Metropolitan Funding PLC

Thames Valley Housing Association (TVHA) unaudited consolidated results for the year ended 31 March 2022.

The TVHA group (trading as Metropolitan Thames Valley or MTVH), one of the UK's leading providers of affordable housing and care and support services, announces unaudited consolidated results for the year ended 31 March 2022.

Headlines

- Operating Surplus before non-recurring (building safety-related) expenses down 2% to £135m (2021: £138m). Reported Operating Surplus is £122m (2021: £138m).
- Total Revenue £406m, down 9% (2021: £446m) due to reduced market sale revenues.
- Non sales income 85% of total turnover (2021: 76%)
- 712 new homes completed (2021: 923 homes) of which 326 (2021: 704) were affordable.
- £774m of available cash and facilities.
- Net debt to EBITDA 11.4x (2021: 10.5x).
- S&P credit rating A- (stable outlook) and a new A Stable from Fitch Rating.
- RSH grading G1/V2.
- Appointment of new Board members; Dennis Hone, Trevor Moross and Helen Cope.

Geeta Nanda, Chief Executive of Metropolitan Thames Valley, commented:

"The wellbeing of our residents remains our ongoing central priority. We are acutely aware that many customers are facing very real financial uncertainty due to the cost-of-living crisis. Rising inflation and increased energy costs are just two of the factors placing added strain on them. Consequently, MTVH is providing a range of focused support, including our specialist income and money advice teams. In total, we have delivered £1.94m of financial gains directly to our residents over the past year through increased benefits and lower household bills. We have also increased our hardship fund, to help relieve acute need.

Our underlying operating surplus fallen slightly to £135m and we enjoy a strong liquidity position with around £774m of available cash and facilities. Meanwhile, our overall organisational health has been reviewed by the RSH through an IDA (In Depth Assessment) in April 2022, and we await the outcome of the review at the end of July.

MTVH last year set out a five-year strategy, "Serving People Better Every Day," and the Board continues to focus on delivering an improved service to customers. As part of this effort, Local Housing Managers are now serving a smaller, more concentrated geographical area. Consequently, they are able to spend more time in the community, building relationships with residents and delivering the services they need. The online customer experience has also been streamlined, with a single customer-focused portal which allows residents to make payments, request repairs and other services. Over the past year, there has been a 25% increase in service transactions and requests.

Maintaining and improving our existing stock remains a Board priority, in the knowledge that decent homes are the foundation of our residents' welfare and ambitions. We have therefore continued to make a significant investment in homes, ensuring that they remain safe, warm and dry. During the past year we spent £41m on capital works, including 1,640 new kitchens, 2,045 new bathrooms, 171 new roofs and 609 new boilers.

Building safety continues to be a significant issue for the built environment as a whole, generating uncertainty for many customers. Consequently, the Safer Buildings programme remains a key initiative to help address their concerns. During the past year, 41 intrusive full block surveys were completed in order to assess the works required to comply with guidelines. £12.9 million was expensed in respect of certain building safety measures and these have been categorised in non-recurring costs. We are supportive of the recently proposed changes to the Defective Premises Act which will offer additional protections to leaseholders from fire remediation costs and are working to understand the impact of this on our remediation programme.

The drive towards becoming a net zero organisation by 2050 continues as MTVH becomes greener and more sustainable. Cavity wall insulation has been installed in 1,500 homes this year, making them more energy efficient. Importantly, we recently secured two bids from the Social Housing Decarbonisation Fund at the Department for Business, Energy and Industry Strategy, in partnership with the Midlands Energy Hub and with Lambeth Council. This funding will bring a further 1,700 homes up to EPC C standard, representing an important step towards reaching our interim milestone of 75% of homes at EPC C or better by 2026.

During the last year, we have had to contend with competing priorities and challenging trends such as the rising cost of materials. As a result, we have had to make some hard choices. We have significantly reduced the market sale element of our development plan and have been cautious in committing to new schemes this year, spending less on new developments than we planned. Nonetheless, 712 new homes have been built and projects such as the regeneration at Clapham Park continue to make very real progress. We remain thoroughly committed to giving as many people as possible the chance to live well in a new home.

I would like to take this opportunity to thank my colleagues for their dedication to our residents. This commitment is key as we continue the journey towards improved customer satisfaction and ultimately, giving as many people as possible the opportunity to thrive".

Results overview

Total Housing operations (including supported housing and market rent) were in line with expectations, with non-sales income representing 85% (2021: 76%) of turnover. Underlying Social Housing operating margin was 29% (2021: 32%), diluted by investment in services and end of year provisions for bad debts. Sales revenue was £59m (2021: £108m) with an average sales margin of 16% (2021: 10%). We built 712 new homes (2021: 923 new homes) in the year, investing £161m (2021: £158m) in new housing.

Underlying operating margins are 32% (2021: 31%) driven by the return to an indexed rent roll and before exceptional items. Liquidity remains strong at £774m (2021: £790m). Drawn borrowings are £1.9bn (2021: £2.0bn).

Our partnership integration activities are complete and we continue to deliver on the wider VFM savings that are embedded in our Corporate Plan.

Operations review - Customer Services (including Care and Support)

Social housing letting revenue was £309m (2021: £299m), with underlying rental income up 3.2% in line with the inflation settlement. We invested £41m (2021: £42m) in property improvements, while our overall spend on fire safety was £23m (2021: £21m). Our total spend on the existing estate was £127m (2021: £127m) prioritising property compliance, condition and customer satisfaction issues. Social rent arrears closed the year at 5.2% (2021: 4.98%). We continue to proactively contact vulnerable customers offering support and financial advice, as well as assisting new claimants on to Universal Credit, to limit upward pressure on arrears. Our average general needs re-let time worsened from around 27 days in 2021 to an average of 41 days 2022, as the time taken to complete repairs and move in new customers was extended as a result of Covid restrictions.

Operations review - New homes development and sales

First tranche revenues were £42m (2021; £44m). We sold 339 First Tranche units at an average 12% surplus margin (2021: 380 units at 10% margin). In addition we sold 38 outright sale units at an average underlying margin of 25% (2021: 151 units at 13%). As at 31 March 2022, MTVH held 168 unreserved completed units (2021: 262).

During the year we completed 455 staircasing transactions which delivered £20.2m of operating surplus at a 36% margin (2021: £16.5m at 37% from 370 completions). In addition, we completed 237 Homebuy loan redemption transactions, achieving £8.1m of operating surplus at a 42% margin (2021: £5.8m at a 38% margin from 206 completions). Surplus derived from Right to Buy disposals increased by £1.9m to £2.8m.

The future development pipeline remains strong at 5,490 units (2021: 6,914 units) which reflects the Board's decision to reduce the newbuild programme, particularly the market sale exposure in future years. During the year we completed the Clapham Park tender exercise, seeking a Joint Venture partner with whom to deliver futures sales phases, and announced that Countryside had been appointed. The due diligence and setting up of the operational arrangements are almost complete with formal sign-off due in Q1 FY23.

Debt and facilities

Net debt (excluding derivative financial instruments) at 31 March 2022 is £1.8bn (2021: £1.9bn) following another year of good cash generation boosted by a good sales market and lower development spend. The Net Cash Inflow for the year from Operating and Investing activities was £141m (2021 £108m).

In addition MHT created an EMTN Programme in July 2021 and issued a £250m 1.875% 2035 bond based on a Sustainable Financing Framework and Ritterwald Sustainable Housing Certification.

Available liquidity (cash and committed secured undrawn facilities) is slightly down at £774m (2021: £790m) largely as a result of the full repayment of the BoE's £175m CCFF loan during the year. Gearing remains strong on the Historic Cost basis at 38% (2021: 38%). Interest cover was around 1.71 times (2021: 1.68 times) on an EBITDA-MRI basis.

The Standard & Poor's credit rating was confirmed in December 2021 at A- (stable outlook), and Fitch Ratings awarded an A Stable rating as part of the setup of the EMTN programme.

The Board expects to announce full audited consolidated results for the year ended 31 March 2022 later in the summer.

	2022	**2021**	**%**
	£m	**£m**	
Revenue	405.9	445.8	-9%
Cost of sales	-48.3	-96.1	50%
Operating costs	-262.4	-241.5	-9%
Surplus from disposal of fixed assets and investments	37.5	24.5	53%
Share of Surplus from Joint Ventures	2.3	5.0	-54%
Underlying Operating Surplus	**135.0**	**137.7**	**-2%**
Non-recurring operating costs	-12.9	0.0	
Operating Surplus	**122.1**	**137.7**	**-11%**
Net interest payable	-74.9	-75.0	0%
Surplus on investment disposal	-1.6	0.0	
Fair value adjustments	-5.3	-2.1	-152%
Taxation	0.4	0.0	
Total (Loss)/Surplus	**40.7**	**60.6**	**-33%**
Actuarial gain / loss in respect of pension schemes	21.2	-48.2	144%
Change in fair value of hedged financial instruments	12.1	11.9	2%
Total comprehensive income for the year	**74.0**	**24.3**	**205%**
Housing properties	4,679.8	4,592.1	2%
Investment properties and other fixed assets	38.8	36.0	8%

Investments	204.5	262.0	-22%
Net current assets	-15.6	-269.0	94%
Total Assets less current liabilities	**4,907.5**	**4,621.1**	**6%**
Amounts due to be repaid in more than one year	2,305.1	2,067.8	11%
Pension liabilities	49.5	74.4	-33%
Capital and reserves	2,552.9	2,478.9	3%
Total non-current liabilities and reserves	**4,907.5**	**4,621.1**	**6%**

Consolidated Statement of Cashflows for the year ended 31 March 2022 (unaudited)			
	2022	**2021**	**%**
	£m	**£m**	
Net cash from Operating Activities	248.2	264.7	-6%
Net cash from Investing Activities	-107.2	-156.6	-32%
Net cash used in Financing Activities	-145.7	-57.3	-154%
Net movement in cash and cash equivalents	**-4.7**	**50.8**	**-109%**
Cash and cash equivalents carried forward	**151.6**	**156.3**	**-3%**

Sales revenue and margins (unaudited)	**2022**		**2021**	
	Revenue	**Margin**	**Revenue**	**Margin**
First Tranche	42.1	12%	43.8	14%
Outright Sales	17.1	25%	64.9	9%
Staircasing	55.8	36%	44.4	37%
RTB / RTA	6.0	46%	2.8	30%
Redemptions	19.1	42%	15.5	38%
Fixed Asset Sales	24.3	27%	10.6	14%

Outlook

The uncertainty relating to the wider economy, costs of living crisis and the war in Ukraine has caused some concerns to the business in the early part of the year, although we have observed continuing buoyancy in the sales market and asset valuations during April and May. Inflation, particularly in respect of commodity prices and forward energy prices for Winter 2022, have increased sharply along with interest rates. These increases pose a significant risk to the business given its cost base and raw material requirements for new development and asset management, mitigated in large part through the largely fixed rate debt book, lack of undeveloped land bank and the link between rents and CPI under the existing rent regime.

The proposed changes to the Defective Premises Act, removing the option to recharge Leaseholders for fire remediation costs (subject to a relatively low cap), creates future uncertainty as to the level of costs which will fall to MTVH as freeholder. The current MTVH approach to remediation is resulting in contractors acknowledging construction failures and to date have led to contractors agreeing to remediate at their own expense or otherwise to accept the major responsibility for those costs. All non-recoverable costs will be a charge to MTVH. In response to this rising cost pressure which is being felt across the sector, the Board has made the decision to reduce its development programme, in particular reducing future exposure to outright sales risk.

Enquiries

Please contact:

Donald McKenzie, Director of Corporate Finance, at donald.mckenzie@mtvh.co.uk or on (W) 0203-535-4434 or (M) 07738 714126

This information for investors is also available on our website: https://www.mtvh.co.uk/about-us/investors/

Notes

- Operating margin is operating surplus divided by turnover
- Net debt is borrowings (excluding derivatives) less cash and cash deposits
- Gearing is net borrowings divided by net housing properties at cost
- Interest cover is earnings before interest, tax and depreciation/amortisation less capitalised major repairs, divided by net interest costs
- Prior year comparative figures are the unadjusted aggregate of pre-partnership entity reported results

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