

London & Quadrant Housing Trust Trading Update for the period ending 30 June 2021

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated unaudited trading update for the three months ending 30 June 2021 ('2021 Q1'). All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the three months ending 30 June 2020 ('2020 Q1').

HIGHLIGHTS

- There are 119,120 units in management (as at 31 March 2021: 117,788)
- L&Q has completed 1,003 new residential homes (2020 Q1: 150)
- Turnover was £286m (2020 Q1: £209m)
- EBITDA¹ was £121m (2020 Q1: £96m)
- EBITDA margin² was 36% (2020 Q1: 44%)
- EBITDA margin (excluding sales)³ was 59% (2020 Q1: 57%)
- Gross sales margin⁴ was 20% (2020 Q1: 20%)
- Net sales margin⁵ was 15% (2020 Q1: 8%)
- EBITDA / interest cover⁶ was 327% (2020 Q1: 260%)
- EBITDA social housing lettings interest cover⁷ was 189% (2020 Q1: 213%)
- Operating surplus was £112m (2020 Q1: £84m)
- Debt to assets⁸ was 41% (2020 Q1: 42%)
- Sales as a % of turnover¹⁰ was 51% (2020 Q1: 25%)

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

"L&Q continues to recover from the restrictions imposed during the Covid-19 pandemic with our unaudited Q1 trading results demonstrating a material year-on-year increase in turnover, EBITDA and housing completions whilst retaining an exceptionally strong liquidity position.

Forward guidance to the year ending 31st March 2022 remains unchanged from our last trading update. This reflects our continued strategy to divert a greater level of expenditure towards our residents' homes as we commit to delivering those targets set out in our five-year corporate strategy which prioritises investment in safety and the quality of existing homes and services.

L&Q's renewed focus on residents' homes and services will not diminish L&Q's commitment to tackling the UK housing crisis through investment in new homes. In the three months to 30th June 2021, L&Q has completed 1,003 new residential homes, of which 64% are for social tenure – a clear signal that we are committed to our social purpose and lowering our risk profile."

FORWARD GUIDANCE FOR THE YEAR ENDING 31ST MARCH 2022

The following assumes that current market conditions continue and is unchanged from the guidance issued in our last trading statement.

We project EBITDA to be in the range of £340m to £360m and gross capital expenditure¹¹ to be in the range of £900m to £1bn. Included within our EBITDA projections are c.£30m of costs assigned to conduct fire remedial and safety works. Our projections for surplus after tax are expected to be in the range of £230m to £250m. Net debt is expected to be in the range of £5.7bn to £5.8bn.

Financial Metrics	Forward Guidance to 31 March 2022
EBITDA margin ²	24%
EBITDA margin (excluding sales) ³	39%
Net sales margin ⁵	10%
EBITDA interest cover ⁶	220%
Social housing lettings EBITDA interest Cover ⁷	136%
Debt to assets ⁸	43%
Gross debt to EBITDA ⁹	17x
Sales as a % of turnover ¹⁰	51%

HOUSING COMPLETIONS

L&Q, including joint ventures, has completed 1,003 (2020 Q1: 150) residential homes in the financial year to date. This comprises of 646 (2020 Q1: 91) completions for social housing tenures and 357 (2020 Q1: 59) completions for market tenures. During that same time 651 new build residential homes commenced on site (2020 Q1: 760).

DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 196 (2020 Q1: 158) active sites. L&Q has approved an additional 135 (2020 Q1: 141) residential homes during the financial year to date bringing total homes in the approved development pipeline to 31,888 (2020 Q1: 28,403), of which 69% are currently on site. This represents a significant investment in new supply and affordable output. Of the homes approved in the development pipeline 60% are for social housing tenures and 40% are for market tenures. L&Q holds a further potential 80,950 (2020 Q1: 72,042) strategic land plots.

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 £4.9bn (2020 Q1: £5.3bn) of which £4.1bn (84%) is currently committed (2020 Q1: £4.3bn).

UNAUDITED FINANCIALS

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

Statement of Comprehensive Income

	2021 Q1 (£m)	2020 Q1 (£m)	Change
Turnover			
Non-sales	171	169	
Sales	115	40	
	286	209	37%
Operating costs and cost of sales			
Non-sales	(105)	(98)	
Sales	(100)	(38)	
	(205)	(136)	(51%)
Surplus on disposal of fixed assets and investments	21	9	
Share of profits from joint ventures	10	2	
Change in value of investment property	-	-	
Operating surplus	112	84	33%
Net interest charge	(26)	(26)	
Other finance income/ (costs)	(1)	(1)	
Taxation	-	-	
Surplus for the period after tax	85	57	49%

EBITDA and Net Cash Interest Paid

	2021 Q1 (£m)	2020 Q1 (£m)	Change
Operating surplus	112	84	
Change in value of investment property	-	-	
Amortised government grant	(6)	(6)	
Depreciation	23	23	
Impairment	-	-	
Capitalised major repairs	(8)	(5)	
EBITDA	121	96	26%
Net interest charge	(26)	(26)	
Capitalised interest	(11)	(12)	
Net cash interest paid	(37)	(38)	3%

Statement of Financial Position

	2021 Q1 (£m)	31 March 2021 (£m)	Change (£m)
Housing properties	10,950	10,906	44
Other fixed assets	78	78	-
Investments	1,616	1,592	24
Net current assets	548	484	64
Total assets less current liabilities	13,192	13,060	132
Loans due > one year	5,183	5,152	31
Unamortised grant liabilities	2,132	2,123	9
Other long term liabilities	379	372	7
Capital and reserves	5,498	5,413	85
Total non-current liabilities and reserves	13,192	13,060	132

Non-Sales Activities

	2021 Q1 (£m)	2020 Q1 (£m)	Change (£m)
Net rents receivable	159	157	2
Charges for support services	3	2	1
Amortised government grants	6	6	-
Other income	3	4	(1)
Turnover	171	169	2
Management costs	(15)	(13)	(2)
Service costs	(21)	(22)	1
Maintenance costs	(40)	(28)	(12)
Support costs	(3)	(3)	-
Depreciation & impairment	(23)	(23)	-
Other costs	(3)	(9)	6
Operating costs	(105)	(98)	(7)
Surplus on disposal of fixed assets	21	9	12
Operating surplus	87	80	7

Sales Activities

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

	2021 Q1 (£m)	2020 Q1 (£m)	Change (£m)
Property sales income	90	18	72
Land sales income	25	22	3
Turnover from sales (excluding JV's)	115	40	75
Cost of property sales	(75)	(17)	(58)
Cost of land sales	(18)	(14)	(4)
Operating costs	(7)	(7)	-
Total costs (excluding JV's)	(100)	(38)	(62)
Operating Surplus (excluding JV's)	15	2	13
Joint venture turnover	54	16	38
Joint venture cost of sales	(43)	(14)	(29)
Joint venture operating costs	(1)	-	(1)
Share of profits from joint ventures	10	2	8

AVERAGE SELLING PRICE

The average selling price, including JV's, for outright market sales during the financial year to date was £461k (2020 Q1: £468k) of which 83% were conducted under Help to Buy (2020 Q1: 75%). The average selling price of first tranche shared ownership sales during the financial year to date was £470k (2020 Q1: £431k) with an average first tranche sale of 34% (2020 Q1: 35%). Shared ownership average selling price is higher than the outright market sales due to the geographical location of properties sold in the year to date.

SALES MARGINS

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

	Shared Owner- ship (£m)	Outright Sales (Non-JV) (£m)	Land Sales (£m)	Outright Sales (JV's) (£m)	Q1 2021 (£m)	Q1 2020 (£m)	Change
Turnover	33	57	25	54	169	56	113
Cost of sales	(25)	(50)	(18)	(43)	(136)	(45)	(91)
Gross profit	8	7	7	11	33	11	22
Gross margin	24%	12%	28%	20%	20%	20%	-
Operating costs	(1)	(3)	(3)	(1)	(8)	(7)	(1)
Operating surplus	7	4	4	10	25	4	21
Net margin	21%	7%	16%	19%	15%	8%	7%

UNSOLD STOCK

As at 30 June 2021, L&Q, including joint ventures, held 639 completed homes as unsold stock with a projected revenue of £111m. Projected revenue for shared ownership assumes a first tranche sale of 25%. Of the total unsold stock 42% has been held as stock for less than one month.

L&Q's forward order book excluding joint ventures consists of 15 exchanged homes with projected revenue of £3m and 192 reservations with projected revenue of £32m.

Tenure	Projected Revenue (£m)	No. of Homes	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	55	470	219	69	78	75	29
Outright Sale (non-JV's)	33	77	16	6	5	9	41
Total excluding JV's	88	547	235	75	83	84	70
Outright Sale (JCA's)	1	4	0	1	3	0	0
Outright Sale (JCE's)	22	88	36	1	17	11	23
Total Joint Ventures	23	92	36	2	20	11	23
Total Unsold Stock	111	639	271	77	103	95	93

NET DEBT AND LIQUIDITY

As at 30 June 2021, net debt (excluding derivative financial liabilities) was £5,449m (as at 31 March 2021: £5,385m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £1,107m (as at 31 March 2021: £1,159m). Approximately 54% of L&Q's loan facilities and 65% of drawn loan facilities are at a fixed cost.

UNENCUMBERED ASSETS

	Q1 2021	31 March 2021
No. of units under management	119,120	117,788
No. of social housing homes provided as collateral against debt facilities	(59,051)	(60,085)
No. of private rented homes provided as collateral against debt facilities	(1,107)	(1,107)
Total no. of unencumbered units under management	58,962	56,596
% of units under management held as collateral against debt facilities	51%	52%
Unencumbered asset ratio ¹²	44%	44%

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 – change in value of investment properties – amortised government grant + depreciation + impairment – 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 the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

For further information, please contact:

investors@lqgroup.org.uk

James Howell, Head of External Affairs

020 8189 1596

www.lqgroup.org.uk

END