20 February 2024

Platform HG Financing Plc

Platform Housing Group's Trading Statement for the Nine Months to December 2024

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

Highlights

- Turnover growth of 9.4% to £249.9m (Dec-22: £228.5m), with 94% of revenues coming from core social housing activities (Dec-22: 95%)
- Operating surpluses of £66.7m (Dec-22: £66.7m): additional incomes reinvested in existing homes and services to customers
- Investment in existing homes up 33%
- Arrears of 2.9% consistent with prior year (Dec-22: 3.1%)
- Local Government (defined benefit) Pension Schemes closed to future accrual
- Credit rating of A+ (stable) with S&P affirmed shortly after quarter end
- New £275m sustainability linked banking facilities completed shortly after quarter end

At or for the nine months to 31 December	2022	2023	Change
Turnover	£228.5m	£249.9m	9.4%
Social housing lettings turnover	£187.4m	£205.3m	9.6%
Operating surplus(1)	£66.7m	£66.7m	-
New homes completed	775	713	-8.0%
Investment in new homes	£163.2m	£243.8m	49.4%
Investment in existing homes	£13.8m	£18.4m	33.3%
Share of turnover from social housing lettings	82.0%	82.0%	-
Social housing lettings margin(2)	33.9%	31.7%	-2.2ppt
Current tenant arrears(3)(4)	3.1%	2.9%	-0.2ppt
Gearing(2)(4)	43.5%	45.1%	+1.6ppt
EBITDA-MRI interest cover(2)	215%	201%	-14ppt

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
(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 period to December)
(5) Investment in existing homes includes capital expenditure on maintenance and decarbonisation works

Elizabeth Froude, Platform's CEO commented:

"Whilst the world around us remains difficult, Platform are well placed to continue navigating it, whilst protecting the underlying financial strength of the organisation. Our focus on keeping controllable costs under tight review is a constant to offset the continuing high demand and cost of property maintenance, with the majority being delivered in house giving better efficiency and strong compliance standards.

Our commitment to improving the standards of our customers' homes, both new and existing, is a key priority in our strategy, including both standard investment works as well as sustainability energy standard improvements.

Whilst we have a well-structured process for capturing, identifying and dealing with damp and condensation mould, the ongoing level of cases raised for investigation have added a layer of cost to our business which has been higher than anticipated in our budgets. The introduction of Awaab's Law is anticipated to add further costs as the current scope in consultation is much wider than damp and mould and will potentially add further operational costs to our business. As has always been the case, we continue to do all we can to resolve cases as quickly as possible, to ensure our residents safety and wellbeing.

We continue to deliver our development programme in a sustainable way, as we progress the transition to a more land-led portfolio. We see good demand in our sales programme this year, with reservations, margins and first tranche percentages remaining consistent.

Whilst current expectations are to see a final full year margins broadly consistent with or slightly below the previous year, the level of ongoing investment in our stock is felt to be a good and purposeful investment for the future but will allow Platform's financial metrics to remain among the strongest in the sector. We continue to balance doing the right thing for our residents and working hard to deliver a degree of solid financial performance in a complex environment, and are proud that we remain the good organisation our stakeholders have invested in."

Financial review

Turnover

In the nine months to 31 December 2023 total turnover increased by 9.4% to £249.9m (Dec-22: £228.5m). This was driven by growth in social housing lettings turnover, which increased by 9.6% to £205.3m (Dec-22: £187.4m), as a result of inflationary rental increases and a year-on-year increase in social housing units.

Turnover from shared ownership first tranche sales of £28.2m was consistent with the prior year period (Dec-22: £27.8m).

Turnover from all social housing activities of £234.7m (Dec-22: £216.3m) accounted for 94% (Dec-22: 95%) of Platform's total turnover in the period.

Surpluses and margins

Operating surpluses excluding fixed assets sales of £67.7m were in line with the prior year period (Dec-22: £67.7m) and operating surpluses including fixed asset sales decreased by 6.7% to £70.7m (Dec-22: £75.8m). Surpluses from social housing lettings increased by 2.4% to £65m (Dec-22: £63.5m).

Operating margins were 26.7% excluding fixed asset sales (Dec-22: 29.2%), 28.3% including fixed asset sales (Dec-22: 33.2%) and 31.7% from social housing lettings (Dec-22: 33.9%). Operating surpluses and margins have been affected by higher levels of investment into existing homes, improving services for customers and cost inflation.

Shared ownership sales surpluses were £4.1m (Dec-22: £5.6m), representing 5.9% of total operating surplus (Dec-22: 7.4%), with associated margins of 14.7% (Dec-22: 20.1%). Margins were lower due to higher proportions of sales this quarter coming from homes acquired (already completed) from house builders, which attract a lower margin. When these sales are adjusted for the margins in the current year are in line with those in the prior.

Sales of fixed assets, which include subsequent staircasing sales of shared ownership homes and homes acquired under the ‘right to buy’ scheme, had surpluses and margins of £4m and 44% (Dec-22: £9.1m / 57%). Sales in the prior year were supported by the sale of an office, for which proceeds / surpluses were £2.3m / £1.1m. The current year has seen a slowdown of staircasing sales, which may be due to the rapid increase in mortgage rates experienced in the UK (and expectations that they may come down again in future) prompting existing owners to ‘wait and see’ before increasing their level of ownership. However, an equivalent slowdown has not been noted to date in relation to shared ownership first tranche sales.

The overall net surplus after tax, which incorporates interest costs, was £36.7m in comparison to £42.8m in the prior year. This was largely due to lower surpluses on fixed asset sales of £5m.

Outlook
Turnover is expected to continue to grow as a consequence of rental increases of 7% and new units coming into management. Operating costs are expected to be affected by investment into existing homes and customer services, leaving margins broadly consistent at the year-end.

Development review

Platform’s home building programme continues to produce new affordable homes for those in need across the Midlands. There were 713 new homes added in the nine months to December (Dec-22: 775). Of these, 137 (19%) were built for social rent, 188 (26%) for affordable rent, 376 (53%) for shared ownership and 12 (2%) for rent-to-buy. New homes developed had an average EPC rating of B as Platform continue to push towards bringing all homes to an EPC rating of C or better by 2030 and all homes to net zero carbon emissions by 2050. Development expenditures were £244m in the period (Dec-22: £160m), with increased expenditures supporting an increase in future homes coming into management. At 31 December 2023, Platform owned a total of 48,858 homes (Dec-22: 47,767).

The development programme has continued to see improvement in market conditions, with continued easing in build cost inflation. However, there is a legacy from cost inflation to date, adversely affecting a small number of development partners. We continue with a customer-focused drive on quality and sustainability. A new building specification was implemented in the period for our land led schemes, which will deliver energy enhancements and thermal efficiencies with a fabric-first approach, including a requirement for homes to be gas free wherever possible. Customer satisfaction for quality remains above 80% at the quarter end and we are continuing to see the results of our drive on quality with a reduction in the number of defects reported following completion.

There were 280 shared ownership sales in the nine months to December (Dec-22: 279). The number of unsold units at the end of the period was 211 (Dec-22: 66). Unsold homes have increased due to a number of schemes that were completed ‘stock plots’ acquired from developers, for which there is no pre-completion marketing time. For homes acquired in this way the average time taken to sell was five months post completion, in comparison to one month where homes in development can be marketed pre-completion. The unsold homes are being actively marketed and considered to be a timing rather than a demand issue, with robust levels of reservations persisting. Of the 211 unsold at December, 102 were reserved for purchase.

Outlook
Platform remains committed to developing in a prudent and sustainable manner, without compromising financial strength. Projected completions for the year to March 2024 are up on the prior year at c1,300 homes, with a further c1,500 homes expected to start on site.

Platform does not invest in speculative land and has no material actual or expected impairment in development sites.

Treasury review

Funding activity

Shortly after the quarter end (in January 2024) Platform established two new revolving credit facilities totalling £275m. Both facilities are sustainability linked loans, with performance targets linked to the energy efficiency of new and existing homes and black and minority ethnic representation in platform's workforce. The facilities will support liquidity in the medium term.

Ratings activity
Platform is rated A+ (stable outlook) by S&P and A+ (negative outlook) by Fitch. The rating with Fitch was affirmed in October 2023 and the rating with S&P affirmed in January 2024, shortly after the quarter end. The negative outlook for Fitch is linked to the UK Sovereign rating outlook, which has been negative since the 'mini-budget' in the UK in September 2022.

Debt and liquidity
Net debt was £1,406m (Dec-22: £1,244m). Net debt comprised nominal values of £871m in bond issues, £80m in private placements and £510m in term loan and revolving credit facilities, partially offset by cash and equivalents of £43m and non-cash accounting adjustments of £12m.

Platform's weighted average cost of finance was 3.44% (Dec-22: 3.32%).

Platform had liquidity as at 31 December 2023 of £295m (including undrawn committed facilities, short term investments and cash and cash equivalents). The two new revolving credit facilities have added a further £175m of liquidity, which when combined with existing liquidity is sufficient to meet all forecast needs until into 2025 (with new finance required at that point to maintain 18 months of liquidity in line with policy).

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 45.1% (Dec-22: 43.5%). Gearing has increased slightly in the last year as large cash balances (following bond issuances) have been deployed to fund development, maintenance and sustainability expenditures. Gearing was comfortably within Platform's target of maintaining gearing below 55%.

EBITDA-MRI interest cover was 201% (Dec-22: 215%). The year-on-year movement is largely driven by an increase in investment into existing homes. The overall cover remains well above Platform's target minimum (120%).

Outlook

Some upwards pressure in gearing and downwards pressure to interest cover is expected as Platform pushes ahead with its strategic development and sustainability objectives. However, such objectives will be completed in a controlled way, ensuring that these key credit ratios remain well within Platform's targets.

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