



# MORhomes PLC

Published 30 Oct 2019

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Business Review  
Quarter ending September 2019

*A Social Bond Issuer in  
accordance with the Social  
Bond Principles 2018*

### ■ Successful tap issue Oct 2019

- Additional £40m loan (bringing loans to £300m)
- Funded mainly by tap of inaugural bond at spread of 175bps (15bps tighter than issue)
- Second secured debt facility in place - drawn down to maintain at 3.5% of loans
- Equity and CoCo maintained at a minimum of 1.65% of loans

### ■ Loan portfolio performing well

- Full annual credit renewals completed - 1 upgrade, rest stable
- Full review of 2019 published accounts completed - underlying metrics remain strong
- Year to date management accounts show most outcomes favourable to budget

### ■ Operational efficiency improvements

- Operational systems established and functioning well
- New outsourced accounting and administration contract in place with significant efficiency improvements

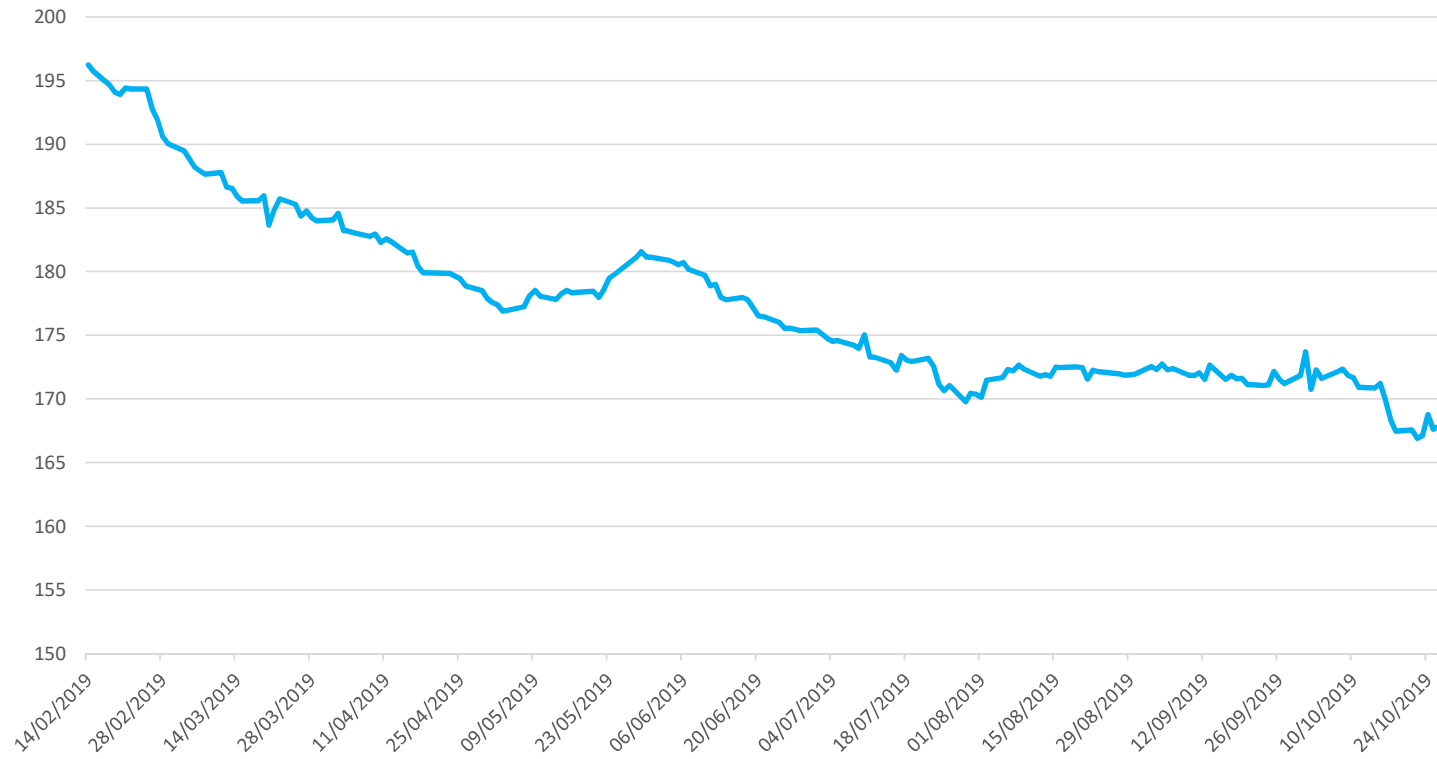
### ■ Focussed strategy unchanged and progressing well:

- Building our loan book by marketing our borrowing proposition
- Attracting more investors and progressively improving their return
- Improving our operating efficiency

# Good bond performance



MORhomes - Spread performance since issue



## The portfolio (30 Sept 2019)



- A balanced portfolio of borrowers - where 2019 generally represented steady performance against 2018

Borrower	Units under Management	Turnover (£m)	Operating surplus (£m)	Profit Before Tax (£m)	Rating
A2D	38,133	372.2	53.6	25.5	A+ Fitch
Aster	30,791	211.9	59.3	55.4	A+ S&P
EMH	20,534	103.8	30.9	15.9	A+ S&P
Pobl	17,297	134.7	22.7	10.2	n/a
MHS	9,064	61.4	26.4	16.5	Private
SYHA	5,753	48.7	6.3	2.3	n/a
Hafod	6,097	55.4	8.3	4.0	n/a
Melin	4,174	24.3	3.7	0.7	n/a
Local Space	2,378	29.1	18.2	4.7	AA- S&P
<b>Total</b>	<b>134,221</b>	<b>1,042</b>	<b>229</b>	<b>135</b>	

# Providing a broad diversification of risk

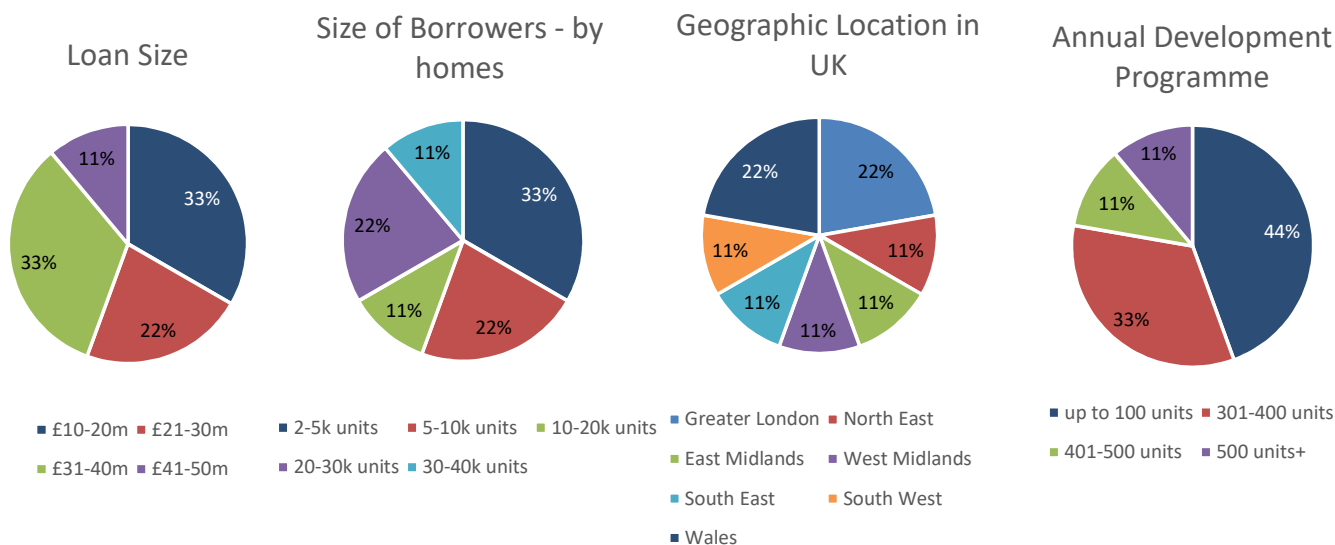


## 9 borrowers with 11 loans

- Geographically diverse
- Split between rated and unrated borrowers
- Broken down between public and non public borrowers
- Wide spread of unit sizes
- Variety of different business models
- Varying commitment to development

Mix of existing borrowers 30 Sep 2019		
Borrowers	% of Loans	Total loans
Rated	61%	£157.5m
Unrated	39%	£102.5m

Credit Level	% of Loans	Total Loans
Level 2	64%	£167.5m
Level 3	36%	£92.5m



Data as at 30 Sep 2019

Credit cleared borrowers			
Credit cleared borrowers	S&P	Moody's	Fitch
Level 1	-	A1	-
Level 2	AA- / A+	A2	-
Level 3	-	A3	A+
Level 4	-	-	-
Level 5/fail	n/a	n/a	n/a

Based on MORhomes credit assessed borrowers with public rating as at July 2019

## With good financial metrics and operating performance

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### ■ MORhomes credit monitoring includes

- Review of quarterly borrower management account
- Continuous update on borrower intelligence (eg management changes, regulatory judgements, external ratings)
- In-depth review of annual published accounts
- **Annual review of borrower business plan and credit model**
  - 5 years historic data and 5 years forecast data based on regulatory returns
  - Full update of credit model metrics and overall credit score
  - Unique access to unpublished information
  - One borrower upgrade from tier 3 to tier 2 on continuing strong performance

### ■ Individual borrower forecast and management accounts data is confidential

- The annual accounts review uses public information
  - highlights of our individual borrower analysis are set out on pages 7, 8 and 9
  - These feed into the MORhomes detailed credit model
- Aggregate results from quarterly management accounts are set out on page 11

## Comments on financial metrics

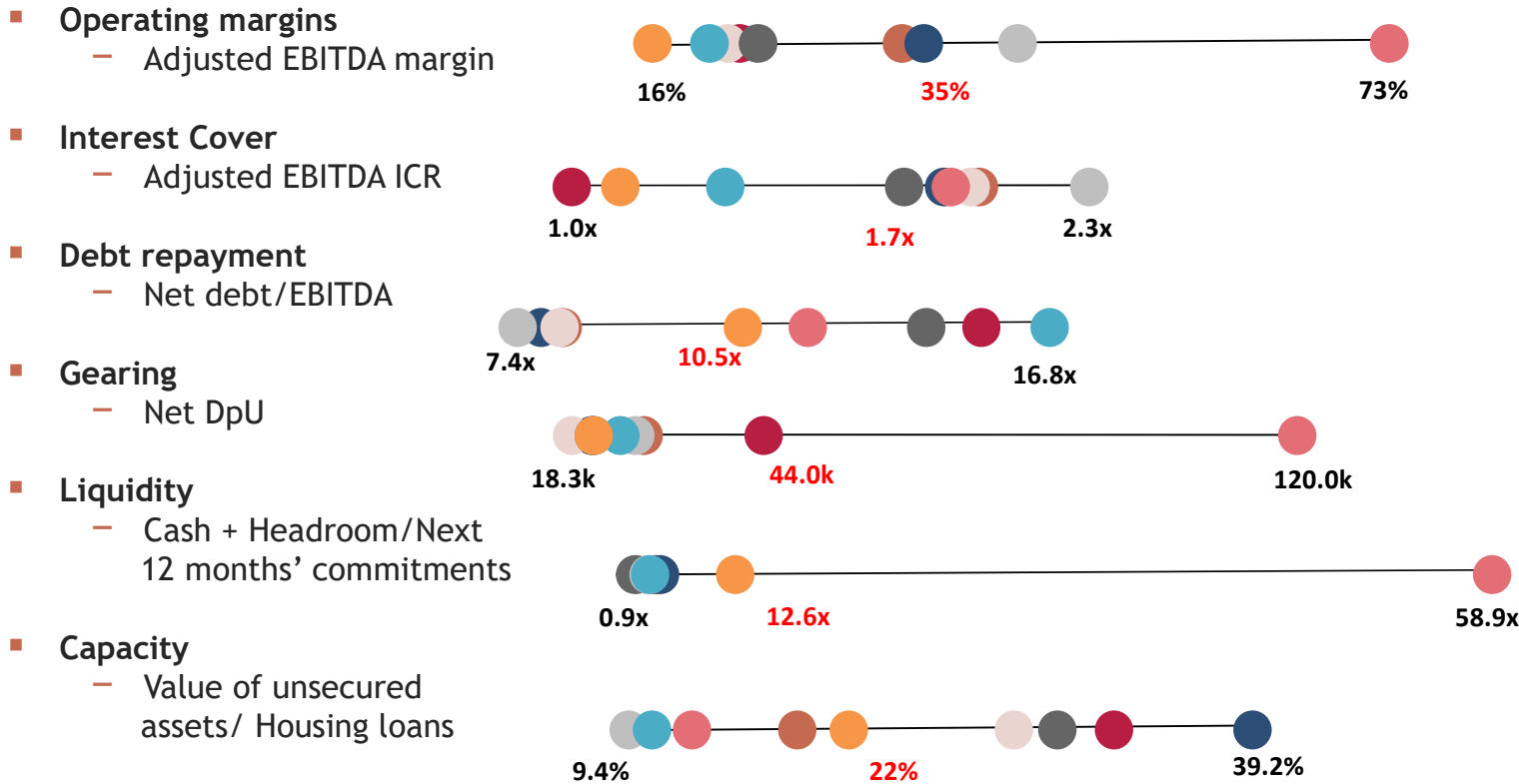
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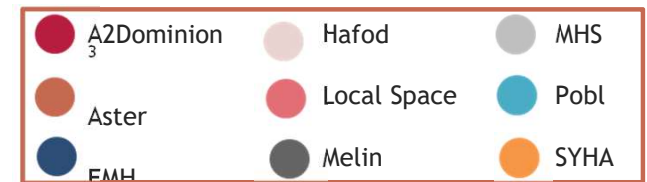
- The MORhomes borrowers\* compare well with sector averages
  - strong developing associations
  - good margins and interest cover
- The drop in margins and interest cover in 2019 was mainly due to
  - exceptional increased fire safety costs for specific borrowers and
  - reduced margins on new property sales in London.
- Our credit model shows overall our borrowers anticipated these factors/adjusted plans to maintain the overall credit score in our credit model almost unchanged
- The borrowers overall show increased liquidity and correspondingly reduced security capacity, mainly because they borrowed additional funds from MORhomes

\* Note: the analysis is for existing borrowers at 30 September. Following the tap issue due to draw down on 31 Oct there will be an additional borrower, Wandle Housing Association Ltd. Metrics for this borrower are also strong.

# Good financial metrics



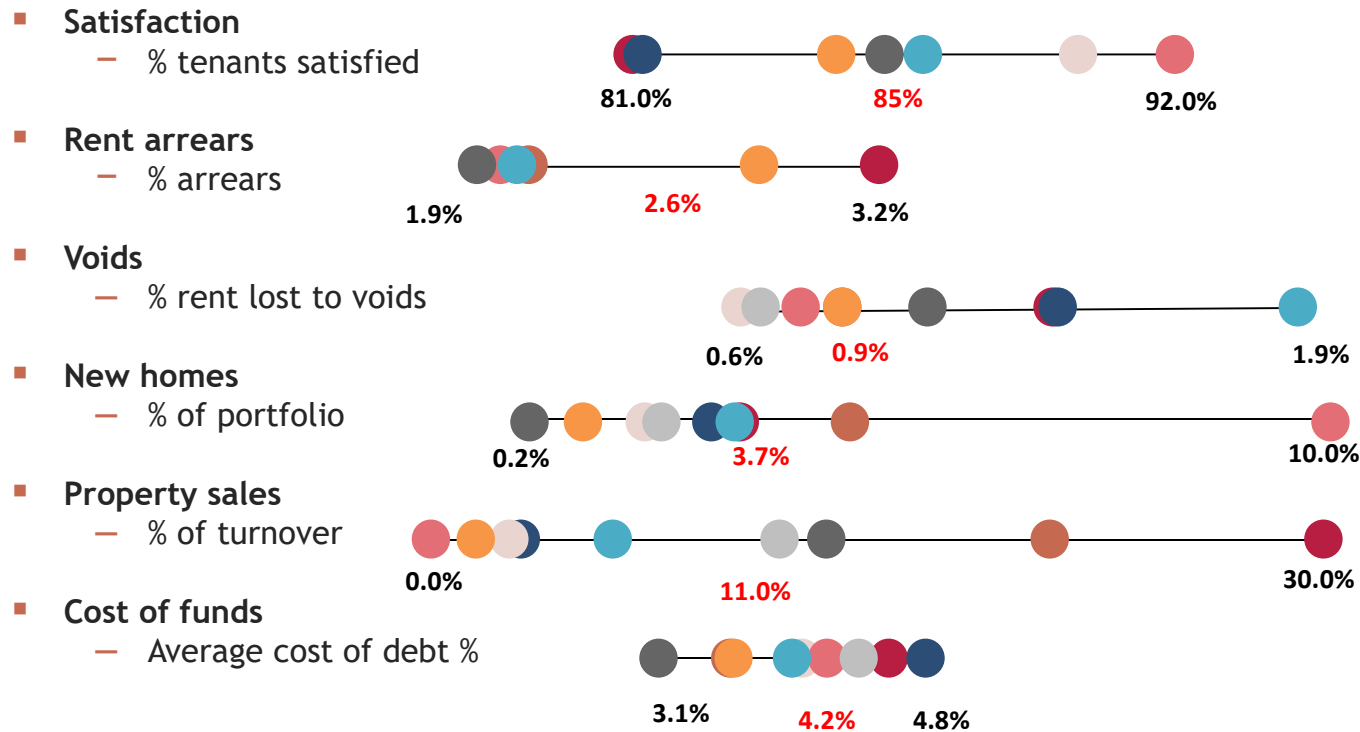
2018 MORhomes Average <sup>(1)</sup>	2019 MORhomes Average <sup>(1)</sup>	Sector average <sup>(2)</sup>
39%	35%	31%
1.9x	1.7x	1.1x*
9.2x	10.5x	12.06x
£40.2k	£44.0k	£34.1k
2.6x	12.6x	n/a
29%	22%	n/a



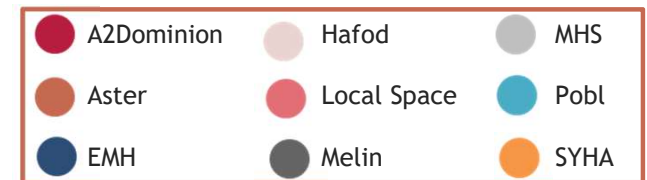
<sup>(1)</sup> Average is for English borrowers only  
<sup>(2)</sup> Global Accounts FY 2018 - Includes English HAs over 2,000 units



# And strong operating performance



2018 MORhomes Average <sup>(1)</sup>	2019 MORhomes Average <sup>(1)</sup>	Sector average <sup>(2)</sup>
85.9%	85%	84.6%
2.6%	2.6%	2.9%
0.9%	0.9%	1.0%
3.4%	3.7%	1.8%
8.0%	11.3%	12.7%
4.1%	4.2%	4.3%



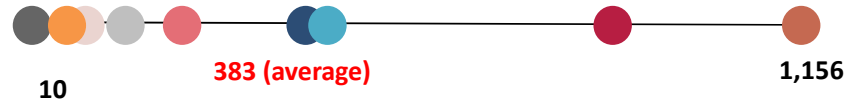
<sup>(1)</sup> Where borrowers have provided information on 2019, and Global Accounts FY 2018 and Sector Scorecard FY 2018 - Includes English HAs over 2,000 units

<sup>(2)</sup> Includes English HAs over 2,000 units owned

# With limited exposure to open market sales

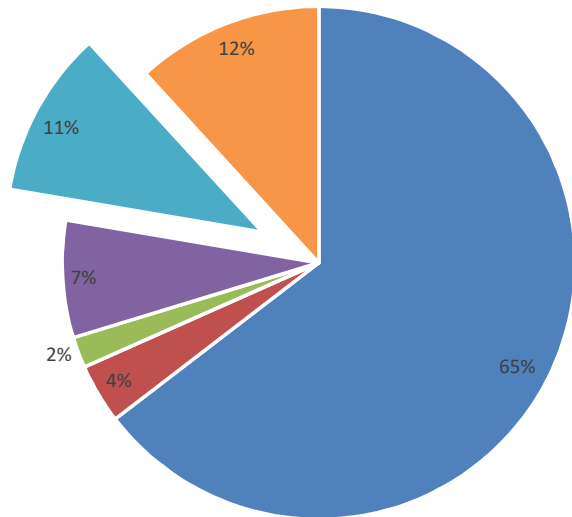


- Annual development programme
  - Average units developed per year



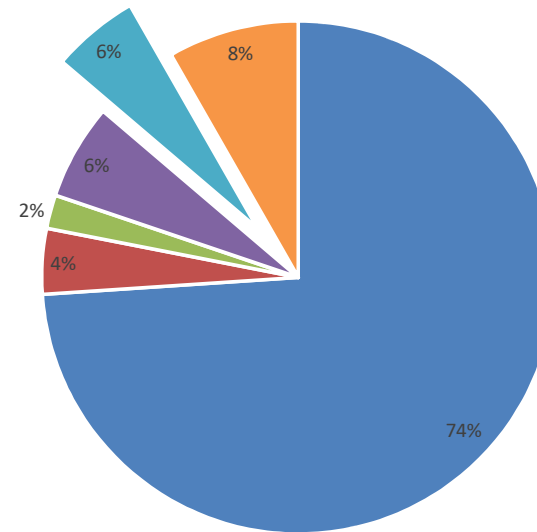
MORhomes average	Sector average <sup>(1)</sup>
383	244

Breakdown of Turnover 2019 - Total across Borrowers



■ Social housing   
 ■ Temporary housing   
 ■ Key worker  
■ First tranche sales   
 ■ Open market sales   
 ■ Other non-SH

Breakdown of Turnover 2018 - Total across Borrowers



■ Social housing   
 ■ Temporary housing   
 ■ Key worker  
■ First tranche sales   
 ■ Open market sales   
 ■ Other non-SH

<sup>(1)</sup> Includes English HAs over 2,000 units owned

## Progress over the first two quarters



- **Full annual credit renewal process completed for all borrowers**
  - Business plans and forward cashflow projections updated
  - One upgrade no downgrades to credit levels
  - Overall metrics stable
- **Quarterly borrower information received for period ending 30 June**
  - Covers 3 months to 30 June 2019
  - Show no material performance shortfall amongst the borrowers
  - Most outcomes above budget (see table)
- **Security charging process**
  - For future loans max 12 months unsecured<sup>(1)</sup>
  - Processes in place to speed up security pledging
- **Current security position (30 Sept 2019)**
  - Loans secured: £105m (40%)
  - All others actively being progressed
  - On course for all £260m loans to be fully secured by first anniversary of issue
- **Capacity committed on the second secured debt**
- **First Semi annual coupons due 19 August 2019**
  - All paid and received on time

	Total Issue 1 Borrowers		
	Actual	Budget	Variance to Budget
Turnover ( £000)	260,844	288,917	- 28,073
Operating Margin(£000)	74,026	71,052	2,974
<b>Op Margin - %</b>	<b>28%</b>	<b>25%</b>	<b>3.8%</b>
Net Profit (£000)	46,976	37,866	9,110
<b>Net Financing Costs</b>	<b>40,785</b>	<b>41,376</b>	<b>591</b>
Cash Deposits	315,722	253,466	62,256
Total Debt	4,403,822	4,409,975	6,153
<b>NetDebt</b>	<b>4,088,100</b>	<b>4,156,509</b>	<b>68,409</b>
<b>Net Debt per unit</b>	<b>31.9</b>	<b>32.4</b>	<b>0.4</b>
<b>Net Debt / EBITDA*</b>	<b>9.1</b>	<b>10.0</b>	<b>0.9</b>
<b>EBITDA MRI %</b>	<b>40%</b>	<b>31%</b>	<b>9%</b>
<b>EBITDA MRI - Interest Cover</b>	<b>255%</b>	<b>218%</b>	<b>37%</b>

\* multiplying EBITDA by 4

(1) Policy decision by MORhomes Board, not reflected in Programme Memorandum. Policy could be changed in future