

Sovereign Network Group's Quarterly Performance Update covering Q3 financial year 2023/24

Sovereign Housing Association trading as Sovereign Network Group (SNG)

Sovereign Network Group is the sixth largest housing association in the UK in terms of unit size with over 84,000 homes, with a core geographical focus in the South of England and London. SNG continues to be one of the largest developers of social tenure developments with an ambition to develop 25,000 homes over the next 10 years.

Quarter 3 Performance Update - period to 31 December 2023

Sovereign Network Group's underlying financial performance continues to see growth in surplus vs prior year excluding the impact of one-off activities or accounting adjustments, the Q3 FY23 turnover outperformed the same quarter in FY24 due to a one-off land sale of £15.9m.

Q3 FY24 turnover has benefited from 72 additional sales and 30 additional handovers over Q2 FY24, while operating and retained surplus have been impacted in Q3 FY24 by an impairment recognised against the Merrick scheme where the contractor fell into administration.

The wider development programme has continued at pace, bolstering overall performance with 255 unit sales and 482 handovers. In comparison to this quarter last financial year SNG has sold an additional 83 units and 45 additional handovers.

Consolidated Sovereign Network Group							
	Q3 FY 24	Q2 FY24	Variance		Q3 FY23	Variance	
	£m	£m	£m	%	£m	£m	%
Turnover	177.2	175.7	1.5	0.9%	181.7	(4.4)	(2.4%)
Operating Surplus	27.8	43.8	(16.0)	(36.6%)	30.8	(3.1)	(9.9%)
Retained Surplus	14.3	25.3	(11.1)	(43.7%)	15.7	(1.5)	(9.3%)
	Units	Units	Units		Units	Units	
Sales	255	183	72.0	39.3%	172	83.0	48.3%
Unit Completions	482	452	30.0	6.6%	437	45.0	10.3%

Treasury and Golden Rules

The SNG Board agreed a set of Golden rules that support the strategic goals of the business, protect long-term financial strength as well as a single A Investment Grade Credit. The Golden rules focus on 6 key measures:

- Interest cover and Gearing are the main two financial covenants in our loan agreements. The Board has set a prudent level of headroom against these covenants, ensuring the long-term financial resilience and viability of the business.
- Ensuring sufficient liquidity is in place to meet business requirements, balancing between cost of carry and holding a prudent level of liquidity.
- EBITDA MRI Interest cover has been included as a Golden rule to manage expenditure on existing stock at a level that is sustainable whilst delivering for our customers. SNG have no EBITDA MRI-linked covenants.

- Operating margin has been set in line with our aspirational corporate strategy to ensure we continue delivering value for our customers and remain financially resilient.
- Sales as a % of Turnover to limit reliance on sales income, with a large majority of revenue being derived from core cashflow.

The below table sets out the Golden rules based at SNG combined level.

Category	Golden rule	Threshold	31 Dec 2023
Cashflow	Liquidity policy	18 months+	£675m cash and available undrawn facilities equating to 18 months liquidity, following the £400m bond issuance in January 2024 this has been extended to 23 months with discussions underway to extend a number of revolving credit facilities, which would extend this further.
Interest Cover	EBITDA-MRI Interest cover	>100%	146.7%
Statement of Comprehensive Income	Operating Margin	>23%	22%. The Board set a minimum target above our current operating margin at 23% to hold the business to account to deliver efficiency savings through integration and transformation. This is in line with our expectation, and we expect to meet this Golden rule in the future as we progress through integration and transformation.
Operating margin	Sales as a % of Turnover	<35%	14.7%
Covenants	Interest cover	>145%	187%
Sales as a % of Turnover	Gearing	<60%	51%

As at 31st December 2023, for SNG, total long-term facilities were £4,202 million, of which £3,595 million were drawn, providing £607m of available liquidity facilities and cash, in addition to cash balances of c£68m There continues to be significant headroom against Interest Cover and Gearing covenants across all SNG facilities.

SNG has an A3 (Outlook: Stable) rating with Moody's.

SNG has an A (Outlook: Negative) with S&P.

SNH has an A (Outlook: Negative) with Fitch.

Communities and Sustainability

From Q1-Q3 our communities and sustainability activities have produced an additional £72.4m of social value, including the wellbeing impact of damp and mould repairs. We continue to scope new opportunities to use the Wellbeing Valuation to measure the impact of our work. This position far exceeds the £49m social value target across the organisation by the end of Q3

SNG continues to make good progress improving existing core stock with an overall average RdSAP score of 72.9. SNG currently has 72.42% of our core stock at EPC C or better.

Work is expected to begin in Feb 2024 targeting 1,000 properties in the first year going beyond EPC C criteria taking our properties to EPC B+ as we begin our journey towards net zero.

Corporate Affairs

Mark Washer spoke on panels at Conservative Party Conference in Manchester and at Labour Party Conference in Liverpool. He met with several MPs, advisers and parliamentary candidates, including the Labour candidate for Exeter, Steve Race and the Conservative candidate for Farnham and Bordon, Greg Stafford. As the general election approaches, Executive Board members continued to meet with candidates in key locations, such as the Labour candidate for Swindon South, Heidi Alexander, as well as leaders of local authorities where we hold large quantities of stock or have development ambitions.

Executive Board and senior SNG employees spoke at high-profile sector conferences including the Social Housing Conference, the Housing Ombudsman Conference, Homes UK, Unlock Net-Zero Live, the NHF Audit and Risk Conference, and the Movers and Shakers property networking forum.

SNG responded to the Regulator of Social Housing's consultations on the implementation of the Regulation of Social Housing Act 2023 and has responded to consultations on consumer standards and consumer fees.

Inside Housing published an op-ed by Mark Washer on the professionalisation of the sector in November 2023, as well as a wide-ranging interview in December 2023. SNG Executive Board members have been quoted in the sector media, including Housing Today and Inside Housing, on issues such as planning reform.

Jamie Ratcliff (Chief Communities and Sustainability Officer) spoke at the Movers and Shakers property networking forum in January looking at key challenges for the sector to overcome in the year ahead and the role housing can play in solving many of the issues facing the country.

SNG hosted a handover ceremony to mark the delivery of new affordable homes in Loughton, Essex. The scheme is the first major project in SNG's partnership with Epping Forest District Council as one of their preferred partners for new affordable housing. SNG will deliver a total of 107 affordable homes across two sites. The Chairman of the Council, Cabinet Member for Housing and Strategic Health and representatives from developer Fairview Homes were all present.

ENDS

For more information, please contact:

Graeme Gilbert, Treasury Director, Sovereign Network Group 07392130856

Charles Pitt, Corporate Affairs Director, Sovereign Network Group

07887524378

Disclaimer The information contained herein (the "Trading Update") has been prepared by Sovereign Housing Association Limited trading as Sovereign Network Group (the "Parent") and its subsidiaries (the "Group"), including Sovereign Advances Ltd, Sovereign Housing Capital PLC (the "Issuers") and is for information purposes only.

The Trading Update should not be construed as an offer or solicitation to buy or sell any securities issued by the Parent, the Issuers 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.

Statements in the Trading Update, including those regarding possible or assumed future or other performance of the Group as a whole or any member of it, industry growth or other trend projections may constitute forward-looking statements and as such involve risks and uncertainties that may cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements. Accordingly, no assurance is given that such forward-looking statements will prove to have been correct. They speak only as at the date of the Trading Update and neither the Parent nor any other member of the Group undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments, occurrence of unanticipated events or otherwise.

None of the Parent, any member of the Group or anyone else is under any obligation to update or keep current the information contained in the Trading Update. The information in the Trading Update is subject to verification, does not purport to be comprehensive, is provided as at the date of the Trading Update and is subject to change without notice.

No reliance should be placed on the information or any projections, targets, estimates or forecasts and nothing in the Trading Update is or should be relied on as a promise or representation as to the future. No statement in the Trading Update is intended to be an estimate or forecast. No representation or warranty, express or implied, is given by or on behalf of the Parent, any other member of the Group or any of their respective directors, officers, employees, advisers, agents or any other persons as to the accuracy or validity of the information or opinions contained in the Trading Update (and whether any information has been omitted from the Trading Update). The Trading Update does not constitute legal, tax, accounting or investment advice.

www.sng.org.uk/working-with-us/investors

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