

# SPRINGFIELD PROPERTIES

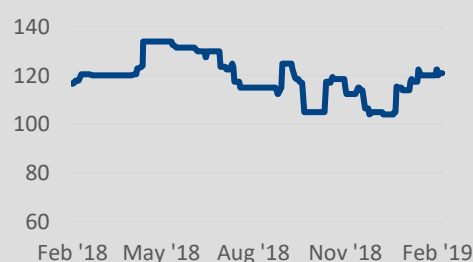
## PERSONAL & HOUSEHOLD GOODS

### SPR.L

121p

Market Cap: £116.6m

#### SHARE PRICE (p)



12m high/low

134p/104p

Source: LSE Data

#### KEY INFORMATION

Enterprise value	£153.7m
Index/market	AIM
Next news	Prelims, Sep 2019
Gearing	31.9%
Interest cover	21.1x

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## Comfort and joy

Scotland's only quoted housebuilder's interims delivered strong growth in volumes and margins and an upbeat statement on current trading. Revenue rose 38% YoY, while adj PBT almost doubled. This appears to leave Springfield comfortably on track to meet our FY 2019E estimates. We are not changing these but note that the latest half year has already made a significantly stronger contribution to our FY estimate than H1 2018 to the FY 2018 out-turn.

- Strong start.** Revenue rose 38% to £75.7m for the six months to November, slightly higher than the 34% YoY increase we estimate for the FY – which will be augmented by an initial contribution from Walker Group, acquired on 1 February. PBT rose by 99%, helped by an increase in gross margin from 15.4% to 17.2% and better overhead recovery. The proposed interim dividend was lifted by 20%, slightly more than the 18.9% increase we have factored in for this year's full pay-out. Net debt grew as anticipated, from £13.7m to £25.3m. On an annualised measure, ROCE improved from 10.6% to 12.7%.
- Comfortably on track for FY estimates.** We have not changed any of our estimates, for more detail see our initiation note, *Local hero*, 12 February 2019. The H1 2019 PBT equates to 38% of our FY 2019E estimate, compared with a first half contribution of 31% to last year's out-turn. In particular, our assumptions for Affordable Housing look undemanding, given the strong performance, with gross profit up 89%.
- Upbeat outlook.** Given the strong first half and the positive dynamics for private and affordable housing in Scotland, the board "remains confident of continuing to deliver sustained growth and of achieving full year results in line with market expectations".
- More strong data on Scottish prices and volumes.** Latest data from the HMRC and RICS reinforces the broader theme in our initiation, that housing transaction volumes and pricing in Scotland are more positive than in most of the rest of the country. New housing demand should be further underpinned by a relative under-supply of private housing north of the border and the Scottish Government's commitment to support the delivery of 50,000 new affordable homes by 2021.
- Valuation.** The latest historic PTBV of 1.43x compares with an average of 1.83x for the major UK housebuilders. Based on our FY 2019 estimate, the stock yields 3.6%.

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)	17.9	13.1	8.6	7.2	6.4
PER (x)	13.2	11.3	9.1	7.9	7.0

Source: Company Information and Progressive Equity Research estimates

## Strong private and affordable housing performance

**Both divisions supported by demand for private and affordable housing**

Volumes, revenues and profitability improved for both sides of the business in the first half to November. Although Private Housing provides the greater contribution to profit, Affordable Housing saw the greater rise in profits YoY, with gross profit for the divisions rising by 55% and 87% respectively. As we argued in our initiation note, [Local hero](#), 12 February 2019, Springfield's 'USP' has been that it has targeted both market, rather than seeing affordable housing as a revenue opportunity rather than a 'planning gain' cost of business, which we believe to be the case with many mainstream housebuilders.

We are adopting a conservative approach and not changing our FY estimates, given various political uncertainties that might cloud the outlook for the rest of the year for private housing and public investment in affordable housing. However, the strong performance in Affordable housing in particular, provides added confidence in our numbers. The acquisition on 1 February 2019 of Walker Group, we believe, should make a modest contribution to H2, and driving further growth in FY 2020 and beyond.

Looking at the wider Scottish housing market and housebuilding, we believe prices are now catching up on several years of lagging the rest of the UK and transaction volumes are also healthier (page 6). This is partly due to an undersupply of private housing, while affordable housing should be supported by Scottish Government's commitments to increase supply.

### Private Housing: new sites drive returns

**Big increase in margin reflects the completion of almost all 'legacy' sites. 'Villages' taking shape**

There was a 27% YoY increase in completions, with slight slippage in average selling prices (ASP) to £227k due to a change in mix (see detailed breakdown page 4). The gross margin rose from 14.3 to 17.9%, with the prior year being depressed by legacy sites acquired during the downturn – all but one of which has now been completed. The half year also showed the positive impact of the May 2018 acquisition of Dawn Homes, which generates slightly higher margins. The private landbank has expanded to 10,805 plots (8,757).

There was further progress in the period in the group's 'village' sites – a key differentiator for Springfield. There were 28 completions, at its most advanced location, Dykes of Dundee, bringing total occupations to 136 in total. Sales launches have commenced at Bertha Park, outside Perth. Good progress was made on the Dawn Homes sites.

### Affordable Housing: higher margin projects targeted

Completions increased by 51% to 145, and average selling prices rose by 7.9% to £132k, again impacted by mix. Gross margins increased from 15.8% to 18.3% as the division focused on targeting higher margin projects.

### Financials: debt on track, ROCE improving

The total landbank increased from 12,476 to 15,096, with a gross development value of £2.9bn (£2.4bn).

Admin expenses increased significantly, from £4.9m to £7.0m, reflecting the larger scale of the business to support increased activity and the integration of Dawn Homes. We expect further increases in H2, partly due to the acquisition of Walker.

Net debt rose to £25.3m, due to an expansion of working capital and in line with the trajectory of our estimates. We continue to expect YE 2019E net debt of £37m, reflecting the Walker acquisition. On an annualised basis (doubling operating profit and average CE during period), our measure of ROCE improved from 10.6% to 12.7%.

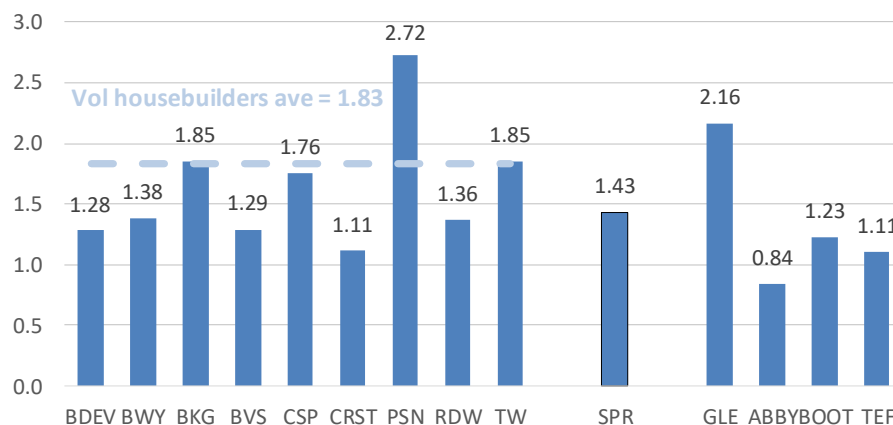
## Key issues: a distinctive model in a healthy market

- 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.
- 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.
- 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 Scotland.

## Valuation

Springfield's latest historical PTBV (for November 2018) is 1.43x, compared to 1.83x average for the major UK housebuilders (see below).

### Valuation comparisons: PTBV, latest historic\* (x)



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

## HY revenue projections

	2018 H1	2018 H2	2018 FY	2019 H1	2019 H2 E	2019 FY E
<b>Private Housing</b>						
Completions	184	276	460	234	364	598
YoY change (%)	-6.1%	14.5%	5.3%	27.2%	31.9%	30.0%
ASP (£000)	233.5	213.4	221.5	227.2	210.5	217.0
YoY change (%)	12.3%	12.7%	12.0%	-2.7%	-1.4%	-2.0%
<b>Revenue</b>	<b>43.0</b>	<b>58.9</b>	<b>101.9</b>	<b>53.2</b>	<b>76.6</b>	<b>129.8</b>
YoY change (%)	5.5%	29.1%	17.9%	23.7%	30.1%	27.4%
<b>Affordable Housing</b>						
Completions	96	214	310	145	212	357
YoY change (%)	41.2%	86.1%	69.4%	51.0%	-1.2% <sup>1</sup>	15.0%
ASP (£000)	122.3	119.3	120.2	132.0	124.3 <sup>2</sup>	127.4
YoY change (%)	-0.7%	-7.8%	-5.4%	7.9%	4.2%	6.0%
<b>Revenue</b>	<b>11.7</b>	<b>25.5</b>	<b>37.3</b>	<b>19.1</b>	<b>26.3</b>	<b>45.4</b>
YoY change (%)	40.2%	71.6%	60.3%	63.0%	3.0%	21.9%
<b>Walker Group</b>						
Completions					40	40
YoY change (%)						na
ASP (£000)					325.0	325.0
YoY change (%)						na
<b>Revenue</b>					<b>13.0</b>	<b>13.0</b>
YoY change (%)						na
<b>Total completions</b>	<b>280</b>	<b>490</b>	<b>770</b>	<b>379</b>	<b>616</b>	<b>995</b>
YoY change (%)	6.1%	37.6%	24.2%	35.4%	25.6%	29.2%
<b>Total ASAP (£000)</b>	<b>195.4</b>	<b>172.3</b>	<b>180.7</b>	<b>190.8</b>	<b>188.3</b>	<b>189.3</b>
YoY change (%)	5.0%	1.4%	2.2%	-2.4%	9.3%	4.7%
<b>Housebuilding revenue</b>	<b>54.7</b>	<b>84.4</b>	<b>139.1</b>	<b>72.3</b>	<b>115.9</b>	<b>188.2</b>

54.7

Source: Company, Progressive estimates

Our Affordable Housing estimates appear particularly conservative

As discussed above, we believe our FY 2019 estimates are particularly conservative in the case of Affordable Housing (highlighted in blue). For H2 2019, they imply: <sup>1</sup> a YoY reduction in completions; <sup>2</sup> a fall in prices compared with H1 2019; and, <sup>3</sup> a marked fall in the gross margin compared with H1 2019.

<sup>4</sup> The 37.9%: 62.4% H1:H2 PBT split suggests less of a task in the second half to meet our estimates than was the case in meeting the FY 2018 out-turn.

### HY profit projections

Year-end May (£m)	2018 H1	2018 H2	2018 FY	2019 H1	2019 H2 E	2019 FY E
Housebuilding revenue	54.7	84.4	139.1	72.3	115.9	188.2
Other revenue	0.1	1.5	1.6	3.4	(3.4)	-
<b>Total revenue</b>	<b>54.8</b>	<b>85.9</b>	<b>140.7</b>	<b>75.7</b>	<b>112.5</b>	<b>188.2</b>
YoY change (%)	10.5%	40.9%	27.2%	38.3%	30.9%	33.7%
<b>Gross profit</b>						
Private Housing	6.1	9.4	15.5	9.5	13.9	23.4
Margin (%)	14.3%	15.9%	15.2%	17.9%	18.1%	18.0%
Affordable Housing	1.9	4.5	6.4	3.5	4.0	7.5
Margin (%)	15.8%	17.8%	17.2%	18.3%	15.2% <sup>3</sup>	16.5%
Walker					3.5	3.5
Margin (%)					27.0%	27.0%
Other	0.4	(0.2)	0.2	0.1	(0.1)	-
<b>Total</b>	<b>8.4</b>	<b>13.7</b>	<b>22.1</b>	<b>13.1</b>	<b>21.3</b>	<b>34.4</b>
Margin (%)	15.4%	15.9%	15.7%	17.2%	18.9%	18.3%
Admin, associates	(4.8)	(6.7)	(11.5)	(6.7)	(10.8)	(17.5)
<b>Total operating profit</b>	<b>3.6</b>	<b>7.0</b>	<b>10.7</b>	<b>6.4</b>	<b>10.5</b>	<b>16.9</b>
Margin (%)	6.6%	8.2%	7.6%	8.4%	9.3%	9.0%
Exceptionals	(0.3)	(0.3)	(0.6)	-	-	-
Net interest	(0.6)	(0.3)	(0.9)	(0.3)	(0.5)	(0.8)
<b>PBT, pre-exc &amp; g-will</b>	<b>3.1</b>	<b>6.7</b>	<b>9.8</b>	<b>6.1</b>	<b>10.0</b>	<b>16.1</b>
H1:H2 split (%)	31.4%	68.6%		37.9%	62.1% <sup>4</sup>	

Source: Company, Progressive estimates

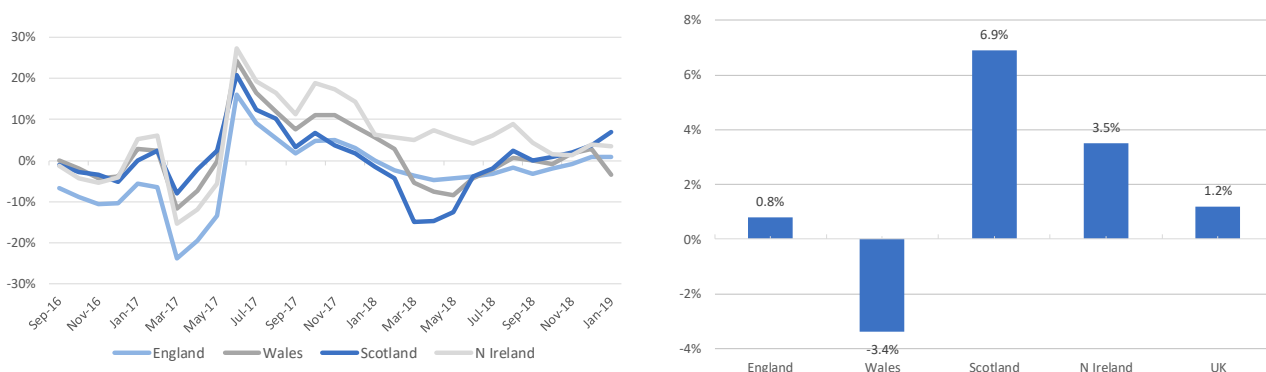
## Scottish housing market continues to gather strength

Scotland has lagged the rest of the country in house price inflation, but we believe this position is changing, due to greater affordability and an under-supply of private housing – explored in detail in our initiation note. Our estimates to 2021 assume no real house price growth (after inflation), but should this assumption prove conservative, we believe that there could be positive pressure on margins, while most UK builders have been indicating the margin cycle peaking.

### Transactions: Scotland showing greatest growth

The latest HMRC data, to January, show that Scotland experienced the greatest YoY increase in transaction volumes among the home nations.

Housing transactions, 3m rolling total, YoY change, LHS (%); latest 3m YoY change, RHS (%)

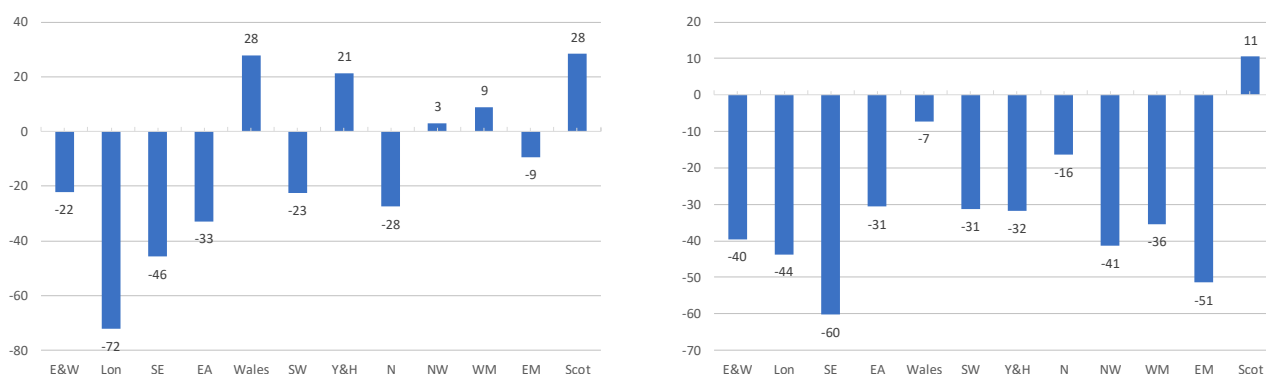


Source: HMRC

### Prices: the one region with a positive outlook?

The influential RICS survey indicated that Scotland (and Wales) saw the greatest increase in prices during January, while it was the only region in mainland Britain where estate agents expect prices to rise over the following three months.

Housing prices, by region: latest month, LHS (index<sup>1</sup>); house price expectations, next 3 months, RHS (index)



Source: RICS <sup>1</sup> Index = % of surveyors reporting a rise minus % reporting a fall. Y&H = Yorks and Humberside

## Financial Summary: Springfield Properties

Year end: May (£m unless shown)

	2017	2018	2019E	2020E	2021E
<b>PROFIT &amp; LOSS</b>					
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
<b>CASH FLOW &amp; BALANCE SHEET</b>					
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)
<b>NAV AND RETURNS</b>					
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%
<b>METRICS</b>					
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%
<b>VALUATION</b>					
EV/Sales (x)	1.4	1.1	0.8	0.7	0.6
EV/EBITDA (x)	17.9	13.1	8.6	7.2	6.4
EV/NOPAT (x)	24.3	17.8	11.4	9.5	8.4
PER (x)	13.2	11.3	9.1	7.9	7.0
Dividend yield	2.3%	3.1%	3.6%	4.3%	4.5%
FCF yield	0.8%	12.2%	2.4%	8.2%	5.5%

Source: Company information and Progressive Equity Research estimates

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