

MORhomes



Business Review
Quarter ending 30 September 2023



Summary

- Annual Report and Financial Statements for the year ended 31 March 2023 released during quarter:
 - Both operating expenses and pre-tax result better than budget despite market slowdown
 - Pre-tax loss almost halved (to £129k) from prior year (£251k), well on path to profitability
 - Post balance sheet pre-tax gain of £268k to be included in 2023/24 financial statements
 - Maintaining financial strength, supporting credit rating
- Sustainability Impact Report released – 4,494 energy-efficient new homes funded across 65 local authorities
- 1 borrower settled early in July:
 - Pre-tax gain of c.£1.2m (unaudited)
 - Borrower remains a shareholder
 - S&P capital ratios increased by over 40%:
 - Unadjusted RAC = 30.6% (2022 = 21.5%)
 - Adjusted RAC = 3.6% (2022 = 2.5%)
- Other developments
 - Annual review of loan book completed
 - 100% of loans fully secured, 155% cover

	Cumulative to Jun 2022	Jul 2022 to Sept 2023	Cumulative to Sept 2023
Shareholders ¹	66	1	67
Credit rated by MORhomes ^{2,4}	51	4	55
Standby Liquidity Agreements ³	28	2	30
Loans ⁴	22	+1-1	22
Borrowing Entities ⁴	21	+1-1	21
Borrowing Groups	20	+1-1	20

Notes

1. HA Groups who are shareholders adjusted for mergers.
2. Cumulative totals include those pending renewal.
3. Cumulative total to Sep 23 includes 15 where loan drawdowns have been made.
4. Adjusted.



MORhomes' S&P rating

- S&P affirmed both A- rating and Stable outlook in December – an outcome which highlighted the inherent strength of the platform and its borrowers
- S&P positive about MORhomes' business position
 - “Prudent risk management”
 - “We do not expect borrowers' creditworthiness to deteriorate”
 - Liquidity assessment revised to “strong”
 - “Will maintain market share”
- Strong capital structure coming into its own
- 20+ borrowers a good spread of risk



Annual review of loan book

- Annual review of all borrowers undertaken in August:
 - Returns received from borrowers incorporate the impact of both the rent cap and of inflation
 - On average:
 - Available uncharged stock has increased significantly
 - Net debt metrics are improved from prior year
 - Margins slightly reduced in line with the sector
 - Increasing investment in stock
 - Report considered by Credit Committee in August
- Credit scores generally remained stable and portfolio remains strong
 - 1 borrower upgraded
 - 1 borrower downgraded
 - Remaining 18 borrowers unchanged



Portfolio over time

- Portfolio strength gradually improving overall – despite the challenges to the sector:
 - Last 5 new borrower ratings:
 - 1x Level 1 (strongest) - our first ever
 - 3x Level 2
 - Only 1x Level 3
 - % rated Level 2 (equivalent S&P A+) or better increased from 53% in 2019 to 65% in 2023
 - Majority of ratings stable over time, with 4 upgrades since 2019 launch and 2 downgrades
 - Average credit score improved from 2.33 in 2019 to 2.14 in 2023 (where lower is stronger)

Internal Credit Ratings (annual review)	2019	2020	2021	2022	2023
% Level 1 + 2 (min 50%)	53%	60%	60%	62%	65%
Average credit score (lower = better)	2.33	2.29	2.14	2.07	2.14
# Upgrades	1	0	2	0	1
# Downgrades	0	1	0	0	1
# Unchanged	8	11	14	20	18

MORhomes borrowers vs Peers – Jun 2023

- **MORhomes borrowers have margins significantly stronger than average**
 - Operating margin and EBITDA margin now over 4 percentage points stronger than industry average
 - EBITDA MRI margin even stronger
 - All margins a significant increase from prior quarter / year

	MORhomes Jun 23	MORhomes Mar 23	Peer Group
Operating Margin	24.1%	22.1%	19.5%
EBITDA Margin	34.9%	33.4%	30.3%
EBITDA MRI Margin	27.0%	23.5%	21.0%

Notes

Peer group = Regulated English HAs.

Source: <https://www.gov.uk/government/publications/2022-global-accounts-of-private-registered-providers>



MORhomes borrowers vs Peers – Jun 2023

- **Less impacted by sales activity than average**
 - Unsold units as % of total stock significantly below industry average
 - Unsold >6 months as % of total stock also significantly below industry average
- **Voids and arrears lower than average, and edging lower**
 - Voids losses at 1.54% vs 1.80% industry average
 - Gross arrears at 3.00%, well below industry average of 3.70%

	MORhomes	Peer Group
Unsold Units as % total stock	0.23%	0.32%
Unsold >6mths as % total stock	0.03%	0.11%
Void losses	1.54%	1.80%
Gross arrears	3.00%	3.70%

Notes

Peer group = Regulated English HAs.

Source: <https://www.gov.uk/government/collections/quarterly-survey-of-registered-providers>



Progress on security charging - at 30 September 2023

- Security position at 30 September 2023
 - Overall £512.4m (100%) charged
 - Asset cover minimum 105% (EUV-SH valuation) or 115% (MV-ST)
 - On average loans 37% over-secured above minimum, with total asset cover of 155%
- Security charging process
 - Max 12 months unsecured
- Processes in place to speed up security pledging
 - Typically completed within 6 months, and additional fees payable if not

For further detail see loan portfolio analysis schedule posted on our website <https://morhomes.co.uk/investor-relations/>



MORhomes shareholder / potential borrower credit ratings

- Analysis of number of credit cleared shareholders / potential borrowers by lending level and how MORhomes lending levels map across to public ratings

Credit rated shareholders / potential borrowers							
MORhomes Credit level	#	%	S&P	Moody's	Fitch	Public rating	#
Level 1	4	7%	A+	A1	-	AA-	1
Level 2	27	50%	AA-/A+/A	A2/A3	A+/A/A-	A+/A1	14
Level 3	20	37%	A+/A/A-	A3		A/A2	4
Level 4	3	6%	-	-		A-/A3	6
Level 5/fail	-	-	n/a	n/a	n/a	Total	25
Total	54	100%					

Shows strength of potential pipeline of MORhomes borrowers

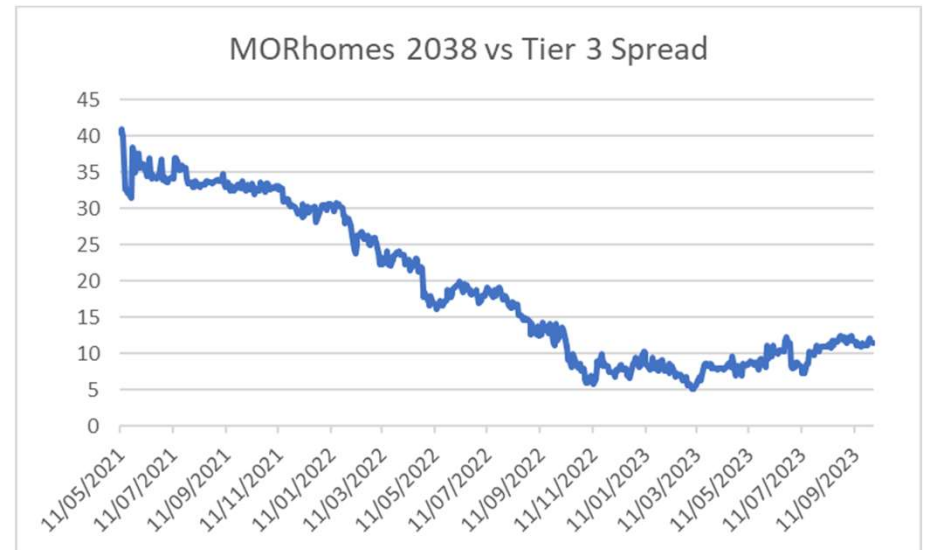
Shows underlying credit rating of MORhomes loans approximately equivalent to A+/A (S&P, Fitch) or A2/A3 (Moody's)

Agency ratings show range of credit ratings for 25 shareholders / potential borrowers who have been rated by MORhomes and also have agency ratings. Where shareholders are rated by more than one agency, only one rating is incorporated. Small samples merged to preserve borrower anonymity



Trading Performance

- Relative trading performance of 2038s remains strong, with MORhomes now comparable with many own-name issuers
- Most recent tap (done prior to rating) at low single digit premium despite market conditions
- Affirmation of A- rating and Stable outlook issued on 16 December. This provides the foundation for significant further relative tightening when put in the sector context of rating downgrades and downward outlook revisions amongst peers and Housing Associations



Tier 3 = basket of similarly-rated HAs
Source: Chatham Financial



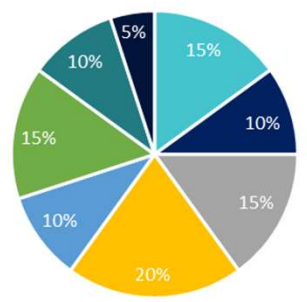
Appendix



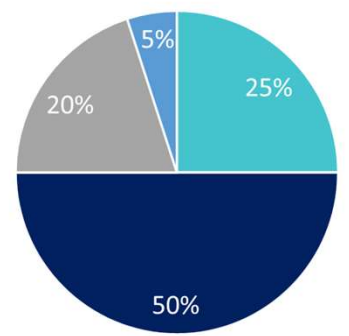
Analysis of MORhomes loans – diverse with strong internal credit ratings

- 20 borrower groups (21 entities) with 22 loans at 30 Sept
 - Geographically diverse
 - Split between rated (1x AA-, 6x A+, 1x A-) and unrated borrowers
 - Broken down between public and non-public ratings
 - Wide spread of unit sizes
 - Variety of different business models
 - Varying commitment to development

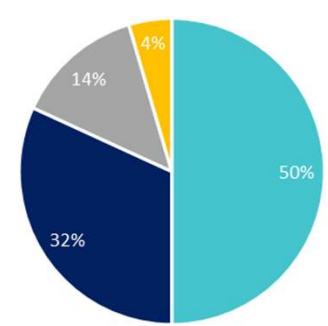
Geographic Region in the UK



Size of borrower groups - units



Loan Size



■ Greater London ■ East ■ Wales ■ South West ■ 1-5k ■ 5-10k ■ 10-20k ■ 20-30k ■ 30-40k ■ £10-20m ■ £21-30m ■ £31-40m ■ £41-50m
■ North West ■ South East ■ North East ■ East Midlands

Mix of borrowers (entities)			
Public Rating	#	% of Loans	Total loans
Rated	8	48%	£244.2m
Unrated	13	52%	£268.2m

Lending Level	#	% of Loans	Total Loans
Level 1	1	4%	£19.3m
Level 2	13	61%	£315.3m
Level 3	6	29%	£147.8m
Level 4	1	6%	£30.0m

Public rating of MORhomes portfolio (where available)		
S&P	Moody's	Fitch
AA-/A+	-	A-



Data includes all borrower Groups as at 31 March 2022. Ratings source: Chatham Financial, rating agencies. Geographic location refers to Head Office.

Loan portfolio as at 30 Sept 2023

Borrower	Nominal Loan
Local Space (G1/V2)	£50m
POBL Homes and Communities (C/C)	£40m
Wandle Housing Association (G2/V2)	£40m
EMH Housing and Regeneration (G1/V2)	£37.5m
Aster Communities (G1/V1)	£30m
Eastlight Community Homes (G1/V1)	£30m
South Yorkshire Housing Association (G3/V3)	£30m
Origin Housing (G1/V2)	£30m
Calico Homes (G1/V2)	£27.8m
Thrive Homes (G1/V2)	£25m
Melin Homes (C/C)	£22.5m

Borrower	Nominal Loan
Housing Solutions (G1/V1)	£21.7m
Selwood Housing (G1/V2)	£20m
Cornerstone Housing (G1/V1)	£19.3m
Broadacres Housing Association (G1/V1)	£16.1m
Broadland Housing Association (G1/V2)	£15m
Rochdale Boroughwide Housing (G3/V2)	£15m
North Devon Homes (G1/V2)	£12.5m
Synergy Housing (G1/V1)	£10m
Heart of Medway Housing Association (N/A)	£10m
Hafod Housing Association (C/C)	£10m

