



Incommunities Group Limited

**Consolidated Financial Report
for the 6 Months Ended
30th September 2019**

Incommunities Group Limited

Consolidated Financial Report for the 6 Months Ended 30th September 2019

Incommunities Group Limited ('Incommunities', 'the Group') is one of the leading providers of affordable housing in the UK and is pleased to announce its consolidated results for the 6 months ended 30th September 2019.

These results are unaudited and are for information purposes only.

1. Headlines

- 1.1 During the period, the Group completed its loan restructuring (of which the Own Name Public Issue Bond in March 2019 formed a key part) with the restatement of an existing £20m bank loan. The loan restructuring exercise has significantly reduced interest payable, provided funds for an accelerated development programme, and reduced the Group's funding risk.
- 1.2 During the period, the Group also completed the implementation of its Dynamic Repairs Scheduling system. This will significantly increase the efficiency with which our repairs service is delivered and have a corresponding beneficial effect on the future cost of that service.
- 1.3 Throughout the period, the Group has continued to focus and improve its Active Asset Management systems, streamlining its void management processes and reducing its void turnaround times leading to a significant reduction in voids rent losses. The programmed decommissioning of a number of the Group's 'tower blocks' continues and forms a key part of the asset management being undertaken.
- 1.4 During the period, the Group also delivered several new development schemes and sold all of its properties for sale. Details of the Group's property development activities are set out in Section 5.

2. Financial and Operating Highlights

- 2.1 Income and expenditure amounts are for the 6 months ended 30th September 2019. Comparatives are for the prior year corresponding period (PYCP) (6 months ended 30th September 2018). Balances and other information are as at 30th September 2019. Comparatives are as at the prior year end (PYE) (31st March 2019), unless otherwise stated.
- 2.2 The Statement of Comprehensive Income for the 6 months ended 30th September 2019 and the Statement of Financial Position as at 30th September 2019, plus the comparatives, are set out in Appendix 1.
- 2.3 A number of financial performance indicators and measures, based on the consolidated results for 30th September 2019 and the comparatives, are set out in Appendix 2.

2.4 The financial and operating highlights are as follows:

Income and Expenditure

- Turnover for the period is £49,141k (PYCP: £48,447k)
- Turnover from social housing lettings for the period is 95.7% (PYCP: 98.1%)
- Operating surplus for the period is £9,774k (PYCP: £11,329k)
- Operating margin (including gain on disposal of housing properties) is 25.7% (PYCP: 26.4%)
- Net interest payable in the period is £5,386k (PYCP: £7,651k)
- Surplus for the financial period is £7,231k (PYCP: £5,145k)
- Interest cover is 3.06 (PYCP: 2.27)

Balances and Capital Expenditure

- IGL managed 22,088 units at the beginning of the financial year (2018: 21,897 units), and had a leasehold interest in 1,112 units (2018: 1,036 units)
- Housing properties at cost (excluding accumulated depreciation) at the period-end is £610,866k (PYE: £600,196k)
- Investment in existing and new housing properties during the period is £12,463k (PYCP: £12,059k)
- New homes completed in the period is 76 (PYCP: 61)
- Net debt at the period-end is £287,135k (PYE: £294,390k)
- Gearing (Assets) is 47.0% (PYE: 49.0%)
- Net debt per unit is £13,000 (PYE: £13,444)
- Reserves at the period end are £36,009k (PYE: £28,778k)

Other Information

- S&P Credit Rating (26th September 2018) is A+ (negative)
- Regulatory Judgement (24th April 2019) is G1 - Governance, and V1 - Financial Viability

3. Results Overview

3.1 The Group continues to generate the majority of its income from social housing activities. As such, the results have been impacted by the statutory reduction in rents of 1% for the financial year 2019/20. This is the fourth and final year of the current rent reduction regime and results are expected to improve on a like-for-like basis going forward.

3.2 The loan restructuring exercise has resulted in a significant reduction in interest payable. This has contributed towards a significant improvement in the surplus for the financial period in comparison to the prior period. This surplus is significantly ahead of budget.

- 3.3 The Group's financial covenants, including Interest Cover, Gearing (Assets) and Net Debt per Unit, all show improvement in comparison with the prior period.
- 3.4 The annual review of the S&P credit rating is currently taking place and an announcement will be made on this in due course. The Group's Regulatory Judgement was reconfirmed at the highest available rating during the current financial year.

4. Comments on Results

- 4.1 Greg Robinson, Assistant Chief Executive – Resources, commented:
“Incommunities is delighted to announce a solid set of results, improving our ‘bottom line’ and outperforming our half year budget. It is particularly pleasing to note a significant reduction in interest payable as a result of the loan restructuring exercise carried out over the past year. Not only has this exercise reduced interest payable, it has also provided funds for an accelerated development programme, and reduced the Group's funding risk.”
- 4.2 Geraldine Howley, Group Chief Executive, commented:
“We continue to improve our social housing services and the ‘offer’ we make to our customers. Most recently, this has been through such initiatives as the implementation of a Dynamic Repairs Scheduling system and an Active Asset Management system. These innovative advances will not only improve our services and the ‘offer’ we make to our customers, but should also have a beneficial effect on our financial performance. I am pleased to report that we are already experiencing this improvement with a significant reduction in our voids turnaround times and a resultant reduction in voids rent losses.”

5. Property Development Programme

- 5.1 The Group develops its housing properties through a dedicated subsidiary, BCHT Development Company Limited. During the 6 months ended 30th September 2019, the Group delivered 76 new housing properties over six schemes. Of these properties, 41 are affordable housing, 19 rent-to-buy, 12 shared ownership and four for sale.
- 5.2 At 30th September 2019, the Group has some 200 units in development over a number of schemes. These are made up of affordable housing, rent-to-buy, and shared ownership units.
- 5.3 Following the loan restructuring exercise, the Group is seeking to accelerate its future property development programme. Further announcements on the Group's proposed future programme will be made in due course.

6. Funding Facilities

- 6.1 During the 6 months ended 30th September 2019, the Group, through its subsidiary Sadeh Lok Limited, signed off a restated facility agreement for £20m with Royal Bank of Scotland. This represents the final stage of the Group-wide debt restructuring exercise, which included the issue of the £250m own name, public issue bond on 21st March 2019.
- 6.2 The debt at 30th September 2019 is £305,832k (PYE: £305,890k). No additional loans have been drawn during the period. The reduction in debt of £58k during the period is made up of a repayment of £2k against other loans, a discount on issue of £27k re-credited to the bond, and a write-off of £83k made to the fair value adjustment on consolidation.
- 6.3 At the period end, the Group's consolidated loan portfolio is made up of the following:

Funder	Facility Type	Facility Amount £'000	Debt Amount £'000	Available Amount £'000	Final Repayment Date
Bond	Fixed Rate	250,000	198,397	50,000	21 Mar 2049
Barclays	Fixed Rate	40,000	40,000	0	26 Nov 2043
Barclays	Variable Rate	55,000	14,932	40,068	20 Feb 2026
NatWest	Variable Rate	40,000	40,000	0	8 Feb 2029
RBS	Variable Rate	20,000	10,000	10,000	12 Jul 2029
THFC	Fixed Rate	650	650	0	31 Oct 2023
Other loans	Fixed Rate	280	280	0	30 Sep 2051
Fair value adj.		0	1,573	0	30 Sep 2051
Total		405,930	305,832	100,068	

- 6.4 Interest Cover for the 6 month period is 3.06 (PYCP: 2.27) and Gearing (Assets) at the period-end is 47.0% (PYE: 49.0%).

7. Outlook

- 7.1 The business outlook remains positive with continuing opportunities for growth and development and the Group's improved operational and financial capacity to take advantage of these opportunities.
- 7.2 The external environment remains relatively benign with low interest rates and low inflation. We anticipate that there will be some pressure going forward on wage increases, which form a significant element of our operating expenditure, but this should be manageable.

Enquiries: Please contact Greg Robinson, Assistant Chief Executive – Resources, on 01274 257 013 or at Greg.Robinson@Incommunities.co.uk

Disclaimer

The information in this announcement has been prepared by Incommunities Group Limited and is for information purposes only. The Results Announcement should not be construed as an offer or solicitation to buy or sell any securities issued by the Parent, the Issuer 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.

This unaudited announcement contains certain 'forward-looking' statements reflecting, among other things, our current views on markets, activities and prospects. Actual and audited outcomes may differ materially. Such statements are a correct reflection of our views only on the publication date and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Financial results quoted are unaudited. We do not undertake to update or revise such public statements as our expectations change in response to events.

Consolidated Results for the 6 Months Ended 30th September 2019 and Other Financial Information

Consolidated Statement of Comprehensive Income*	6 M.E. 30 Sep 2019 £'000	6 M.E. 30 Sep 2018 £'000	Movement £'000	Change %
Turnover	49,141	48,447	694	1.4%
Operating Expenditure:				
Operating Costs	(38,354)	(37,118)	(1,236)	(3.3%)
Cost of Sales	(1,013)	-	(1,013)	N/A
Operating Surplus	9,774	11,329	(1,555)	(13.7%)
Gain on Disposal of Housing Properties	2,843	1,467	1,376	93.8%
Net Interest Payable and Finance Costs	(5,386)	(7,651)	2,265	29.6%
Surplus Before Tax	7,231	5,145	2,086	40.5%
Taxation	-	-	-	N/A
Surplus for the Period	7,231	5,145	2,086	40.5%
Actuarial Gain/(Loss) on Pension Schemes	-	-	-	N/A
Total Comprehensive Income for the Period	7,231	5,145	2,086	40.5%

Consolidated Statement of Financial Position	30 Sep 2019 £'000	31 Mar 2019 £'000	Movement £'000	Change %
Fixed Assets	439,775	438,059	1,716	0.4%
Current Assets	23,359	17,754	5,605	31.6%
Current Liabilities	(20,121)	(20,256)	135	0.7%
Net Current Assets / (Liabilities)	3,238	(2,502)	5,740	229.4%
Total Assets Less Current Liabilities	443,013	435,557	7,456	1.7%
Longer Term Liabilities	(378,615)	(378,390)	225	0.1%
Pension Scheme Liabilities	(28,389)	(28,389)	-	N/A
Total Net Assets	36,009	28,778	7,231	25.1%
Income and Expenditure Reserve	36,009	28,778	7,231	25.1%
Total Reserves	36,009	28,778	7,231	25.1%

*The consolidated results for the 6 months ended 30th September 2019 and the corresponding prior period do not include a provision for corporation tax payable or receivable in the period, or any movements on pension schemes liabilities, both of which form part of year-end adjustments.

Other Financial Information	6 M.E. 30 Sep 2019 £'000	6 M.E. 30 Sep 2018 £'000	Movement £'000	Change %
Turnover from Social Housing Lettings	47,040	47,529	(489)	(1.0%)
Surplus on Social Housing Lettings	11,193	12,657	(1,464)	(11.6%)
Amortisation of Government Grants	412	398	14	3.5%
Depreciation of Housing Properties	(8,698)	(8,691)	(7)	(0.1%)
Depreciation of Other Assets	(387)	(401)	14	3.5%
Capitalised Major Repairs	4,434	3,706	728	19.6%
Investment in New Build Properties	8,029	8,353	(324)	(3.9%)
New Homes Completed	76	61	15	24.6%

Other Financial Information	30 Sep 2019 £'000	31 Mar 2019 £'000	Movement £'000	Change %
Total Units in Management (at beginning of financial period)	22,088	21,897	191	0.9%
Historic Cost of Properties (excl. Accumulated Depreciation)	610,866	600,196	10,670	1.8%
Cash and Cash Equivalents	18,697	11,500	7,197	62.6%
Total loans	(305,832)	(305,890)	58	0.0%

Financial Performance and Indicators for the 6 Months Ended 30th September 2019

Operating Results	6 M.E. 30 Sep. 2019	6 M.E. 30 Sep. 2018
Turnover from Social Housing Lettings ¹	95.7%	98.1%
Operating Margin on Social Housing Lettings ²	23.8%	26.6%
Social Housing Cost per Unit (£) ³	£1,824	£1,762
Operating Margin (Incl. Gain on Disposal of Housing Properties) ⁴	25.7%	26.4%
EBITDA-MRI to Net Interest ⁵	3.13	2.32
Net Margin ⁶	14.7%	10.6%
Return on Capital Employed ⁷	2.8%	2.9%

Financial Covenants	30 Sep. 2019	31 Mar. 2019
Interest Cover ⁸	3.06	2.27
Gearing (Assets) ⁹	47.0%	49.0%
Net Debt per Unit ¹⁰	£13,000	£13,444

Notes

- 1 Turnover from social housing lettings / Turnover
- 2 Operating surplus on social housing lettings / Turnover from social housing lettings
- 3 Revenue and capital social housing costs / Total units in management (at beginning of financial period)
- 4 Operating surplus (incl. gain on disposal of housing properties) / Turnover
- 5 Adjusted operating surplus / Net interest payable
(Adjusted operating surplus = operating surplus (incl. gain on disposal of housing properties) + depreciation of housing properties + depreciation of other assets - capitalised major repairs - amortisation of government grants)
- 6 Surplus for the period / Turnover
- 7 Operating surplus (incl. gain on disposal of housing properties) / Total assets less current liabilities
- 8 Adjusted operating surplus / Net interest payable
(Adjusted operating surplus = operating surplus (incl. gain on disposal of housing properties) + depreciation of housing properties - capitalised major repairs - amortisation of government grants)
- 9 Net financial indebtedness / Historic cost of properties (excl. accumulated depreciation)
(Net financial indebtedness equals total loans - cash and cash equivalents)
- 10 Net financial indebtedness / Total units in management (at beginning of financial period)