5 April 2017

Telford Homes Plc

('Telford Homes' or the 'Group')

Trading Update

Telford Homes Plc (AIM: TEF), the residential property developer focused on non-prime London, is pleased to give the following update on trading ahead of its final results for the year ended 31 March 2017, which will be released on Wednesday, 31 May 2017.

Highlights

- Record revenues and profits anticipated for the year to 31 March 2017
- Profit before tax expected to be slightly ahead of current market expectations
- On track to exceed £40 million of profit before tax in the year to 31 March 2018 and £50 million in the year to 31 March 2019
- Over 80 per cent of anticipated gross profit for the year to 31 March 2018 has already been secured and over 60 per cent for March 2019
- Increased focus on build to rent with a further two significant transactions announced in the last six months
- Build to rent pipeline now represents 483 homes with a combined contract value of £232 million
- Build to rent activity anticipated to increase in the next 12 months including the potential for longer term partnerships
- Robust non-prime London market such that the Board expects a mix of sales between build to rent, individual investors and owner-occupiers in the future
- Forward sales at 1 April 2017 remain substantial at around £550 million
- Development pipeline exceeds £1.3 billion and represents more than four times revenue expected in the year to 31 March 2017

Current trading

The Board is pleased to confirm that Telford Homes expects to report record revenues and profit for the year to 31 March 2017 and that profit before tax is anticipated to be slightly ahead of current market expectations following a strong performance in the second half of the year.

In the last few months the non-prime London housing market has remained robust, despite economic and political uncertainty, underpinned by a chronic imbalance between the supply and demand for new homes, particularly at the Group's typical price point. In addition Telford Homes has continued to increase its focus on build to rent investment with two new transactions announced in the last six months.

On 21 December 2016, Telford Homes exchanged contracts for the sale of The Forge, Redclyffe Road, E6, to M&G Real Estate. The sale comprised the freehold interest in the land and the construction of 125 open market homes for a net consideration of £48.6 million. This was the Group's third build to rent transaction and its second with M&G following the sale of Carmen Street, E14 in May 2016. Both M&G and Telford Homes are keen to extend this relationship and continue to seek further build to rent development opportunities together.

On 29 March 2017, the Group announced its fourth significant build to rent transaction when its joint venture, Chobham Farm North LLP, exchanged contracts for the sale of 112 of the 297 open market homes at New Garden Quarter, Chobham Farm, Stratford, E15 for a net consideration of £53.7 million. This sale comprised the first phase of open market homes at New Garden Quarter to Folio London Limited, a subsidiary of Notting Hill Housing Group, the Group's joint venture partner at Chobham Farm. This transaction strengthens the Group's existing relationship with Notting Hill Housing Group.

Build to rent is now a significant focus for the Group with these transactions providing certainty over future revenues and cash flows, needing no debt finance and delivering strong returns on capital. Telford Homes is a valuable partner for large scale investors given its experience in delivering complex residential projects suitable for a range of tenures. It has the skills required to find land, achieve planning consents and manage and control all construction work. The recent sales have increased the total number of homes that the Group has under construction for build to rent to 483 representing a total contract value of £232 million and the Board expects further progress in this sector over the next 12 months.

Normal market demand has continued including from individual investors, both in the UK and overseas, looking for a high quality product in the right location and at the right price. The Group's last significant launch was City North, Finsbury Park in November 2016, which achieved 73 new sales at a combined value of over £43 million. Subsequent to City North, new developments which would have been launched have instead been sold for build to rent.

Sales of the remaining homes on developments completing in the next 12 months have continued and the de-risked forward sales that the Group is achieving through its build to rent transactions are enabling a more balanced sales profile to be pursued for other open market sales including the owner-occupier market and homes that qualify for London 'Help to Buy' ('HTB'). Whilst Telford Homes does not expect to significantly increase its overall exposure to HTB, the Group had a very encouraging launch of the residual availability at Bermondsey Works during March 2017, which led to 12 sales of which 11 are under HTB.

Total forward sales remain at a strong level and the Group starts the year with a considerable forward order book of circa £550 million (1 April 2016: £579 million).

Development pipeline

Telford Homes has a substantial development pipeline exceeding £1.3 billion of future revenue and representing more than four times anticipated revenue for the year to 31 March 2017. A large proportion of this pipeline is already de-risked due to the forward sold position.

The average price in the development pipeline is within the Group's target range at £517,000 and Telford Homes continues to look for non-prime opportunities where the average price of open market homes for sale is below £1,000 per square foot and therefore the majority of the homes are priced between £350,000 and £700,000.

At the beginning of February 2017, the Group added to its pipeline through the purchase of a significant development site, the former London Electricity Board ('LEB') building, on Cambridge Heath Road, E2 from the London Borough of Tower Hamlets for £30.2 million. The expected gross development value of the scheme is approximately £95 million and, subject to planning consent, the Group expects to commence work on site in 2018 with completion anticipated in 2021.

The Board is comfortable with the current pipeline and has avoided buying land at inflated prices. The Group has equity and debt available to add to the development pipeline and will do this where the opportunities fit with the Group's strategy and meet its financial hurdle rates. The Group is progressing several opportunities on a one-to-one basis including the significant joint venture site in East London mentioned in the interim results issued on 30 November 2016.

Other new opportunities are constantly being appraised and in greater numbers than during 2016. These include a mix of locations and developments that suit both individual purchasers and build to rent investors. The future build to rent strategy includes buying land in collaboration with investment partners to maximise value for both parties by designing a specific product from day one.

Outlook

The lack of supply of new homes compared to demand in non-prime London continues to present an opportunity for the Board to further their plans to grow output over the coming years. With the increased focus on build to rent the Group can look at ways of accelerating growth through de-risked sales requiring reduced equity and debt. Whilst this is achieved at a moderately lower net margin, the Group's IRR is much improved and longer term debt requirements will be reduced. Gearing at 31 March 2017 is expected to be historically low at circa 10 per cent. The Group expects to develop even closer relationships and longer term partnerships with specific build to rent investors in the coming months as part of the plan to grow this area of the business.

The Board remains confident in the Group's product and market place as it enters another exciting period of growth. Over 80 per cent of the anticipated gross profit for the year to 31 March 2018 has been secured and Telford Homes is on track to deliver over £40 million of profit before tax in that year. In addition, for the year to 31 March 2019, the Group has secured over 60 per cent of the anticipated gross profit and expects profit before tax to exceed £50 million.

Jon Di-Stefano, Chief Executive of Telford Homes, commented:

"I am delighted that after a strong performance in the second half of the year, the Group expects to report record revenues and profit before tax for the year to 31 March 2017. Telford Homes is extremely well positioned to achieve further significant growth, building homes for a chronically undersupplied non-prime London market and increasing its activity in the build to rent sector which earns higher capital returns. As a result we are on track to deliver on our stated ambitions to exceed £40 million of profit before tax in the year to 31 March 2018 and £50 million in the year to 31 March 2019."

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