

London & Quadrant Housing Trust Trading Update for the period ending 30 June 2020

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated trading update for the three months ended 30 June 2020 ('2020 Q1').

All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the three months ended 30 June 2019 ('2019 Q1') that do not include the trading activities of Trafford Housing Trust ('THT') which was acquired by L&Q on 1 October 2019.

Highlights:

- There are 113,580 units in management (as at 31 March 2020: 113,525)
- L&Q has completed 150 residential units (2019 Q1: 691)
- Turnover was £209m (2019 Q1: £178m)
- EBITDA¹ was £96m (2019 Q1: £55m)
- EBITDA margin² was 44% (2019 Q1: 31%)
- EBITDA margin (excluding sales)³ was 57% (2019 Q1: 35%)
- Gross sales margin⁴ was 20% (2019 Q1: 10%)
- Net sales margin⁵ was 8% (2019 Q1: 4%)
- EBITDA / interest cover⁶ was 260% (2019 Q1: 144%)
- EBITDA social housing lettings interest cover⁷ was 213% (2019 Q1: 118%)
- Operating surplus was £84m (2019 Q1: £58m)
- Debt to assets⁸ was 42% (2019 Q1: 42%)
- Sales as a % of turnover¹⁰ was 25% (2019: 46%)

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

"As expected, the Covid-19 pandemic has caused a significant amount of disruption to our business, particular on construction sites which has led, and will continue to lead to handover delays of new residential units. However, through the decisive actions taken as announced in our last trading statement released on 15 May 2020, we have demonstrated resilience and flexibility in order to conserve cash flows whilst fulfilling our commitments to our customers. Our Q1 results further reflect that our reactive repairs service has only undertaken emergency work and those works that are deemed to be critical to families' wellbeing while remaining safe in their homes.

We acted quickly at the outset of the pandemic and, in line with our commitment to health and wellbeing of our employees and subcontractors, took the decision to temporarily close all of our construction sites and offices. During Q1 we have, in accordance with Government guidelines, implemented core service recovery plans to address the gradual and careful reopening of constructions sites and sales and marketing suites, the management of backlog reactive maintenance repairs, the restarting of planned maintenance works and customer support inclusive of income recovery. As at the date of this trading statement release, all construction sites are open and operational.

Our Q1 trading results demonstrate the strength of our core operations and improving activity in the sales market that gives us the confidence to release forward guidance. Whilst economic uncertainty still exists, we remain confident that L&Q retains the financial flexibility to adapt supported by our strong balance sheet and liquidity position"

COVID-19 Update

On 24 March 2020, L&Q issued a RNS outlining its response to COVID-19 inclusive of actions taken to date and headline mitigating actions as updated in the last trading statement released on 15 May 2020. L&Q's Pandemic Crisis Response Team continue to monitor service delivery and key trends across all business activities daily with notable trends from the period 31 March 2020 to 31 July 2020 outlined below:

- Rolling 4 week arrears have increased from 5.04% to 6.05% (6.64% for social tenures and 4.11% for non-social tenures); and
- 42% of projected residential sales have completed achieving 46% of projected profits. This in line with our expectations.

Forward Guidance to the year ending 31 March 2021

The following is subject to uncertainty on future business disruption caused by Covid-19. Included within these projections are the assumption that rent arrears double from pre Covid-19 levels and the assumptions that L&Q will achieve c50% of its pre Covid-19 anticipated sales activity for the year ending 31 March 2021.

We project EBITDA to be in the range of £300m to £325m, net debt to be in the range of £5.9bn to £6.0bn and capital expenditure¹¹ to be in the range of £575m to £625m. Included within our EBITDA projections are £15m of costs assigned to conduct fire remedial and safety works. Our projections for surplus after tax are expected to be in the range of £200m to £215m.

Financial Metrics	Forward Guidance to 31 March 2021
EBITDA margin ²	27%
EBITDA margin (excluding sales) ³	42%
Net sales margin ⁵	8%
EBITDA interest cover ⁶	209%
Social housing lettings EBITDA interest Cover ⁷	160%
Debt to assets ⁸	42%
Gross debt to EBITDA ⁹	18.3x
Sales as a % of turnover ¹⁰	44%

Housing Completions

L&Q, including joint ventures, has completed 150 (2019 Q1: 691) residential units in the financial year. This comprises of 91 (2019 Q1: 345) completions for social housing tenures and 59 (2019 Q1: 346) completions for market tenures. During that same time, 760 new build residential units commenced on site (2019 Q1: 1,409). The year on year fall in completions and starts on site reflect the business disruption caused by Covid-19.

Development Pipeline

L&Q, including joint ventures, is operating from 158 (2019 Q1: 173) active sites. L&Q has approved an additional 141 residential units during the financial year bringing total units in the approved development pipeline to 28,403 (2019 Q1: 30,202). During Q1, L&Q has reclassified 3 sites from the development pipeline to strategic land plots meaning that L&Q holds a further potential 72,042 (2019 Q1: 68,266) strategic land plots.

Of the units approved in the development pipeline 64% are for social housing tenures and 36% are for market tenures. Some 66% of the approved pipeline (18,819 units) is on site (2019 Q1: 63%).

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 £5.3bn (2019 Q1: £7.0bn) of which £4.3bn (81%) is currently committed (2019 Q1: £4.9bn).

Unaudited Financials

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

Statement of Comprehensive Income	2020 Q1 (£m)	2019 Q1 (£m)	Change
Turnover			
Non-sales	169	151	
Sales	40	27	
	209	178	17%
Operating costs and cost of sales			
Non-sales	(98)	(107)	
Sales	(38)	(27)	
	(136)	(134)	1%
Surplus on disposal of fixed assets and investments	9	9	
Share of profits from joint ventures	2	5	
Change in value of investment property	-	-	
Operating surplus	84	58	45%
Net interest charge	(26)	(29)	
Other finance income/ (costs)	(1)	2	
Taxation	-	-	
Surplus for the period after tax	57	31	26

<i>Capitalised Interest</i>	(12)	(9)
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Statement of Financial Position	2020 Q1 (£m)	31 March 2020 (£m)	Change (£m)
Housing properties	10,539	10,334	205
Other fixed assets	79	81	(2)
Investments	1,614	1,590	24
Net current assets	1,027	974	53
Total assets less current liabilities	13,259	12,979	280
Loans due > one year	5,588	5,528	60
Unamortised grant liabilities	2,112	2,120	(8)
Other long term liabilities	524	353	171
Capital and reserves	5,035	4,978	57
Total non-current liabilities and reserves	13,259	12,979	280

Non-Sales Activities

Activity	2020 Q1 (£m)	2019 Q1 (£m)	Change (£m)
Net rents receivable	157	140	17
Charges for support services	2	2	-
Amortised government grants	6	6	-
Other income	4	3	1
Turnover	169	151	18
Management costs	(13)	(12)	(1)
Service costs	(22)	(18)	(4)
Maintenance costs	(28)	(41)	13
Support costs	(3)	(2)	(1)
Depreciation & impairment	(23)	(19)	(4)
Other costs	(9)	(15)	6
Operating costs	(98)	(107)	9
Surplus on disposal of fixed assets	9	9	-
Operating surplus	80	53	27
<i>Capitalised Major Repairs</i>	(5)	(16)	11

Sales Activities

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

Activity	2020 Q1 (£m)	2019 Q1 (£m)	Change (£m)
Property sales income	18	25	(7)
Land sales income	22	2	20
Turnover from sales (excluding JV's)	40	27	13
Cost of property sales	(17)	(20)	3
Cost of land sales	(14)	(1)	(13)
Operating costs	(7)	(6)	(1)
Total costs (excluding JV's)	(38)	(27)	(11)
Operating Surplus (excluding JV's)	2	-	2
Joint venture turnover	16	87	(71)
Joint venture cost of sales	(14)	(82)	68
Joint venture operating costs	-	-	-
Share of profits from joint ventures	2	5	(3)

Average Selling Price

The average selling price, including JV's, for outright market sales during the financial year to date was £468k (2019 Q1: £494k) of which 75% were conducted under Help to Buy (2019 Q1: 95%). The average selling price of first tranche shared ownership sales during the financial year to date was £431k (2019 Q1: £440k) with an average first

tranche sale of 35% (2019 Q1: 38%).

Sales Margins

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

Activity	Shared Owner- ship (£m)	Outright Sales (Non-JV) (£m)	Land Sales (£m)	Outright Sales (JV's) (£m)	2020 Q1 (£m)	2019 Q1 (£m)	Change
Turnover	6	12	22	16	56	114	(58)
Cost of sales	(5)	(12)	(14)	(14)	(45)	(103)	58
Gross profit	1	-	8	2	11	11	-
Gross sales margin	16%	-	36%	12%	20%	10%	10%
Operating costs	(1)	(2)	(4)	-	(7)	(6)	(1)
Operating surplus	-	(2)	4	2	4	5	(1)
Net sales margin	-	-	18%	12%	8%	4%	4%

Unsold Stock

As at 30 June 2020, L&Q, including joint ventures, held 463 completed units as unsold stock with a projected revenue of £138m. Projected revenue for shared ownership assumes a first tranche sale of 25%. Of the total unsold stock, 11% has been held as stock for less than one month.

L&Q's forward order book excluding joint ventures consists of 53 exchanged units with projected revenue of £10m and 120 reservations with projected revenue of £35m. On 24 July 2020 L&Q completed a bulk sale for 70 units generating £26m of revenue. These units are included within the unsold units held for more than 12 months.

Tenure	Projected Revenue (£m)	No. of Units	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	12	109	3	6	21	70	9
Outright Sale (non-JV's)	98	230	1	20	4	121	84
Total excluding Joint Ventures	110	339	4	26	25	191	93
Outright Sale (JV's)	28	124	46	38	14	10	16
Total Joint Ventures	28	124	46	38	14	10	16
Total Unsold Stock	138	463	50	64	39	201	109

Net Debt and Liquidity

As at 30 June 2020, net debt (excluding derivative financial liabilities) was £5,537m (as at 31 March 2020: £5,430m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £788m (as at 31 March 2020: £595m). Approximately 52% of L&Q's loan facilities and 59% of drawn loan facilities are at a fixed cost.

Unencumbered Assets

	2020 Q1	31 March 2020
No. of units under management	113,580	113,525
No. of social housing units provided as collateral against debt facilities	(54,516)	(55,013)
No. of private rented units provided as collateral against debt facilities	(1,107)	(1,107)
Total no. of unencumbered units under management	57,917	57,405
% of units under management held as collateral against debt facilities	49%	49%
Unencumbered asset ratio ¹¹	42%	41%

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+/Negative

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 Capitalised development expenditure + acquisition of investment property + purchase of other fixed assets
- ¹² 100% 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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