PROGRESSIVE EQUITY RESEARCH

12 February 2019

SPRINGFIELD PROPERTIES

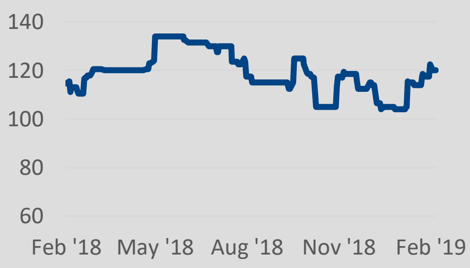
PERSONAL & HOUSEHOLD GOODS

SPR.L

120p

Market Cap: £115.6m

SHARE PRICE (p)



12m high/low	134p/104p

Source: LSE Data

KEY INFORMATION

Enterprise value	£152.8m
Index/market	AIM
Next news	Interims, 26 Feb 2019
Gearing	32.2%
Interest cover	21.1x

SPRINGFIELD PROPERTIES IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

Alastair Stewart

+44 (0) 20 7781 5308

astewart@progressive-research.com

Local hero

Scotland's only quoted housebuilder is pursuing a more rapid growth strategy than most of its larger UK peers, benefiting from an arguably greater underlying need for housing north of the border and a differentiated model, based on its local roots and knowledge. Its acquisition of Walker Group and innovative approach to private and affordable development should bolster its opportunities, while the Scottish industry does not appear to face the same margin pressure as southern peers. Springfield Properties' PTBV of 1.47x is a significant discount to the average for UK national builders.

- **Background:** Springfield, which dates back to 1988, was admitted to AIM in October 2017. We estimate it will sell almost 1,000 homes in FY 2019E (YE May), with further growth in FY 2020E and beyond driven by underlying market strength, the Walker Group acquisition and overall strategy. From its original base on the north east coast, it has expanded into the 'central belt' and central Scotland.
- **Higher growth opportunities than most UK peers.** Springfield is targeting more than the single digit percentage volume growth a number of the industry 'majors' have guided towards. This is due to relative strength of the Scottish market and strategy set out during the IPO.
- **Different models:** One of the company's 'USPs' is its 'villages' concept, such as the 3,000 home Bertha Park outside Perth; it also appears to have viewed affordable housing as a revenue opportunity rather than a 'planning gain' cost of business
- **Smart acquisitions:** Walker and Dawn Homes – both of which appear to have chosen Springfield for its similar ethos – have been important strategically, have expanded Springfield's footprint and have been made at what appear to be attractive valuations
- **More scope for margin growth:** while building costs now appear to be outstripping house price inflation for some of the quoted developers based in England, the opposite appears to be the case in Scotland
- **Valuation:** Springfield's latest historical PTBV is 1.47x, compared with a weighted 1.78x for the volume housebuilders. The acquisition of Walker Group and retained earnings should push up the NAV 40% by 2021, we estimate. The estimated dividend yield for FY 2019E is 3.7%.

FYE MAY (£M)	2017	2018	2019E	2020E	2021E
Revenue	110.6	140.7	188.2	215.0	239.5
Adj EBITDA	8.6	11.7	18.0	21.4	24.1
Fully Adj PBT	6.7	9.8	16.1	18.6	21.0
Fully Adj EPS (p)	9.2	10.7	13.3	15.4	17.4
EV/Sales (x)	1.4	1.1	0.8	0.7	0.6
EV/EBITDA (x)	17.8	13.0	8.5	7.2	6.3
PER (x)	13.1	11.2	9.0	7.8	6.9

Source: Company Information and Progressive Equity Research estimates

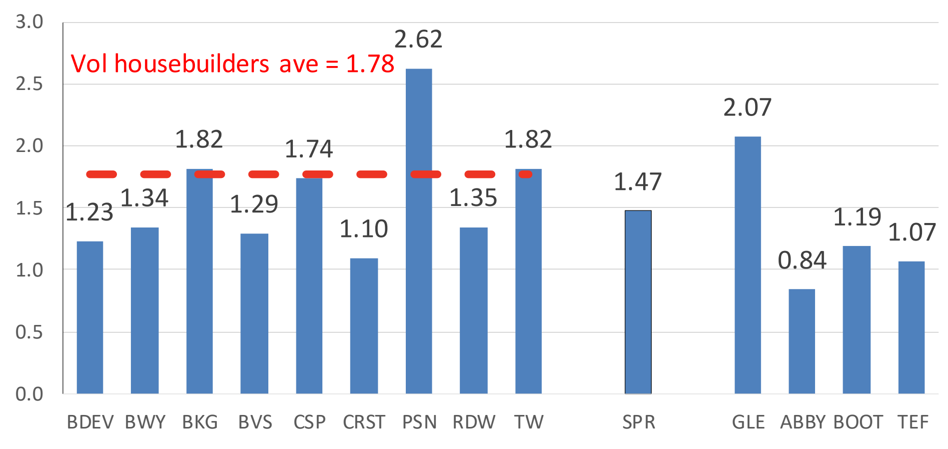
TABLE OF CONTENTS

Overview: taking the high road

Scottish housebuilder Springfield Properties, which was admitted to AIM in October 2017, could offer greater potential growth in volumes, prices and margins than larger peers focused in southern England. Economic and political dynamics could support strong growth in housebuilding volumes in Scotland, where prices so far have lagged most of the UK. The company's distinctive business model and strategically important acquisitions are supportive of our forecast compound annual growth rate (CAGR) in earnings of 17.4% pa over our three-year forecast period.

- **A more attractive market?** There is strong pressure in Scotland to build more private and affordable homes. Scotland lags England in the proportion of homes owned privately and the Scottish Government has pledged to build 50,000 affordable homes over five years to 2020-21. House prices in Scotland are more affordable in relation to household incomes than almost any other region of the UK's mainland, suggesting more upwards pressure than much of England (page 5)
- **A distinctive model.** Springfield has a differentiated business model which focuses on two differing markets, both of which have high demand and, arguably, a lower risk profile: family housing and affordable housing. It buys land 'off market' at more attractive prices than in the mainstream market, preferring more complex long-term projects, demonstrated particularly in its 'village' sites (page 11)
- **Smart acquisitions.** We estimate the £31m acquisition of Walker Group will boost group PBT by around 21% for FY 2020E. It was achieved without paying goodwill, has significantly higher gross margins than Springfield's existing private housing division and strengthens its position in popular commuter areas around Edinburgh. Last year's acquisition of Dawn Homes increased the company's footprint in the west of the country (page 12)
- **Forecasts.** Our financial projections assume CAGR in revenue of almost 20%, with operating margins rising from 7.6% to 9.6% over our forecast horizon. Net debt should fall from 2.1x EBITDA immediately following the Walker acquisition to 1.7x in FY 2021E. The company has indicated that it intends to follow a progressive dividend policy, at around a 3x dividend cover (page 18).
- **Valuation.** Springfield's latest historical PTBV (for May 2018) is 1.47x, compared to 1.78x average for the major UK housebuilders (see chart, opposite). For FY 2019E the TNAV should rise to 90.9p, representing PTBV 1.31x. The latest dividend yield for FY 2018 is 3.1% and estimated yield for FY 2019E is 3.7% (page 25).

Valuation comparisons: PTBV, latest historic* (x)



Source: Progressive estimates (SPR); Factset consensus. * Latest FY or HY

- **Risks.** These include Housing market downturn brought about by economic conditions; withdrawal of government support for private or affordable housebuilding; major political moves; supply side constraints such as labour availability or building cost inflation. (Risks discussed in more depth on page 29).

Trading statement

The first half trading statement on 17 December confirmed that revenue and profit growth for the period were in line with management's expectations and that the company intends to declare an interim dividend for the period. It also reaffirmed expectations of delivering "strong growth for the full year in line with management expectations".

Future newsflow

The interim results, to November, are due to be announced 26 February 2019.

Possible triggers for share price movements include: economic data, especially influencing interest rate decisions; specific data on Scottish housing and housebuilding; political initiatives around housebuilding and planning progress on Springfield's larger 'village' developments

Key operational and financial measures

Year-end May (£m)	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Completions	478	495	620	770	995	1,072	1,200
ASAP (£000)	172.6	182.1	176.8	180.7	189.3	200.6	199.6
Revenue	84.3	90.8	110.6	140.7	188.2	215.0	239.5
Gross profit	10.8	13.8	16.7	22.1	34.4	42.3	46.0
Gross margin (%)	12.8	15.2	15.1	15.7	18.3	19.7	19.2
Operating profit	3.8	6.1	7.8	10.7	16.9	20.3	23.0
Operating margin (%)	4.5	6.7	7.1	7.6	9.0	9.4	9.6
PBT pre-exc, g/w	3.1	5.1	6.7	9.8	16.1	18.6	21.0
EPS, diluted, pre-exc, g/w (p)	-	57.1	9.2	10.7	13.3	15.4	17.4
Dividend (p)	-	-	2.8	3.7	4.4	5.2	5.5
NAV (p)	-	-	-	82.0	91.5	102.4	114.5
Net debt	21.4	30.6	33.2	15.3	37.2	40.0	40.7
Net assets	26.2	29.2	32.4	79.0	88.2	98.6	110.4

Source: Company, Progressive estimates

Scottish market: playing catch-up

Scotland has a greater shortage of quality private and affordable housing than many parts of the UK, potentially underpinning demand, prices and margins

There are strong potential drivers to demand in both Springfield's Private and Affordable Housing divisions. Scotland lags England in the proportion of homes owned privately and the rate of newbuild has lagged England. Meanwhile, the Scottish Government has provided £3.2bn funding for a five-year programme to build 50,000 affordable homes by 2020-21. House price in Scotland are more affordable in relation to household incomes than any other region of the UK's mainland, suggesting future prices may rise, while much of England faces pricing pressure.

Scotland's use of 'missives' in the house buying process (page 9) provides a number of advantages to developers, such as lower risk of sales stalling, better operational and financial controls and the ability to offer buyers tailored homes – a Springfield speciality.

Supply and demand: supporting a rebound

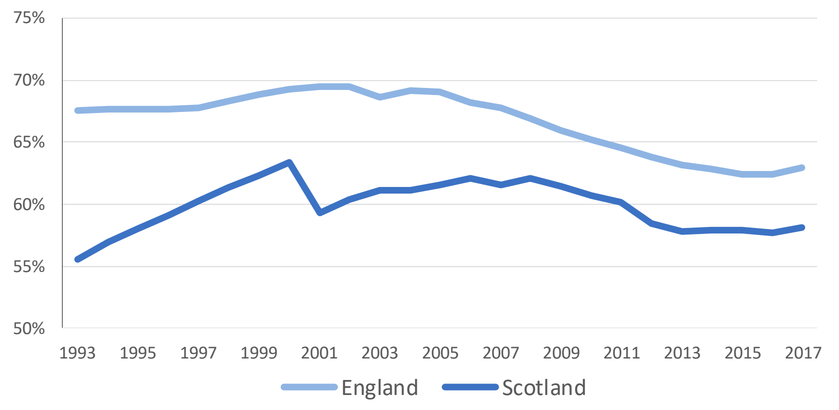
Population growth and a shortfall of private housing appear to underpin demand for new housing in the foreseeable future.

Housing stock

Scotland has a total housing stock of 2.58 million and a population of 5.42 million, equating to an average household size of 2.10 people per home. For England, it is 23.95 dwellings for a population of 55.62 million, and an average household size of 2.32.

A key difference between the housing stock of Scotland and England is its significantly lower level of home ownership, 58% versus 63%. The gap had narrowed by 2008 but has stayed doggedly at around 5% since – equivalent to potential demand of c. 123,000 homes. We believe this structural shortfall should support demand for the construction of further private housing.

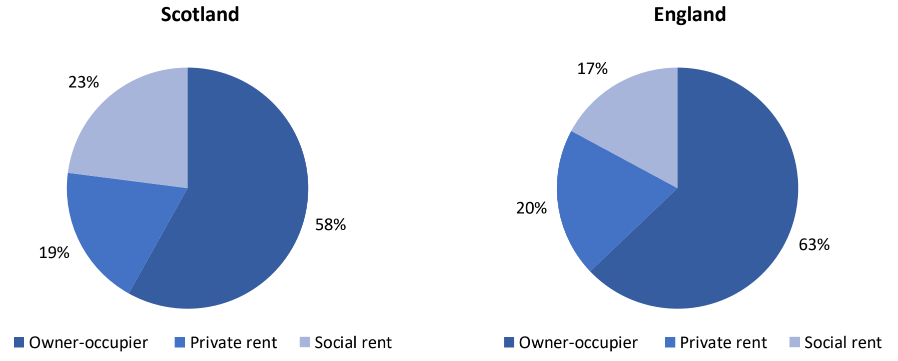
Owner-occupation as proportion of total housing stock (%)



Source: Scottish Government; ONS. Note, the fall in Scotland in 2000 – 2001 was due to a change in methodology

The difference is mainly accounted for by social housing, 23% versus 17%, with little difference between private rental.

Owner-occupation as proportion of total housing stock (%)



Source: Scottish Government; ONS

Population growth

A more open approach to inward migration could boost household formation

The Scottish Government projects the population of the country will grow by 7% between 2014 and 2039 (source: Household Projections for Scotland, January 2017).

One possible support to population growth, in our view, is the different political environment in the two countries regarding immigration. This issue featured strongly in the EU Referendum debate in England; Scotland voted strongly in favour of remaining and the Scottish Government has since adopted an overtly welcoming stance to continued inwards EU migration. If different rules on migration were to be enacted in Scotland, we assume this would increase demand for housing of all tenures.

Prices: rock bottom

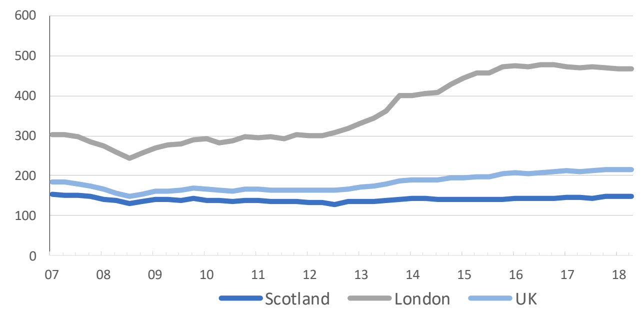
Scotland has still not recovered prices since last peak

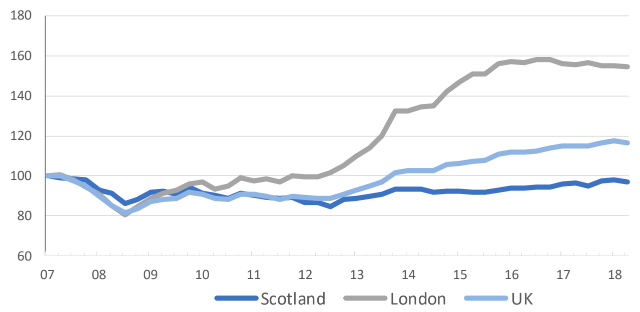
While house price growth appears to be slowing or reversing in much of England, we believe there is support for increases north of the border, where affordability is significantly higher.

Prices since last 2007 peak

Scottish house prices clearly lag behind the rest of the UK, at £147,900, a 31% discount to the UK average of £214,200 and 68% under the London average of £467,000 (below left). Moreover, Scotland has not quite reached the last peak in the market in 2007, whereas most of the UK has surpassed it (below right).

House prices, LHS (£000); re-based, RHS (2007 = 100)

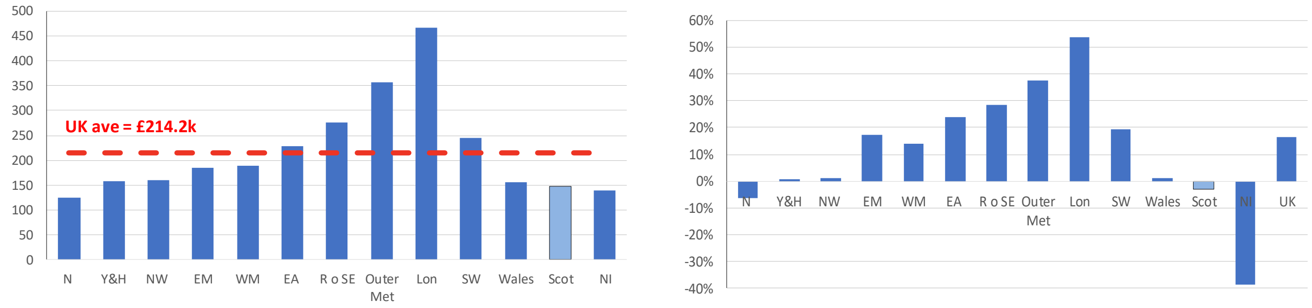




Source: Nationwide.

Looking in more detail at the regions, Scotland is the third lowest, in terms of absolute prices and falls since 2007, with only Northern Ireland and the North of England registering lower prices (below left).

Average regional house prices, LHS (£000); change since 2007 peak, RHS (%)



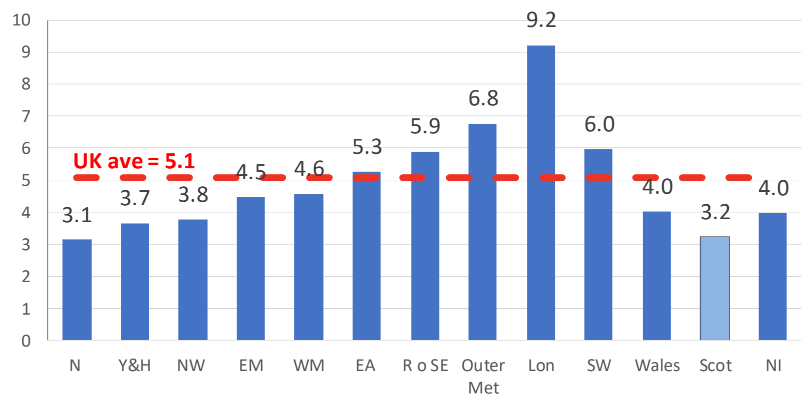
Source: Nationwide. Y&H - Yorks & Humber; R o SE - rest of South East

Affordability

(Almost) the cheapest area of mainland UK

Scotland, as a result, is almost the most affordable region in the UK, with average prices at 3.2x average earnings (just pipped by the North of England), compared to 5.1x for the UK as a whole and 9.2x in London. There are other measures of affordability, based for instance on the proportion of mortgage costs to take home income. But, in our experience, the basic benchmark of price to earnings is still a fundamental measure banks and regulators observe when setting lending policy.

First time buyers house price-earnings ratio, Q4 2018 (x)



Source: Nationwide

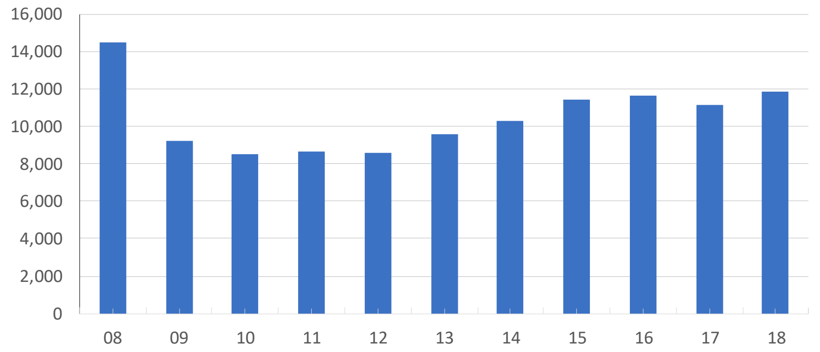
Volumes: newbuild still lagging

New build rates

Relative lack of new build activity could support demand and pricing going forward

Housebuilding completions are 18% below their 2008 peak, according to the housebuilding industry's warrantee provider, the NHBC.

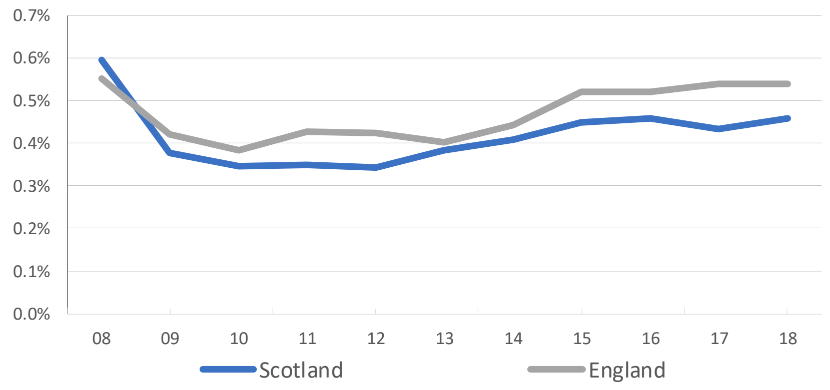
New building completions, Scotland



Source: NHBC

Scotland has been adding to its existing housing stock at a lower relative to England for much of the past 15 years. Since 2008 there have been 115,490 housing completions, a 4.76% increase on the 2007 stock level of 2.43 million, compared with 5.37% addition for England. The chart below shows that Scotland experienced a bigger decline in housing construction volumes following the Financial Crisis and has recovered more slowly since. We view this as another potential support to future house price increases.

New building completions/previous year's housing stock (%)



Source: NHBC, ONS, Scottish Government

Overall housing transactions

Housing construction remains a modest proportion of overall housing transactions, mainly secondhand, both north and south of the border. However, the level of transactions has been fairly steady at around 100,000 since 2014 – below the previous peak in 2008 and above the recessionary levels from 2009 - 13.

Scottish housing transactions, 12-month rolling total (000)

Source: HMRC

We view a steady secondary market as supportive to the newbuild market, especially for family homes, which the company specialises in. A liquid market allows existing owners to sell easily and move into new homes and ultimately 'trade-up' to larger ones.

House buying in Scotland: less 'gazumping', more control

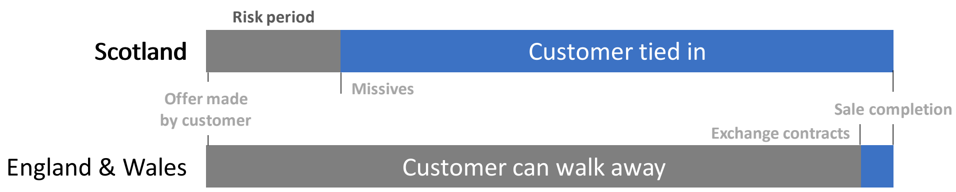
Earlier contractual obligation allows greater operational and financial control of development

The process of buying a home in Scotland differs markedly from the norm in England and Wales. The main difference is that in Scotland prospective buyers make sealed bids for a property and the highest is contractually obliged to complete the purchase at that price, via an exchange of letters known as missives. In England and Wales buyers and sellers can openly trade up or down a price, before agreeing to an offer. However, no-one is legally obliged to continue with the transaction until the formal contract has been signed and the parties have exchanged the contracts. Before this there has often been examples of 'gazumping' or 'gazundering' in the price.

This has tended to make the process lengthier and often combative in England. In the past, much of the work was undertaken by the seller's solicitor prior to marketing the property. However, in recent years in Scotland it has become more common for offers to be made with a range of conditions, thus extending the process in Scotland also.

In England the survey and searches are commissioned by the prospective buyer, generally once an offer has been accepted. In Scotland this may be undertaken by the seller's surveyor and then relied upon by the bidders and their lenders, as long as the surveyor is on the mortgage providers' approved 'panels'. This latter option can reduce the potential for several abortive surveys being undertaken by unsuccessful buyers, but it does mean that the buyer can make sure the survey is done by an approved surveyor.

Scottish and English home purchase 'time lines'



Source: Company presentation

Pros and cons

There has been much debate about relative pros and cons of the Scottish approach in the case of the wider market:

- A risk of ‘over-bidding’ in sealed envelope auctions
- Multiple surveys if buyers chose their own surveyors and not the sellers’
- Less risk of counter-bids after a sale has been agreed
- More certainty and (as many English buyers and sellers will attest) less ‘aggro’

Specifically for housebuilders, we see are a number of benefits, including:

- Springfield has stated that this allows the company to secure sales six to nine months ahead of completion
- The greater degree of certainty in the buying process allows developers to ‘build to order’ for effectively guaranteed customers, thus reducing a degree of speculative building in their outlets
- This benefits the customisation of homes, in particular, Springfield’s ‘Choices’ offer. Should a buyer, for any reason, cancels, the company will be able to recover any losses
- Greater control of the development process should, we believe, allow tighter control of costs and working capital

Scottish Government pledges 50,000 more affordable homes

First Minister’s commitment follows study of rising housing need

The Scottish National Party-led Scottish Government has made increasing housebuilding volumes one of its core policy commitments, with an emphasis on affordable housing. First Minister Nicola Sturgeon pledged in 2015 to 50,000 new affordable homes – 35,000 of them socially-rented – by 2021.

The £150m Building Scotland Fund (BSF), announced last year, commits to investing £70m in 2018-19 and £80 million from 2019-21. This will allow loans to be made to non-public sector organisations at commercial rates. This is in addition to the government’s £3.2bn Affordable Housing Supply Programme, of which funding for 2019-20, was increased in January 2019 by £70m to £826m.

The government’s commitment was based on an earlier 2015 report by the Chartered Institute of Housing Shelter Scotland and Scottish Federation of Housing Associations (link) which estimated the requirement for affordable housing at 12,014 dwellings pa over five years. This represents 64% of the expected net increase in households in Scotland (18,704) over the same period. The need was greatest in those areas where recent price inflation has been strongest and that had attracted a higher number of immigrants.

Springfield explored: distinctive model and culture

Lower-risk growth strategy backed by conservative culture

Springfield has a distinctive model which offers, in our opinion, attractively designed mid-market housing for sale as well as a more dynamic approach to affordable housing. It has adopted a more growth-orientated strategy than most larger UK national peers, but in the lower-risk areas of family housing and affordable housing. However, there still appears to be a conservative culture in the company and a collaborative approach with stakeholders in developments. We believe the high regard it appears to be held in among smaller Scottish peers may well have helped it secure its two recent acquisitions.

Originally hailing from a farming background, Springfield has built a total of over 5,000 homes since 1988, making it one of Scotland's top independent housebuilders. Including Walker, we estimate it will have an approximate 4.5% share of private housebuilding volumes and 3.5% of affordable volumes. We believe the private market share could increase due to the company's organic growth strategy as well as the potential for further acquisitions, in what is a relatively fragmented market

The company's expansion has been marked by several key phases and an innovative approach to design, customer choice and approach to affordable housing. A conservative approach to development risk allowed it to sidestep the financial crisis and take advantage of the fallout among competitors in its aftermath.

Brief history: from rural roots to national champion

From market garden to housing market

Current Chairman Sandy Adam, began housebuilding in 1988, initially developing a site in Elgin acquired 32 years earlier by his grandfather Wilfred Adam as a market garden company. For the first decade, Springfield used third-party subcontractors to carry out construction. In 1998 the company built up its own in-house construction team, during what was a boom period, allowing it to achieve greater control and capture more value from the development process. In the same year, the company launched 'Choices at Springfield', an initiative that allows buyers to customise their homes, which remains a key private housing sales differentiator (page 16).

Early expansion then timely retrenchment

The Company diversified its operations in 2002 when it constructed its first affordable homes. In 2004, work commenced on the Elgin South development which is the largest Springfield development completed to date with approximately 1,470 plots. Although demand remained high, management appeared to be increasingly concerned about an overheating land market and lending activities and chose to scale back production of private housing and reduce debt by, for instance, selling almost 400 plots to a national housebuilder, meanwhile expanding its Affordable division, fortuitously in advance of the financial crisis of 2007-08.

Redrow's exit from Scotland a springboard to growth

In 2010 the company purchased three distressed sites in Edinburgh, then in 2011 acquired Redrow's Scottish business, for approximately £49m. The acquisition boosted the group's revenue by c. 40%, added over 838 plots to the landbank and broadened its geographic reach, including the Larbert office, one of its two current administrative hubs. Springfield accepted lower margin on the Redrow sites, explaining why margins have not been historically high. However, the favourable deferred payment schedule and the advanced stage of development of the Redrow sites were key factors enabling Springfield's subsequent expansion.

Another defining move came in 2013, when Springfield secured the first of its five Village sites (page 14), Dykes of Gray in Dundee. The first sales were made in 2015 and since then 144 homes have been handed over. The site has planning permission for a further 499 homes and the potential for approximately 1,500 homes overall.

IPO

Springfield was admitted to AIM on 15 October 2017 via the placing of 23.6 million shares at 106p per share, raising £25m gross. On admission it had a market capitalisation of £87m. A key aim of the raise was to help fund Springfield's investment in its five 'village' communities (page 14).

Dawn Homes

A strategic footprint in the West of Scotland …

Springfield acquired Dawn Homes for £17.6m in cash and shares in May 2018, compared with an NAV for the business of £17m. A deferred consideration of around £2.5m is contingent on planning being approved on a large site.

The company, which was formed in 1984, is a Glasgow-based housebuilder focused on private housing in West Central Scotland and Ayrshire. It sold 87 homes in the year ended January 2018 at an adjusted average selling price of approximately £220,000. The acquisition was expected to be earnings enhancing from FY 2018/19

It immediately boosted Springfield's presence in the West of Scotland through its six operational sites and added 19 sites, with 1,366 plots, to the landbank.

There appears to be a good cultural fit and Springfield will maintain the Dawn branding.

Walker Group

… and now the east

On 1 March Springfield acquired privately-owned Walker Group for up to £31m, funded from cash and the company's borrowing facilities. The company believes this will be earnings enhancing by double digits in the current year to May and "supports and enhances existing forecasts and visibility of future years". The company builds mainly family homes of up to five bedrooms in the Edinburgh region. We estimate the acquisition should boost Springfield's output by around 140 homes in the first full year of integration.

There will be an initial consideration of £21m in cash and up to further £6m of cash payments dependent on initial and then detailed planning consents for a site at Carlaverock, near Musselburgh as well as c. £4m of general deferred consideration over two years, payable in cash or shares.

Walker's developments generally comprise between 50 and 200 homes, generally sited in more affluent locations across the Lothians. Average prices have recently been in excess of £300,000, compared to just over £220,000 last year for Springfield's private sales. The gross margin has been significantly higher, at almost 30% compared to 18% for Springfield's private housing. Walker also has the capability to deliver larger, multi-phased schemes.

Walker is currently developing five active sites with a Gross Development Value (GDV) of £100m and has five further sites in the pipeline with a GDV of over £300m, according to the Stock Exchange statement.

The deal achieves much of the company's multi-year land strategy

We believe the deal should provide a significant boost to Springfield's previously planned output in 2019-20, but thereafter provide less of an incremental addition, since the Walker landbank will provide a proportion of the land that Springfield had intended to acquire from the market. Effectively, the opportunity presented itself to achieve in one transaction much of Springfield's targeted land buying over our three-year forecast period.

Walker does not currently build affordable housing whereas development of its current land bank will require at least 346 affordable homes to be built, which should present an opportunity for Springfield's Affordable Housing division.

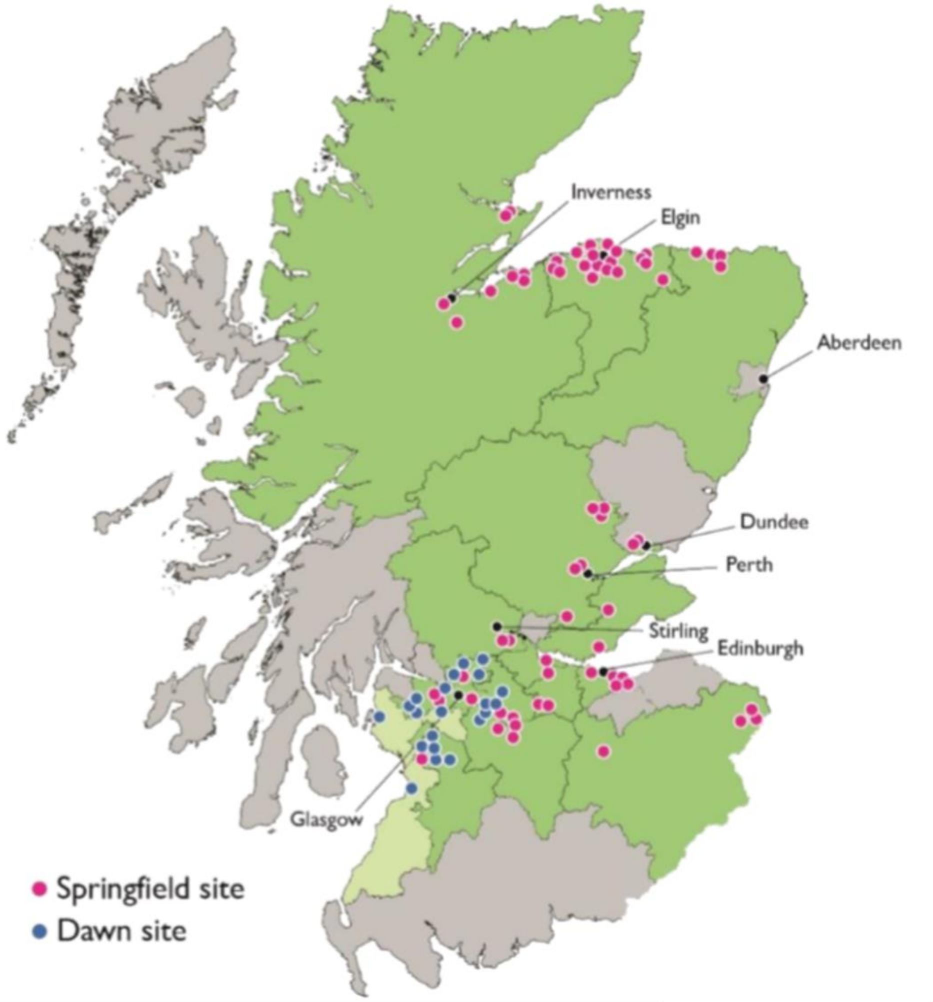
We understand that Springfield was approached by Walker Group rather than vice-versa and that Springfield was seen to represent a close cultural fit with its 50 staff. The Walker brand will be retained (as was the case with Dawn).

Focused on Scottish growth areas

Springfield originally expanded from its original Elgin base along the North East coast of Scotland, before locating in the 'Central Belt', within the commuting orbits of Edinburgh, Glasgow, Perth, Stirling and Dundee, plus sites in the Borders.

The acquisition of Dawn Homes in May 2018 strengthened the company's presence in the West of Scotland, while Walker is strong in the Lothians.

Active sites in Scotland



Source: Company presentation (pre-Walker Group acquisition)

Main competitors: UK giants and locals

UK majors are the biggest builders by volume in Scotland, but in largely a different market to Springfield

Several of the largest UK national housebuilders have a significant share of Scotland's overall housing completions, which totalled 11,756 in the 12 months to Q3 2018. These were principally Barratt (1,729 completions in latest reported year), Persimmon (1,591), Bellway (850) and Taylor Wimpey (1,257). They tend to have a large presence in the open land market, which Springfield generally avoids, but may compete with them for house sales in areas where developments are close together.

Mid-sized Scottish housebuilders include CALA Homes, Miller Homes and Stewart Milne, which cover multiple locations across the country. There are also a large number of smaller developers which generally operate in local areas and Springfield will compete with for house sales with different companies where they overlap.

What differentiates Springfield?

Family homes: longterm need, less volatile sector

Family homes are less cyclical and risky than city centre apartments

A number of larger rivals have a higher proportion of apartment sales in cities; Springfield generally avoid city centres, but developments are located within easy commuting distance and c. 70% of its private output is houses rather than apartments – a more volatile property class, in our experience. The design of these, in our opinion, tends to be on more modern clean-cut, 'Scandi' lines than the 'retro' tendency seen in volume housebuilders' standard house types prevalent in England – and generally not adapted north of the border.

Balerno (left) and Braemar (right) house types

Source: Company

Villages: strategically sited communities, playing to Springfield's strengths

Mid-sized communities within comfortable commuting distance of major cities

A cornerstone of Springfield's strategy is its focus on mid-sized 'village' communities. Almost 12,000 of the plots in the group's long-term landbank are located in five 'village' sites. All of these are within a rural context, but close to fast growing cities, with four – Dundee, Perth, Sterling and Livingstone – adjacent to major road arteries and within comfortable commuting distance of Edinburgh and Glasgow, and Elgin serving Inverness and Aberdeen.

A factor Springfield's success in securing these sites has been the close co-operation it has worked in with local councils and other stakeholders, a key differentiator for the company, in our view. The land has been secured through a combination of conditional contracts and option agreements (page 17).

Dykes of Gray, Dundee: *Located 4 miles to the west of Dundee, close to the A90. 1,500 homes targeted. 144 sales completed. Target GDV £272m, est. gross margin 29%.*

The land, former farm land, was secured in 2013 on favourable multi-year payment terms after several unsuccessful attempts by national housebuilders to acquire the land. The development has been designed in partnership with Dundee City Council. The village centre will include apartments, café, public square and public art. A planning application is being prepared for next phase of housing.

Dykes of Gray, Dundee

Source: Company presentation, website,

Bertha Park, Perth: Located to the west of Perth, close to the A9. 3,000 homes targeted. Target GDV £619m, a JV with 15% cost-plus contract.

The site revolves around a central lake and new facilities include a new high school is being built along with commercial units available for shops, restaurants, medical, leisure and community use.

Bertha Park, Perth

Source: Website

The company has three other villages, at earlier stages in the planning pipeline:

- Stirling, Central Scotland. 3,000 plots. GDV £469m. First sales expected 2019/20. Planning consent expected March 2019
- Elgin, Moray. 2,500 plots GDV £419m. First sales expected 2020. Planning approved for 870 plots
- Livingston, West Lothian. 1,900 plots GDV £314m. First sales expected 2021/22 Expect to submit planning application early in 2019

'Choices': offering customers tailored homes

Options allow a wide range of options for buyers to customise their homes

In 1998, the company launched 'Choices at Springfield', an initiative that allows customers to customise their homes, which was then considered highly innovative is still one of the key selling points of Springfield's private housing.

This interactive service allows customers to specify a wide range of options online. This is not unusual with housebuilders, but our impression is this goes further than some, offering, for instance, reconfiguration of internal walls, the addition of sun rooms etc, as well as the more normal options of carpets, wall colours and choice of kitchen and bathroom fittings.

A more pro-active approach to affordable housing

Affordable housing presents an opportunity not an obligation – government supported, with lower risk and lower capital tie-up

Springfield has, since 2002, pursued a significantly different approach to affordable or 'social' housing than most of the large quoted housebuilders. In England private housebuilders generally have to agree with local authorities to provide affordable homes, or other facilities, such as schools, on a significant proportion of most of their sites in return for planning permission for open market homes. These are referred to as 'Section 106' undertakings in England and 'Section 75' in Scotland.

This remains a requirement for much of Springfield's private housing developments, but where the company differs to many peers is it will provide affordable housing in its own right, providing 100% affordable housing developments for local authorities or housing associations. Springfield will either bring land to the client or develop the client's own land. However, the agreement is tailored, the company structure it to assure a 17% gross margin.

Although affordable housing can result in lower margins, we believe the underlying demand for the sector is less cyclical than private housing and it tends to tie up less capital, making the returns potentially attractive.

Land bank

The total land bank at YE (May) 2018 stood at 12,476 plots, with a total GDV of £2.4bn.

Land bank

Year-end May	**2017**	**2018**
Private Housing, with planning	2,459	3,652
Private Housing, without planning	3,913	5,105
Affordable Housing	2,823	3,719
Total	**9,195**	**12,476**
GDV, Private Housing, £m	1,265	1,870
GDV, Public Housing, £m	366	509
Total GDV, £m	**1,631**	**2,379**

Source: Company presentation

Background: how land is bought

At its most basic, developers identify sites that either have planning permission from the local authority or has a likelihood of gaining it; they calculate how much to pay (by subtracting build costs and target margin from the GDV); then guide the process through the remaining planning hurdles, build the dwellings and necessary infrastructure and sell the homes.

Sites can be at a wide range of stages through the planning process: from having been granted 'outline' consent (where there is agreement in principle to allow housing, but with few if any requirements for density, layout, house types and Section 75/106 requirements) to 'detailed' consent (where all of the above will largely have been specified, down to the building materials the planning department recommends).

Land can either be bought outright or, as is often the case if consent has not been granted, on one of a range of option agreements. In the case of this 'strategic land', the developer attempt to gain permission on behalf of the landowner: a small deposit is usually paid and the land owner generally agrees to sell to the developer at a discount to open market land when it detailed permission is obtained. In theory the developer can walk away from an option agreement if economic or site-specific conditions are not suitable; with a 'conditional contract' it is compelled to purchase the site once permission is granted. In practice, there is a range of variants in both options and contracts.

Springfield's approach

Attractive 'off market' opportunities, using low-risk option agreements

Around 70% of Springfield's land is secured by option agreements or conditional contracts. The company specialises in land that is not being bid for in the open market and, thus, potentially more attractive prices. This process can take much longer and requires technical skills and good knowledge of the local market and planning authorities.

This approach can be particularly successful in more complex sites, where, for instance: there are multiple owners of the land; a range of public agencies to negotiate with; remediation works or complex infrastructure needs. This is particularly the case in the 'villages' and the company's experience in affordable housing is one of Springfield's advantages, in our view. There is also an element of 'success breeds success': land owners can be more prepared to work with Springfield, possibly on more advantageous terms, having seen a record of sites being navigated through planning more successfully. Equally, public bodies can be more pro-active with a developer that has a record of collaborative working.

Financials

Volumes

Greater mid-term growth prospects than most UK volume housebuilders

We estimate that total completions will grow by a CAGR of 15.9% over the three-year forecast period. This is significantly higher than that indicated by a number of the group's largest UK-wide peers, some of which have guided towards 'single-digit' increases in completions in the current year.

Drivers of this higher level of growth, in our view, include:

- Underlying demand for private and affordable housing in Scotland
- A more pro-active approach to affordable housing
- Utilising the company's existing land bank, those added via the Dawn and Walker acquisitions and future land buying opportunities, utilising the IPO proceeds and the group's bank facilities
- For 2020, we have assumed flat volumes in Private, to reflect substitution between this and Walker, and a short-term decline in Affordable

For convenience and comparability, and to recognise the higher prices and margins in Walker, we have separated the newly acquired business in our model.

Prices

Only modest price growth assumed in our forecasts, but economic backdrop suggests that Scottish prices could rebound by more

We have taken a possibly conservative view on pricing, given our observations that housing inflation has lagged behind the southern half of the UK and that affordability is less of a constraint.

- For Private, we have assumed a 2% decline in FY 2019E, due to mix affect and 2% pa thereafter, about the rate of consumer price inflation
- Affordable assumes a reversal of 2018's decline in the current year, and then +2% pa
- For Walker, a bigger adjustment between the current year and next, due to a higher value development feeding through this year

Revenue projections

Year-end May (£m)	2015	2016	2017	2018	2019E	2020E	2021E
Private Housing							
Completions	294	399	437	460	598	598	628
Change (%)		*35.7%*	*9.5%*	*5.3%*	*30.0%*	*0.0%*	*5.0%*
ASP (£000)	210.3	195.7	197.6	221.5	217.0	221.4	225.8
Change (%)		*-6.9%*	*1.0%*	*12.0%*	*-2.0%*	*2.0%*	*2.0%*
Revenue	**61.8**	**78.1**	**86.4**	**101.9**	**129.8**	**132.4**	**141.8**
Change (%)		*26.3%*	*10.6%*	*17.9%*	*27.4%*	*2.0%*	*7.1%*
Affordable Housing							
Completions	184	96	183	310	357	339	423
Change (%)		*-47.8%*	*90.6%*	*69.4%*	*15.0%*	*-5.0%*	*25.0%*
ASP (£000)	112.4	125.6	127.0	120.2	127.4	130.0	132.6
Change (%)		*11.7%*	*1.2%*	*-5.4%*	*6.0%*	*2.0%*	*2.0%*
Revenue	**20.7**	**12.1**	**23.3**	**37.3**	**45.4**	**44.0**	**56.1**
Change (%)		*-41.7%*	*92.8%*	*60.3%*	*21.9%*	*-3.1%*	*27.5%*
Walker Group							
Completions					40	135	149
Change (%)						*na*	*10.0%*
ASP (£000)					325.0	285.7	280.0
Change (%)						*-12.1%*	*-2.0%*
Revenue					**13.0**	**38.6**	**41.6**
Change (%)						*na*	*7.8%*
Total completions	**478**	**495**	**620**	**770**	**995**	**1,072**	**1,200**
Change (%)		*3.6%*	*25.3%*	*24.2%*	*29.2%*	*7.8%*	*12.0%*
Total ASAP (£000)	**172.6**	**182.1**	**176.8**	**180.7**	**189.3**	**200.6**	**199.6**
Change (%)		*5.5%*	*-2.9%*	*2.2%*	*4.7%*	*6.0%*	*-0.5%*
Housing revenue	***82.5***	**90.1**	**109.6**	**139.1**	**188.2**	**215.0**	**239.5**

239.5

Source: Company, Progressive estimates

Margins

Our gross margin assumptions are for little change during the forecast period, but with better overhead recovery improving the operating margin. The gross margin in Walker, which has not so far delivered affordable housing, is almost double that of Springfield's existing Private Housing division.

The jump in administrative expenses in FY 2019E and FY 2020E is due to the two businesses' overheads coming together; thereafter, we expect further growth in the overhead as the group continues to expand.

Profit projections

Year-end May (£m)	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Housebuilding revenue	82.5	90.1	109.6	139.1	188.2	215.0	239.5
Other revenue	1.7	0.6	1.0	1.6	-	-	-
Total revenue	**84.3**	**90.8**	**110.6**	**140.7**	**188.2**	**215.0**	**239.5**
Change (%)			*21.8%*	*27.2%*	*33.7%*	*14.2%*	*11.4%*
Gross profit							
Private Housing	8.0	11.4	13.3	15.5	23.4	23.8	25.5
Margin (%)	*12.9%*	*14.6%*	*15.4%*	*15.2%*	*18.0%*	*18.0%*	*18.0%*
Affordable Housing	2.8	2.3	3.4	6.4	7.5	7.3	9.3
Margin (%)	*13.5%*	*19.1%*	*14.6%*	*17.2%*	*16.5%*	*16.5%*	*16.5%*
Walker					3.5	11.2	11.2
Margin (%)					*27.0%*	*29.0%*	*27.0%*
Other	(0.0)	0.1	(0.0)	0.2	-	-	-
Total	**10.8**	**13.8**	**16.7**	**22.1**	**34.4**	**42.3**	**46.0**
Margin (%)	*12.8%*	*15.2%*	*15.1%*	*15.7%*	*18.3%*	*19.7%*	*19.2%*
Admin	(7.0)	(7.7)	(8.9)	(11.5)	(17.5)	(22.0)	(23.0)
Total operating profit	**3.8**	**6.1**	**7.8**	**10.7**	**16.9**	**20.3**	**23.0**
Margin (%)	*4.5%*	*6.7%*	*7.1%*	*7.6%*	*9.0%*	*9.4%*	*9.6%*

Source: Company, Progressive estimates

Interest and tax

The increase in FY 2020E and FY 2021E reflects the rise in net debt, which we estimate will remain at around £40m. We have assumed a 20% rate of Corporation Tax, slightly above the headline rate.

P&L and per share estimates

Year-end May (£m)	2015	2016	2017	2018	2019E	2020E	2021E
Group revenue	**84.3**	**90.8**	**110.6**	**140.7**	**188.2**	**215.0**	**239.5**
COGS	(73.5)	(77.0)	(93.9)	(118.6)	(153.8)	(172.7)	(193.5)
Gross profit	**10.8**	**13.8**	**16.7**	**22.1**	**34.4**	**42.3**	**46.0**
Operating expenses	(7.0)	(7.7)	(8.9)	(11.5)	(17.5)	(22.0)	(23.0)
Share in JV net income	-	-	-	0.0	-	-	-
Operating profit	**3.8**	**6.1**	**7.8**	**10.7**	**16.9**	**20.3**	**23.0**
Exceptionals	(3.6)	-	-	(0.6)	-	-	-
Interest	(0.7)	(1.0)	(1.1)	(0.9)	(0.8)	(1.7)	(2.0)
PBT, reported	**(0.5)**	**5.1**	**6.7**	**9.2**	**16.1**	**18.6**	**21.0**
Reported tax	(0.5)	(1.0)	(1.3)	(1.9)	(3.2)	(3.7)	(4.2)
Minority interests		-	(0.1)	(0.0)	-	-	-
Net attrib. profit	**(1.0)**	**4.1**	**5.4**	**7.4**	**12.9**	**14.9**	**16.8**
PBT pre-exc, g/w	**3.1**	**5.1**	**6.7**	**9.8**	**16.1**	**18.6**	**21.0**
Year-end shares (million)			7.3	96.3	96.3	96.3	96.3
Wtd. ave. shares (million)			58.4	73.4	96.3	96.3	96.3
Diluted shares (million)			58.4	73.6	96.5	96.5	96.5
EPS, basic (p)			9.2	10.0	13.3	15.4	17.4
EPS, dil., pre-exc, g/w (p)			**9.2**	**10.7**	**13.3**	**15.4**	**17.4**
DPS - declared (p)			2.8	3.7	4.4	5.2	5.5
NAV (p)				82.0	91.5	102.4	114.5
Dividend cover (x)			3.3	2.9	3.0	3.0	3.2
EBITDA	**4.3**	**6.8**	**8.6**	**11.7**	**18.0**	**21.4**	**24.1**
Free cash flow	(4.1)	(7.7)	0.6	10.9	2.7	9.6	6.4
FCFPS (p)			1.0	14.8	2.8	9.9	6.6
TNAV (p)				81.4	90.9	101.7	113.9

Source: Company, Progressive estimates

Dividend policy

The company has indicated it intends to pursue a progressive dividend, maintaining a cover of approximately 3.0x.

Balance sheet and cashflow items

We have treated the acquisition of Walker as essentially a land deal, without any associated goodwill. £21m will be paid initially, followed by deferred payments of up to £10m over the following two years, with the acquisition line in cashflow feeding into inventories, within working capital in our summary balance sheet.

This is on top of ongoing net investment in land of £5 - 10m pa in the changes in working capital line, much of it involving the development of the villages.

This should push up net debt to around £40m before stabilising. Net debt to EBITDA should peak at 2.1x at the current year end, before trending down to 1.7x at YE 2021E.

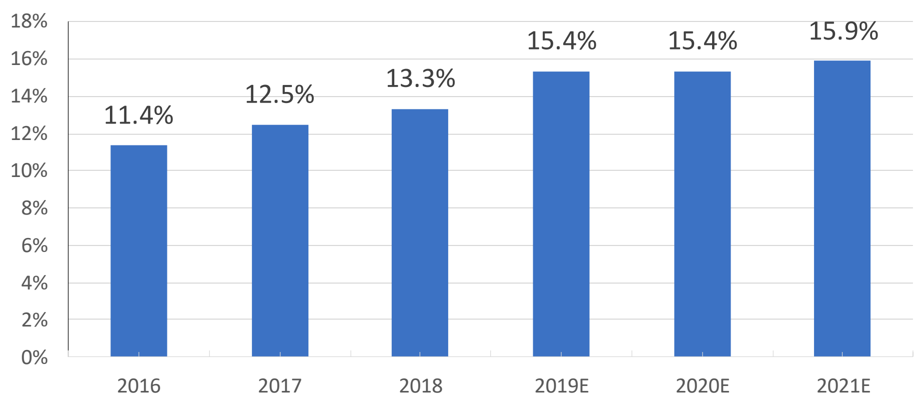
(Note that for housebuilders, land is recorded at the lower of historic cost and net realisable value, and cannot be re-valued upwards, as is the case in commercial rental properties in real estate companies.)

Returns set to improve and gearing indicators fall

The acquisition of Walker Group should temporarily push net debt up to 2.1x at YE May 2019E, but should fall rapidly to 1.7x EBITDA, despite work-in-progress requirements of the villages. Interest cover should remain comfortably above 10x under our estimates.

ROCE has been lower than some of the UK majors, most at 20%+, benefiting from strong house price inflation on the numerator side and large returns of capital on the denominator (arguably pushing up longer-term risk). However, Springfield's ROCE has been rising steadily and we expect it to continue.

ROCE (%)



Source: Company, Progressive estimates

Cash flow and balance sheet							
Year-end May (£m)	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Adjusted cashflow statement							
Operating profit inc exc.	3.8	6.1	7.8	10.6	16.9	20.3	23.0
Depreciation	0.5	0.7	0.8	1.1	1.1	1.1	1.1
Intangible amortisation	-	-	-	-	-	-	-
Other	(3.6)	(2.6)	(0.1)	(0.4)	-	-	-
Working capital changes	(3.0)	(10.1)	(5.3)	3.1	(10.0)	(5.0)	(10.0)
Operating cash flow	**(2.4)**	**(5.9)**	**3.2**	**14.4**	**8.0**	**16.4**	**14.1**
Capex	(0.3)	(0.3)	(0.3)	(0.7)	(1.2)	(1.4)	(1.5)
Interest	(0.6)	(1.0)	(1.1)	(1.1)	(0.8)	(1.7)	(2.0)
Tax	(0.8)	(0.5)	(1.1)	(1.7)	(3.2)	(3.7)	(4.2)
Free cashflow	**(4.1)**	**(7.7)**	**0.6**	**10.9**	**2.7**	**9.6**	**6.4**
Acquisitions	-	-	(0.0)	(15.3)	(21.0)	(8.0)	(2.0)
Dividends - paid	-	(2.1)	(2.3)	(0.8)	(3.7)	(4.4)	(5.1)
Financing	4.6	9.7	10.6	8.9	-	-	-
Change in cash[1]	**0.5**	**(0.2)**	**8.8**	**3.7**	**(21.9)**	**(2.9)**	**(0.7)**
Summary balance sheet							
Intangible fixed assets	-	-	-	0.6	0.6	0.6	0.6
Tangible fixed assets	2.1	2.2	2.8	4.5	4.6	4.9	5.3
Investments	0.5	0.5	0.5	1.9	1.9	1.9	1.9
Working capital	45.2	57.9	63.2	90.8	129.8	134.8	144.8
Provisions, others	(0.2)	(0.8)	(0.9)	(3.5)	(11.5)	(3.5)	(1.5)
Net cash/(debt)	(21.4)	(30.6)	(33.2)	(15.3)	(37.2)	(40.0)	(40.7)
Net assets	**26.2**	**29.2**	**32.4**	**79.0**	**88.2**	**98.6**	**110.4**

Source: Company, Progressive estimates [1] change in net cash in forecast period

Key performance indicators

Year-end May (£m)	2015	2016	2017	2018	2019E	2020E	2021E
Growth in turnover (%)		7.7	21.8	27.2	33.7	14.2	11.4
Growth in operating profit (%)		61.6	28.2	36.2	58.2	20.2	13.5
Growth in net attrib. profit (%)		(496.2)	31.8	37.2	74.8	15.6	13.1
Growth in EPS (%)			(83.9)	17.1	23.9	15.6	13.1
Growth in DPS (%)				32.1	18.9	18.2	5.8
Growth in NAV (%)					11.6	11.8	11.9
Gross margin (%)	12.8	15.2	15.1	15.7	18.3	19.7	19.2
Operating margin (%)	4.5	6.7	7.1	7.6	9.0	9.4	9.6
Net margin (%)	(1.2)	4.5	4.8	5.2	6.8	6.9	7.0
EBITDA margin (%)	5.1	6.7	7.8	8.3	9.5	9.9	10.1
ROCE (%)	7.9	11.4	12.5	13.3	15.4	15.4	16.0
ROE (%)	na	14.7	17.4	13.2	15.4	15.9	16.1
Gearing (%)	81.6	104.6	102.5	19.3	42.1	40.6	36.9
Interest cover (x)	5.5	6.1	6.9	12.0	21.1	11.9	11.5
Dividend cover (x)			3.3	2.9	3.0	3.0	3.2
Net debt/EBITDA (x)	5.0	4.5	3.9	1.3	2.1	1.9	1.7
Trade debtors	5.1	4.1	6.4	19.1	46.1	50.6	54.8
Trade creditors	20.5	20.0	25.1	33.9	31.9	36.4	40.6
Debtor days	22.2	16.5	21.3	49.6	89.4	86.0	83.5
Creditor days	101.8	95.1	97.4	104.4	75.7	77.0	76.6
Average employees	420	449.0	479	586			
Employment costs	14.5	15.7	17.8	20.6			
Average employee cost (£000)	34.4	34.9	37.2	35.2			
Employment cost inflation (%)		x1.2	6.6	(5.3)			
Sales per employee (£000)	200.6	202.2	230.9	240.1			
Op. profit per employee (£000)	9.0	13.6	16.4	18.2			

Source: Company, Progressive estimates

Valuation

Stronger price performance over past year, but PTNV is at a discount to larger peer group

Springfield's shares have rallied by 15% in the past three months, and have risen by 6% over the past year, a somewhat better performance than the -7% of the market cap weighted index for the volume housebuilders over a 12-month timescale. The key valuation metric we use for comparing most housebuilders is price-to-tangible book value (PTBV) and, in this regard, Springfield trades at 1.47x, compared with a weighted 1.78x for the larger peer group.

Price performance

Springfield's shares have edged up while the volume housebuilders have slipped back over the past 12 months (+6% vs -7% respectively). One – admittedly conjectural – market view that we have noted is that this may reflect the volume housebuilders as 'Brexit proxies' (see next page).

Valuation comparisons

Company	Price	M. cap	Price change (x)			P/E (x)		Yield (%)		PTBV (x)	
	(p)	(£m)	-1m	-3m	-12m	FY1	FY2	FY0	FY1	Hist.	10 yr
Springfield Properties	120	116	*15*	*0*	*6*	9.0	7.8	3.1	3.7	1.47	***na***
Volume builders											
Barratt Developments	553	5,590	*18*	*5*	*-2*	8.2	8.1	7.9	8.0	1.23	*0.93*
Bellway	2,797	3,440	*6*	*-7*	*-15*	6.5	6.3	5.1	5.2	1.34	*1.34*
Berkeley Group	3,758	4,832	*7*	*6*	*-3*	9.2	11.2	1.1	4.0	1.82	*1.98*
Bovis Homes Group	1,022	1,374	*19*	*2*	*-3*	10.2	9.8	5.0	9.9	1.29	*1.14*
Countyside Properties	308	1,387	*1*	*-1*	*0*	7.6	6.8	3.5	4.0	1.74	*na*
Crest Nicholson	375	962	*11*	*3*	*-25*	7.7	7.7	8.8	8.7	1.10	*1.80*
Persimmon	2,378	7,551	*20*	*1*	*-4*	8.6	8.7	9.9	9.8	2.62	*1.77*
Redrow	582	2,099	*15*	*7*	*-6*	6.6	6.4	4.8	6.4	1.35	*1.35*
Taylor Wimpey	164	5,364	*18*	*0*	*-8*	7.8	8.1	3.0	9.6	1.82	*1.46*
Average			***13***	***1***	***-7***	***8.1***	***8.4***	***5.8***	***7.6***	***1.78***	***1.87***
Regional builders											
MJ Gleeson Group	715	390	*-2*	*0*	*1*	12.0	10.8	4.5	4.7	2.07	*1.38*
Abbey (€)	1,400	300	*0*	*5*	*1*	7.5	7.5	1.3	5.0	0.84	*0.96*
Henry Boot	257	340	*6*	*-5*	*-19*	9.3	9.1	3.3	3.5	1.19	*1.15*
Telford Homes	332	249	*14*	*1*	*-15*	6.8	6.4	5.3	5.3	1.07	*1.28*

Source: Progressive estimates (SPR); Factset consensus. Priced at COB 7-2-19

FY0 = latest reported year; FY1 = current unreported year; FY2 = next forecast year; 10 yr = 10 year ave

Hawks, doves (and reality?)

Largest housebuilders' shares have been sensitive to Brexit sentiment, but there appears to be little impact on sentiment the further north from London markets are

The largest housebuilders – along with banking shares – appear to have closely followed the machinations of the Brexit negotiations. The builders and related sectors such as building materials fell sharply in the immediate aftermath of the Referendum and since then have seesawed depending on speculation of the final outcome: falling sharply when a 'no deal' outcome appears to be looming; and rebounding strongly when the tone turns more dove-ish.

A number of South East-facing housebuilders have blamed either Brexit explicitly or, more euphemistically, "political uncertainty" for caution in their outlook statements, but this stance has not been adopted by more regional builders. MJ Gleeson, for instance, pointedly stated "we do not see any signs of customer caution" in its northern English-based Gleeson Homes unit.

We believe customer sentiment is similarly detached from the Brexit debate north of the border, even though the country voted strongly on the Remain side.

Price to book value

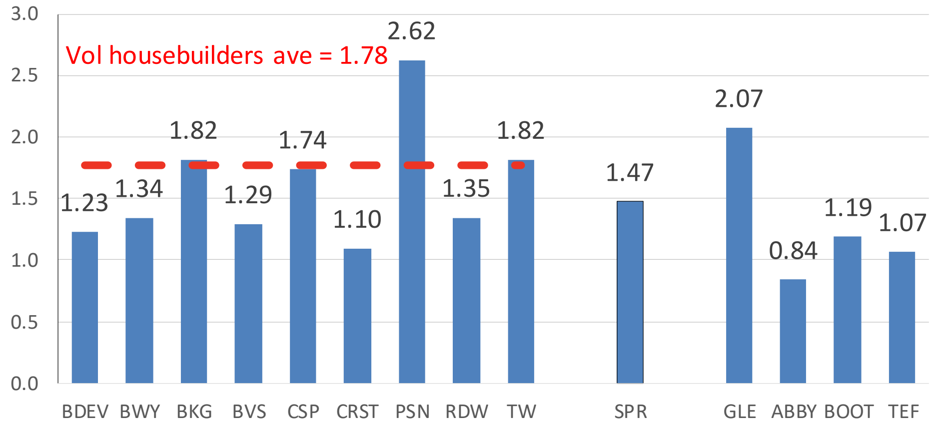
We look at PTBV since we see housebuilders as asset rather than earnings plays

We view PTBV as the key determinant of value for most of the 'pure' housebuilders (ie those without major land trading or contracting operations). Housebuilders are, above all, asset rather than earnings plays, we believe.

In contrast, earnings comparisons between housebuilders can be distorted by the length of land banks and the mix of old and new land within them. Comparisons are even harder when looking at yield: different companies have committed to varying levels of capital return and it is hard to discern 'underlying' dividends from 'specials' and share buy-backs. We believe the appetite to channel large amounts of cash to shareholders may dry up rapidly if the industry were to head into recession and/or land becomes temptingly cheap. Another factor to consider with large specials is that the 'jam today' from such payments means less in retained NAV to be assumed in future valuation considerations.

Springfield's latest PTBV is 1.47x, an 17% discount to the volume housebuilders on an average of 1.78x. There is a wider range within the fairly loose group of 'regional' housebuilders, which, to be fair, involve diverse business models (including land development at Gleeson, Irish operations for Abbey and contracting at Henry Boot).

Valuation comparisons: PTBV, latest historic* (x)

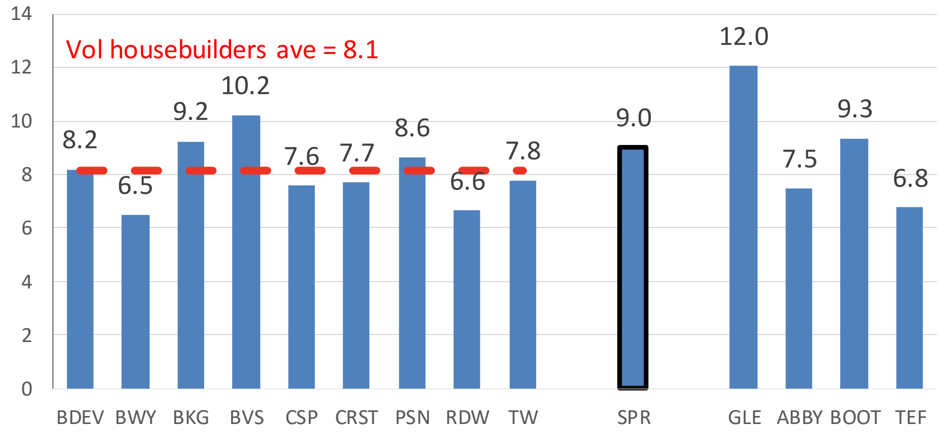


Source: Progressive estimates (SPR); Factset consensus. * Latest FY or HY. Priced at COB 7-2-19.

Price-earnings and yield

Although we do not place such emphasis on P/E, the chart below shows Springfield at a slight premium to volume housebuilders.

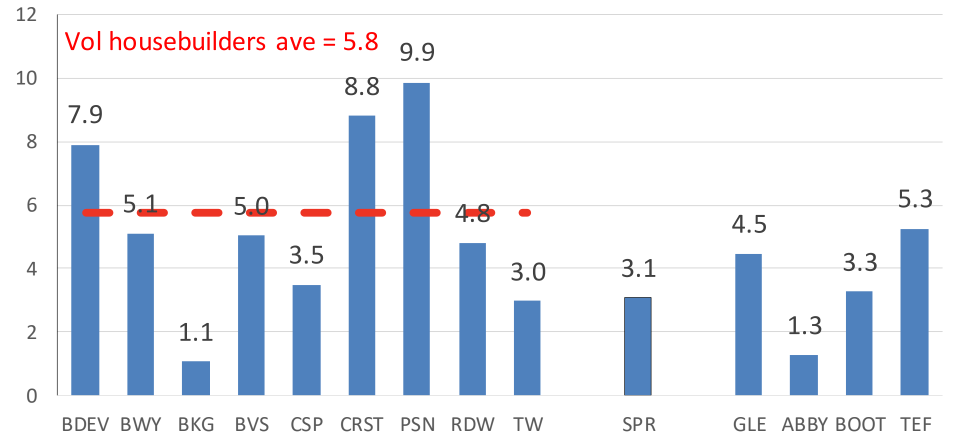
Valuation comparisons: P/E, current forecast year (x)



Source: Progressive estimates (SPR); Factset consensus. Priced at COB 7-2-19.

The chart below graphically demonstrates the varying range of 'yields'. (Berkeley's 1.1%, for instance, masks the very large staged returns and or buy-backs the cash-rich London specialist has projected for future years.)

Valuation comparisons: dividend yield, latest FY (%)



Source: Progressive estimates (SPR); Factset consensus. Priced at COB 7-2-19.

Springfield valuation considerations

NAV estimated to grow by 40% over three years

These comparisons show metrics based on current share prices and do not imply a future valuation for Springfield Properties' share price. We suggest that investors should view them in the context of their own assessments of applicable risks. We would point out the following assumptions and considerations which we have made when comparing Springfield with our chosen peer group:

- In terms of earnings (and ultimately dividend paying ability and retained earnings feeding through to NAV), Springfield's strategy is one of faster volume growth than most larger UK groups over a mid-term view. This is to be achieved organically and, where opportunities arise, through acquisitions.
- We have also indicated our view that there is less evidence of margin pressure in Scotland than in England, due mainly to greater affordability for house prices.
- Our estimates assume that NAV will climb by 40% over our three-year forecast period.
- The company, so far, has indicated a more 'straight' dividend policy, without special returns: suggesting a more 'what you see is what you get' prospect and a more transparent trajectory for retained earnings feeding into NAV. We have assumed a dividend cover of c. 3x. On that basis we expect CAGR of 14.1% in the dividend over the three-year forecast period.

Risks

Housing market downturn

This can result from a number of macro-economic factors: interest rates, unemployment or political turmoil. Buyer demand can be impacted by consumer confidence, political events or the appetite among lenders to provide mortgages. Falling prices in particular can cause disproportionate declines in land values, which could impact investors' valuation assumptions. As we have argued, we believe that most economic indicators suggest Scotland faces strong demand and has risk of falling prices than in other areas of mainland Britain.

Withdrawal of government support

The Scottish Help to Buy scheme, which allows buyers of new homes with only 5% deposits, offers a permanent interest-free 'equity loan' up to 15% of the price of the home, which is repayable in the same proportion. This differs from the scheme in England & Wales, which allows up to a 20% loan, but on which interest has to be paid after five years. Both schemes have provided a substantial boost to volume housebuilders' sales and margins. The scheme in Scotland has been extended to 2021 (in England it has been extended, with new restrictions, to 2023). However, Springfield only derives 17% of its private volumes using HTB, moderating, in our view, any impact.

A reduction in support for affordable housing could impact that division.

Changes in taxation, including stamp duty or treatment of rental income can have a major impact in demand.

Major political outcomes

The outlook for Brexit, including a second referendum could result in a wide range of positive or negative outcome for housing, including delays in consumers making buying decisions or banks shrinking mortgage volumes. Being a Scottish company, the prospect of Scotland leaving the UK, could have a range of outcomes. A more open attitude to EU migration could support housing demand.

Labour availability and building cost inflation

Availability of labour has been one of the key concerns for housebuilders during the Brexit negotiations. If build costs rise fast than house prices after land has been purchased there can be downward pressure on gross margins when the resultant homes are sold.

Appendix: management and significant shareholders

Management profiles

Sandy Adam, Executive Chairman and founder

Thirty years' experience of property development and investment Former Chairman of Homes for Scotland, the association of Scottish housebuilders. Shareholding 45.45%.

Innes Smith, Chief Executive Officer

KPMG qualified Chartered Accountant (1991-1996). Joined Springfield as FD in 2005 and became CEO in 2012. Previously FD at subsidiary of NASDAQ- and Deutsche Bourse-listed RK Carbon Fibres and another family owned, entrepreneurial company. Board member of Homes for Scotland 2016. Shareholding 1.23%.

Michelle Motion, Finance Director

Joined Springfield as Finance Director in 2013. Over 25 years' experience in property and construction industry with Morrison Developments and Avant Group (then known as Gladedale Group). MBA and qualified through the Charted Institute of Management Accountants. Shareholding 0.05%.

Non-executive directors

Roger Eddie Since 13 November 2008. Worked for the Bank of Scotland for 32 years, most recently as Director of the North of Scotland Real Estate Team. On the board of the Port of Cromarty Firth and its Cruise Highland subsidiary.

Matthew Benson Since 2011. Began career with Morgan Stanley, working in international finance in London, before establishing his consultancy business focused on the structuring and planning of residential and leisure projects. Joined Rettie & Co as a director in 2002 with responsibility for land and development, new homes and rural projects. Other responsibilities including Member of the Advisory Board of Kleinwort Hambros private bank, Trustee of Project Scotland and Director of Edinburgh Arts Festival. Matthew was also the founding chair of bio-tech businesses EctoPharma and Ryboquin.

Nick Cooper Since 2018. A qualified solicitor with over 20 years' board experience with UK-listed and private companies. From 2010 to 2015, he was Corporate Services Director at Cable & Wireless Communications, which he joined from Cable & Wireless plc, where from 2006 to 2010 he was General Counsel and Company Secretary. Previous in-house legal and corporate experience includes roles at Energis Communications Ltd, JD Wetherspoon plc, The Sage Group and Asda Group. Currently a non-executive director of AIM-listed CPP Group and private start-up companies.

Significant shareholders

Significant shareholders (%)			
Directors	46.81	City Financial	3.46
James Adam	10.58	Kames Capital	2.13
Soros Fund Management	6.79	Margaret Rae	2.12
Canaccord Genuity WM	5.56	Artemis IM	1.97
Individuals	4.38	Amati Global Investors	1.69

Source: N+1 Singer. As at 31 August 2018

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

PROFIT & LOSS	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Revenue	110.6	140.7	188.2	215.0	239.5
Adj EBITDA	8.6	11.7	18.0	21.4	24.1
Adj EBIT	7.8	10.6	16.9	20.3	23.0
Reported PBT	6.7	9.2	16.1	18.6	21.0
Fully Adj PBT	6.7	9.8	16.1	18.6	21.0
NOPAT	6.3	8.6	13.5	16.2	18.4
Reported EPS (p)	9.2	10.0	13.3	15.4	17.4
Fully Adj EPS (p)	9.2	10.7	13.3	15.4	17.4
Dividend per share (p)	2.8	3.7	4.4	5.2	5.5
CASH FLOW & BALANCE SHEET	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Operating cash flow	3.2	14.4	8.0	16.4	14.1
Free Cash flow	0.6	10.9	2.7	9.6	6.4
FCF per share (p)	1.0	14.8	2.8	9.9	6.6
Acquisitions	0.0	(15.3)	(21.0)	(8.0)	(2.0)
Disposals	0.5	0.1			
Shares issued	0.1	42.2			
Net cash flow	8.8	3.7	(21.9)	(2.9)	(0.7)
Overdrafts / borrowings	41.5	27.3	53.2	58.4	61.2
Cash & equivalents	8.3	12.0	16.1	18.4	20.4
Net (Debt)/Cash	(33.2)	(15.3)	(37.2)	(40.0)	(40.7)
NAV AND RETURNS	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Net asset value	32.4	79.0	88.2	98.6	110.3
NAV/share (p)	443.3	82.0	91.5	102.4	114.5
Net Tangible Asset Value	32.4	78.4	66.6	69.0	78.7
NTAV/share (p)	443.3	81.4	69.1	71.6	81.7
Average equity	30.8	55.7	83.6	93.4	104.5
Post-tax ROE (%)	17.4%	13.2%	15.4%	15.9%	16.1%
METRICS	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Revenue growth	N/A	27.2%	33.7%	14.2%	11.4%
Adj EBITDA growth	N/A	36.4%	53.0%	19.0%	12.8%
Adj EBIT growth	N/A	35.9%	58.5%	20.2%	13.5%
Adj PBT growth	N/A	46.1%	64.4%	15.6%	13.1%
Adj EPS growth	N/A	17.1%	23.9%	15.6%	13.1%
Dividend growth	N/A	32.1%	18.9%	18.2%	5.8%
Adj EBIT margins	7.1%	7.6%	9.0%	9.4%	9.6%
VALUATION	**2017**	**2018**	**2019E**	**2020E**	**2021E**
EV/Sales (x)	1.4	1.1	0.8	0.7	0.6
EV/EBITDA (x)	17.8	13.0	8.5	7.2	6.3
EV/NOPAT (x)	24.1	17.7	11.3	9.4	8.3
PER (x)	13.1	11.2	9.0	7.8	6.9
Dividend yield	2.3%	3.1%	3.7%	4.3%	4.6%
FCF yield	0.8%	12.3%	2.4%	8.3%	5.5%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

 PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL's directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.