platform housing group

29 May 2024

Platform HG Financing Plc

Platform Housing Group's Trading Statement for the Year to March 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 12.3% to £337m (Mar-23: £300m), with 94% of revenues coming from core social housing activities (Mar-23: 94%)
- Operating surpluses of £81.3m (Mar-23: £82.1m): additional incomes reinvested in existing homes and services to customers
- Investing in the future - investment in existing homes up over 60%
- Arrears of 2.8% consistent with prior year (Mar-23: 2.6%)
- Local Government (defined benefit) Pension Schemes closed to future accrual
- Credit rating of A+ (stable) with S&P and Fitch affirmed
- Highest regulatory gradings ('G1/V1') affirmed following scheduled In-depth Assessment
- New £275m sustainability linked banking facilities
- New £250m sustainable bond issued shortly after quarter end

At or for the year 31 March	**2023**	**2024**	**Change**
Turnover	£300.0m	£337.0m	12.3%
Social housing lettings turnover	£248.2m	£274.2m	10.5%
Operating surplus(1)	£82.1m	£81.3m	-1.0%
New homes completed	1,114	1,202	7.9%
Investment in new homes	£250.6m	£315.3m	25.8%
Investment in existing homes	£24.4m	£39.4m	61.5%
Share of turnover from social housing lettings	82.7%	81.4%	-1.4ppt
Social housing lettings margin(2)	32.1%	30.2%	-1.8ppt
Current tenant arrears(3)(4)	2.6%	2.8%	+0.2ppt
Gearing(2)(4)	43.4%	45.7%	+2.3ppt
EBITDA-MRI interest cover(2)	187%	142%	-45ppt

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 March (as opposed to accumulated over the period to March)
(5) Investment in existing homes includes capital expenditure on maintenance and decarbonisation works
(6) Adjustments following the exit of defined benefit pension schemes still to be finalised / accounted for

Elizabeth Froude, Platform's CEO commented:

"At the start of this year we undertook a mid-term review of our 2021-26 Corporate Strategy. The outcomes were ones of simplification of priorities and an ongoing commitment to all key delivery areas and our mission is one of investing for the future of the organisation and our communities. Our highest priorities for this year were about investing to support the quality of our homes, their energy standards and the services we deliver to our customers. This has remained our focus throughout the year and the areas of increased expenditure reflect that. Whilst our operating margin has declined slightly as a result, it still remains one of the strongest in the sector and directly reflects the priorities agreed. We continue to focus on keeping controllable costs as tight as possible, whilst improving our technology base, which can be seen in our sector management cost per unit.

Investment in our existing homes has again stepped-up year on year from £24.4m to £39.4m (up 61.5%), including an increase in energy improvement works from £5.5m to £8.5m (up 55.5%) and 76% of our stock is now EPC C or better.

We see every day the ongoing need for more affordable housing in our geography and as a key Strategic Partner for Homes England remain committed to building the much-needed new homes to help with waiting lists and overcrowding across our Local Authority areas of operation. This year again saw a step up in both our starts on site (1,534 homes) and completions (1,202 homes) all of which are affordable tenures. We have strong partnerships and our pipeline for new development is over 3,000 homes in contract or construction, all of which will be EPC B or above and includes net zero carbon and 'zero bills' homes as well.

The demand for Shared Ownership homes in our area of operation remains good and any variation in sales figures reflect the timing of handover on development schemes. We do have very varied markets for sales and rental across our geography and this is the primary variation in sales values. We are intentional in the type and price point of the properties we build to ensure they are accessible for the people who work and live in our localities, with many of our homes at a price point to make them accessible for key workers. Valuations continue to hold up and proportions being acquired as first tranche are ahead of budget.

The scale of regulation and legislative change affecting customers and asset management in the sector remains a focus and big demand for all landlords. The new Consumer Standard was launched in April 2023. In preparation for this we undertook an exercise to baseline our business over the previous year and we're pleased that satisfaction has improved from baseline levels. The number of complaints received has increased in the year, as has been seen across the sector, and we are working hard to improve response times and to embed lessons learned from complaints, to improve services. We continue to recruit at scale and invest in transformation of asset management systems and processes to ensure we remain in control and are able to drive the best outcomes for our residents through our investment and compliance programmes. With our in-house maintenance business continuing to grow and in-source more service areas we continue to deliver good compliance standards and strong customer satisfaction with repairs at 87% at the year end."

Financial review

Turnover

In the year to 31 March 2024 total turnover increased by 12.3% to £337m (Mar-23: £300m). This was driven by growth in social housing lettings turnover, which increased by 10.5% to £274.2m (Mar-23: £248.2m), 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 £40.7m was up on the prior year (Mar-23: £33.3m) due to both higher numbers of sales, which were 23% up on the prior year, and higher average prices, which were 15% higher than the prior year.

Turnover from all social housing activities of £316.6m (Mar-23: £283.1m) accounted for 94% (Mar-23: 94%) of Platform's total turnover in the period.

Surpluses and margins
Operating surpluses excluding fixed assets sales of £81.3m were 1% lower than the prior year period (Mar-23: £82.1m) and operating surpluses including fixed asset sales decreased by 7.1% to £86.2m (Mar-23: £92.3m). Surpluses from social housing lettings increased by 4.1% to £82.9m (Mar-23: £79.6m).

Operating margins were 24.1% excluding fixed asset sales (Mar-23: 27.4%), 25.6% including fixed asset sales (Mar-23: 30.9%) and 30.2% from social housing lettings (Mar-23: 32.1%). Operating surpluses and margins have been affected by additional investment in our homes, sustainability and the customer experience, in combination with high-cost inflation and capped rental increases.

Shared ownership sales surpluses were £6.1m (Mar-23: £5.9m), representing 6.8% of total operating surplus (Mar-23: 6.4%), with associated margins of 14.9% (Mar-23: 17.8%). Margins were lower due to higher proportions of sales 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 £4.9m and 42% (Mar-23: £10.7m / 49%). 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 shared ownership staircasing sales, which may be due to the 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 £42.7m in comparison to £48m in the prior year, driven by lower surpluses on fixed asset sales of £5.8m.

Development review

Platform's home building programme continues to produce new affordable homes for those in need across the Midlands. There were 1,202 new homes added in the year to March 2024 (Mar-23: 1,114) and a record number of starts on site of 1,534). Of those completed, 225 (19%) were built for social rent, 408 (34%) for affordable rent, 544 (45%) for shared ownership and 25 (2%) for rent-to-buy. New homes developed had an average SAP score of 84, which translates to an 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 £315m in the period (Mar-23: £245m), with increased expenditures supporting both more additions in the current year and an increase in future homes coming into management. At 31 March 2024, Platform owned a total of 49,181 homes (Mar-23: 48,082).

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 year end and we are continuing to see the results of our drive on quality with a 40% reduction in the number of defects (following completion) reported year-on-year.

There were 418 shared ownership sales in the year to March 2024 (Mar-23: 340). The number of unsold units at the end of the period was 222 (Mar-23: 87). 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 four months post completion, in comparison to two months 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 222 unsold at March 2024, 138 were reserved for purchase.

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

Treasury review

Funding activity

Platform established two new revolving credit facilities totalling £275m in January 2024 with National Australia Bank (£175m) and a new lender to Platform, ABN Amro (£100m). 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 our workforce. The facilities will sit alongside £235m sustainability-linked facilities with Lloyds Bank that are also sustainability linked, taking Platform’s sustainable finance to approximately 50% of the debt book. Sustainability linked targets for the new facilities will be assessed starting from the year to March 2025 and for Lloyds Bank, will be assessed for the second year to March 2024, following all targets being achieved in the year to March 2023.

Shortly after the period end Platform issued a £250m sustainable bond. The bond has a maturity of 26 years (2050), was issued with a spread of 0.83% and coupon of 5.342%. The proceeds from the bond will be used in accordance with our Sustainable Finance Framework and allocated to projects that provide new affordable and highly energy efficient homes, and improve the energy efficiency of existing homes.

Ratings activity
Platform is rated A+ (stable outlook) by S&P and A+ (stable 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 period end (April 2024) the outlook for Fitch was revised from negative to stable, in line with a similar movement in the UK Sovereign rating outlook, which had been negative since the ‘mini-budget’ in the UK in September 2022.

Debt and liquidity
Net debt was £1,457m (Mar-23: £1,275m). Net debt comprised nominal values of £871m in bond issues, £80m in private placements and £550m in term loan and revolving credit facilities, partially offset by cash and equivalents of £31m and non-cash accounting adjustments of £13m.

Platform’s weighted average cost of finance was 3.51% (Mar-23: 3.33%).

Platform had liquidity as at 31 March 2024 of £426m (including undrawn committed facilities, short term investments and cash and cash equivalents), which is sufficient to meet all forecast needs until into 2025. This liquidity horizon was extended further into 2026 following the £250m bond issued in April 2024.

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 45.7% (Mar-23: 43.4%). 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 142% (Mar-23: 187%). 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%).

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