15 August 2023

Platform HG Financing Plc

Platform Housing Group's Trading Statement for the Quarter to June 2023

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

Highlights

- Turnover growth of 10% to £80.4m (Jun-22: £72.8m), with 94% of revenues coming from core social housing activities
- Increased spend on customer focussed activities: front line colleagues recruited to enhance the customer experience
- Investment in existing homes up 95%
- Operating surpluses reduced 10% to £20.8m (Jun-22: £23.1m), driven by investment in homes, services to customers and cost inflation
- Arrears of 3.1% consistent with prior year (Jun-22: 2.9%)

At or for the quarter ended 30 June	2022	2023	Change
Turnover	£72.8m	£80.4m	10.4%
Social housing lettings turnover	£61.6m	£68.5m	11.2%
Operating surplus[1]	£23.1m	£20.8m	-10.0%
New homes completed	209	289	38.3%
Investment in new homes	£55.4m	£57.2m	-0.3%
Investment in existing homes[5]	£2.0m	£3.9m	95.0%
Share of turnover from social housing lettings	84.6%	85.2%	+0.6ppt
Social housing lettings margin[2]	36.1%	30.9%	-5.2ppt
Current tenant arrears[3][4]	2.9%	3.1%	+0.2ppt
Gearing[2][4]	43.1%	44.7%	+1.6ppt
EBITDA-MRI interest cover[2]	235%	217%	-18.0ppt

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 30 June (as opposed to accumulated over the period to June)
(5) Investment in existing homes includes capital expenditure on maintenance and decarbonisation works

Elizabeth Froude, Platform's CEO commented:

Our new financial year has continued with the same business priorities we had last year, to put all customer services and wellbeing at the heart of our decision making and actions.

The difficult economic environment for our customers means we are still seeing high demand for our Wellbeing Fund, however from our proactive engagement with our customers we are seeing arrears holding steady.

We are continuing with our commitment to improving the quality and energy efficiency of our existing homes and our spend year to date at £3.9m is almost double that of this time last year.

It is early in the financial year and our current margins are lower than the full year expectations. In addition to the increased investment in our existing homes, responsive repairs levels remain high and are utilising higher levels of sub-contracted labour than would be considered our standard operating model. This was anticipated last year at which time we started a sizeable recruitment campaign, which is on-boarding a growing number of trades operatives to our already sizeable in-house maintenance business, which will see costs on repairs come down over the rest of the year as we transition out of the reliance on external contractors.

Whilst our sales numbers, which are all shared ownership homes, are slightly lower than last year they continue at a steady rate and some of the delay in handovers is due to us setting a lower tolerance on defects at handover, again for the benefit of our customers. We remain active in the land and partnerships market and have a growing pipeline of new homes which will allow us to ensure delivery on our commitment as a key Strategic Partner for Homes England.

I do not underestimate that the year will be difficult for us all, but we are staying close to regional trends and remain focussed on being a good landlord with an engaged workforce, investing in the resources and technology required to perform well in both areas.

Financial review

Turnover
In the quarter to 30 June 2023 total turnover increased by 10.4% to £80.4m (Jun-22: £72.8m). This was driven by growth in social housing lettings turnover, which increased by 11.2% to £68.5m (Jun-22: £61.6m), as a result of inflationary rental increases and a year-on-year increase in social housing units.

Turnover from shared ownership first tranche sales was down 9.6% to £6.6m (Jun-22: £7.3m). This was in part due to timing as stringent handover control checks delayed units coming into management, which pushed back revenues but ensured quality.

Turnover from all social housing activities of £75.6m (Jun-22: £69.2m) accounted for 94.0% (Jun-22: 95.1%) of Platform's total turnover in the period.

Surpluses and margins
Operating surpluses excluding fixed assets sales decreased by 10% to £20.8m (Jun-22: £23.1m) and operating surpluses including fixed asset sales decreased by 18.3% to £21.4m (Jun-22: £26.2m). Surpluses from social housing lettings decreased by 4.5% to £21.2m (Jun-22: £22.2m).

Operating margins were 25.9% excluding fixed asset sales (Jun-22: 31.7%), 26.7% including fixed asset sales (Jun-22: 36.0%) and 30.9% from social housing lettings (Jun-22: 36.1%). 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 £0.7m, representing 3.4% of total operating surplus (Jun-22: £1.6m / 6.1%), with associated margins of 10.6% (Jun-22: 21.9%). 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 (in comparison to schemes developed wholly by Platform).

Sales of fixed assets, which include sales in whole or part to existing customers, had surpluses and margins of £0.7m and 41% (Jun-22: £3.1m / 44%). Sales in the prior year were supported by the sale of an office, for which proceeds / surpluses were £2.3m / £1.1m.

The overall net surplus after tax, which incorporates interest costs, was £10.8m in comparison to £13.9m in the prior year. This was due to lower surpluses on fixed asset sales (£2.4m) and operating surpluses (£2.3m), net of lower net interest costs (£1.6m).

Outlook
Turnover is expected to continue to grow as a consequence of rental increases of 7% and new units coming into management. Investment into existing homes and customer services will continue, however, at a lower rate than in the first quarter, which may have a positive effect on margins.

Development review

Platform's home building programme continues to produce new affordable homes for those in need across the Midlands. There were 289 new homes added in the quarter (Jun-22: 209). Of these, 79 (27%) were built for social rent, 71 (25%) for affordable rent and 139 (48%) for shared ownership. All new homes developed had an EPC rating of B and above 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 £57.2m in the period (Jun-22: £57.4m). At 30 June 2023, Platform owned a total of 48,356 homes (Jun-22: 47,281).

The development programme was impacted by rising costs in the quarter which particularly affected contractors, but because the majority of development contracts are on a fixed price basis there was less direct financial impact on Platform. Cost increase requests for schemes on site have been received from some contractors and in a small number of cases Platform are increasing payments where it is advantageous to do so. Some of these cost increases have been mitigated with higher grant rates provided by Homes England. The speed of development continues to be affected by resourcing challenges in local authorities, which have caused delays to planning, highways and building control agreements and certification.

There were 60 shared ownership sales in the quarter (Jun-22: 77). The number of unsold units at the end of the period was 166 (Jun-22: 63). Unsold homes have increased due to a larger number of acquisitions from house builders taking place (as mentioned above), for which marketing can only start after handover has taken place. This has resulted in selling times being extended for these homes. Selling times excluding these homes has remained consistent and demand for the shared ownership product more generally has remained robust, with no significant pressure on prices experienced. Of the 166 unsold at June, 97 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 has no outright market sale units in its committed development pipeline, does not invest in speculative land and has no material actual or expected impairment in development sites.

Treasury review

Ratings activity
Platform is rated A+ (stable outlook) by S&P and A+ (negative outlook) by Fitch. 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 £1,327m (Jun-22: £1,198m). Net debt comprised nominal values of £881m in bond issues, £80m in private placements and £441m in term loan and revolving credit facilities, partially offset by cash and equivalents of £62m and non-cash accounting adjustments of £13m.

Platform's weighted average cost of finance was 3.33% (Jun-22: 3.28%).

Platform had sufficient liquidity as at 30 June 2023 (c£470m including undrawn committed facilities, short term investments and cash and cash equivalents) to meet all forecast needs until into FY 25/26 (with new finance required in 2024 to maintain 18 months of liquidity in line with policy), 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 44.7% (Jun-22: 43.1%). 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 217% (Jun-22: 235%) and 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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