Metropolitan Funding PLC

Thames Valley Housing Association (TVHA) trading update and unaudited consolidated financial results for the six months ended 30 September 2021

TVHA, one of the UK's leading providers of affordable housing and care and support services, announces a trading update for the first six months (H1) of the financial year 2021/22.

Highlights

- Operating surplus of £70.4m (H1 2020: £72.6m) and a total surplus of £31.8m (H1 2020: £37.4m).
- Operating margin of 33.2% (31.1%) for the first six months of the year
- Revenues down 9% compared with equivalent period last year at £212m (2020: £233m), largely due to prior year bulk sale at Clapham Park to ResiCap.
- Robust arrears performance of c.4.8% (March 2021 c.5%), reflecting the extent of our support to customers through the pandemic.
- £750m (March 2021: £790m) of available liquidity.
- Strong sales with 229 (245) units completed in the first half. We have sold down stock and are well positioned to face any future challenges in the market.
- Total fire safety spend £8.1m (H1 2020 £5.7m).
- S&P confirmed the Group rating as A- (Stable) in December 2020 and a second rating, A (Stable) was awarded by Fitch in July 2021.
- Metropolitan Housing Trust (MHT) completed a £250m Sustainable bond issue at a coupon of 1.875% (Yield 1.99%) as part of a £2.0bn EMTN programme, supported by Ritterwald accreditation and a SPO from imug.
- 391 new homes completed (H1 2020: 302) and on track to complete more than 820 new homes in the full year.
- Selected as a Strategic Partner by Homes England and the GLA as part of the new Affordable Homes Programme 2021-2026, securing £250m of grant funding for more than 2,500 homes.
- A proposed new Joint Venture with Countryside for the regeneration of Clapham Park, south London, was announced on 5 October 2021. The Venture aims to deliver nearly 2,500 homes over the next 12 years alongside a raft of public realm, landscaping and infrastructure upgrades and community investment initiatives.

Thames Valley Housing Association (TVHA) Consolidated Results

Geeta Nanda, Chief Executive, commented:

"The final six months of the 2020/21 financial year have seen MTVH start to move beyond the pandemic. We do so in a robust financial position, underscored by both a healthy operating surplus and a strong level of liquidity. Our position has been bolstered by the establishment of a £2.0bn EMTN programme, as the precursor to a £250m bond issue in July 2021. Our financial strength has been highlighted by S&P which confirmed an A- (Stable) rating in December 2020, while a second rating, A (Stable) was awarded by Fitch in July 2021.

All our operations and customer services have been fully restored to pre-pandemic levels, however, we are acutely aware that many customers are facing financial and other pressures due to a combination of factors including the removal of the Universal Credit top up, the end of the government's furlough scheme and the increasing cost of living. We remain thoroughly committed to their wellbeing and ensuring that their needs continue to be met. It is therefore particularly gratifying that rent arrears have decreased during this half-year period, to c.4.8%, which is testament to the support offered to customers amidst the recovery from the Covid-19 pandemic. Equally, there have been notable successes across our frontline services. For example, despite the complexities of home visits during the pandemic, our home repairs service maintained excellent service and in fact complaints reduced significantly.

We have also revamped much of our online and digital offering to customers, to offer a more direct and effective service. The recent launch of our new corporate website is the first phase of bringing together our digital assets and creating a single customer experience. Meanwhile, our new rent collection software, Powercurve, notifies customers of arrears much earlier, making it easier to support customers during a period of financial hardship.

Building safety remains a key priority for us as an organisation and for our customers. We are keenly monitoring progress of the Building Safety Bill, while ensuring that our Safer Buildings programme continues to make good progress. We have recorded a total spend of £8.1m on fire safety works during the period.

As the UK looks to meet zero-carbon targets, we continue to take significant strides towards greener and more sustainable homes. 3,134 homes have benefitted from our wall cavity insulation programme. The work completed is equivalent to £351,000 saved in total bills and 1,419 annual tonnes of carbon saved. MTVH was Highly Commended in an award for this work. In further recognition of our efforts in this area, we received Sustainable Housing Certification from Ritterwald.

Our development plans continue to flourish. 391 new homes were completed during the second half of the financial year, placing us on track to complete more than 820 new homes in the full year. Significant progress has been made at our flagship regeneration scheme at Clapham Park, South London. Countryside was selected as our Joint Venture partner and will help deliver nearly 2,500 homes over the next 12 years, plus a range of infrastructure upgrades, community and environmental spaces, enhancing quality of life for the entire community.

Looking ahead, we have enjoyed tremendous success in securing grant funding for our future programme. MTVH was selected as a Strategic Partner by Homes England, as part of the new Affordable Homes Programme 2021-2026. In total, we have secured almost a quarter of a billion pounds across Homes England and the GLA to deliver 2,500 new affordable homes. We look forward to developing these homes, boosting surrounding communities and giving more people the opportunity to live well."

Board Membership Changes

The Board of MTVH is regularly refreshed in line with the NHF Rules. Grania Long and Mike Dunn both retire by rotation at the end of December 2021. Lesley-Anne Alexander CBE also retired on October 4 2021.

The Board is pleased to announce the appointment of Denis Hone CBE and Trevor Moross from 1 January 2022.

Results overview – Thames Valley Housing Group

H1 2020 comparatives include the initial impact of the Covid lockdown and therefore a more realistic comparison is to H1 2019 results (RNS released 27 October 2091 https://www.mtvh.co.uk/?attachment_id=2437). Key H1 2019 highlights are Operating Surplus £68.4m, Operating margin 32.9%, £128m spent on new property developments, £29m on capitalised repairs and Overheads £89m. MTVH had £475m of available liquidity at 30 September 2019.

Turnover from core Customer Services operations (ie excluding home sales) was up 3% period on period as the business benefited from another year of CPI +1% rent settlement. Increased fees and other income offset the slight drop-in care and support income. Revenues from home sales are down 41% largely due to the prior period including the completion of 73 bulk sale units (worth £32m) at Clapham Park to ResiCap. We sold 229 units (including 206 first tranche sales) in the first six months of the year, compared to 245 (including 140 first tranche sales) in the same period last year. In general, prices for homes, particularly Shared Ownership, remain in line with our expectations, with a strong pipeline. Average H1 sales margin was 17.3% (H1 2020: 12.4%).

Operating surplus (including profit from disposals) is £2.1m lower than the same period last year at £70.4m (2020: £72.6m), with higher profits on disposals of £12.9m buoyed by strong staircasing and redemption activity. Operating costs are higher at £99m (2020 £85m), as we invest in fire safety and our existing stock, and operational improvements to front line customer focused activity, supported by increased headcount. The prior period also witnessed lower operating costs due to a temporary recruitment freeze, a minimum viable service provision to the end of July 2020. Overheads were £2.6m higher than last year as a result of lifting the recruitment freeze and the return to offices.

Operating margin for the first six months is 2.1 ppts higher at 33.2% (2020: 31.1%), due to the accretive effect of higher staircasing and redemption volumes.

Cashflow from operations through the first six months was £33.9m lower than the corresponding period last year due to resumption of normal activity levels and the impact of the bulk sale to ResiCap.
Investment in new development projects totalled £83.7m (2020: £86.5m) in the period to 30 September and £23.8m (2020: £7m) was spent on capitalised repairs to the existing estate.

Underlying net interest costs (excluding mark to market movements on derivatives) are £0.3m higher than the same period last year. At 30 September 2021, we had £750m (2020: £776m) of available liquidity (both cash and committed facilities) and total debt of £1,923m (2020: £1,908m).
The organisation completed 391 homes during the first half of the year (2020: 320) and remains on track to deliver more than 820 new homes for the full year.

Thames Valley Housing Association's Standard & Poor's credit rating was confirmed as A- (Stable outlook) in December 2020 and a second rating, A (Stable) was awarded by Fitch Ratings in July 2021.

Outlook

This outlook statement is subject to the uncertainty/unforeseen business interruption that might be caused by the continuing impact of the pandemic and government measures in terms of travel and social distancing should the number of Covid cases increase and the NHS be seen to be overwhelmed. The economic environment remains challenging, with rising inflation, supply chain and labour shortages, and concerns over energy supplies.

The core housing business continues to perform well despite the lingering impact of Covid-19. Total revenue including home sales is expected to be around 10% lower than last year due to the prior year bulk sale. Underlying operating surplus is in line with expectations.

Fire safety remains a risk to MTVH and the wider sector given the number of homes in ownership and management. The longer term impact of remediation obligations has led to a reduction in our capacity to develop new homes, particularly homes for sale.

We are continuing with our Safer Buildings programme driven by our desire to put customer safety first. We have completed the review of blocks over 18m and commenced a risk-based approach to the review of blocks under 18m, to determine the extent of any remediation requirements. We have access to NHBC and the government's Safer Buildings Fund where we meet qualification requirements, however we expect that developers/warranty providers will pick up the costs of remediation for newer buildings.

Liquidity management remains a key focus to mitigate the impact of wider economic shocks.

The 2021 Spending Review contained a number of key housing announcements including the £800m Social Housing Decarbonisation Fund, the Residential Property Developers Tax to support the £5.0bn fund to remove unsafe cladding from the highest risk buildings. In addition, there will be £639m pa fund for rough sleeping and homelessness by 2024. These announcements are all welcomed in supporting the sector strategies of reducing homelessness and the delivery of new homes.

MTVH signed up as an early adopter of the Sustainability Reporting Standard for Social Housing as part of its wider Sustainability Strategy and will report for the first time this year. Ritterwald awarded MTVH the Sustainable Housing Certification and the EMTN was issued under a Sustainable Financing Framework, both of which were supported by a Second Party Opinion (SPO) from imug rating.

TVHA will report results for the year ended 31 March 2021, trading as Metropolitan Thames Valley, in summer 2022.

Thames Valley Housing Association (TVHA) Consolidated Results

Consolidated financials

Statement of comprehensive income

£000's	**FY20/21 Audited**	**H1 30/09/2021 Unaudited**	**H1 30/09/2020 Unaudited**	**PoP %**
Rent and service charge income	301,487	155,415	151,233	2.8
Care and support income	16,400	8,059	8,171	-1.4
Outright/first tranche sales	107,947	37,755	64,280	-41.3
Fees and other income	19,933	10,782	9,671	11.5
Total turnover	**445,767**	**212,011**	**233,355**	**-9.1**
Outright/first tranche cost of sales	-96,111	-31,215	-56,287	-44.5
Operating costs	-179,252	-99,477	-84,770	17.3
Depreciation	-35,520	-18,752	-17,221	8.9
Overheads	-26,776	-14,559	-12,001	21.3
Profits on disposals	29,588	22,405	9,474	136.5
Non recurring (merger costs)		-	-	
Operating surplus	**137,696**	**70,413**	**72,550**	**-2.9**
Net interest	-75,022	-38,329	-38,058	0.7
Fair value movements and other instrument revaluations	-1,341	-331	2,911	-111.4
Exceptional items	-707	-	-	
Profit before tax	**60,626**	**31,753**	**37,403**	**-15.1**

Sales margin for the first six months 17.3% (2020: 12.4%)
Operating margin for the first six months 33.2% (2020*:* 31.1%)

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Statement of financial position

£000's	**FY20/21 Audited**	**H1 30/09/2021 Unaudited**	**H1 30/09/2020 Unaudited**	**PoP %**
Tangible fixed assets	4,628,088	4,681,132	4,587,252	2.0
Homebuy and investments	261,997	259,672	268,199	-3.2
Current assets	346,143	281,035	292,362	-3.9
Creditors – amounts falling due within one year	-615,086	-343,902	-351,171	-2.1
Total assets less current liabilities	**4,621,142**	**4,877,937**	**4,796,642**	**1.7**
Creditors due after more than one year	2,066,702	2,291,932	2,277,211	0.6
Provisions and pension obligations	75,489	73,196	28,877	153.5
Reserves	2,478,951	2,512,809	2,490,554	0.9
	4,621,142	**4,877,937**	**4,796,642**	**1.7**

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Cashflow

£000's	FY20/21 Audited	H1 30/09/2021 Unaudited	H1 30/09/2020 Unaudited
Net cashflow from operations	125,451	44,375	61,813
Sales proceeds	110,524	41,458	60,713
Development expenditure	-158,853	-83,666	-86,520
Total net cashflow from operations	**77,122**	**2,167**	**36,006**
Disposal proceeds	72,192	58,141	24,796
Major repairs	-24,193	-23,846	-7,049
Other	-12,031	647	-5,911
Net drawdown (repayment) of debt	23,275	-44,158	-27,906
Net interest/fees	-91,200	-33,620	-48,296
Net cash movement in period	**45,165**	**-40,670**	**-28,361**
Opening cash	68,307	113,473	68,307
Restricted cash	42,811	45,210	41,052
Closing cash	**156,283**	**118,013**	**80,998**

Enquiries

Please contact Donald McKenzie, Director of Corporate Finance, on 0203-535-4434/ 07738-714126 or at donald.mckenzie@mtvh.co.uk

This information for investors is also available on our website: https://www.mtvh.co.uk/about-us/investors/

Notes

1) Operating margin is operating surplus/turnover
2) Thames Valley Housing Association (TVHA) is the parent of the group trading under the brand of Metropolitan Thames Valley (MTVH). Metropolitan Housing Trust (MHT) is a wholly owned subsidiary of TVHA and MHT owns 100% of the shares of Metropolitan Funding Plc.

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The unaudited results announcement should not be construed as an offer or solicitation to buy or sell any securities, or any interest in any such securities, and nothing herein should be construed as a recommendation or advice to invest in any such securities.

This unaudited results announcement contains certain ‘forward-looking’ statements reflecting, among other things, our current views on markets, activities and prospects. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results to differ materially from those expressed or implied by those statements. Actual outcomes may differ materially. Such statements are a correct reflection of our views only on the publication date and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Financial results quoted are unaudited. We do not undertake to update or revise such public statements as our expectations change in response to events. Accordingly undue reliance should not be placed on forward looking statements.