arranged in connection with Housing Association social/affordable housing projects. Loans to Housing Associations will be agreed simultaneously with the issue of the bond. The loan amount will be equal to or slightly larger than the bond issued, and the loan term will equal the bond term. Therefore, the process will not include any temporary administration of the proceeds. Sustainalytics views this practice aligned with market standards.

**Reporting**

MORhomes is committed to report on the allocation of proceeds on its website, on an annual basis, until full allocation. The allocation reporting will include details such as a complete list of Housing Associations financed, and an assertion by management that the net proceeds were allocated to eligible Housing Associations. Regarding impact, MORhomes will report, based on sample data provided by borrowers, the number of housing units constructed/refurbished/environmental standards achieved, overall indications of projects, and example case studies where suitable information is available. Based on these elements, Sustainalytics considers this process to be in line with market practice."

## Social & Sustainability Impact Report 2020/21

The key points from MH's [\*Social & Sustainability Impact Report 2020/21\*](#) are:

**(89%) directly related to activities that have a societal benefit**

- ▶ A very high proportion of borrowers' turnover (89%) was related directly to activities that have a societal benefit. The remaining categories (private rented: 4%, open market sales: 5%, and other: 2%) generally have a social aspect to them, such as adding community benefit and supporting local suppliers.

**In total, MH's loans were used to build 3,163 new homes across 41 local authorities**

- ▶ MH's 14 housing association groups (as at December 2020) have a demonstrable track record of delivering new homes, supporting those on the lowest incomes but also those who are otherwise priced out of private renting and homeownership. On average, they built 290 homes each in the financial year to March 2020, contributing to the supply of new, good-quality, affordable homes for those in housing need. MH loans have funded, or will directly fund, 3,163 homes in new developments across 41 local authorities, which are detailed in the MH report.

**Delivering on goals 8,11 and 13 of UN sustainability goals**

- ▶ In turn, the MH-funded homes will add an estimated £399.6m to the national economy, supporting 7,140 jobs.
- ▶ The statistics and case studies demonstrate that MH's borrowers are making a significant contribution towards achieving several of the United Nations' Sustainable Development Goals (SDGs), especially i) Goal 8: Decent Work and Economic Growth, creating conditions that allow people to have quality jobs, ii) Goal 11: Sustainable Cities and Communities, creating a future in which cities provide opportunities for all, with access to basic services, energy, housing, transportation and more, and iii) Goal 13: Climate Action, tackling climate change – a global challenge that affects everyone, everywhere.

Questions were derived by third party to require best-in-class market standards

## Ritterwald-reviewed sustainability questionnaire

MH receives ESG information from its borrowers through both the regular credit application process and an additional sustainability questionnaire (see Annex to MH's *Sustainable Bond Framework*). The sustainability-specific questionnaire has been developed by *Ritterwald*, a substantial, pan-European real estate consultancy. The questions were derived from best-in-class market standards, such as the Certified Sustainable Housing label, and are aligned to the UK Social and Affordable Housing Sustainability Reporting Standard. Ritterwald will review and validate borrowers' responses to these questions and, based on these, it will provide MH with ESG constituent scores.

Balanced approach across multiple criteria

We believe the scorecard not only provides high hurdle rates but also requires a balanced approach across multiple criteria. To achieve the minimum threshold, a potential borrower must achieve:

- ▶ EPC level A or B for the new housing units it is constructing;
- ▶ 50% of the aggregate score; and
- ▶ 33% of the individual scores of each of the three categories of Environment (60 points), Social (60 points) and Governance (45 points).

Framework developed with investment bank input to ensure it meets all potential investors' needs

## NatWest review as well

In developing its processes and reviews, MH also received support from NatWest's Sustainable Finance Team. This is important, as such a market participant should know not only what the standards say but also what investors are requiring, which may be a much higher standard. In this regard, we believe, for example, that concerns about greenwashing are likely to mean that the practical implementation steps up to a higher level than the terms of the standard alone. To put this into perspective, in February 2021, NatWest Group plc issued a €1bn 9NC8 HoldCo Senior Social Bond, representing the group's third bond issuance in GSS ("Green, Social, Sustainable") format. This follows on from the inaugural €750m 6NC5 social bond in November 2019 and \$600m 4NC3 green bond in May 2020.

Socially Responsible Investment Committee (SRIC) – board oversight

## Board review

A SRIC of the MORhomes plc board has been established, the main function of which is to oversee the Issuer's status as a socially responsible investment entity. The committee's terms of reference are on pp10-11 of MH's *Sustainable Bond Framework*.

MH ahead of pack in potentially accessing sustainability bond market...

## Peer comparisons

MH has been issuing social bonds since launch in 2019, having embedded a framework for this into its infrastructure from the start. In contrast, bLEND converted to social bonds only in 2021, and neither GB Social Housing (GBSH) nor The Housing Finance Corporation Group (THFC) issues them or has a social framework in place. MH is the only one to have put in place a sustainable bond framework, and is expected to launch its first issue in 2021. We believe this is important in accessing a potentially broader investor pool, but is also a clear demonstration of culture. On 3 August 2021, MH announced that it had received an MSCI ESG Rating of AA, putting MH in the "leader" category, which represents the top 20% of all companies. We have not been able to access MSCI ESG ratings for peers, but we understand that MH is several grades above them.

...and on ESG ratings too

## Sustainable earnings too

Our initiation detailed why we believe HAs have strong cash generation, and so make good borrowers, and what MH had done to reduce risk further

In our initiation, *Low-risk issuer in a low-risk market*, we asserted that the HA market had shown extraordinary resilience in the past. Our claim was supported by i) resilient tenant income, with significant government support and with wide diversification, ii) high-quality, conservatively valued security, iii) direct government financial support, and iv) regulatory supervision. We also asserted that MH had further reduced risk, with i) robust credit risk processes, ii) focused borrower conditions, iii) borrower financial resilience, iv) equity, contingent convertible and senior debt support, v) portfolio diversification, vi) excess, effective security, vii) significant undrawn liquidity facilities, and viii) growth.

## Performance amid COVID-19 crisis

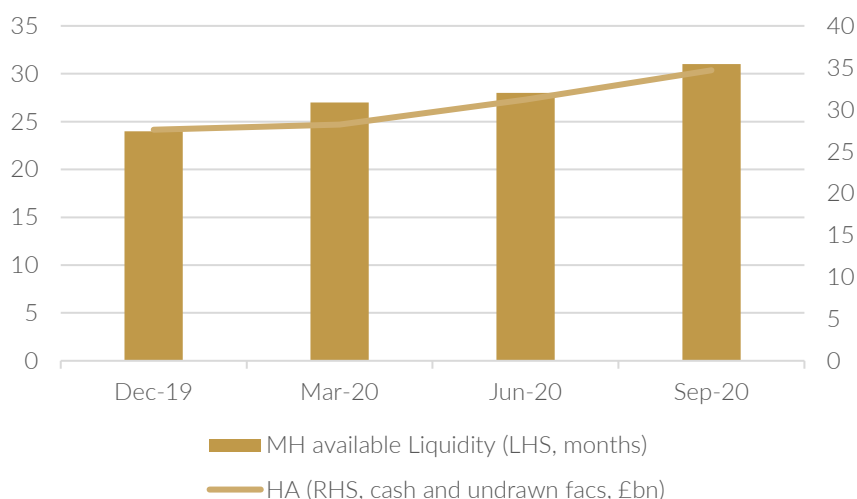
Our expectation of resilience was confirmed by performance amid COVID-19

Given this background, we believed HA and MH would be resilient through the COVID-19 crisis, and this has proved to be the case. The charts below were extracted from MH's 22 January 2021 presentation to the *CHC virtual finance conference*, and they clearly demonstrate that, through the peak periods of adverse sentiment in the COVID-19 crisis:

Liquidity improved

- ▶ There was a strong increase in liquidity across the sector, with MH borrowers increasing their liquidity to more than 30 months of likely cash outflows. As can be seen in the chart below, improving liquidity is a trend across the HA market, with cash and undrawn facilities in September 2020 of £35bn, compared with £28bn in December 2019. (In the chart below, 'MH' refers to MH borrowers and 'HA' to all English HAs monitored by the Regulator of Social Housing.)

MH's liquidity (months, LHS) and HA's cash/undrawn facilities through COVID-19 early stages (£bn, RHS)



Source: MH presentation to *CHC Virtual Finance Conference*, slide 13, Hardman & Co Research

Broadly stable arrears, despite impact of COVID-19 disproportionately affecting low-income households

- ▶ The Regulator for Social Housing update *quarterly survey March 2021* noted that mean current tenant arrears improved slightly, to 3.4%, from 3.84% at end-December 2020, against 3.98% at end-September and 4.03% at end-June. It is now back to 2Q'18 levels. Median arrears were 3.6% (December 3.65%, June: 3.67%), compared with the 3.18% reported in September 2019. In December, 70% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming, their business plan assumptions – an improvement on June, where only 65% of providers reported this. MH

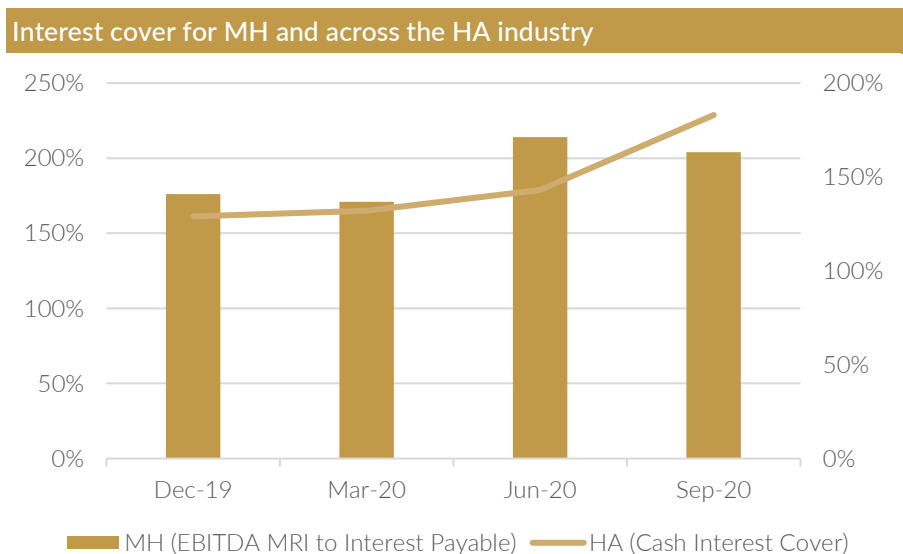
borrowers' arrears, at 3.2%, were slightly better than the industry average of 3.4%.

**Impact of UC continues to be manageable**

- ▶ We have previously highlighted the potential risk from the rollout of UC, where tenants become responsible for the payment of rent directly, often for the first time. There may have been some minor benefit from the incremental funds made available through the pandemic. However, the broadly stable arrears level is despite further tenants moving onto this benefit, as, nationwide, 2.7m more people claimed UC in September compared with March 2020.

**Interest cover improving**

- ▶ The chart below shows increased interest cover for both MH borrowers and the English HA market. This has been partially helped by reduced discretionary spend on maintenance, as the HAs took rapid action to protect their own liquidity.



Source: MH presentation to [CHC Virtual Finance Conference](#), slide 14, Hardman & Co Research

**Void losses limited**

- ▶ The latest Regulator for Social Housing [quarterly survey March 2021](#) also notes that mean void losses were 2.2% (December: 2.13%, median: 1.5% vs. 1.6%). This remains one of the highest mean void levels reported since the data were first collected in 2013. 14 (December: 13, September: 15) providers reported void losses of 5% or more. Void losses rose initially during lockdown, as vacant properties could not be re-let and, unsurprisingly, the highest levels of void rent losses were reported by providers in the areas subject to the tightest restrictions, predominantly in the East and West Midlands regions. MH borrowers' voids are materially better than the industry, at 1.5%.

**Mean average rent collection: 99.6%**

- ▶ Mean average rent collection rates improved further, to 99.6% (December: 98.69%, September: 98.28%), with the median at 99.9%. Both figures are the highest levels seen in the past three years, with the highest mean average reported previously in the same quarter of 2019/20. The number of providers reporting rent collection rates of less than 95% reduced to 5 (December: 13, September: 17, June: 47, September 2019: 18).

**Developed stock is selling**

- ▶ MH borrowers' unsold units (for six months or more) at March 2021 were below 25% of the total, against a peer average of 35%.

## Peer comparisons

MH has robust relative operational performance, making current rating outlook anomalous

The table below shows extracts of the key metrics from peers and MH's latest Report and Accounts<sup>1</sup>. The key observations we draw are as follows:

- ▶ MH's outstanding loan principal growth (46%) is faster than the GBSH and THFC groups, where growth has been relatively modest.
- ▶ The credit enhancement that we discussed in detail in our initiation means that MH has much more equity/Contingent Convertible Debt (CoCo).
- ▶ MH's liquidity appears more robust. GB Social Housing issues more bonds than it on-lends. It holds the balance (£6.3m or 2.0% of loans) in gilts; this is referred to in places as a "Liquidity Buffer" and drives negative interest income.
- ▶ In terms of concentration risk, MH's largest exposure is 11% of the book and the top five 41%. The peers are GBSH (16%, 56%), THFC (7%, 19%) and bLEND (23% and 70%).
- ▶ We understand that MH's rating outlook remains constrained by formulaic risk measures, which penalise new businesses. This is expected to run off shortly.

### Key peer metrics (£m)

Credit rating	MH		GBSH		THFC (Group)		bLEND	
	S&P A- (Negative)		S&P A- (Stable)		S&P A- (Stable)		Moody's A2 Stable	
	Mar'20	Mar'21	Dec'19	Dec'20	Mar'20	Mar'21	Mar'20	Mar'21
<b>Balance sheet</b>								
Outstanding loan principal*	313	457	286	312	7,138	7,470	390	770
Equity (inc. prefs.)	2.7	3.5	0.5	0.5	41.7	46.6	0.4	1.8
CoCo	3.3	4.8	0	0	0	0	0	0
Equity + CoCo	6.0	8.3	0.5	0.5	41.7	46.6	0.4	1.8
<b>Equity + CoCo as % loans</b>	<b>1.9%</b>	<b>1.8%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.6%</b>	<b>0.6%</b>	<b>0.1%</b>	<b>0.2%</b>
<b>Liquidity</b>								
Cash + short-term deposits	1.9	3.0	1.2	1.9	73.4	86.7	0.9	4.9
Corporate liquidity facilities	20.0	10.0	0	0	0	0	0	0
Total	21.9	13	1.2	1.9	73.4	70.7	0.9	4.9
<b>As % O/S loan principal</b>	<b>7.0%</b>	<b>2.8%</b>	<b>0.4%</b>	<b>0.6%</b>	<b>1.0%</b>	<b>1.2%</b>	<b>0.2%</b>	<b>0.6%</b>
<b>Adjusted for liquidity buffers</b>	<b>7.0%</b>	<b>2.8%</b>	<b>2.4%</b>	<b>2.6%</b>	<b>1.0%</b>	<b>1.2%</b>	<b>0.2%</b>	<b>0.6%</b>

\*slightly smaller than balance sheet loans, given accounting for premium, transaction costs;  
 Source: Latest company Report and Accounts, Hardman & Co Research

Statutory profit and loss distorted by business practices and reporting. Bottom line is that we believe modest loss/profitability likely in any given year across all companies, reflecting their social purpose.

We also considered a range of profit and loss measures, but these need to be treated with a degree of caution. There are different management practices (e.g. the liquidity buffer affecting net interest income), different growth rates (making interest income dependent on the timing of loan drawdown), transfer pricing of management services (bLEND) and different disclosure (e.g. see page 32 of THFC Report and Accounts, compared with MH's page 35). The bottom line is that we believe modest loss/profitability is likely in any given year across all of the companies.

<sup>1</sup> MH <https://morhomes.co.uk/wp-content/uploads/2021/07/MORhomes-2021-accounts-ALL-signed-1.pdf>  
 GBSH <https://gbsocialhousing.com/wp-content/uploads/2021/08/GBSH-Plc-2020-Audited-Accounts.pdf>  
 THFC <https://www.thfcorp.com/wp-content/uploads/2021/08/THFC-Group-2021-Accounts-NSW-Signed-signed.pdf>  
 bLEND <https://www.thfcorp.com/wp-content/uploads/2021/08/BLIND-FUNDING-PLC-2021-NSW-Signed-signed.pdf>



## Financials

Slightly slower loan growth saw small loss in FY'21

The key driver of the financials is the growth of borrowers. As this was slightly behind our forecasts, there was a small loss in FY'21. We expect a modest profit in FY'22E.

Profit and loss				
Year-end Mar (£000)	2019	2020	2021	2022E
Interest income	1,055	10,410	13,474	18,617
Interest expense	-1,058	-10,052	-13,033	-17,691
<b>Net interest income</b>	<b>-3</b>	<b>358</b>	<b>441</b>	<b>926</b>
Other income	117	432	339	339
<b>Total income</b>	<b>114</b>	<b>790</b>	<b>780</b>	<b>1,265</b>
Impairments	-54	21	-16	-33
Operating expenses	-940	-974	-975	-1,150
<b>Pre-tax profit</b>	<b>-880</b>	<b>-163</b>	<b>-211</b>	<b>83</b>
Tax	150	47	40	-16
<b>Profit/loss for period</b>	<b>-730</b>	<b>-116</b>	<b>-171</b>	<b>67</b>

Source: MORhomes, Hardman & Co Research

Balance sheet				
@ 31 Mar (£000)	2019	2020	2021	2022E
Property, plant & equipment	3	3	4	5
Loan assets	258,102	314,301	472,506	722,506
<b>Total non-current assets</b>	<b>258,105</b>	<b>314,304</b>	<b>472,510</b>	<b>722,511</b>
Trade and other receivables	281	600	500	600
Cash and cash equivalent	2,347	1,903	3,033	6,742
Loan assets	1,055	1,335	1,650	2,523
<b>Total current assets</b>	<b>3,683</b>	<b>3,838</b>	<b>5,183</b>	<b>9,865</b>
<b>Total assets</b>	<b>261,788</b>	<b>318,142</b>	<b>477,693</b>	<b>732,376</b>
Trade and other payables	-596	-600	-817	-600
Bond liabilities	-1,029	-1,231	-1,613	-2,466
<b>Total current liabilities</b>	<b>-1,625</b>	<b>-1,831</b>	<b>-2,430</b>	<b>-3,066</b>
MT note liabilities	-257,662	-299,353	-450,589	-688,542
Senior secured debt	0	-10,943	-16,390	-24,185
Contingent convertible notes	0	-3,269	-4,814	-11,563
<b>Total non-current liabilities</b>	<b>-257,662</b>	<b>-313,565</b>	<b>-471,793</b>	<b>-724,290</b>
Share capital	465	495	569	594
Share premium	1,886	2,159	2,828	4,057
Contingent convertible notes	286	344	497	725
Retained earnings	-136	-252	-423	-356
<b>Total equity</b>	<b>2,501</b>	<b>2,746</b>	<b>3,471</b>	<b>5,020</b>

Source: MORhomes, Hardman & Co Research

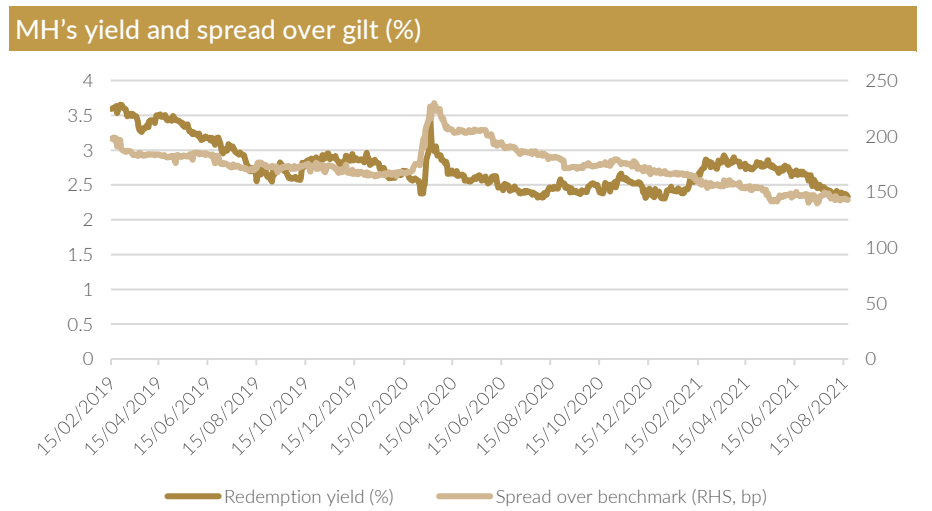
<b>Cashflow</b>				
<b>Year-end Mar (£000)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>
Loss before tax	-730	-163	-211	83
Depreciation	1	1	2	1
Interest payable	1,058	10,052	13,033	17,691
Interest receivable	-1,055	-10,410	-13,474	-18,617
Gain/loss on disposal of tangible assets	0	1	0	0
Tax credit	-150	-47	-40	16
Impairment expenses	54	-21	16	33
Loan asset recharges	-105	508	1,344	2,845
Bond issue and prog. costs	-2,446	-360	-1,005	-2,380
Loan interest received	0	10,129	12,783	18,317
Increase in receivables	-131	-271	140	-100
Increase in payables	596	-4	217	-217
<b>Net cash used in op. activities</b>	<b>-2,908</b>	<b>9,415</b>	<b>12,805</b>	<b>17,671</b>
Interest paid	0	-10,036	-12,320	-17,691
<b>Net cash used in ops.</b>	<b>-2,908</b>	<b>-621</b>	<b>485</b>	<b>-20</b>
Investing activities				
Fixed asset purchase	-4	-2	-3	-2
Loans advanced	-258,051	-56,660	-159,750	-250,873
<b>Net cash in investing</b>	<b>-258,055</b>	<b>-56,662</b>	<b>-159,753</b>	<b>-250,875</b>
Financing				
Proceeds from new shares	2,945	303	743	1,254
Bond proceeds	260,365	56,536	159,655	253,350
<b>Net cash from financing</b>	<b>263,310</b>	<b>56,839</b>	<b>160,398</b>	<b>254,605</b>
<b>Total cash movements</b>	<b>2,347</b>	<b>-444</b>	<b>1,130</b>	<b>3,710</b>
<b>Opening cash</b>	<b>0</b>	<b>2,347</b>	<b>1,903</b>	<b>3,033</b>
<b>Closing cash</b>	<b>2,347</b>	<b>1,903</b>	<b>3,033</b>	<b>6,742</b>

Source: MORhomes, Hardman & Co Research

# Valuation

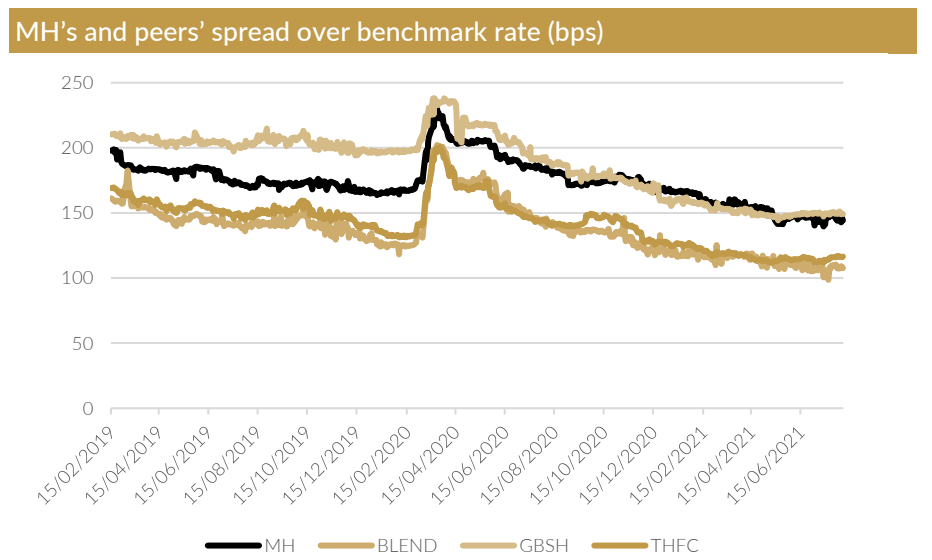
January and then March 2021 issues at lowest spread to date and below market price at the time, suggesting there is investor demand when reasonable levels of supply are available

The chart below shows MH's narrowing spread to the benchmark gilt, and the fact that the taps have had no impact on pricing. The spread over the comparable gilt since launch has come down from 190bps to 143bps. The *January 2021 issue* was at a spread of 160bps, ca.5bps below the then prevalent bid price, and the lowest yield and spread that has been achieved since the launch of the bond in February 2019. The subsequent tap in March was also ca.5bps below quoted spreads, at 154bps over the benchmark. Management also comments that actual trading spreads are tighter than the quoted market prices (see page 7 of the *June 2021 business review*). We understand that this gap has, at times, been in excess of 10bps below the quoted market data spread we use in the chart below. The real traded prices have shown the clear downward trend over time. This confirms our view that, given the limited trading, market pricing needs to be treated with a degree of caution.



Source: Refinitiv data, accessed 23 August 2021, Hardman & Co Research

The chart below shows MH's spread over the benchmark rate relative to peers. MH remains towards the upper end of the range.



Source: Refinitiv data accessed, 23 August 2021, Hardman & Co Research

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