

Sovereign Housing Association's Quarterly Performance Update

Quarter 1: 01 April to 30 June 2019

The following report represents Sovereign Housing Association's first quarterly update for investors, covering our ongoing financial, development and operational performance as well as the latest unaudited financials.

About Sovereign

Sovereign is one of the largest housing associations in the country, owning and managing around 58,000 homes across the south. We are committed to maintaining good quality homes and services and investing in creating great communities.

Sovereign is one of the leading providers of new affordable homes, aiming to deliver 1,900 new homes a year through section 106 opportunities and direct delivery through land-led developments and regeneration schemes.

While not-for-profit, Sovereign is a major business. The organisation has an annual turnover of £402m, invested £238m last year in new development and its asset base would be worth £11bn on the open market. Investment is secured from operating surpluses and from government through loans and capital grant, supported by long-term debt and revolving credit facilities from a group of core relationship banks and investors.

Sovereign's ratings are among the strongest in the affordable housing sector.

Ratings	2020 Q1	2019 Q1	Outlook	Change
Regulator of Social Housing	G1/V1	G1/V1		-
S&P	A+		Negative	
Moody's	A2		Stable	

FY 2019/2020 Q1 Trading Update

Highlights

- Sovereign completed 482 residential units in the first quarter of 2020 (2019 Q1: 411)
- There are 58,163 units in management (2019: 56,934)
- Turnover for the quarter was £100.5m (2019 Q1: £97.4m)
- Operating surplus for the quarter was £38.9m (2019 Q1: £42.2m)
- Net margin on all sales was 24.6% (2019 Q1: 22.1%)
- The surplus for the quarter was £25.6m (2019 Q1: £27.4m)
- A £229m joint venture deal with Crest Nicholson to deliver 920 new homes in Bristol

Commenting on the results, Barry Nethercott, Sovereign's Chief Financial Officer, said:

"Sovereign has delivered an excellent operational and financial performance over the first quarter of 2019/20, building much needed homes and investing to support our residents and their communities.

"As well as creating an exciting £229m joint venture with Crest in Bristol, we continue to take great strides in our ambitious plans to build 1,900 homes a year, taking greater control through land-led opportunities.

"To help deliver our development aspirations, we agreed a ground-breaking three-year £250m unsecured revolving credit facility, syndicated across five lenders. It will provide the flexibility and liquidity we need to decide on the best time to approach the debt capital markets to raise long-term funding."

Note: Figures quoted in the update are based on management accounts which are subject to review and further adjustments, for example in the areas of pensions, investment property valuation and taxation.

Financial update

A new three-year (+1+1 extensions), £250m unsecured revolving credit facility syndicated across five lenders has helped increase liquidity to £572m by the end of the quarter. This provides Sovereign with funding to support our net cash flow for the next two years. We have also successfully restructured an existing £50m facility with NatWest.

Together, these will provide significant additional liquidity and covenant headroom to support our ambitious plans to take more control through land-led developments and funding our development programme. This deal will also give us financial security through a potentially uncertain political and economic period, providing both flexibility and liquidity.

We have further strengthened our treasury expertise with the appointment of Graeme Gilbert as Treasury Director from 1 July. Graeme was previously Deputy Group Treasurer at Marks and Spencer.

Development update

Sovereign continues to deliver strong development and sales performance.

During quarter 1, Sovereign completed the build phase of 482 new homes; this is 71 homes (17.3%) more than the 411 homes delivered in the same quarter last year. We invested £96m developing new homes, that's £34m (55.1%) more than the same quarter 1 last year. We continue to make good progress towards securing a pipeline programme that will deliver 1,900 new homes a year, including entering into a £229m joint venture deal with Crest Nicholson to deliver 920 new homes within the next phase of a 2,700 home residential community at Harry Stoke, Bristol. The homes at this site are set to be delivered over the next seven years, with infrastructure works due to start this summer. Crest Nicholson and Sovereign are long-standing partners, with successful previous developments including Centenary Quay in Southampton, Tadpole Garden Village in Swindon and Harbourside in Bristol.

Actual sales prices achieved exceeded target. We completed 139 first tranche and open market sales, generating £3m of profit. Our latest sales forecast predicts higher than target sales for the full year, generating £21m profit for the Group, £4m more than budget. Consequently, quarter end operating surplus was 38.7%, marginally ahead of our initial budget.

Housing properties ended the quarter £22m ahead of target at £3,741m due mainly to three significant schemes moving ahead of budget phasing.

More widely, we are significantly shifting our development strategy to a more land led programme, aiming for 50% in five years' time. We will in future report on progress towards this.

Operational update

Sovereign operates a dedicated customer contact centre, which received 160,000 contacts during quarter one, the majority being by telephone. Call quality was rated higher than target at 91% (target 85%) and the number of residents moving to online contact via our portal is higher than ever with over 1,200 registrations this quarter.

Tenancy management performed strongly. Arrears, re-let times and voids are all better than target, and the impact of Universal Credit is less than anticipated. Re-lets are taking 12 days on average against a target of 15 and voids are tracking at 0.5% against a target of 0.7%. Universal Credit arrears are 5.18% (target 5.91%) and non-Universal Credit arrears are 2.18% (target 2.87%).

The Group carried out 50,000 responsive repairs, a third more than anticipated for the quarter. Of those, 93% of repairs were completed on time, slightly lower than the 94% target.

During quarter one £4m capital was invested in existing stock, replacing 1,216 individual components in our homes.

Compliance and assurance performance across our six key health and safety themes of gas safety, electrical safety, fire safety, legionella management, asbestos safety and lift safety is strong. We've made sure that 100% of fire risk assessments have been completed on time.

The Government consultation 'Building a Safer Future' sets out a new regulatory system for taller buildings. It is clear that the new regulatory framework will require a very different approach from landlords and we are preparing our response to the consultation. Meanwhile we are already investing in improved health and safety works in some of our buildings based on good practice guidance.

Sovereign has pledged £3m towards community investment per annum and has appointed a Communities Director to ensure that these funds make a significant contribution to improving the lives of our residents.

Unaudited financials

Statement of Comprehensive Income	2020 Q1 (£m)	2019 Q1 (£m)	Change
Turnover	100.5	97.4	3.2%
Operating costs and cost of sales	(63.6)	(56.5)	(12.5%)
Share of profits from joint ventures	0.3	0.0	-
Surplus on disposal of fixed assets and investments	1.7	1.4	26.0%
Operating Surplus	38.9	42.2	(7.8%)
Interest	(13.3)	(14.9)	10.4%
Surplus for the period	25.6	27.4	(6.4%)

Statement of Financial Position	2020 Q1 (£m)	2019 Q1 (£m)	Change
Housing properties	3,741	3,498	6.9%
Other tangible fixed assets	42	40	5%
Investment	154	137	12.4%
Net current assets	34	22	54.5%
Total assets less current liabilities	3,971	3,697	7.4%
Loans due > one year	1,732	1,565	10.7%
Unamortised grant liability	291	288	1.0%
Other long term liabilities	120	92	30.3%
Capital and reserves	1,827	1,751	4.34%
Total non-current liabilities and reserves	3,971	3,697	7.4%

Financial Metrics	2020 Q1	2019 Q1	Change
Operating margin ¹	38.7%	43.4%	(10.7%)
EBITDA MRI % ²	42.2%	48.6%	(13.3%)
Leverage ³	42.9%	41.7%	3.0%
Net debt per unit in management	£29,780	£27,490	8.3%

ENDS

¹ Operating surplus / turnover

² (Operating surplus + depreciation + amortisation + impairment + capitalised major repairs) / (turnover – grant amortisation)

³ Net debt (excluding derivative financial liabilities) / total assets less current liabilities

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