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London & Quadrant Housing Trust
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London & Quadrant Housing Trust Trading Update for the period ending 31 December 2019

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated trading update for the nine months ended 31 December 2019 ('2019 Q3').

These consolidated unaudited results include the trading activities of Trafford Housing Trust ('THT') from 1 October to 31 December 2019. All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period (excluding THT) being the nine months ended 31 December 2018 ('2018 Q3').

Highlights:

- The acquisition of THT completed on 1 October 2019
- There are 112,700 units in management (as at 31 March 2019: 103,917)
- L&Q has completed 1,997 residential units (2018 Q3: 2,158)
- Turnover was £638m (2018 Q3: £645m)
- Operating surplus was £215m (2018 Q3: £215m)
- EBITDA¹ was £214m (2018 Q3: £192m)
- EBITDA margin² was 25% (2018 Q3: 25%)
- EBITDA margin (excluding sales)³ was 40% (2018 Q3: 43%)
- Gross sales margin⁴ was 15% (2018 Q3: 9%)
- Net sales margin⁵ was 7% (2018 Q3: 3%)
- EBITDA / interest cover⁶ was 180% (2018 Q3: 178%)
- EBITDA Social housing lettings interest cover⁷ was 130% (2018 Q3: 140%)

Commenting on the results Waqar Ahmed, Group Director, Finance said:

"The prudent measures that L&Q has implemented during the course of this financial year, including reassessing new scheme appraisals and where necessary placing these on hold, the reappraisal of existing commitments, the selective nature of new business opportunities and determining pace has allowed L&Q to make good progress against our current priorities being the safety of our residents, the quality of the homes and services we provide and delivering on our social purpose. The financial commitment to address these priorities continues to be reflected in our trading results that are showing signs of stabilisation in the short-term and recovery as we look to the medium term, aided by positive signals emerging in the latter part of the quarter from the sales market.

Despite L&Q's strong balance sheet and our ability to easily service our debt obligations, L&Q will continue to act with prudence and take a measured approach as we seek to reduce the level of volatility and risk within our development programme and financial results."

Forward Guidance to the year ending 31 March 2020

Our projections on EBITDA and surplus after tax are unchanged with EBITDA expected to be in the range of £280m to £300m and surplus after tax expected to be in the range of £200m to £220m. Net debt is expected to be in the range £5.5bn to £5.6bn (previously £5.3bn to £5.4bn) with the increase reflecting the projected net debt position of THT.

Financial Metrics	Forward Guidance to 31 March 2020
EBITDA margin ²	23%
EBITDA margin (excluding sales) ³	40%
Net sales margin ⁵	5%
EBITDA interest cover ⁶	175%
Social housing lettings EBITDA interest Cover ⁷	116%
Debt to assets ⁸	42%
Gross debt to EBITDA ⁹	20.1x
Sales as a % of turnover ¹⁰	49%

Housing Completions

L&Q, including joint ventures, has completed 1,997 (2018 Q3: 2,158) residential units in the financial year to date. This comprises of 982 (2018 Q3: 1,209) completions for social housing tenures and 1,015 (2018 Q3: 949) completions for market tenures. During that same time, 2,454 new build residential units commenced on site (2018 Q3: 3,933).

Development Pipeline

L&Q, including joint ventures, is operating from 169 (as at 31 March 2019: 157) active sites. L&Q has approved an additional 2,638 residential units during the financial year to date bringing total units in the approved development pipeline to 50,937 (as at 31 March 2019: 50,400). Some 39% of the approved pipeline (19,500 units) is on site.

The future projected cost of the entire development pipeline (including work in progress and developments not yet committed or on site) that extends until the financial year ending 31 March 2040 is estimated at £6.7bn (as at 31 March 2019: £6.8bn) of which £5.6bn (82%) is currently committed. L&Q holds a further potential 58,900 (as at 31 March 2019: 56,273) strategic land plots.

Unaudited Financials

The unaudited financials exclude further adjustments that are subject to audit review.

Statement of Comprehensive Income	2019 Q3 (£m)	2018 Q3 (£m)	Change
Turnover			
Non-sales	477	447	
Sales	161	198	
	638	645	(1%)
Operating costs and cost of sales			
Non-sales	(333)	(282)	
Sales	(152)	(199)	
	(485)	(481)	1%
Surplus on disposal of fixed assets and investments	44	41	
Share of profits from joint ventures	18	10	
Change in value of investment property	(1)	-	
Operating surplus	214	215	-
Net interest charge	(89)	(84)	
Other finance costs	(5)	(1)	

Taxation	1	(5)	
Surplus for the period after tax	121	125	(3%)

<i>Capitalised Interest</i>	(30)	(24)	
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Statement of Financial Position	2019 Q3	31 March 2019	Change
	(£m)	(£m)	(£m)
Housing properties	9,971	9,469	544
Other fixed assets	83	69	14
Investments	1,615	1,649	(34)
Net current assets	1,083	966	117
Total assets less current liabilities	12,752	12,153	599
Loans due > one year	5,397	5,011	386
Unamortised grant liability	2,113	2,039	74
Other long term liabilities	345	327	18
Capital and reserves	4,897	4,776	163
Total non-current liabilities and reserves	12,752	12,153	599

Non-Sales Activities

Activity	2019 Q	2018 Q3	Change
	(£m)	(£m)	(£m)
Net rents receivable	436	411	25
Charges for support services	7	7	-
Amortised government grant	18	18	-
Other income	16	11	5
Turnover	477	447	30
Management costs	(42)	(38)	(4)
Service costs	(59)	(49)	(10)
Maintenance costs	(122)	(98)	(24)
Support costs	(7)	(7)	-
Depreciation & impairment	(60)	(55)	(5)
Other costs	(43)	(35)	(8)
Operating costs	(333)	(282)	(51)
Surplus on disposal of fixed assets	44	41	3
Operating surplus	188	206	(18)

<i>Capitalised Major Repairs</i>	(43)	(60)	17
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Sales Activities

The cost of sales is inclusive of capitalised interest and overhead costs:

Activity	2019 Q	2018 Q3	Change
	(£m)	(£m)	(£m)

Property sales income	127	156	(29)
Land sales income	34	42	(8)
Turnover from sales (excluding JV's)	161	198	(37)
Cost of property sales	(109)	(152)	43
Cost of land sales	(20)	(32)	12
Operating costs	(23)	(15)	(8)
Total costs (excluding JV's)	(152)	(199)	47
Operating Surplus (excluding JV's)	9	(1)	10
Joint venture turnover	220	138	82
Joint venture cost of sales	(193)	(123)	(70)
Joint venture operating costs	(9)	(5)	(4)
Share of profits from joint ventures	18	10	8

Average Selling Price

The average selling price, including JV's, for outright market sales during the financial year to date was £524k of which 70% were conducted under Help to Buy. The average selling price of first tranche shared ownership sales during the financial year to date was £384k with an average first tranche sale of 34%.

Sales Margins

The cost of sales is inclusive of capitalised interest and overhead costs:

Activity	<i>Shared Owner- ship (£m)</i>	<i>Outright Sales (Non-JV) (£m)</i>	<i>Land Sales (£m)</i>	<i>Outright Sales (JV's) (£m)</i>	2019 Q3 (£m)	2018 Q3 (£m)	Change
Turnover	44	83	34	220	381	336	45
Cost of sales	(37)	(72)	(20)	(193)	(322)	(307)	(15)
Gross profit	7	11	14	27	59	29	30
Gross sales margin	16%	13%	41%	12%	15%	9%	6%
Operating costs	(4)	(8)	(11)	(9)	(32)	(20)	(12)
Operating surplus	3	3	3	18	27	9	18
Net sales margin	7%	4%	9%	8%	7%	3%	4%

Unsold Stock

As at 31st December 2020, L&Q, including joint ventures, held 505 completed units as unsold stock with a projected value of £129m. Of these, 24% have been held as stock for less than one month. L&Q's forward order book excluding joint ventures consists of 79 exchanged units with projected revenue of £13m and 106 reservations with projected revenue of £26m.

Tenure	Projected Revenue (£m)	No. of Units	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Equity Ownership	0	1	1	0	0	0	0

Shared Ownership	20	179	18	23	111	17	10
Outright Sale (non-JV's)	84	239	71	29	48	68	23
Total excluding Joint Ventures	104	419	90	52	159	85	33
Shared Ownership (JV's)	1	10	1	0	0	3	6
Outright Sale (JV's)	24	76	28	2	34	6	6
Total Joint Ventures	25	86	29	2	34	9	12
Total Unsold Stock	129	505	119	54	193	94	45

Net Debt and Liquidity

As at 31 December 2019, net debt (excluding derivative financial liabilities) was £5,438m (as at 31 March 2019: £4,886m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £592m (as at 31 March 2019: £751m). Approximately 50% of L&Q's loan facilities and 54% of drawn loan facilities are at a fixed cost.

Unencumbered Assets

	2019 Q3	31 March 2019
No. of units under management	112,700	103,917
No. of social housing units provided as collateral against debt facilities	(54,625)	(48,993)
No. of private rented units provided as collateral against debt facilities	(1,107)	(1,107)
Total no. of unencumbered units under management	56,968	53,817
% of units under management held as collateral against debt facilities	51%	48%
Unencumbered asset ratio ¹¹	39%	42%

L&Q Credit Ratings - as at date of trading statement release

Rating Agency	S&P	Moody's	Fitch
Long-term credit ratings	A-/Stable	A3/Stable	A+/Stable

Notes:

¹ Operating surplus + depreciation and impairment - amortised government grant - capitalised major repairs +/- actuarial losses/gains in pension schemes

² EBITDA / (turnover + turnover from joint ventures - amortised government grant)

³ EBITDA from non-sales activities / turnover from non-sales activities

⁴ Gross profit from sales / turnover from sales including joint ventures

⁵ Operating surplus from sales / turnover from sales including joint ventures

⁶ EBITDA / net cash interest paid

⁷ EBITDA from social housing lettings / net cash interest paid

⁸ Net debt (excluding derivative financial liabilities) / total assets less current liabilities

⁹ Gross debt / EBITDA

¹⁰ Sales turnover (including joint ventures) / (turnover plus turnover from joint ventures)

¹¹ 100% less (loans due after more than 1 year + derivative liabilities + unamortised grant liability) / total assets less current liabilities

This trading update contains certain forward looking statements about the future outlook for L&Q. Although the Directors believe that these statements are based upon reasonable assumptions, any such statements should be treated with caution as future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

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