14 February 2022

Platform HG Financing Plc

Platform Housing Group's Trading Statement for the quarter to December 2021

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

Highlights

- Strong turnover growth of 11.7% to £223.8m (Q3 20/21: £200.4m)
- Strong shared ownership sales volumes and values demonstrating robust housing market in areas of operation – year to date sales of 457 (Q3 20/21: 272)
- Impacts of Covid-19 and Brexit experienced in supply chains for maintenance and development activities, affecting materials costs, labour availability and completions
- Operating surpluses reduced by 8.8% to £70.3m (Q3 20/21: £77.1m) driven by maintenance expenditures, one-off depreciation charges and higher void levels
- Arrears performing well, little impact noted from the end of Government support measures. Moving forward arrears expected to be under pressure as customers are affected by rising energy costs
- Full year projected to be below budget, with outlook for the year to March 2023 affected by voids and maintenance pressures coupled with the impact of national insurance and pensions cost increases. This will be mitigated to some extent by rental inflationary increases of over 4%
- Development of a net zero carbon plan underway
- A+ rating affirmed by S&P shortly after quarter end
- Sale of £50m (2055) retained bonds achieving an all-in rate of 1.76%

At or for the nine months ended 31 December	**2020**	**2021**	**Change**
Turnover	£200.4m	£223.8m	11.7%
Operating surplus(1)	£77.1m	£70.3m	-8.8%
New homes completed	642	971	51.2%
Investment in new and existing homes	£155.9m	£164.4m	5.5%
Share of turnover from social housing lettings	84.43%	78.15%	-6.28ppt
Social housing lettings margin(2)	44.72%	36.67%	-8.05ppt
Current tenant arrears(3)(4)	3.12%	2.71%	-0.41ppt
Gearing(2)(4)	42.8%	42.00%	-0.8ppt
EBITDA-MRI interest cover(2)(4)	226%	196%	-30ppt

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 (this excludes shared ownership properties)
(4) Figures as at 31 December (as opposed to accumulated over the nine months to December)

Elizabeth Froude, Platform's CEO commented:
"It is my pleasure to share our third quarter results, which show a strong core business still delivering on its strategic objectives, despite what must be acknowledged as a difficult trading environment.

Whilst our margins are lower than this time last year, this is mostly as a result of two strategic changes, namely loan breakage costs and a depreciation adjustment on review of asset holding costs.

We are still carrying investment and repairs backlogs which although reducing, will push programme spend forward into the coming financial year.

The staff, materials and supply chain issues we encounter are being seen across the sector, although we do now have mitigation plans in place to move forward.

Void levels, which are directly affected by lockdown cycles, are currently higher than we would like and we have refocussed resources from planned programme works to accelerate the return to letting of much needed housing.

Our Development and Sales activities remain strong and this is reflected in our ongoing solid gearing and liquidity levels.

Year-end expectations are for a full financial year with similar margins to current levels."

Financial review

Turnover
In the year to 31 December 2021 total turnover grew 11.7% to £223.8m (Q3 20/21: £200.4m).

Social housing lettings turnover increased by 3.4% to £174.9m (Q3 20/21: £169.2m) as a result of inflationary rental increases and a year-on-year increase in social housing units.

Shared ownership first tranche sales continue to perform strongly. Turnover from these sales was £12m in the quarter, £4.9m higher than the prior year (Q3 20/21: £7.1m).

Turnover from social housing activities of £215.4m (Q3 20/21: £192.9m) accounted for 96.2% (Q3 20/21: 96.3%) of Platform's total turnover in the period.

Surpluses and margins
Operating surpluses excluding fixed assets sales decreased by 8.8% to £70.3m (Q3 20/21: £77.1m) and operating surpluses including sales decreased by 5.3% to £76.7m (Q3 20/21: £81.0m). Surpluses from social housing lettings decreased by 15.2% to £64.1 (Q3 20/21: £75.6m).

Operating margins were 31.4% excluding fixed asset sales (Q3 20/21: 38.5%), 34.3% including sales (Q3 20/21: 40.4%) and 36.7% from social housing lettings (Q3 20/21: 44.7%).

Operating surpluses and margins were adversely affected by one-off depreciation charges, higher maintenance expenditures and increased voids. Maintenance expenditures have been affected by higher materials costs, labour availability and an element of catch up to compensate for delayed programmes. The prior year was characterised by subdued maintenance as activity was curtailed during the first national lockdown, affecting the comparative figures. Voids have been adversely affected by delays in repairs caused by staff shortages. Operating margins have also been affected by a larger proportion of turnover being generated from shared ownership sales (that have relatively lower margins).

If one-off depreciation charges of £5.8m are adjusted for surpluses movements are revised as below:

Operating surpluses	2021	One-off depreciation	Adjusted - 2021	2020	Movement	Movement
	£'m	£'m	£'m	£'m	£'m	%
Excluding fixed asset sales	70.3	5.8	76.1	77.1	-1.0	-1.3%
Including fixed asset sales	76.7	5.8	82.5	81.0	1.5	1.9%
From social housing lettings	64.1	5.8	69.9	75.6	-5.7	-7.5%

Shared ownership sales surpluses were £7.8m, representing 10.2% of total operating surplus (Q3 20/21: 10.6%), with associated margins of 19.7% (Q3 20/21: 17.2%).

Staircasing sales of shared ownership properties, where a customer buys a further stake in their homes, had another strong quarter with 40 sales completed (Q3 20/21: 26), earning a surplus and margin of £1.6m and 48% (Q3 20/21: £0.8m / 40%).

The overall surplus after tax, which incorporates interest costs, was £33.6m (Q3 20/21: £41.2m), driven by the items outlined above in combination with one-off loan breakage costs exceeding the equivalent prior year cost by £2.3m. When one-off depreciation and loan breakage costs are adjusted for net surpluses after tax are in line with the prior year.

Outlook
For the fourth quarter turnover is expected to grow in line with new units coming into management, inflationary rental increases (that occur later in the year for some properties) and further sales activity. The economic environment is expected to be challenging, with increased costs and supply chain issues set to continue as the year progresses. Major works programmes are expected to experience an element of catch up, which will impact expenditures.

Development review

Developments have continued in line with projections in quarter three, with 256 homes completions (31 December 2020: 248). Of these, 39 (15%) were built for social rent, 117 (46%) for affordable rent and 100 (39%) for shared ownership. At 31 December 2021, Platform owned a total of 46,968 homes (31 December 2020: 46,046).

Development expenditures were £62m in the quarter (31 December 2020: £51m). Expenditures included c£15m in relation to the acquisition of land for a large development in Gloucestershire, expected to deliver 272 units, the majority of which are for affordable tenures.

There were 135 shared ownership sales in the quarter (Q3 20/21: 92), making a total for the year to date of 457 (Q3 20/21: 272). Unsold shared ownership units were 124 (Q3 20/21: 209) of which 85 were reserved.

Outlook
Projected completions have been revised downwards due to timing, with supply chain issues and planning delays holding up schemes in the year to date. Completions of 1,200 to 1,300 homes are expected for the year to March 2022. The size of the programme remains consistent, with homes completions expected to recover in future years.

Sales are expected to continue to perform strongly, with, high levels of reservations off plan set to continue into the fourth quarter.

Platform continues to look towards more land led housing development sites to support a growing building programme. The Group does not invest in speculative land and has no actual or expected impairment in development sites.

Treasury review

Recent financing activity
The Group sold £50m retained bonds in December 2021. The bonds were part of the 2055 £350m bonds issued in July 2020 and the only outstanding retained in issue. At the point of sale a favourable gilt allowed for an all-in rate of 1.76%.

Ratings activity
Platform is rated A+ (stable outlook) by both S&P and Fitch. Shortly after the quarter end S&P re-affirmed the rating (https://www.platformhg.com/our-ratings-).

Debt and liquidity
Net debt was £1,139.4m (Q3 20/21: £1,104.3m). Net debt comprised nominal values of £881.9m in bond issues, £80.0m in private placements and £494.7m in term loan and revolving credit facilities, partially offset by £304.6m in cash and cash equivalents and £12.6m in unamortised financing fees and other accounting adjustments.

Platform's weighted average cost of finance was 3.28% (Q3 20/21: 3.40%), benefitting from the low all-in rates achieved on the two capital markets transactions in September (£250m sustainability bonds) and December (£50m retained bonds) 2021, in addition to the repayment of a £33m legacy facility, which also enhanced the flexibility and consistency of funding covenants.

Platform had sufficient liquidity as at 31 December 2021 (over £825m including undrawn committed facilities and cash and cash equivalents) to meet all its forecast needs until 2024, taking into account projected operating cash flows, forecast investment in new and existing properties and debt service and repayment costs.

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 is required 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% at December 2021 (December 2020: 42.8%). Gearing has reduced in the last year as development expenditures have been largely funded through operating cash surpluses, including strong levels of shared ownership and fixed asset sales. Gearing was comfortably within Platform's target of maintaining gearing below 50%.

EBITDA-MRI interest cover for the quarter to December 2021 was 196% (December 2020: 226%). The movement from the prior year is largely driven by increases to maintenance costs due to high inflation and a catch up in repairs. The ratio remains well above Platform's guideline minimum (120%) and tightest financial covenant in its banking arrangements.

Outlook
Gearing and EBITDA-MRI interest cover ratios are expected to remain well within Platform's targets. Some upwards pressure in gearing and downwards pressure to interest cover is expected as Platform pushes ahead with its strategic development and maintenance objectives.

For more information please contact:

Investor enquiries
Ben Colyer – +44 7918 160990 / +44 1684 579 566
investors@platformhg.com

Media enquiries
media@platformhg.com

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