Metropolitan Funding PLC

Metropolitan Housing Trust (MHT) trading update and unaudited financial results for the six months ended 30 September 2018

MHT, one of the UK’s leading providers of affordable housing and care and support services, announces a trading update for the first six months of the financial year 2018/19.

Highlights

- Announcement of the Partnership with Thames Valley Housing
- S&P refreshed credit rating for Partnership confirmed as A- (Stable)
- 181 new homes completed (2017: 261) and on track to complete more than 750 new homes in the full year
- Clapham Park regeneration – Lambeth Council passed a resolution in March 2018 to grant detailed planning consent, subject to a section 106 agreement, for 2,535 new homes
- Revenues up 1% compared with previous year at £143m (2017: £141m)
- Despite the more difficult housing market and our need to invest in our current stock we have achieved an operating surplus of £50m (2017: £56m) and a total surplus of £28.4m (2017: £34.4m)
- Nearly £300m of available liquidity
- Residents in the Westhorpe Gardens and Mills Grove estate in Barnet have voted overwhelmingly in favour of our proposals to transform their estate, following the introduction of new consultation rules by the Mayor of London

Geeta Nanda commented:

“This is our last financial report as Metropolitan Housing Trust. On 8 October 2018 we completed our partnership with Thames Valley Housing and will be reporting the enlarged Thames Valley Housing group in the future, trading as Metropolitan Thames Valley. As a result of the partnership and the related lender refinancing, we have the financial strength and resilience to deliver more new homes while, at the same time, providing better services and safer homes to customers. This increased strength is important as the market for new homes has plateaued and we prepare for uncertain Brexit scenarios. The new Board is excited by the opportunities that are presented by the Partnership and is confident in our ability to deliver on our strategic objectives.

Results overview – Metropolitan Housing Trust Group only

Turnover from housing services rose by 1%, driven by higher volumes. Sales revenues are down 8%. We sold 122 (including 90 first tranche sales) units in the first six months of the year, compared to 165 (including 118 first tranche sales) last year. Demand for homes under the Help to Buy threshold remains strong although sales rates are slightly slower. Sales above those price points continue to be characterised by slower sales rates and higher discounts.

Operating surplus (which now includes profits from disposals) is £6.7m lower than last year at £50.0m (2017: £56.7m), driven by a £1.1m lower sales margin, £1.3m lower profits on disposals, £1.2m of one-off merger costs and £7.8m of additional property investment. These costs were offset by the positive movement in social housing revenues and related fees, £4.1m, and lower total overheads, £0.6m. Operating margin as a result is 5.1% lower at 35.0%.

Operating cashflow remains strong, with more than £79m (2017: £146m) invested in new development projects in the period to 30 September. Underlying net interest costs (excluding mark to market movements in derivatives) are £0.3m lower than last year.

The organisation completed 181 homes during the first half of 2017/18 (2017: 261) and remains on track to deliver (MHT only) more than 750 (2016: 650) new homes for the full year.

Unaudited financials

Statement of comprehensive income

£000's 6 months ended:	**30-Sep-18**	**30-Sep-17**	**YoY %**
Rent and service charge income	102,466	101,751	1%
Care and support income	8,177	8,324	-2%
Outright/first tranche sales	23,902	26,032	-8%
Fees and other income	8,400	5,044	67%
Total turnover	**142,945**	**141,151**	**1%**
Outright/first tranche cost of sales	-20,417	-21,624	-6%
Operating costs	-55,790	-49,670	12%
Depreciation	-9,982	-9,437	6%
Overheads	-15,651	-14,838	5%
Profits on disposals	9,799	11,086	-12%
Non-recurring partnership costs	-912	-	100%
Operating profit (after disposals)	**49,992**	**56,668**	**-12%**
Net interest	-23,336	-23,662	-1%
Fair value movements and other instrument revaluations	1,773	1,440	23%
Profit before tax	**28,429**	**34,446**	**-17%**

Sales margin *14.6%* (2017:16.9%)
Operating margin *35.0% (35.6% excluding non-recurring expenses)* (2017:40.1%)

Metropolitan Housing Trust ("MHT") Consolidated Results

Statement of financial position

£000's 6 months ended:	30-Sep-18	30-Sep-17	YoY %
Tangible fixed assets	3,043,503	3,002,472	1%
Homebuy and investments	157,369	160,031	-2%
Current assets	284,539	197,947	44%
Creditors – amounts falling due within one year	-186,981	-115,848	61%
Total assets less current liabilities	**3,298,430**	**3,244,602**	**2%**
Creditors due after more than one year	1,526,927	1,528,099	0%
Provisions and pension obligations	28,395	34,847	-19%
Reserves	1,743,108	1,681,656	4%
Total funding	**3,298,430**	**3,244,602**	**2%**

Cashflow

£000's 6 months ended:	30-Sep-18	30-Sep-17
Net cashflow from operations	36,741	37,888
Sales proceeds	23,072	26,454
Dividends	-	-
Development expenditure	-79,154	-145,603
Total net cashflow from operations	**-19,341**	**-81,261**
Disposal proceeds	22,921	31,624
Major repairs	-10,757	-17,549
Other	356	-8,213
Net drawdown (repayment) of debt	43,479	68,025
Net interest/fees	-24,649	-25,444
Net cash movement in period	**12,009**	**-32,818**
Opening cash	62,364	88,301
Restricted cash	28,360	25,790
Closing cash	**102,733**	**81,273**

At 30 September 2018 we had c. £300m of available liquidity and total debt of £1,192m (2017: £1,125m). Metropolitan's Standard & Poor's credit rating was revised to A- (Stable outlook) during the summer.

Outlook

The Group will report combined results for the year ended 31/3/19 as Thames Valley Housing Association, trading as Metropolitan Thames Valley.

The confirmation of the revised rent-setting policy from 2020 (CPI+1%) and the reversal of the plan to cap housing benefit at local housing allowance (LHA) levels has provided greater certainty for the sector, albeit this is offset by concerns over Right to Buy and Universal Credit. The core housing business continues to perform well but with some lower sales margins (as the market for new homes has plateaued). As we prepare for different Brexit scenarios, these lower margins when taken together with increased fire safety costs have reduced management's expectations of the final outturn. Liquidity remains strong.

Enquiries

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

This information for investors is also available on our website: https://www.metropolitan.org.uk/about-us/investing-in-metropolitan/

Notes

Operating margin is operating surplus/turnover

Disclaimer

The information in this preliminary announcement of interim results has been prepared by the Metropolitan Housing Trust group and is for information purposes only.

The results announcement should not be construed as an offer or solicitation to buy or sell any securities issued by the Parent, the Issuer or any other member of the Group, 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 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 and audited 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.