

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

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated unaudited trading update for the six months ending 30 September 2021 ('2021 Q2'). All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the six months ending 30 September 2020 ('2020 Q2').

HIGHLIGHTS

- There are 119,760 units in management (as at 31 March 2021: 117,788)
- L&Q has completed 1,997 new residential homes (2020 Q2: 700)
- Turnover was £535m (2020 Q2: £450m)
- EBITDA¹ was £205m (2020 Q2: £201m)
- EBITDA margin² was 32% (2020 Q2: 40%)
- EBITDA margin (excluding sales)³ was 51% (2020 Q2: 57%)
- Gross sales margin⁴ was 17% (2020 Q2: 16%)
- Net sales margin⁵ was 11% (2020 Q2: 7%)
- EBITDA / interest cover⁶ was 276% (2020 Q2: 271%)
- EBITDA social housing lettings interest cover⁷ was 173% (2020 Q2: 216%)
- Operating surplus was £193m (2020 Q2: £177m)
- Debt to assets⁸ was 41% (2020 Q2: 41%)
- Sales as a % of turnover¹⁰ was 48% (2020 Q2: 33%)

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

"L&Q's unaudited Q2 trading results are in line with expectations. We have revised our projections on EBITDA for the financial year ending 31st March 2022 to be in the range of £330m to £350m (previous guidance £340m to £360m). This reflects our decision to accelerate a greater level of expenditure towards our residents' homes as we commit to prioritising investment in safety and the quality of existing homes and services.

L&Q's focus on investment in residents' homes and services has not diminished L&Q's commitment to tackling the UK housing crisis through investment in new homes. In the six months to 30 September 2021, L&Q has completed 1,997 new residential homes of which 61% are for social tenure. Completions exceed pre-Covid levels, and the tenure mix continues to demonstrate our commitment to our social purpose and lowering our risk profile.

During the quarter, L&Q outlined our commitment to sustainability and the wider ESG agenda through the publication of our Sustainability Finance Framework and our first Diversity Report. Our Sustainability Finance Framework sets out how L&Q will work to the spirit of the United Nation's Sustainable Development Goals and includes four long-term targets; to be a net zero carbon business by 2050, to enable sustainable economic and housing growth, to safeguard the environment and to collaborate with others to achieve significant improvement in social impact and social value. The publication of our first Diversity Report documents the progress made in diversity and inclusion, as well as future initiatives planned to continue improving colleague representation"

Each of these documents can be accessed on our website <https://www.lqgroup.org.uk/media-centre/news>

FORWARD GUIDANCE FOR THE YEAR ENDING 31ST MARCH 2022

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

We project EBITDA to be in the range of £330m to £350m 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 £220m to £240m. Net debt is expected to be in the range of £5.6bn to £5.7bn.

Financial Metrics	Forward Guidance to 31 March 2022
EBITDA margin ²	23% - 25%
EBITDA margin (excluding sales) ³	38% - 40%
Net sales margin ⁵	9% - 11%
EBITDA interest cover ⁶	210% - 225%
Social housing lettings EBITDA interest Cover ⁷	120% - 135%
Debt to assets ⁸	43%
Gross debt to EBITDA ⁹	16x - 17x
Sales as a % of turnover ¹⁰	c.50%

HOUSING COMPLETIONS

L&Q, including joint ventures, has completed 1,997 (2020 Q2: 700) residential units in the financial year. This comprises of 1,227 (2020 Q2: 456) completions for social housing tenures and 770 (2020 Q2: 244) completions for market tenures. During that same time 1,190 new build residential units commenced on site (2020 Q2: 1,598).

DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 199 (2020 Q2: 158) active sites. L&Q has approved an additional 257 (2020 Q2: 358) residential units during the financial year bringing total units in the approved development pipeline to 31,739 (2020 Q2: 30,472), of which 69% are currently on site, representing a significant investment in new supply and affordable output. Of the units approved in the development pipeline 60% are for social housing tenures and 40% are for market tenures. L&Q holds a further potential 81,102 (2020 Q2: 72,799) 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 Q2: £5.1bn) of which £4.1bn (84%) is currently committed (2020 Q2: £4.1bn).

UNAUDITED FINANCIALS

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

Statement of Comprehensive Income

	2021 Q2 (£m)	2020 Q2 (£m)	Change
Turnover			
Non-sales	347	344	
Sales	188	106	
	535	450	19%
Operating costs and cost of sales			
Non-sales	(224)	(201)	
Sales	(173)	(103)	

	(397)	(304)	(31%)
Surplus on disposal of fixed assets and investments	36	22	
Share of profits from joint ventures	19	9	
Change in value of investment property	-	-	
Operating surplus	193	177	9%
Net interest charge	(51)	(50)	
Other finance income/ (costs)	(1)	(1)	
Taxation	-	-	
Surplus for the period after tax	141	126	12%

EBITDA and Net Cash Interest Paid

	2021 Q2	2020 Q2	Change
	(£m)	(£m)	
Operating surplus	193	177	
Change in value of investment property	-	-	
Amortised government grant	(13)	(12)	
Depreciation	46	46	
Impairment	-	-	
Capitalised major repairs	(21)	(10)	
EBITDA	205	201	2%
Net interest charge	(51)	(50)	
Capitalised interest	(23)	(24)	
Net cash interest paid	(74)	(74)	-

Statement of Financial Position

	2021 Q2	31 March	Change
	(£m)	2021 (£m)	(£m)
Housing properties	11,043	10,906	137
Other fixed assets	81	78	3
Investments	1,656	1,592	64
Net current assets	587	484	103
Total assets less current liabilities	13,367	13,060	307
Loans due > one year	5,324	5,152	172
Unamortised grant liabilities	2,121	2,123	(2)
Other long-term liabilities	368	372	(4)
Capital and reserves	5,554	5,413	141
Total non-current liabilities and reserves	13,367	13,060	307

Non-Sales Activities

	2021 Q2	2020 Q2	Change
	(£m)	(£m)	(£m)
Net rents receivable	321	318	3
Charges for support services	6	5	1
Amortised government grants	13	12	1
Other income	7	9	(2)
Turnover	347	344	3
Management costs	(30)	(28)	(2)
Service costs	(45)	(44)	(1)
Maintenance costs	(84)	(62)	(22)

Support costs	(7)	(6)	(1)
Depreciation & impairment	(46)	(46)	-
Other costs	(12)	(15)	3
Operating costs	(224)	(201)	(23)
Surplus on disposal of fixed assets	36	22	14
Operating surplus	159	165	(6)

Sales Activities

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

	2021 Q2 (£m)	2020 Q2 (£m)	Change (£m)
Property sales income	155	76	79
Land sales income	33	30	3
Turnover from sales (excluding JV's)	188	106	82
Cost of property sales	(138)	(68)	(70)
Cost of land sales	(21)	(21)	-
Operating costs	(14)	(14)	-
Total costs (excluding JV's)	(173)	(103)	(70)
Operating Surplus (excluding JV's)	15	3	12
Joint venture turnover	116	66	50
Joint venture cost of sales	(94)	(55)	(39)
Joint venture operating costs	(3)	(2)	(1)
Share of profits from joint ventures	19	9	10

AVERAGE SELLING PRICE

The average selling price, including JV's, for outright market sales during the financial year to date was £504k (2020 Q2: £458k) of which 83% were conducted under Help to Buy (2020 Q1: 40%). The average selling price of first tranche shared ownership sales during the financial year to date was £407k (2020 Q2: £382k) with an average first tranche sale of 33% (2020 Q2: 35%).

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)	Q2 2021 (£m)	Q2 2020 (£m)	Change
Turnover	59	96	33	116	304	172	132
Cost of sales	(48)	(90)	(21)	(94)	(253)	(144)	(109)
Gross profit	11	6	12	22	51	28	23
Gross margin	19%	6%	36%	19%	17%	16%	1%
Operating costs	(3)	(5)	(6)	(3)	(17)	(16)	(1)
Operating surplus	8	1	6	19	34	12	22
Net margin	14%	1%	18%	16%	11%	7%	4%

UNSOLD STOCK

As at 30 September 2021, L&Q, including joint ventures, held 740 completed homes as unsold stock with a projected revenue of £143m. Projected revenue for shared ownership assumes a first tranche sale of 25%. Of the total unsold stock 36% has been held as stock for less than one month.

L&Q's forward order book excluding joint ventures consists of 25 exchanged homes with projected revenue of £4m and 248 reservations with projected revenue of £41m.

Tenure	Projected Revenue (£m)	No. of Homes	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	60	506	146	36	207	74	43
Outright Sale (non-JV's)	49	115	51	4	10	12	38
Total excluding JV's	109	621	197	40	217	86	81
Outright Sale (JCA's)	0	1	0	0	1	0	0
Outright Sale (JCE's)	34	118	72	8	2	18	18
Total Joint Ventures	34	119	72	8	3	18	18
Total Unsold Stock	143	740	269	48	220	104	99

NET DEBT AND LIQUIDITY

As at 30 September 2021, net debt (excluding derivative financial liabilities) was £5,471m (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 £1,065m (as at 31 March 2021: £1,159m). Approximately 54% of L&Q's loan facilities and 63% of drawn loan facilities are at a fixed cost.

UNENCUMBERED ASSETS

	Q2 2021	31 March 2021
No. of units under management	119,760	117,788
No. of social housing homes provided as collateral against debt facilities	(56,521)	(60,085)
No. of private rented homes provided as collateral against debt facilities	(1,107)	(1,107)
Total no. of unencumbered units under management	62,132	56,596
% of units under management held as collateral against debt facilities	48%	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.

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