

RNS Number : 9689M  
London & Quadrant Housing Trust  
15 May 2020

### **London & Quadrant Housing Trust Trading Update for the period ending 31 March 2020**

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated trading update for the year ended 31 March 2020 ('2020').

These consolidated unaudited results include the trading activities of Trafford Housing Trust ('THT') from 1 October to 31 March 2020. All comparatives are to L&Q's consolidated audited financial statements for the year ended 31 March 2019 ('2019').

#### **Highlights:**

- There are 113,525 units in management (2019: 103,917)
- L&Q has completed 2,439 residential units (2019: 2,874)
- Turnover was £914m (2019: £937m)
- EBITDA<sup>1</sup> was £302m (2019: £236m)
- EBITDA margin<sup>2</sup> was 26% (2019: 22%)
- EBITDA margin (excluding sales)<sup>3</sup> was 39% (2019: 40%)
- Gross sales margin<sup>4</sup> was 17% (2019: 13%)
- Net sales margin<sup>5</sup> was 10% (2019: 8%)
- EBITDA / interest cover<sup>6</sup> was 189% (2019: 166%)
- EBITDA social housing lettings interest cover<sup>7</sup> was 134% (2019: 111%)
- Operating surplus was £297m (2019: £305m)
- Debt to assets<sup>8</sup> was 41% (2019: 40%)
- Gross debt to EBITDA<sup>9</sup> was 18.5x (2019: 21.3x)
- Sales as a % of turnover<sup>10</sup> was 45% (2019: 46%)

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

"L&Q's preliminary unaudited results show EBITDA at £302m and net debt at £5.4bn with better than expected performance on margins, interest coverage and debt metrics compared to Q3 guidance, further reflecting the expected stabilisation in financial results. Surplus after tax at £202m excludes a material credit to the statement of comprehensive income that will be applied to the audited financial statements to represent the fair value of THT on acquisition.

The year-on-year improvement in EBITDA reflects the prudent measures that L&Q has implemented during the course of the financial year as we continue to focus on our priorities being the safety of our residents, the quality of the homes and services we provide and delivering on our social purpose. We completed 2,439 (2019: 2,874) residential units of which 49% are for social housing tenures, invested £61m (2019: £91m) in our existing stock and spent £168m (2019: £159m) on planned and reactive maintenance including £35m (2019: £24m) implementing additional fire safety measures.

We have planned extensively for the inevitable material impact that COVID-19 will have on future trading performance and have put in place a number of mitigating measures in order to conserve cash flows. Given this ongoing uncertainty we have temporarily suspended financial guidance until the overall impact of COVID-19 becomes clearer. However, we remain confident that L&Q retains the financial flexibility to adapt to a changing economic outlook supported by our strong balance sheet,

robust liquidity position and G1/V1 ratings, the highest possible ratings for governance and viability as reaffirmed by the Regulator of Social Housing in March 2020."

### **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. This included, in the interest of customer and employee safety, the immediate closure of all L&Q construction sites.

L&Q's Pandemic Crisis Response Team are monitoring service delivery and key trends across all business activities daily with notable trends from the period 31 March 2020 to 7 May 2020 outlined below:

- There have been 957 payment deferral requests made by residents on a portfolio of 113,525 units;
- Rolling 4 week arrears have increased from 5.04% to 5.43% (6.03% for social tenures and 3.35% for non-social tenures) equating to a £3m increase in arrears; and
- 47% of projected residential sales have completed achieving 50% of projected profits, demonstrating continued demand supported by the ability to sell homes remotely.

Detailed mitigating actions that have been implemented to date are set out below:

- Completion of multivariate stress-tests and contingency planning;
- £300m increase in debt facilities, materially increasing available liquidity which stands at over £800m;
- Removal of £66m of non-essential operating expenditure for the financial year ending 31 March 2021;
- Postponement of £300m of capital expenditure during the financial year ending 31 March 2021;
- Maintenance spend restricted to priority repairs and fire safety;
- Additional £3m bad debt provision included within these preliminary and unaudited results;
- Recruitment freeze and a freeze on pay increases;
- Successful launch of virtual property tours; and
- Plans to prepare for the phased remobilisation of construction and planned maintenance work sites smoothly and safely and as soon as the time is right.

### **Housing Completions**

L&Q, including joint ventures, has completed 2,439 (2019: 2,874) residential units in the financial year. This comprises of 1,188 (2019: 1,582) completions for social housing tenures and 1,251 (2019: 1,292) completions for market tenures. During that same time, 3,945 new build residential units commenced on site (2019: 6,428).

### **Development Pipeline**

L&Q, including joint ventures, is operating from 158 (2019: 157) active sites. L&Q has approved an additional 2,947 residential units during the financial year bringing total units in the approved development pipeline to 50,000 (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 £6.6bn (2019: £6.8bn) of which £5.5bn (83%) is currently committed. L&Q holds a further potential 50,125 (2019: 46,800) strategic land plots.

### Unaudited Financials

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

<i>Statement of Comprehensive Income</i>	<b>2020</b> <b>(£m)</b>	<b>2019</b> <b>(£m)</b>	<b>Change</b>
<b>Turnover</b>			
Non-sales	645	597	
Sales	269	340	
	<b>914</b>	<b>937</b>	<b>(2%)</b>
<b>Operating costs and cost of sales</b>			
Non-sales	(472)	(420)	
Sales	(243)	(319)	
	<b>(715)</b>	<b>(739)</b>	<b>3%</b>
Surplus on disposal of fixed assets and investments	65	50	
Share of profits from joint ventures	25	20	
Change in value of investment property	8	37	
<b>Operating surplus</b>	<b>297</b>	<b>305</b>	<b>(3%)</b>
Net interest charge	(116)	(110)	
Other finance income/ (costs)	21	(9)	
Taxation	-	16	
<b>Surplus for the period after tax</b>	<b>202</b>	<b>202</b>	<b>-</b>

<i>Capitalised Interest</i>	(43)	(33)	
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<i>Statement of Financial Position</i>	<b>2020</b> <b>(£m)</b>	<b>2019</b> <b>(£m)</b>	<b>Change</b> <b>(£m)</b>
Housing properties	10,334	9,469	865
Other fixed assets	81	69	12
Investments	1,590	1,649	(59)
Net current assets	974	966	8
<b>Total assets less current liabilities</b>	<b>12,979</b>	<b>12,153</b>	<b>826</b>
Loans due > one year	5,528	5,011	517
Unamortised grant liabilities	2,120	2,039	81
Other long term liabilities	353	327	26
Capital and reserves	4,978	4,776	202
<b>Total non-current liabilities and reserves</b>	<b>12,979</b>	<b>12,153</b>	<b>826</b>

### Non-Sales Activities

<b>Activity</b>	<b>2020 (£m)</b>	<b>2019 (£m)</b>	<b>Change (£m)</b>
Net rents receivable	590	550	40
Charges for support services	10	9	1
Amortised government grants	24	23	1
Other income	21	15	6
<b>Turnover</b>	<b>645</b>	<b>597</b>	<b>48</b>
Management costs	(63)	(57)	(6)
Service costs	(81)	(71)	(10)
Maintenance costs	(168)	(159)	(9)
Support costs	(11)	(8)	(3)
Depreciation & impairment	(93)	(91)	(2)
Other costs	(56)	(34)	(22)
<b>Operating costs</b>	<b>(472)</b>	<b>(420)</b>	<b>(52)</b>
Surplus on disposal of fixed assets	65	50	15
<b>Operating surplus</b>	<b>238</b>	<b>227</b>	<b>11</b>

<i>Capitalised Major Repairs</i>	<i>(61)</i>	<i>(91)</i>	<i>30</i>
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### Sales Activities

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

<b>Activity</b>	<b>2020 (£m)</b>	<b>2019 (£m)</b>	<b>Change (£m)</b>
Property sales income	176	185	(9)
Land sales income	93	155	(62)
<b>Turnover from sales (excluding JV's)</b>	<b>269</b>	<b>340</b>	<b>(71)</b>
Cost of property sales	(148)	(179)	31
Cost of land sales	(63)	(118)	55
Operating costs	(32)	(22)	(10)
<b>Total costs (excluding JV's)</b>	<b>(243)</b>	<b>(319)</b>	<b>76</b>
<b>Operating Surplus (excluding JV's)</b>	<b>26</b>	<b>21</b>	<b>5</b>
Joint venture turnover	263	167	96
Joint venture cost of sales	(228)	(142)	(86)
Joint venture operating costs	(10)	(5)	(5)
<b>Share of profits from joint ventures</b>	<b>25</b>	<b>20</b>	<b>5</b>

### Average Selling Price

The average selling price, including JV's, for outright market sales during the financial year was £612k of which 74% were conducted under Help to Buy. The average selling price of first tranche shared ownership sales during the financial year was £387k with an average first tranche sale of 34%.

### Sales Margins

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

<b>Activity</b>	<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>	<b>2020 (£m)</b>	<b>2019 (£m)</b>	<b>Change</b>
Turnover	60	116	93	263	<b>532</b>	507	25
Cost of sales	(49)	(99)	(63)	(228)	<b>(439)</b>	(439)	-
<b>Gross profit</b>	<b>11</b>	<b>17</b>	<b>30</b>	<b>35</b>	<b>93</b>	<b>68</b>	<b>25</b>
Gross sales margin	18%	15%	32%	13%	<b>17%</b>	13%	4%
Operating costs	(6)	(10)	(16)	(10)	<b>(42)</b>	(27)	(15)
<b>Operating surplus</b>	<b>5</b>	<b>7</b>	<b>14</b>	<b>25</b>	<b>51</b>	<b>41</b>	<b>10</b>
Net sales margin	8%	6%	15%	10%	<b>10%</b>	8%	2%

### Unsold Stock

As at 31 March 2020, L&Q, including joint ventures, held 526 completed units as unsold stock with a projected value of £133m. Of these, 26% have been held as stock for less than one month. L&Q's forward order book excluding joint ventures consists of 45 exchanged units with projected revenue of £6m and 143 reservations with projected revenue of £36m.

<b>Tenure</b>	<b>Projected Revenue (£m)</b>	<b>No. of Units</b>	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	16	147	33	2	18	82	12
Outright Sale (non-JV's)	86	259	30	4	77	92	56
<b>Total excluding Joint Ventures</b>	<b>102</b>	<b>406</b>	<b>63</b>	<b>6</b>	<b>95</b>	<b>174</b>	<b>68</b>
Outright Sale (JV's)	31	120	73	16	8	11	12
<b>Total Joint Ventures</b>	<b>31</b>	<b>120</b>	<b>73</b>	<b>16</b>	<b>8</b>	<b>11</b>	<b>12</b>
<b>Total Unsold Stock</b>	<b>133</b>	<b>526</b>	<b>136</b>	<b>22</b>	<b>103</b>	<b>185</b>	<b>80</b>

### Net Debt and Liquidity

As at 31 March 2020, net debt (excluding derivative financial liabilities) was £5,430m (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 £595m (2019: £751m). Since 31 March 2020, L&Q has secured an additional £300m of committed loan facilities increasing available liquidity to over £800m. Approximately 50% of L&Q's loan facilities and 54% of drawn loan facilities are at a fixed cost.

### Unencumbered Assets

	<b>2020</b>	<b>2019</b>
No. of units under management	113,525	103,917
No. of social housing units provided as collateral against debt facilities	(55,013)	(48,993)
No. of private rented units provided as collateral against debt facilities	(1,107)	(1,107)
<b>Total no. of unencumbered units under management</b>	<b>57,405</b>	<b>53,817</b>
% of units under management held as collateral against debt facilities	49%	48%
Unencumbered asset ratio <sup>11</sup>	41%	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+/Negative

### Notes:

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

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

<sup>3</sup> EBITDA from non-sales activities / turnover from non-sales activities

<sup>4</sup> Gross profit from sales / turnover from sales including joint ventures

<sup>5</sup> Operating surplus from sales / turnover from sales including joint ventures

<sup>6</sup> EBITDA / net cash interest paid

<sup>7</sup> EBITDA from social housing lettings / net cash interest paid

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

<sup>9</sup> Gross debt / EBITDA

<sup>10</sup> Sales turnover (including joint ventures) / (turnover plus turnover from joint ventures)

<sup>11</sup> 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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