

MORHOMES PLC

**BORROW TODAY.
BUILD FOR TOMORROW.**

COVID BOUNCEBACK

CHC VIRTUAL FINANCE CONFERENCE
22 JANUARY 2021

Patrick Symington, Chief Executive
Joseph Carr, Relationship Director



Bouncing back or long COVID?



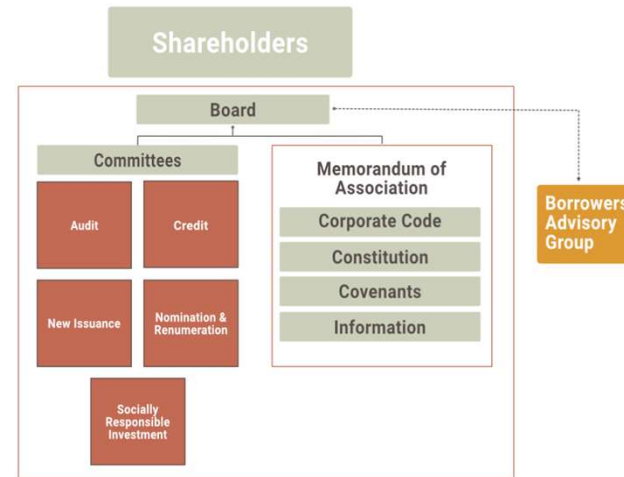
How are HAs coping?

- Insights from MORhomes borrowers (English & Welsh)
 - Post-COVID business plan...
 - ...updates MORhomes credit model
 - Quarterly management accounts
 - Latest informal management updates (Jan 2021)
- Comparison to RSH quarterly survey (Sept 2020)
- Rating agency outlooks

MORHOMES PLC THUMBNAIL SKETCH



Unique Governance Structure



- PLC with highest standards of corporate governance
- Shares owned by regulated, not-for-profit UK housing associations
- Borrowers must be shareholders
- Public debt traded on the London Stock Exchange
- All bonds are social bonds
 - Sustainability bonds planned for future issues



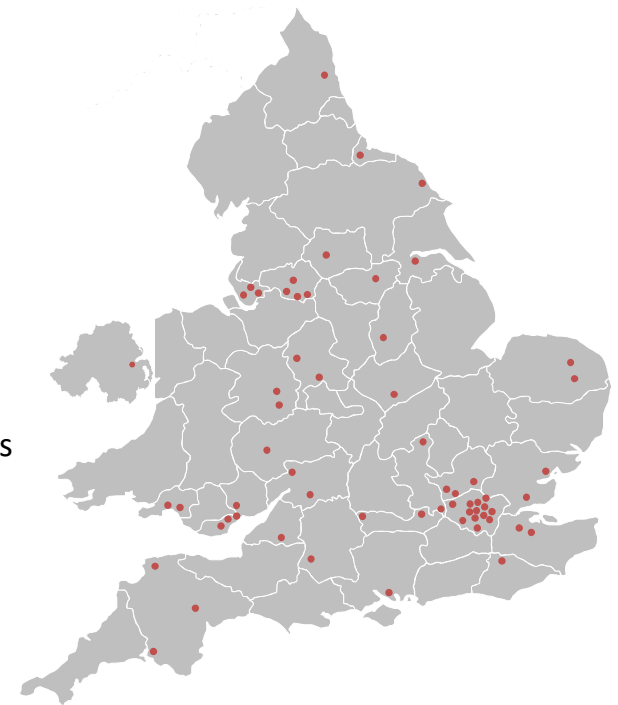
Benefits for Borrowers

- Speed and efficiency
- Flexibility on type of security accepted
- Standby liquidity
- Security at drawdown not required
- Low transaction costs
- A lender you own
- £10m minimum borrowing amount
- Standard documentation

Benefits for Investors

- One stop shop to access HA sector
- Benchmark Size, repeat issues
 - Risk spread (by geography/size/type of HA)
- Credit management and monitoring
 - Unique credit model and understanding of borrowers
 - Access to unpublished financial forecast data
 - Financial structure with loss buffers
- Back to back loan structure eliminates interest rate risk
- Government support for the sector
- Social/ sustainable bond programme

MORhomes' members (head offices)



"The company assesses its credit risk policies effectively and closely monitors its lending portfolio's asset quality"
S&P Global Ratings Research Update 2 Dec 2020

HAs response to COVID





Main issues reported by HAs

Business areas affected	Latest update (Jan 2021)
Operational issues/ service delivery/ costs	Delivering service, efficiency improvements (long-term?)
Arrears	Increased but stabilized.
Repairs service	Emergency/ safety delivered Planning catch-up of backlog
Development programme	Some delay in delivery
Property sales	Market buoyant
Care business	Delivering service. Exceptional costs funded
Other business streams	No material concerns

Source: informal management updates (MORhomes borrowers England and Wales)



Effect on financial strength (MH)

MORhomes Borrowers: post-COVID plans

- 10 year model (5 actual, 5 forecast)
- 2020 Post Wave 1 (c Jul 20) conservative plan
Compared to 2019 (Jul 19)
- 5 year horizon irons out short term phasing

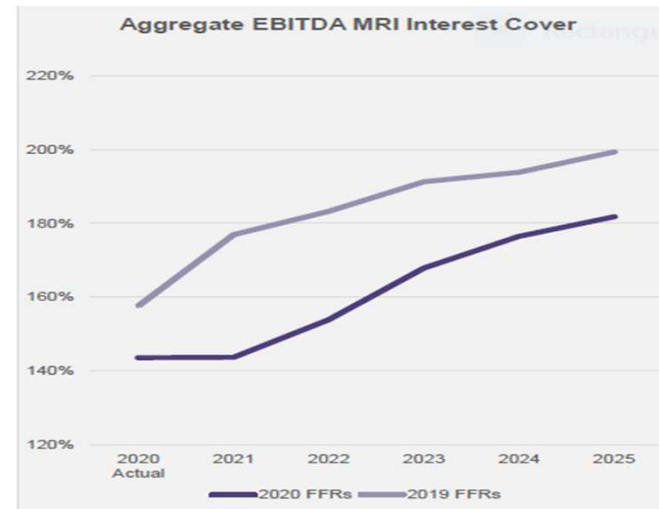
Financial metric	2020 Post-COVID v 2019*
Liquidity	Strongly favourable
Gearing	Slightly unfavourable (pre-COVID business expansion)
Margins	No change
Interest cover	Slightly unfavourable
Available security	Neutral
Overall credit score	Stable

- Borrowers overall maintaining financial strength
- Jan 2021 informal reports: outlook improved v these conservative plans

*Source: average from MORhomes' borrowers credit models (England and Wales). All borrowers as at Oct 2020. 5 years actual data, 5 years forecast data.

Financial strength

RSH data



RSH report significant drop in interest cover due to

- Drop in rental income early years
- LCHO sales and market sales turnover and margins down
 - A few problem RSLs having an impact on overall data
- Investment in existing stock up on 2019 plans (£1bn more capitalized major repair spend)

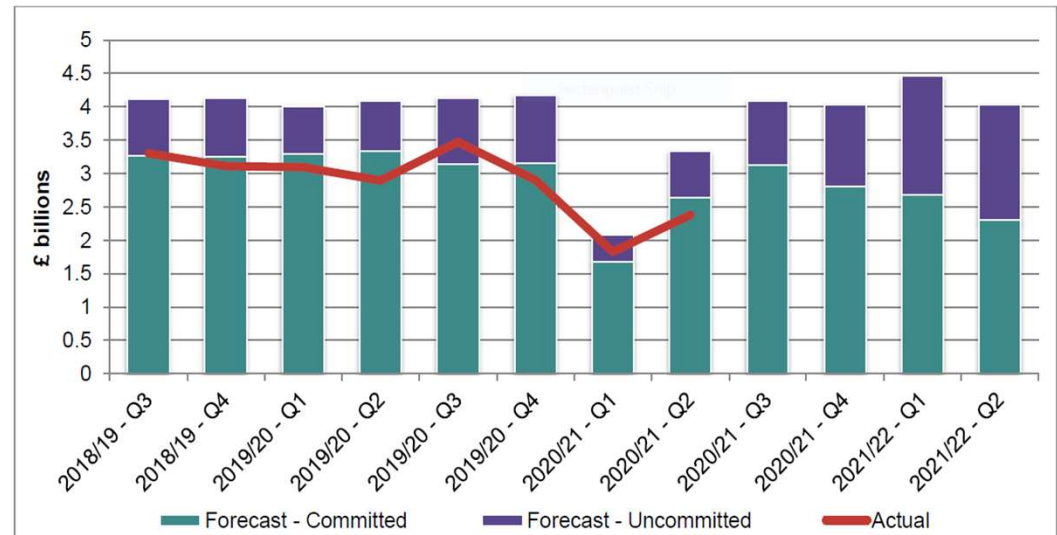
Some of these could be pre-COVID trends

Source: "RSH 2020 FFRs First Take" (funder presentation Nov 2020). English RSLs FFR returns Sept 2020 v June 2019 - RSH

Development delay

RSH data

Figure 3: Payments to acquire and develop housing



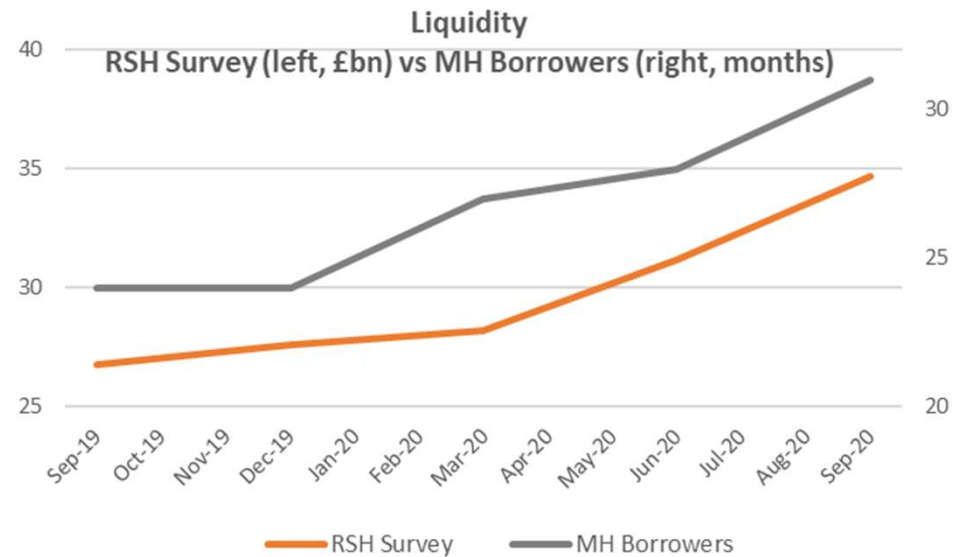
- Clearly shows slowdown/ cutback due to COVID
- Forecast to recover to previous levels, but one-off loss in supply

Source: RSH quarterly survey Sept 2020

Quarterly trends



Liquidity



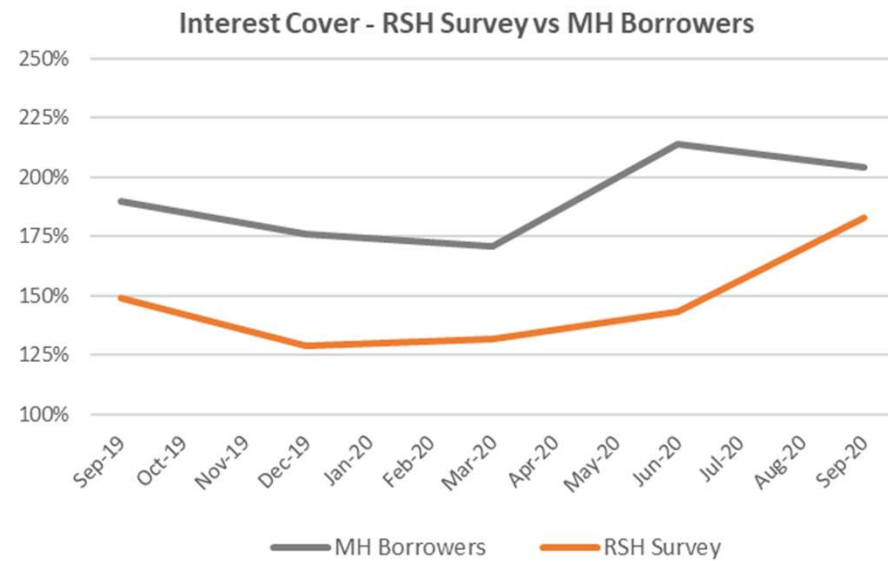
Strong increase in liquidity across the sector

- Response to uncertainty
- Partly result of delays in capital expenditure
- Note: RSH and MORhomes different metrics

Sources: RSH quarterly survey, cash and uncommitted facilities (£bn).

MORhomes borrowers management accounts, average of current borrowers in quarter. Liquidity (RSH/ internal definition, months).

Interest cover

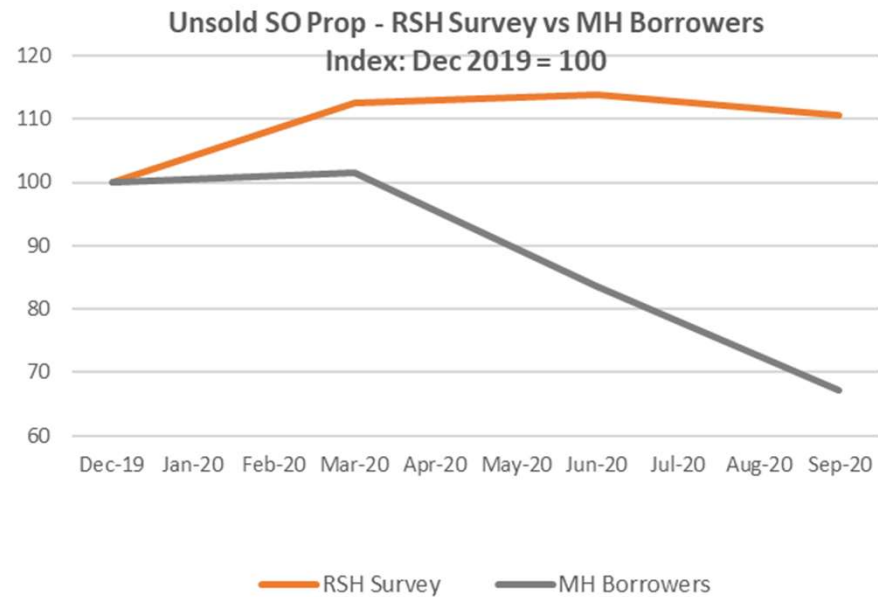


- In the short term interest cover has improved due mainly to reduced maintenance spend
- Note: RSH and MORhomes definitions differ

Sources: RSH quarterly survey (cash interest cover by quarter).

MORhomes borrowers' management accounts, average of current borrowers in quarter (EBITDA MRI to interest payable)

Unsold SO units



- RSH – sharp increase lockdown 1, coming down Sept 20 but still above Dec 19
- MORhomes borrowers now back well below Dec 19 - reporting strong demand in most areas

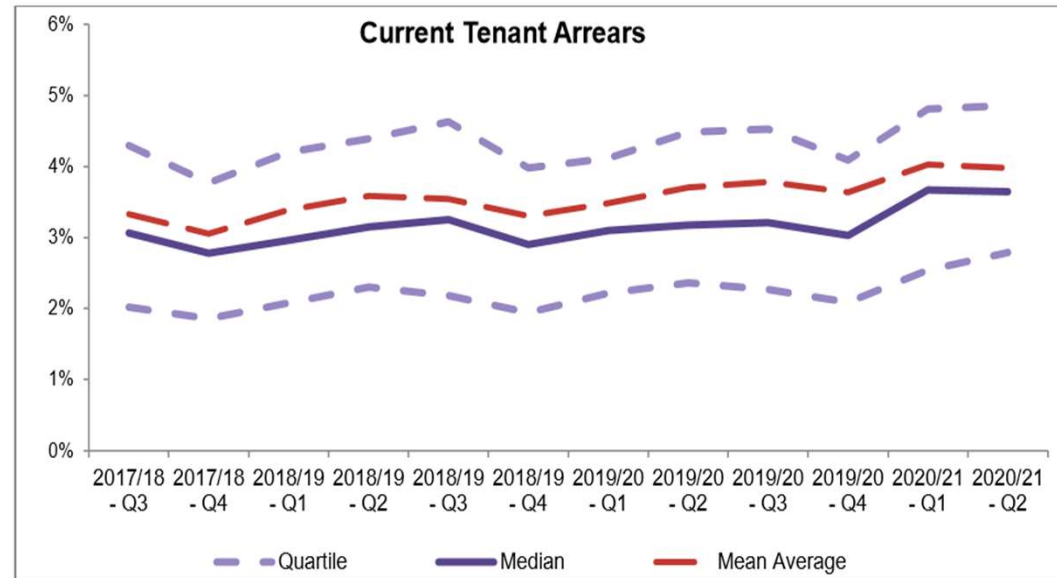
Sources: RSH quarterly surveys.

MORhomes borrowers quarterly management accounts (borrowers as at Dec 2019 tracked forward).

Arrears



RSH data



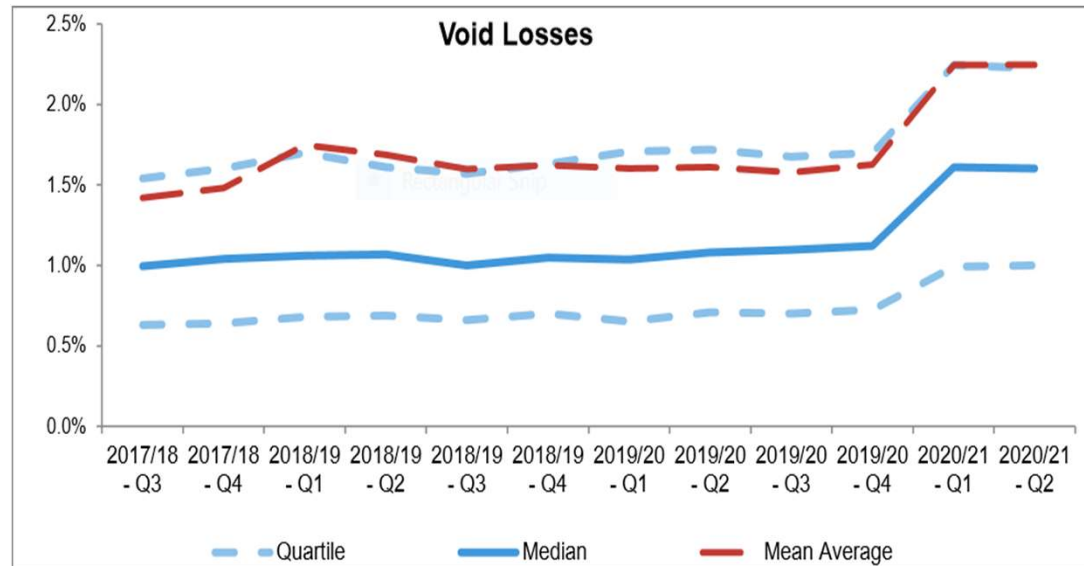
- RSH – significant increase June 2020, Sept slightly down.
- MORhomes borrowers report similar trend with latest figures (Dec) stabilised

Source: RSH quarterly survey report. MORhomes reports from informal management discussions

Voids



RSH data



- RSH – significant increase June 2020, Sept 2020 levelled.
 - Mainly due to access restrictions in lockdown 1
- MORhomes borrowers not reporting ongoing voids issues

Source: RSH quarterly survey report. MORhomes reports from informal management discussions

What are the rating agencies saying?





Sector outlook for 2021

Agency	Positives	Risks
S&P	Liquidity More supportive grant regime Low interest rates	Spend on existing assets Low inflation (effect on rent) Sales
Moody's	Liquidity Supportive policy environment High demand	Sales prices Arrears and bad debts
Fitch	Liquidity Limited COVID impact Strong predictable cash flow	

Source: Rating agencies outlooks for 2021 published Nov and Dec 2020. Summary based on Social Housing article January 2021

Conclusions





So how has the sector done?

- Operational response impressive
 - Caring for communities
 - Service delivery generally maintained
 - Remote working efficiently
- However: temporary cut-backs in new housing/ planned repairs
- Maintaining financial strength
 - Increased liquidity
 - Capex delays financially positive
 - Sales surprisingly buoyant
 - Potential for long-term efficiency gains opened up
- Things to keep watching
 - Arrears
 - Sales demand and values
 - Planning repairs catch-up

A safe haven in stormy seas

MORhomes 3.4% 2038 - Mid Yield



- Some turbulence around first lockdown
- Investors quickly realised strength of sector
- Gilt rates and HA bond spreads came down over the year (2020)
- MORhomes currently at its tightest spread since launch