

**MORhomes**



**Business Review**  
**Quarter ending 31 December 2023**



## Summary

- Half Yearly Financial Report for the 6 months ended 30 September 2023 released during quarter:
  - One-off gains of almost £1.4m pre-tax (principally from one borrower settling early in July 2023)
  - Retained earnings moved from £0.6m negative at 31 March 2023 to £0.4m positive at 30 September 2023
  - Total equity increased by over 27% from 31 March 2023 to 30 September 2023
  - Operating expenses down over 14% on prior year through tight cost management
  - Both underlying operating expenses and underlying pre-tax result better than budget
  - Maintaining financial strength
- S&P rating affirmed as A- in December, though outlook revised to negative due to recent short-term industry-wide reduction in long-term borrowing / skew towards short-term borrowing, notwithstanding S&P capital ratios increased by over 40%:
  - Unadjusted RAC = 30.6% (2022 = 21.5%)
  - Adjusted RAC = 3.6% (2022 = 2.5%)
- Other developments
  - 100% of loans fully secured, 155% cover



## MORhomes' S&P rating

- S&P affirmed A- rating in December – an outcome which highlighted the inherent strength of the platform and its borrowers
- S&P positive about MORhomes' capabilities and portfolio:
  - “The company’s risk management policies are sophisticated”
  - “It assesses credit risk effectively and closely monitors the asset quality of its lending portfolio”
  - “Generally still solid credit quality of MORhomes’ borrowers”
  - Match-funding policy “ensures that the company will not form significant funding or liquidity gaps”
  - “MORhomes’ liquidity assessment remains strong”
- Outlook revised to negative due to recent short-term industry-wide reduction in long-term borrowing / skew towards short-term borrowing



## 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 – Sep 2023

- **MORhomes borrowers have margins significantly stronger than average**
  - Operating margin and EBITDA MRI margin now over 8 percentage points stronger than industry average
  - EBITDA margin over 5 percentage points stronger than industry average
  - Operating margin and EBITDA margin both stronger than prior quarter

	MORhomes	Peer Group
Operating Margin	24.4%	16.6%
EBITDA Margin	35.0%	29.6%
EBITDA MRI Margin	25.1%	16.5%

### Notes

Peer group = Regulated English HAs.

Source: <https://www.gov.uk/government/publications/2023-global-accounts-of-private-registered-providers>



## MORhomes borrowers vs Peers – Sep 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
- **Void losses and arrears lower than average**
  - Void losses at 1.66% vs 1.90% industry average
  - Gross arrears at 2.96%, well below industry average of 3.90%

	MORhomes	Peer Group
Unsold Units as % total stock	0.19%	0.31%
Unsold >6mths as % total stock	0.04%	0.12%
Void losses	1.66%	1.90%
Gross arrears	2.96%	3.90%

### Notes

Peer group = Regulated English HAs.

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



## Progress on security charging - at 31 December 2023

- Security position at 31 December 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	29	53%	AA-/A+/A	A2/A3	A+/A/A-	A+/A1	14
Level 3	19	35%	A/A-	A3		A/A2	4
Level 4	3	5%	-	-		A-/A3	6
Level 5/fail	-	-	n/a	n/a	n/a	Total	25
Total	55	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 at time of MORhomes rating 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





## Merger Impact

- There are a number of mergers / proposed mergers which have been announced, some of which include MORhomes borrowers:
  - Origin, with Places for People
  - Pobl, with Linc Cymru
  - Melin, with Newport City Homes
- When mergers happen, the following process is followed:
  - MORhomes will determine whether a Lending Level Reassessment Event has occurred
  - If so, the MORhomes credit level will be reviewed:
    - Still within credit limit = no impact
    - Exceeds credit limit (either due to merger involving 2 different MORhomes borrowers, or due to the MORhomes credit level weakening) = 6 - 18 months interest reserve
    - Where 2 or more borrowers combine:
      - Exceeds maximum 12% portfolio concentration = 12 - 36 months interest reserve
      - Exceeds 25% portfolio concentration (> 6 months) = prepay down to 25% on demand

NOTE: Only one party to each of the 3 mergers referenced above is a borrower – concentration N/A



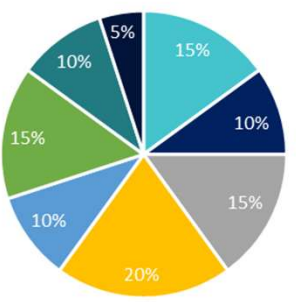
## Appendix



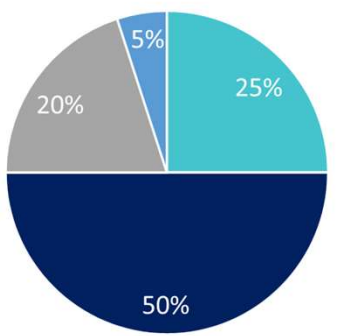
# Analysis of MORhomes loans – diverse with strong internal credit ratings

- 20 borrower groups (21 entities) with 22 loans at 31 Dec
  - Geographically diverse
  - Split between rated (1x AA-, 4x A+, 2x A, 1x BBB+) 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

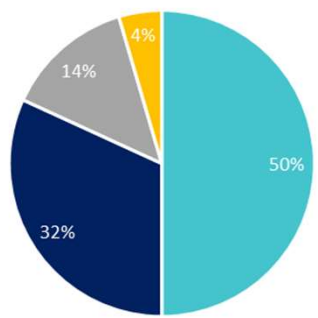
Geographic Region in the UK



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	-	BBB+



Data includes all borrower Groups as at 31 March 2023. Ratings source: Chatham Financial, rating agencies. Geographic location refers to Head Office.

## Loan portfolio as at 31 Dec 2023

Borrower	Nominal Loan
Local Space (G1/V2)	£50m
POBL Homes and Communities (C/C)	£40m
Wandle Housing Association (G1/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 (G3/V3)	£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

