18 February 2021

Platform Housing Group's trading update covering the 9-month period to December 2020

The following report provides a trading update for Platform Housing Group, covering our unaudited financial performance, development and treasury activities.

Highlights

- The last quarter saw the continuation of the COVID-19 pandemic. Our key priority throughout continues to be the safety and wellbeing of our residents and employees
- Whilst a second lockdown was in force during the quarter, the effect on our operations was less severe than the first lockdown in the spring with normal levels of activity largely in operation across the business
- Financial performance remains robust with turnover increasing by 3.3% to £200.4m (2019: £194m)
- Operating surplus increased 4.0% to £77.1m (2019: £74.1m)
- Shared ownership sales performance was strong and the number of unsold homes reduced

At or for nine months ended 31 December	2019	2020	Change
Turnover	£194.0m	£200.4m	+3.3%
Operating surplus(1)	£74.1m	£77.1m	+4.0%
New homes completed	1,109	642	-42.1%
Investment in new and existing homes	£173.8m	£155.9m	-10.3%
Share of turnover from social housing lettings	83.8%	84.4%	+0.6ppt
Social housing lettings margin(2)	41.8%	44.7%	+2.9ppt
Current tenant arrears(3)	3.59%(4)	3.12%	-0.47ppt
Gearing(2)	43.5%(4)	42.8%	-0.7ppt
EBITDA-MRI interest cover(2)	203%(4)	226%	+23ppt

Notes

(1) Surplus excluding gains on disposal of property, plant and equipment
(2) Regulator for Social Housing Value for Money metric; for more information go to https://www.gov.uk/government/publications/value-for-money-metrics-technical-note/value-for-money-metrics-technical-note-guidance-june-2020
(3) Current tenant arrears includes all general needs tenants (so excludes shared ownership properties) and tenant payment methods
(4) Current tenant arrears is as at 31 December 2019, gearing and EBITDA-MRI interest cover ratios are as at 31 March 2020

Elizabeth Froude, Platform's CEO commented:
"In this last quarter we have yet again seen ourselves adapting to the loosening of lockdown and the re-instatement of it. Despite this we have again remained true to our strategic direction, whilst protecting our residents, staff and financial strength. It is pleasing to report that we are still delivering consistent and strong results and our current direction of travel means we should deliver a full year operating surplus consistent with last year.

"Throughout the period we continued letting and selling homes and the reservations on our new homes continue at strength. Looking ahead, we continue to make progress on acquiring development sites to build more quality homes to help address the huge demand for housing.

"We have also continued to move forward with our organisational restructuring and delivery of digital functionality and remain close to our original plans and timelines, efficiencies and new functionality for our customers. Our proactive engagement with residents has ensured we retain sight of where we are most needed and able to provide additional support. Consequently, we have been able to maintain good income collection, closing the quarter with lower arrears than those in the same period in FY 2019/20.

"We are now looking forward to our plans for 2021/22 and developing our new Corporate Strategy for 2021-2026. Key components of this are continued investment in both wider digital services for customers and, the maintenance and improved energy efficiency of our homes. We are adapting our plans to accommodate the latest government policy statements and the social housing white paper (charter for social housing residents), but do not see this as diverting our original strategic direction as a committed social landlord.

"In order to support the Corporate Strategy, we are progressing the roll out of our treasury strategy, pushing ahead with the establishment of an ESG enabled EMTN programme, and underlining our credit strength through a second (A+ negative outlook) credit rating with Fitch, which aligns with our recently re-affirmed A+ (stable) rating with Standard and Poors.

"I thank our investor base for their continued support and I am certain the consistency of our results reflects the stability of the organisation and the information we presented when we came to market in July 2020."

Financial review

Turnover
In the 9 months to 31 December 2020, total turnover grew 3.3% to £200.4m (2019: £194m).

Social housing lettings turnover increased 4.1% to £169.2m (2019: £162.5m), as a result of the first inflationary rental increases for four years, a year-on-year increase in social housing units and an increase in *other grants* due to furlough receipts. This growth was held back slightly by higher voids driven by the impacts of the COVID-19 pandemic.

Shared ownership first tranche sales continue to perform well, with November 2020 experiencing the highest number of reservations for the year despite the second national lockdown. Turnover from shared ownership sales of £21.4m to December 2020 is only 0.9% lower than the prior year figure of £21.6m.

Total social housing turnover of £190.6m (2019: £184.1m) accounted for 95.1% (2019: 94.9%) of Platform's total turnover in the period.

Surpluses and margins
Operating surpluses excluding fixed assets sales increased by 4.0% to £77.1m (2019: 74.1m) and operating surpluses including sales increased by 4.2% to £81.0m (2019: £77.7m). This growth was as a result of turnover growth as outlined above in combination with lower maintenance activity during the first period of lockdown. These factors also drove a 2.9% increase in our core social housing lettings margins to 44.7% (2019: 41.8%). The slowdown in maintenance activity has provided the opportunity to focus on our strategic ambitions in relation to carbon neutrality in future years.

Operating margins from all activities increased by 0.3% to 40.4% (2019: 40.1%). These margins were held back by a larger proportion of shared ownership sales activity taking place in lower value areas, which has resulted in a reduction in sales margins of 7.7% to 17.2% (2019: 25%).

The overall surplus after tax, which takes into account (in comparison with operating surplus measures) interest costs, increased by 2.2% to £41.2m (2019: £40.3m). Margins on surplus after tax decreased by 0.2% to 20.6% (2019: 20.8%) largely due to the consolidation of the Group's interest capitalisation policies (following amalgamation of Waterloo Housing Group Limited and Fortis Living Limited in December 2019). This resulted in a £2.6m reduction in the capitalisation of interest to £2.1m (2019: £4.7m).

Outlook
The projected performance for the year to March 2021 is expected to incorporate both catch up on maintenance expenditures and the potentially adverse effects of COVID-19 and the uncertainty surrounding the United Kingdom's departure from the European Union. This will see metrics move more into line with those experienced in the prior year.

Development review

Home building programme
During quarter three our home building programme progressed steadily but with some impact from COVID-19 felt on activities where contractors were affected by staff shortages as a result of self-isolations. We completed 248 new homes in the quarter, taking total completions for the nine months to December to 642 (2019: 901). These were all for affordable tenures – 31% for social rent, 32% for affordable rent and 37% for shared ownership. Whilst this was down from 1,109 in the prior year, the shortfall was significantly influenced by the COVID-19 lockdown, particularly in the first quarter where completions of 109 were 203 lower than the 312 completions recorded in the same quarter from the previous year. At 31 December 2020, Platform owned a total of 46,046 homes (31 March 2020: 45,510 homes).

Development expenditure on new homes was £151m in the period, 8.5% lower than the in the prior year (2019: £165m). The reduction in expenditures is not as large as the reduction in unit completions noted above because COVID-19 has had a more significant effect on handovers in comparison to construction and in addition, there has been greater investment in large sites in the current year in comparison to the prior. In the quarter Platform purchased a large site in the West Midlands that had full planning permission to develop 80 homes. Development on the site started in the same quarter.

There were 92 properties completed for sale on a shared ownership basis in the quarter (2019: 185). Unsold shared ownership units at the start of the quarter of 211, combined with 94 sales (2019: 117) resulted in a continued decline in the number of unsold units to 209 in December 2020 (March 2020: 241 units).

Outlook
Platform continues to look towards land led housing development sites across the Group's operating area, to support our ambition to deliver a growing building programme. Forecast outturn has been revised to 1,000 from 1,100 home completions, 100 units lower than anticipated at the half year, as the result of a COVID-19 driven reduction in activity.

Treasury review
Recent financing activity
Following the success of our inaugural £350m bond issue in July 2020, Platform is on course to successfully implement the next stage of its debt capital markets strategy, establishing a £1bn EMTN programme. The programme is expected to provide the capability to issue sustainability linked bonds and will help to fund affordable housing developments and carbon reduction initiatives over the next three to five years.

Ratings activity
Standard and Poor's re-affirmed our A+ (stable) credit rating shortly after the period, reflecting our continuing credit strength and commitment to sustainable growth. In addition, we have obtained a second credit rating with Fitch, A+ (negative outlook) that concurs with S&P's assessment. The outlook provided by Fitch is linked to the UK Sovereign outlook (which is negative) and not linked to Platform's future expected trading performance.

Debt and liquidity
At 31 December 2020, Platform's net debt was £1,104.3m (31 March 2020: £1,076.2m). Net debt comprised nominal values of £576.6m in bond issues, £80.0m in private placements and £646.5m in term loan and revolving credit facilities, partially offset by £189m in cash and cash equivalents and £9.8m in unamortised financing fees and other accounting adjustments.

Platform had sufficient liquidity as at 31 December 2020 (approximately £750m including undrawn committed facilities and cash and cash equivalents) to meet all its forecast needs until half way through 2023, taking into account projected operating cash flows, forecast investment in new and existing properties, debt service costs and maturities and forecast grant receipts.

Financial ratios
Platform monitors its performance against various financial ratios, including Value for Money metrics reported to the Regulator of Social Housing and ratios it needs to comply with under its financing arrangements.

Gearing, measured as the ratio of net debt to the net book value of housing properties, was 42.8% at 31 December 2020 (31 March 2020: 43.5%), comfortably within Platform's target of maintaining gearing below 50%. Gearing was also comfortably within the tightest financial covenant in its banking arrangements that is determined using the gross book value of housing properties.

EBITDA-MRI interest cover for the 9 months to 31 December 2020 was 226% (year ended 31 March 2020: 203%). This ratio has been positively affected by reduced maintenance expenditures experienced during the first lockdown. It remains well above Platform's guideline minimum (150%) and tightest financial covenant in its banking arrangements (which is determined on a different basis, providing a slightly higher level of interest cover).

The ratios have been favourably impacted by lower development and capitalised repairs expenditures as a result of the COVID-19 pandemic. It is expected that by the year end capital programmes will experience an element of catch up, resulting in reductions to the current positions.

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