RNS Number: 6293G

Bromford Housing Group

16 November 2022

<u>Bromford Housing Group trading update for the period ending 30 September 2022</u>

- Bromford Housing Group (BHG) is today issuing its consolidated trading update for the six months ended 30 September 2022 (2022 HY). These figures are **unaudited** and for information purposes only.

<u>Highlights (Bromford Housing Group for the period ending 30 September 2022)</u>

- BHG owns and manages **46,018 homes** (45,047 homes as at 30 September 2021)
- BHG continues to maintain its **G1 / V1** ratings and **A+ / A2** credit ratings
- Turnover for the period was **£141m** (2021 HY: £142m)
- Social housing turnover for the period was **£119m** (2021 HY: £112m)
- Social housing turnover contributed to **84%** of total turnover (2021 HY: 79%)
- Operating surplus for the period was **£56m** (2021 HY: £64m) *
- Operating margin on social housing lettings was **35%** (2021 HY: 36%)
- Overall operating margin (including asset sales) was **39%** (2021 HY: 45%) *
- Overall operating margin (excluding asset sales) was **33%** (2021 HY: 33%)
- Net margin on shared ownership sales (first tranche) was **24%** (2021 HY: 23%)
- Net margin on outright sales was **18%** (2021 HY: 18%)
- The surplus after tax for the period was **£33m** (2021 HY: £42m) *
- Asset gearing as at 30 September 2022 was **39%** (2021 HY: 38%)
- EBITDA-MRI interest cover as at 30 September 2022 was **1.9x** (2021 HY: 1.9x)

** In 2021 HY we divested from several local authority areas outside of our core geography, and these strategic property sales generated a gain on disposal of £11m. With our strategic disposals well progressed, our ongoing disposal activity is much smaller in number and 2022 HY generated a gain on disposal of £3m. This is the key driver for our overall margin (including asset sales) and surpluses falling, whilst our core margins have remained stable from the prior year.*

Commenting on the results, Robert Nettleton, Chief Executive Officer, said:

"We are pleased to report another strong set of financial results as we continue to support our customers in a challenging operating environment.

At the end of March, we committed to bringing down our backlog of repairs and we are now back to normal levels of service.

At the end of July, we experienced a malicious attempt to access our systems from outside our organisation. Cyber security risk and business continuity planning feature prominently on our risk register. The training and planning we had in place enabled us to identify the issue early to ensure there was no data breach; and allowed us to meet our obligations to our customers whilst we systematically investigated and reintegrated our technology. We maintained a 100% compliance record across all areas of health and safety. Our neighbourhood coaching service was supplemented by a dedicated customer contact line to respond to emergencies.

As we close the period, we are pleased to have operations back to business as usual. We are proud of our response to this incident, leading to customer advocacy being maintained at over 80%.

Over the summer, the regulator of social housing (RSH) completed our latest in-depth assessment re-affirmed our G1 / V1 status in September.

In the period, we developed over 500 new homes and one in five of these homes continue to be delivered in-house through Bromford Developments Limited. We continue to target delivery of c.1,200 new homes per annum as our development operations mature to a steady state.

We have responded to government on the consultation for the rent cap and have pro-actively modelled the impact of the proposed levels of cap, rising inflation and higher costs of new funding. As a fundamental component to this work, we are implementing a strategic cost review to identify efficiency savings across the business. We will do this whilst we continue to support our colleagues and without compromising delivery to our customers as we work through the challenges we face with the rising cost of living."

Paul Walsh, Chief Finance Officer, said:

"We are pleased to have maintained our strong financial performance, with our social housing revenue growing from £112m to £119m, delivered at a core social housing margin of 35%. This is under budget and prior year performance as a result of delivering our catch up repairs.

Our shared ownership margin (24%) and sales margins (18%) have outperformed budget to return levels similar to prior year. This reflects the strength of the housing market in our area of operation. Whilst we expect some slowdown in sales activity as mortgage rates continue to rise, we are well on our way to meeting our annual sales target of 220 to 240 homes, with 158 sale completions in the period. We do not land bank, and do not hold excessive levels of WIP or stock; we closed the period with only 40 unsold homes, of which 25 are now reserved.

In 2021 HY, we completed significant strategic disposal activity outside of core geography, the success of which has led to lower levels of ongoing disposals. Adjusting for the exceptional nature of this activity, our overall surplus for the period remains in line with the prior year, and budget, at £33m."

Imran Mubeen, Director of Treasury, said:

"As we continue to drive our sustainability agenda, we have adopted the sustainability reporting standard and published our first sustainability impact report '*building a sustainable future*'. We look forward to delivering our report as an annual update to set out further progress over the coming years.

We continue to benefit from significant headroom against our funder covenants and with the rising rate environment, have continued to refinance legacy debt. Our loan book is now over 95% optimised.

As we develop new iterations of the business plan, we proactively run our shadow credit analysis to identify routes to safe harbour on both ratings in the single A space. Whilst Moody's and S&P Global have both revised our ratings outlook to negative, this is only as a result of their revision of the UK sovereign outlook to negative and is in line with the sector. There are no factors specific to us which have resulted in these changes, and we look forward to meeting both agencies in December.

We will provide an annual non-deal investor update in January 2023, when we will set out the impact of any confirmed rent cap and strategic cost review on our updated business plan."

Development: housing completions and pipeline (2022 HY)

Unit Type	Housing completions 2022 HY
Social rent	216
Affordable rent	163
Shared ownership	130
Open market sales	-
Total	**509**

- BHG expects to complete **c.1,200** new homes for the fiscal year ending 31 March 2023; having completed **509** new homes in the first half of the year, of which **107** were delivered by our in house construction team.

- BHG continues in its strategic partnership with Homes England which delivers **£240m** of grant funding to build **4,000** homes by 2029.

Sales: performance and unsold stock (2022 HY)

Unit Type	Sales 2022 HY
First Tranche Shared Ownership	156
Open market sales	2
Total	**158**

- BHG has completed **158** sales in 2022 HY; generating turnover **£2m** more than budgeted. BHG expects to complete **220 - 240** sales for the fiscal year ending 31 March 2023.

- BHG holds **40** unsold homes at 30 September 2022, of which **25** are now reserved. BHG only holds **8** homes which have remained unsold for over six months.

Unaudited Financial Metrics

Statement of comprehensive income	**30-Sep-22** *Actual*	**30-Sep-22** *Budget*	**30-Sep-21** *Actual*
Turnover from social housing lettings	£119m	£120m	£112m
Turnover	£141m	£140m	£142m
Operating surplus (including asset sales)	£56m	£55m	£64m
Surplus after tax	£33m	£32m	£42m

Margins	**30-Sep-22** *Actual*	**30-Sep-22** *Budget*	**30-Sep-21** *Actual*
Operating margin[1] on social housing lettings[2]	35%	37%	36%
Overall operating margin[3] (excluding asset sales)	33%	32%	33%
Overall operating margin[3] (including asset sales)	39%	39%	45%
Operating margin on shared ownership[4] (first tranche)	24%	15%	23%
Operating margin on outright sales[5]	18%	8%	18%

Key financial ratios	**30-Sep-22** *Actual*	**30-Sep-22** *Budget*	**30-Sep-21** *Actual*
EBITDA MRI interest cover[6]	1.9x	1.8x	1.9x
Social housing interest cover[7]	1.9x	1.9x	1.8x
Asset gearing[8]	39%	39%	38%
Net debt per unit[9]	£26k	£28k	£25k

Liquidity	**30-Sep-22** *Actual*
18 month liquidity requirement[10]	£215m
Cash and undrawn facilities[11]	£530m
Liquidity ratio[12]	2.5x
Unencumbered stock	11,491 homes

Credit ratings	
Moody's	A2 (negative)
S&P	A+ (negative)

Notes:

[1]Operating surplus / Turnover

[2]General Needs, Supported housing, Affordable rent and Low cost home ownership tenures

[3]Operating margin including asset sales includes all activity; operating margin excluding asset sales removes gain or loss on disposal of assets

[4]Operating surplus on First tranche shared ownership sales / Turnover from First tranche shared ownership sales

[5]Operating surplus on outright sales / Turnover from outright sales

[6](Operating surplus + Depreciation + Amortisation – Capitalised major repairs) / Net interest paid

[7]Operating surplus on Social housing lettings / Net interest paid

[8]Net debt / Housing assets at historic cost

[9]Net debt / Total units owned and managed

[10]18 month cashflow requirement – 20% of sales income + £25m

[11]Cash and undrawn Revolving Credit Facilities (RCF)

[12]Cash and undrawn facilities / 18 month liquidity requirement

This trading update contains certain forward-looking statements about the future outlook for BHG. These have been prepared and reviewed by Bromford only and are unaudited. Forward-looking statements inherently involve a number of uncertainties and assumptions. Although the Directors believe that these statements are based upon reasonable assumptions on the publication date, any such statements should be treated with caution as outlook may be influenced by factors that could cause actual and audited outcomes and results to be materially different. Additionally, the information in this statement should not be construed as solicitation or recommendation to invest in Bromford's bonds.

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https://www.bromford.co.uk/investorrelations/