

Sovereign Housing Association's Quarterly Performance Update

Covering the 9-month period to 31 December 2019

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

About Sovereign

One of England's largest housing associations, Sovereign owns and manages over 59,000 homes across the south. It is also a leading provider of new affordable homes, delivering 1,900 homes a year through a mix of section 106 opportunities, direct delivery through land-led developments and regeneration schemes.

While not-for-profit, Sovereign is a major business. The organisation has annual turnover of £402m, invests around £300m a year in new development and its asset base would be worth over £11bn on the open market. Investment is secured 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.

Ratings	2020 Q3	2019 Q3	Outlook	Change
Regulator of Social Housing	G1/V1	G1/V1		-
S&P	A+		Negative	
Moody's	A2		Stable	

S&P and Moody's reaffirmed their ratings following the annual review held in October 2019.

The Regulator of Social Housing maintained our G1/V1 rating in a 'stability check' in December 2019.

2020 Q3 Trading Update

Highlights

- Sovereign completed 1,355 homes (1,291 of which were affordable) in the first nine months of 2020 (2019 Q3: 1,169) +15.9%
- There are 59,195 homes in management (2019 Q3: 58,268)
- Turnover for the year to date was £328.2m (2019 Q3: £313.8m) +4.6%
- Operating surplus for the year to date was £111.5m (2019 Q3: £119.8m) -6.9%
- Net margin on all sales was 25.9% (2019 Q3: 26.3%)
- The surplus for the quarter was £68.9m (2019 Q3: £77.1m)
- 29 year £375m (£125m retained) @ 2.475% all-in rate completed on 4 November 2019

Performance update

Sovereign's operational and financial performance continued to meet expectations over the third quarter of 2019/20, achieving a surplus of £68.9m for the year to date.

During the nine months to December 2019 we completed 1,355 new homes, of which 1,291 (95.3%) were affordable housing tenures and we invested £286.5m developing new homes.

Our projections for the year indicate we will meet, if not exceed, our programme of 1,900 homes a year. Volumes of property sales continue to perform well with 505 first tranche and open market sales completed in the nine months to December; net margin on sales has improved on last quarter's results, increasing from 23.8% to 25.9%.

The reduction in operating surplus from the same period last year is largely a result of our increased focus and investment in our existing homes, including fire safety, primarily driven by electrical, testing and upgrade works.

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.

Housing fixed assets stands at £3.9bn up from £3.6bn at 31 December 2018. Net Interest YTD was (£42.4m) which is £4.3m lower than budget, principally driven by lower variable interest rates and lower fixed rates achieved on the recent bond issuance. Sovereign has net debt of £1.8bn and available cash and committed liquidity facilities of £665m at the end of December 2019, providing sufficient liquidity to support our future development plans.

As part of our drive to be leaders in customer service we launched a new Customer Relationship Management tool, CRM Dynamics 365, during Q3. We are also rethinking how we work, creating a new future-looking Target Operating Model, to support the business as it continues to grow and deliver on its core social purpose.

Following our recent successful bond issuance, we've joined a sector-wide working group to deliver a framework for Housing Associations to report on their Environmental, Social and Governance credentials. This group includes representatives from housing associations, investors, banks and lawyers.

Finally, Sovereign will move into its new, modern head office in Basingstoke during Q1 2020/21, with the sale completion our current Newbury headquarters now agreed.

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