Metropolitan Funding PLC

Thames Valley Housing Association (TVHA) announces unaudited consolidated results for the year ended 31 March 2023.

The TVHA group (trading as Metropolitan Thames Valley or MTVH), one of the UK's leading providers of affordable housing and care and support services, announces unaudited consolidated results for the year ended 31 March 2023.

Headlines

- Underlying Operating Surplus before non-recurring (building safety-related) expenses down 15% to £122m (2022: £143m).
- Reported Operating Surplus is £109m (2022: £122m). Operating margin 28% (2022:30%)
- Total Revenue £388m (2022: £414m) due to reduced market sale revenues.
- Non-sales income 88% of total turnover (2022: 85%).
- 657 new homes completed (2022: 712 homes) of which 493 (2022: 326) were affordable.
- £869m of available cash and facilities.
- Net debt to EBITDA 11.6x (2022: 11.4x).
- S&P credit rating A- (negative outlook) and A Stable from Fitch Rating.
- RSH grading G1/V2.
- No changes to the Board.
- Kush Rawal appointed Executive Director of Customer Services.

Geeta Nanda, Chief Executive of Metropolitan Thames Valley, commented:

"This year, we have maintained our robust financial status. The increased share of non-sales revenue reflects the Board's de-risking strategy and supports the public credit rating. Overall, Development-related activities, including the SO Resi brand and asset sales have generated a surplus of £45m and we have less than £5m unreserved stock over 90 days at 31 March 2023. MTVH's aftersales business has continued to deliver strong results posting a £38m surplus. Despite the high inflationary environment we have been able to control costs, with underlying Opex (excluding energy inflation impact and fire safety) up only 6% to £278m.

The business retains a strong liquidity position and generates significant amounts of cash from operating activities. We are pleased to have retained an A rating from Fitch Ratings and an A- rating from Standard & Poor's (S&P) Group (noting the move to negative outlook as a result of the sovereign rating down grade in Autumn 2022).

We have made further progress this year towards fulfilling the goals of our five-year strategy and serving people better every day. We spent £138m on maintaining existing homes and our in-house contractor, ‘Metworks’, continues to perform well. Meanwhile, we continue to invest in new homes, with £202m spent on acquiring land and building homes. As such, we are strongly placed to continue delivering good homes and quality homes services to residents, enabling more people to live well.

However, with a funding squeeze across the sector, we have had fewer resources at our disposal and built fewer homes than last year. The challenging economic and financial environment has impacted not only residents, but the entire sector including our organisation. Rising inflation has seen an increase in a variety of costs, including construction, while significant expenses such as building safety costs have reduced resources. At the same time, growing interest rates have made borrowing more costly. These challenges have contributed to a slightly reduced surplus this year.

The external environment has required us to be increasingly innovative. We have established a joint venture partnership with Legal & General Affordable Homes, which will harness the expertise of a major financial institution to deliver over 2,500 affordable homes over the next seven years in London and the South-East. Meanwhile, we have also implemented creative solutions to provide the services residents want and need. For example, we established multiple community kitchens in response to the acute cost of living crisis being experienced by so many, as well as providing comfortable ‘Warm spaces’ allowing people to congregate offsetting high energy costs. To this end, we have also delivered £3m in financial gains to residents who need help, a significant increase on last year.”

Results overview

Revenue from Housing operations (including supported housing and market rent) was £358m (2022: £347m) with non-sales income representing 88% (2022: 85%) of turnover. Sales revenue was £30m (2022: £59m) with an average sales margin of 11% (2022: 16%). We built 657 new homes (2022: 712 new homes) in the year, investing £202m (2022: £161m) in new housing. Our Social Housing operating margin (excluding fire safety costs) was 28% (2022: 29%) slightly lower as a result of cost inflation, particularly with regard to energy, where we expect some recovery through service charges in future periods. Operating margin was 28% (2022: 30%) with dilutive sales margins offset by accretive post-sales margins.

Liquidity remains strong at £869m (2022: £774m). Drawn borrowings are £1.9bn (2022: £2.0bn).

Our partnership integration activities are complete, and we continue to deliver on the wider VFM savings that are embedded in our Corporate Plan.

Operations review - Customer Services (including Care and Support)

Social housing letting revenue was £321m (2022: £309m), with underlying rental income up 3.9% in line with the inflation settlement. We invested £30m (2022: £41m) in property improvements, while our overall spend on fire safety was £13m (2022: £13m net of £8m recovery). Our total spend on the existing estate was £138m (2022: £138m) prioritising property compliance, condition and customer satisfaction issues. Social rent arrears closed the year at 5.2% (2022: 5.1%). We continue to proactively contact vulnerable customers offering support and financial advice, as well as assisting new claimants on to Universal Credit, to limit upward pressure on arrears.

Operations review - New homes development and sales

First tranche revenues were £26m (2022; £42m). We sold 214 First Tranche units at an average 10% surplus margin (2022: 339 units at 12% margin). In addition we sold 17 outright sale units at an average underlying margin of 13% (2022: 38 units at 25%). As at 31 March 2023, MTVH held 48 unreserved completed units (2022: 168).

During the year we completed 427 staircasing transactions which delivered £15.7m of operating surplus at a 33% margin (2022: £20.3m at 36% from 455 completions). In addition, we completed 179 Homebuy loan redemption transactions, achieving £6.2m of operating surplus at a 44% margin (2022: £8.1m at a 42% margin from 237 completions). Surplus derived from Right to Buy disposals decreased by £0.7m to £2.1m and surplus from asset sales increasing to £14.2m (2022: £6.5m).

The future development pipeline remains strong at 3,858 units (2022: 5,490 units) which reflects the Board's decision to reduce the newbuild programme, particularly the market sale exposure in future years. During the year we completed the Clapham Park Joint Venture with the appointment of Countryside and have now started on site with the first phases.

Debt and facilities

Net debt (excluding derivative financial instruments) at 31 March 2023 is £1.7bn (2022: £1.8bn) following another year of good cash generation boosted by sales market and lower than expected development spend. The Net Cash Inflow for the year from Operating and Investing activities was £110m (2022 £141m).

Available liquidity (cash and committed secured undrawn facilities) is significantly higher at £869m (2022: £774m) as a result of the delivery of the asset disposals and the early receipt of cash grants. Gearing (on the Historic Cost basis) reduced to 36% (2022: 38%). Interest cover was around 1.55 times (2022: 1.71 times) on an EBITDA- MRI basis.

The Standard & Poor's credit rating was confirmed in December 2022 at A- (negative outlook) following the UK sovereign downgrade. Fitch Ratings maintained the A Stable rating from the setup of the EMTN programme in 2021.

The Board expects to announce full audited consolidated results for the year ended 31 March 2023 later in the summer.

Metropolitan Thames Valley Consolidated Results

	2023	2022	%
	£m	**£m**	
Revenue	387.6	414.3	-6%
Cost of sales	-26.1	-48.3	-46%
Operating costs	-286.4	-262.4	9%
Surplus from disposal of fixed assets and investments	38.2	37.5	2%
Share of Surplus from Joint Ventures	8.4	2.3	265%
Underlying Operating Surplus	**121.7**	**143.4**	**-15%**
Non-recurring operating costs	-12.6	-21.3	-40%
Operating Surplus	**109.1**	**122.1**	**-11%**
Net interest payable	-79.0	-74.9	-5%
Surplus on investment disposal		-1.6	-100%
Fair value adjustments	3.3	-5.3	-162%
Taxation		0.4	-100%
Total Surplus	**33.4**	**40.7**	**-18%**
Actuarial gain in respect of pension schemes	23.0	21.2	8%
Change in fair value of hedged financial instruments	23.9	12.1	98%
Total comprehensive income for the year	**80.3**	**74.0**	**9%**
Housing properties	4,728.5	4,617.9	2%
Investment properties and other fixed assets	100.9	102.2	-1%
Investments	188.4	204.5	-8%
Net current assets	-39.1	-17.1	-129%
Total Assets less current liabilities	**4,978.7**	**4,907.5**	**1%**
Amounts due to be repaid in more than one year	2,320.5	2,305.1	1%
Pension liabilities	24.9	49.5	-50%
Capital and reserves	2,633.3	2,552.9	3%
Total non-current liabilities and reserves	**4,978.7**	**4,907.5**	**1%**

Consolidated Statement of Cashflows for the year ended 31 March 2023 (unaudited)			
	2023	**2022**	**%**
	£m	**£m**	
Net cash from Operating Activities	245.7	254.4	-3%
Net cash from Investing Activities	-135.9	-113.9	-19%
Net cash used in Financing Activities	-67.9	-145.2	53%
Net movement in cash and cash equivalents	**41.9**	**-4.7**	**NA**
Cash and cash equivalents carried forward	**193.5**	**151.6**	**28%**

Sales revenue and margins (unaudited)	2023		2022	
	Revenue	Margin	Revenue	Margin
First Tranche	26.0	10%	42.1	12%
Outright Sales	4.4	13%	17.1	24%
Staircasing	48.0	33%	55.8	36%
RTB / RTA	3.8	54%	6.0	46%
Redemptions	14.1	44%	19.1	42%
Fixed Asset Sales	45.4	31%	24.3	27%

Outlook

The UK economy remains uncertain, with high inflation, rising interest rates and volatile energy costs all affecting spending and investment decisions. Inflation and Interest rates remain above BoE targets, and we are affected by the decisions of policy-makers. Our rent increase for FY24 has been capped at 7%, well below our inflation expectations, and this constrains margins. If rent increases for FY25 are capped below inflation again, this will have a further adverse effect. Similarly, the rising cost of debt will put increasing pressure on Interest Cover ratios as our fixed rate contracts expire, further reducing the capacity to deliver on our corporate objectives.

Whilst wholesale energy costs have fallen back, embedded inflation is still pushing up the cost base and salary expectations. Construction and maintenance costs are also rising relatively quickly, although we have fixed price contract mitigation for development schemes in flight.

MTVH announced in April, that as a result of the changes to the Defective Premises Act, it will not be recharging Leaseholders for fire remediation costs. The current MTVH collaborative approach to remediation has resulted in most contractors acknowledging construction failures and agreeing to remediate at their own expense or otherwise to accept the major responsibility for the costs. All non-recoverable costs including for Leaseholders, will be a charge to MTVH. In response to this rising cost pressure, which is being felt across the sector, the Board has made the decision to reduce its development programme, and in particular reducing future exposure to outright sales risk.

Enquiries

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

Notes

- Operating margin is operating surplus divided by turnover
- Net debt is borrowings (excluding derivatives) less cash and cash deposits
- Gearing is net borrowings divided by net housing properties at cost
- Interest cover is earnings before interest, tax and depreciation/amortisation less capitalised major repairs, divided by net interest costs

- Prior year comparative figures are the unadjusted aggregate of pre-partnership entity reported results

Disclaimer

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