

Market View – MFA as SSA? [That’s but one way to think of this unique & top-rated credit]

By Warren Lovely

The Municipal Finance Authority of British Columbia (BCMFA for short), established in 1970, is something of a unique credit... at least in a Canadian context. Notwithstanding a long-standing tendency to label/classify BCMFA bonds as “municipal” or “local government”, the entity is distinctly regional/provincial in terms of its remit, authority and oversight. To us, BCMFA looks, feels and operates more like a highly efficient regional infrastructure bank than anything else. Yes, its clients are local governments/municipalities, but that’s really no different than the likes of Kommunalbanken (Norway), Kommuninvest (Sweden), Municipality Finance (Finland) or JFM (Japan)—stalwarts of the SSA space all. That supports inclusion of BCMFA (along with a handful of other Canadian entities) in our *SSA Fact Sheet*, which was designed as a quick reference guide for investors.

Rating agencies too, tend to differentiate BCMFA from the various Canadian cities and regional municipalities that issue debt in their own name. Rather than *comp*-ing against Toronto, Montréal or Vancouver say, S&P places BCMFA in a category dubbed *Public Sector Funding Agencies (PFSA)*. There are over a dozen names in the PFSA camp, including two other Canadian entities (FNFA and HI-C Issuer Trust), those Nordic/Japanese muni-focused SSAs cited above and a handful of others. Refer to the detailed Table on page 2 for a current ratings score comparison. At ‘aa+’, BCMFA boasts the single-best *Stand-Alone Credit Profile (SACP)* in the group. Its unique, legislated and unlimited taxation authority over BC’s entire real property base allows for an additional notch of uplift, resulting in BCMFA’s top-tier ‘AAA’ rating and “stable” outlook from S&P (which it has enjoyed for a dozen years).

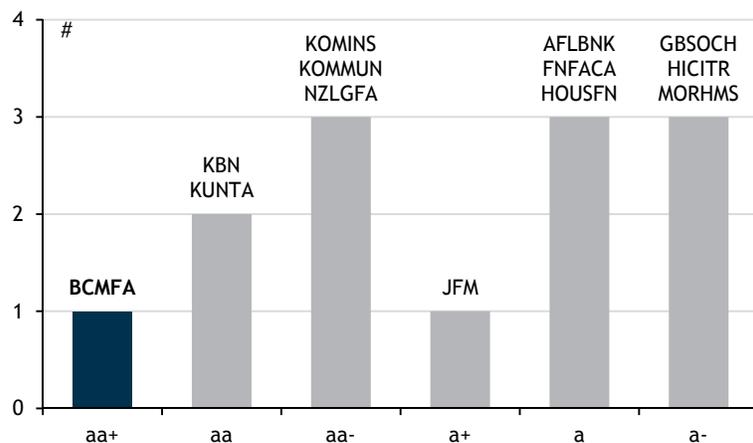
Moody’s likewise draws a methodological distinction between BCMFA and what you might consider plain vanilla municipal governments. The former is assessed as a *Government-Related Issuer (GRI)*, with members of the latter (e.g., Winnipeg, York Region or Ottawa, just to add a few other names into the mix) are weighed against the rating agency’s *Regional and Local Governments* criteria. Regardless, BCMFA earns a top-notch ‘aaa’ *Baseline Credit Assessment (BCA)* from Moody’s, requiring no special factor or JDA-related uplift to get to a gold-plated ‘Aaa’ long-term local currency rating (which, in Moody’s case, dates back to 1994). Note that Moody’s scorecard-generated BCAs for Canada’s main issuing munis, as well as all ten provinces, range from ‘aa3’ to ‘aa1’.

In addition to the real property taxation power—which has never been needed to replenish the *Debt Reserve Fund (DRF)*, but is wholly reassuring nonetheless—BCMFA ratings draw support from: the joint and several liability of borrowers (within a given district); strong profitability metrics, loan quality and perfect repayment history; “very strong” management; prudent capital policies (including the *DRF*); and healthy liquidity. Thinking about it, the sheer stability of BCMFA credit ratings is one way the name differs from the provincial sector, where a number of post-crisis rating actions have been taken (the majority of which, but certainly not all, have been to the downside). As for liquidity, there are a couple dimensions here, but to us, primary market issuance patterns and secondary market trading flows tend to support the argument that BCMFA bonds are *at least* as liquid, if not more so, than many smaller to mid-sized Canadian provinces. Go ahead, test us. This one-two punch of stable ratings and demonstrated two-way liquidity should come as a comfort to bondholders, particularly when you control for the all-in yield available on BCMFA bonds.

Quite simply, BCMFA bonds remain some of the highest yielding AAA-rated public sector securities in the Canadian fixed income market, in many cases offering a non-trivial pick-up to like-rated crowns, CPPIB/PSP, provis and/or C\$ SSAs (refer to Chart 3 on page 2). So if, like us, you’re inclined to see BCMFA less like a muni and more like a province, SSA or other public sector entity, the vol-adjusted spread/yield and rating uplift might be hard to argue with. We’d welcome a further debate with any/all interested parties.

Chart 1: BCMFA strongest SACP in PFSA group

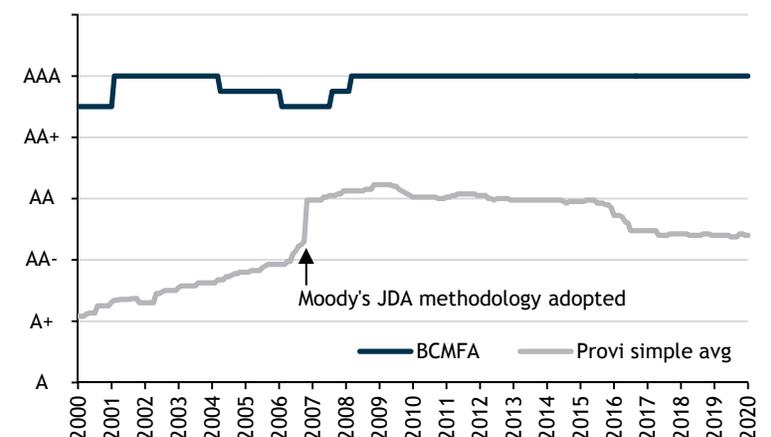
S&P’s Stand Alone Credit Profiles of 13 Public Sector Funding Agencies



Source: NBF, S&P | Note: Labels refer to BBG tickers; see Table (pg 2) for details

Chart 2: BCMFA's history of top-tier/stable ratings

Average S&P & Moody's long-term rating: BCMFA vs provincial aggregate



Source: NBF, S&P, Moody's | Note: Based on avg of S&P, Moody's ratings/outlooks

Table: Current snapshot of S&P's Public Sector Funding Agencies

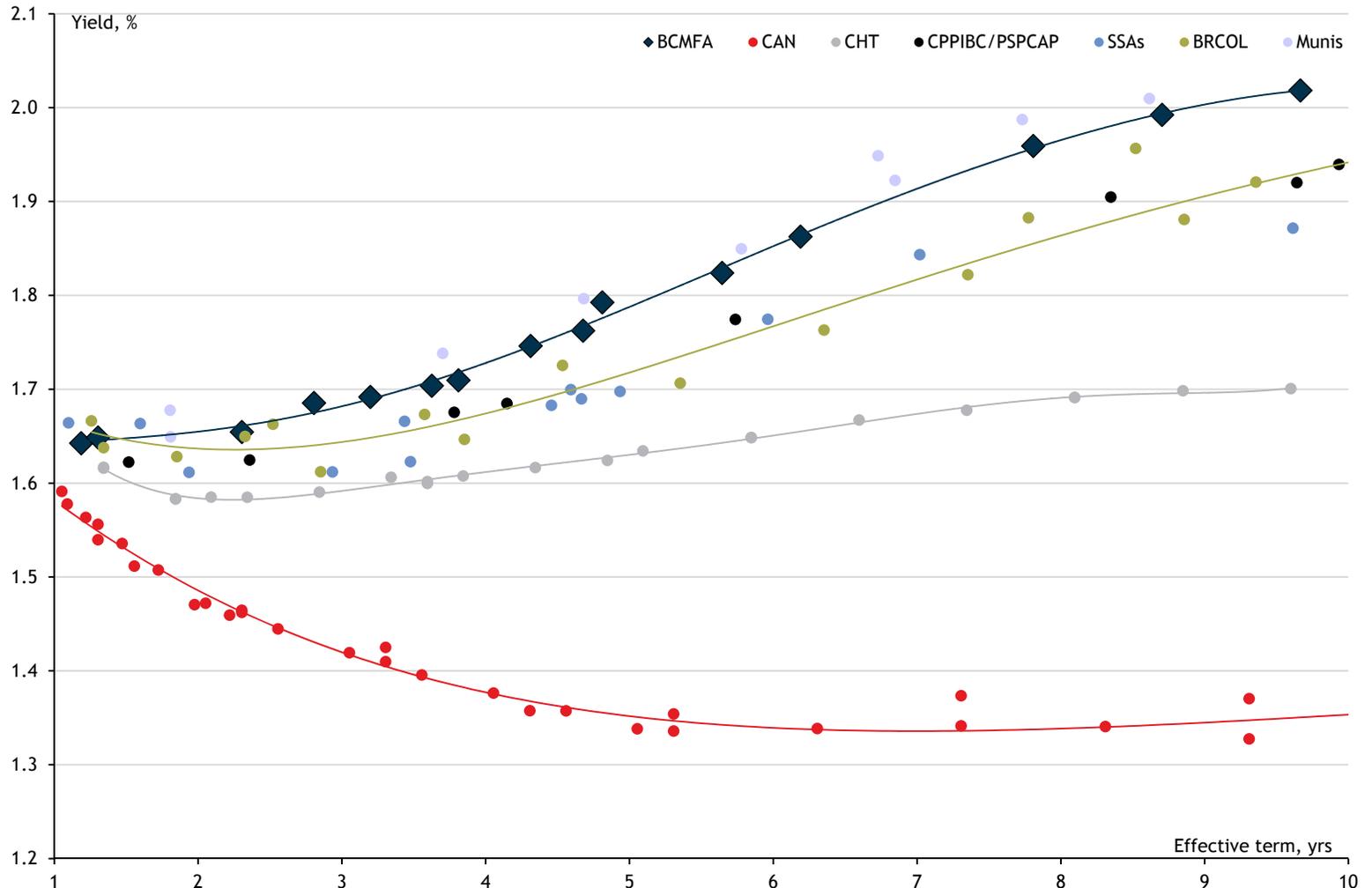
S&P ratings score snapshot of BCMFA & 12 other PFSAs (reflecting latest available rating reports)

Country	Canada AAA Stable			Denmark AAA Stable	Finland AA+ Stable	France AA Stable	Japan A+ Positive	New Zealand AA+ Positive	Norway AAA Stable	Sweden AAA Stable	UK AA Stable		
Sovereign Rating Outlook	Municipal Finance Authority of British Columbia	First Nations Finance Authority	HI-C Issuer Trust	KommuneKredit	Municipality Finance PLC	Agence France Locale	Japan Finance Organization for Municipalities	New Zealand Local Government Funding Agency Ltd	KBN Kommunalkbanken Norway	Kommuninvest i Sverige AB	GB Social Housing PLC	The Housing Finance Corp Ltd	MORhomes PLC
PFSAs Entity													
BBG Ticker	BCMFA	FNFACA	HICITR	KOMMUN	KUNTA	AFLBNK	JFM	NZLGFA	KBN	KOMINS	GBSOCH	HOUSFN	MORHMS
Year of Inception	1970	2013	2018	1898	1989	2015	1957	2011	1926	1986	2012	1987	2018
LT Rating Outlook	AAA Stable	A+ Stable	A- Stable	AAA Stable	AA+ Stable	AA- Stable	A+ Positive	AA+ Positive	AAA Stable	AAA Stable	A- Stable	A Stable	A- Negative
ST Rating	A-1+	-	-	A-1+	A-1+	A-1+	A-1	A-1+	A-1+	A-1+	-	A-1	A-2
Ratings Score Snapshot	SACP	'aa+'	'a'	'a-'	'aa-'	'aa'	'a'	'a+'	'aa-'	'aa'	'aa-'	'a'	'a-'
	Enterprise Risk Profile	Very Strong (1)	Adequate (3)	Adequate (3)	Strong (2)	Very Strong (1)	Moderate (4)	Strong (2)	Strong (2)	Strong (2)	Strong (2)	Adequate (3)	Adequate (3)
	PICRA (40%)	Strong	Adequate	Strong	Strong	Very Strong	Adequate	Strong	Strong	Strong	Strong	Low Risk	Low Risk
	Business Position (20%)	Very Strong	Moderate	Weak	Very Strong	Strong	Weak	Strong	Strong	Strong	Strong	Moderate	Adequate
	Mgmt & Governance (40%)	Very Strong	Adequate	Moderate	Strong	Very Strong	Moderate	Adequate	Very Strong	Very Strong	Very Strong	Moderate	Adequate
	Financial Risk Profile	Strong (2)	Strong (2)	Strong (2)	Strong (2)	Strong (2)	Very Strong (1)	Adequate (3)	Adequate (3)	Very Strong (1)	Strong (2)	Adequate (3)	Strong (2)
	Capital Adequacy (40%)	Adequate	Very Strong	Very Strong	Very Strong	Very Strong	Strong	Strong	Moderate	Very Strong	Very Strong	Moderate	Very Strong
	Funding & Liquidity (60%)	Neutral	Strong	Neutral	Neutral	Negative	Positive	Neutral	Neutral	Positive	Positive	Neutral	Neutral
	Support	0	+1	0	+2	+1	+2	0	+2	+2	+2	0	0
	Additional Factors	+1	0	+1	+1	0	0	0	0	0	+1	0	0
Latest Rating Report	30-May-19	14-Aug-19	19-Dec-19	24-Jul-19	20-Dec-19	20-May-19	4-Feb-20	3-Feb-19	21-Jun-19	11-Dec-19	3-Jul-19	23-Sep-19	

Note: Ratings based on S&P criteria, Public Sector Funding Agencies: Methodology And Assumptions, published 22-May-2018;
New Zealand Local Government Funding Agency rating relates to foreign currency (local currency rating is 'AA+', positive outlook)
Source: NBF, S&P

Chart 3: A closer look at the bond yields available in Canada's AAA-rated universe

FTSE Canada Universe Bond Index yields & effective term of AAA-rated bonds (closing values at 7-Feb)



Source: NBF, FTSE Russell | Note: Yields & effective term as per FTSE Canada Universe Bond Index, for AAA-rated securities; in select cases, polynomial curves provided for guidance

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