

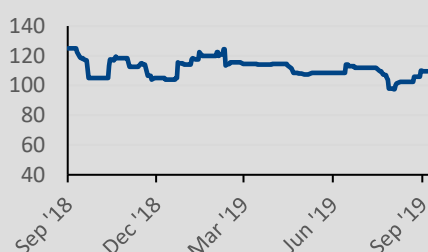
SPRINGFIELD PROPERTIES

PERSONAL & HOUSEHOLD GOODS

SPR.L

110p

Market Cap: £105.5m

SHARE PRICE (p)


12m high/low

125p/98p

Source: LSE Data

KEY INFORMATION

Enterprise value	£147.1m
Index/market	AIM
Next news	AGM, 23 Oct 2019
Gearing	39.5%
Interest cover	16.1x

 SPRINGFIELD PROPERTIES IS A
 RESEARCH CLIENT OF PROGRESSIVE

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Sigma partnership adds third string to bow

Scottish housebuilder, Springfield Properties has formed a partnership agreement with urban regeneration specialist Sigma Capital Group to deliver private rented homes in Scotland. This should establish a third strand to Springfield's growth, alongside its private and affordable housing. Although potential development opportunities remain to be identified, we believe it could further accelerate Springfield's already ambitious growth aspirations.

- New source for property sales.** Under the agreement, Springfield and Sigma will collaborate to acquire and develop sites for the private rental sector (PRS). A number of existing Springfield sites, primarily its 'Village' developments, near Dundee, Perth, Livingston and Stirling, have been identified as potential sites for PRS development. Subject to certain criteria, Sigma PRS Management (a wholly-owned subsidiary of and investment advisor to Sigma) will purchase part of these sites from Springfield and will award Springfield fixed-price 'design and build' construction contracts to deliver housing on the acquired land.
- New land opportunities.** Following handover of the homes by Springfield, Sigma will oversee lettings and property management. In addition, both will seek to identify other sites for Sigma to acquire for the purpose of PRS housing development by Springfield. CEO Innes Smith said: "This agreement stands to accelerate our delivery of homes, particularly on Village developments and increase the number of homes available in the private rented sector".
- Potential upside for estimates.** We believe this has the potential to accelerate volume growth and profitability in excess of our existing estimates. However, at this point, we believe we will need to see further details on the timing and size of potential deals, subject to planning. Due to the contracting type nature of the work, we envisage overall margin dilution on any additional revenue generated, but increased absolute profitability, lower risk and good visibility of cash flows.
- Springfield fundamentals.** The group is focused on midmarket housing for sale as well as a more pro-active approach to affordable. It was admitted to AIM in October 2017. It has adopted a more growth-orientated strategy than most larger UK national peers, supported by its extensive landbank of and the acquisitions of Dawn Homes in 2018 and Walker Group in March 2019. A major 'USP' is its network of 'Village' communities. Valuation (FY 2020E): P/E, 7.0x; yield, 4.7%, PBV, 1.06x.

FYE MAY (£M)	2018	2019	2020E	2021E	2022E
Revenue	140.7	190.8	216.0	240.4	255.2
Adj EBITDA	11.7	18.6	21.8	24.4	26.2
Fully Adj PBT	9.8	16.5	18.6	20.8	22.6
Fully Adj EPS (p)	10.7	13.9	15.5	17.4	18.9
EV/Sales (x)	1.0x	0.8x	0.7x	0.6x	0.6x
EV/EBITDA (x)	12.5x	7.9x	6.7x	6.0x	5.6x
PER (x)	10.2x	7.9x	7.0x	6.3x	5.8x

Source: Company Information and Progressive Equity Research estimates

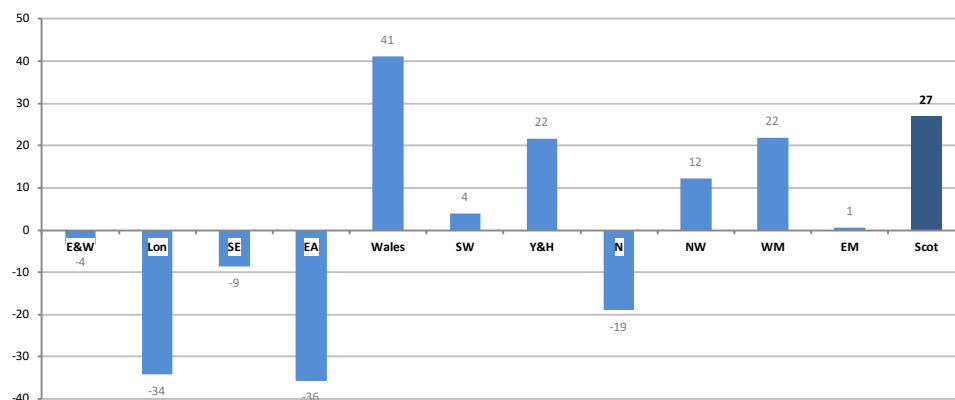
A further stimulus to growth outlook

New rental model adds to strong dynamics of Scottish private and affordable housing operations

We believe the agreement, with a pioneer in UK PRS, adds potential for further growth, albeit without firm indicators of timing and scale at present, on top of an already positive outlook we have indicated for Springfield (see 17 September, [Great expectations](#)):

- **Private Housing.** The relative strength of volume demand and house prices in Scotland private housing relative to much of the UK, due to greater affordability, provide a comparatively solid backdrop versus larger UK groups, a number of which are also facing margin pressure. Scotland has recently seen the fastest price growth except Wales in the latest RICS Residential Market Survey (below).
- **Affordable Housing.** Springfield's twin track approach to affordable housing – provides it with two sales routes: via the requirement for private developments under Section 75 agreements (similar to the English S. 106) with local authorities or on standalone developments that consist entirely of affordable homes.
- **Distinctive development approach.** The company's distinctive, integrated 'Village' developments – of which five are underway or planned – are a major driver of planned growth. The Sigma deal should particularly support this.
- **M&A opportunities.** The acquisition of Dawn Homes in 2018 and Walker Group in March 2019 boosted the company's expansion and we believe there could be further opportunities for consolidation among mid-sized private companies within Scotland.
- **New regional growth.** This month Springfield secured a major strategic land acquisition in the rapidly growing city of Inverness, the main centre for the Highlands – a further example of the group's regional expansion within Scotland.

House price changes, last 3 month (index*)



Source: RICS. * % of surveyors reporting rise minus % reporting fall

Potential financial impact

Opportunities are likely to be sizeable but uncertain on timing and scale – but potentially positive to estimates

By the nature of the agreement, developments are likely to be material in size, but at this point uncertain in scale and timing, particularly given the planning hurdles to be negotiated. Nonetheless, we believe they offer scope to accelerate revenue, albeit at potentially lower margins since Springfield will be carrying out work on Sigma's PRS properties on a contracting-type basis. We envisage separate disclosure for this work.

Additional benefits we see include Springfield getting cash for the sale of sites or parts of developments to Sigma, thus reducing capital employed and improving visibility of cash flows and risk profile and it could introduce the group to potential new land sources and clients.

Springfield: growth-orientated approach in Scotland

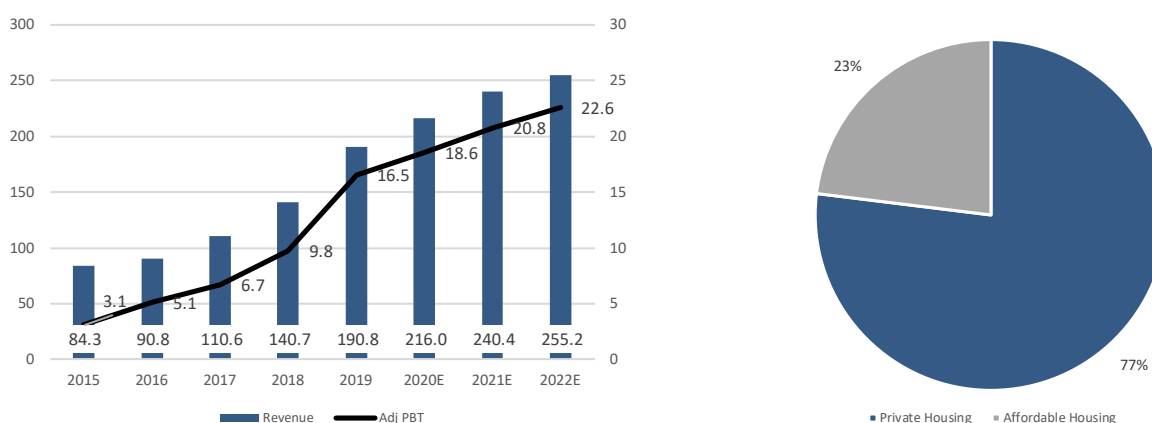
Extensive landbank, acquisitions and 'Village' approach to drive planned growth

Springfield was formed in 1988 and is focused on attractively designed midmarket housing for sale as well as a more pro-active approach to affordable housing – offering it directly to housing associations and local authorities in addition to the regulatory requirement on most private developments. It was admitted to AIM in October 2017.

It has adopted a more growth-orientated strategy than most larger UK national peers, supported by its extensive landbank of 15,938 plots and the acquisitions of Dawn Homes in May 2018 and Walker Group in March 2019. A major 'USP' is its network of currently five 'Village' communities in development or planning, near major towns including Dundee and Perth, with associated infrastructure and community facilities including schools.

In the FY to May 2019, adjusted PBT rose by 69% to £16.5m; adj EPS rose 29.1% to 13.9p; and the dividend was increased by 18.9% to 4.4p. The group sold a total of 952 homes during the year, a 24% increase. Private housebuilding volumes rose by 37% to 630 homes, or by 27% before the 45 part-year contribution from Walker Group. Affordable Housing, increased volumes by 3.9% to 322 homes.

Revenue & adjusted PBT, 2015 – 22E (£m), LHS; revenue by division, FY 2019 (%), RHS



Source: Company information and Progressive Equity Research estimates

Sigma: early mover in PRS, boosted by new Scottish fund

Sigma, an innovator in PRS sells to and manages separately-quoted PRS REIT

Sigma Capital Group (SGM.L) is a PRS, residential development and urban regeneration specialist, with offices in Edinburgh, Manchester and London. It was one of the earliest movers in build to rent (BTR), focusing on family housing for middle income groups rather than the high-rise development route of many rivals. Its subsidiary, Sigma PRS Management Limited, is the investment adviser to The PRS REIT – into which Sigma sells a proportion of its developed homes. PRS REIT was IPO'd in May 2017.

In April 2019, Sigma launched the Sigma Scottish PRS Fund (PRSR.L), with initial resources of £43m, including £30m investment from the Scottish Government's Building Scotland Fund in the form of a revolving credit facility. This is the first dedicated vehicle to focus on the creation of new rental homes for families in the private rented sector in Scotland.

Financials

Revenue and profit projections

Year-end May (£m)	2016	2017	2018	2019	2020E	2021E	2022E
Private Housing							
Completions	399	437	460	630	725	768	791
Change (%)	35.7%	9.5%	5.3%	37.0%	15.0%	6.0%	3.0%
ASP (£000)	195.7	197.6	221.5	227.0	236.1	238.4	243.2
Change (%)	-6.9%	1.0%	12.0%	2.5%	4.0%	1.0%	2.0%
Revenue	78.1	86.4	101.9	143.3	171.0	183.1	192.4
Change (%)	26.3%	10.6%	17.9%	40.6%	19.4%	7.1%	5.1%
Affordable Housing							
Completions	96	183	310	322	338	423	454
Change (%)	-47.8%	90.6%	69.4%	3.9%	5.0%	25.0%	7.5%
ASP (£000)	125.6	127.0	120.2	133.0	133.0	135.7	138.4
Change (%)	11.7%	1.2%	-5.4%	10.6%	0.0%	2.0%	2.0%
Revenue	12.1	23.3	37.3	42.9	45.0	57.3	62.9
Change (%)	-41.7%	92.8%	60.3%	15.1%	4.8%	27.5%	9.7%
Other	0.6	1.0	1.6	4.6	-	-	
Group revenue	90.8	110.6	140.7	190.8	216.0	240.4	255.2
Change (%)	7.7%	21.8%	27.2%	35.6%	13.2%	11.3%	6.2%
Gross profit	13.8	16.7	22.1	34.3	42.3	45.8	48.5
Margin (%)	15.2%	15.1%	15.7%	18.0%	19.6%	19.0%	19.0%
Admin, other income	(7.7)	(8.9)	(11.5)	(17.3)	(22.0)	(23.0)	(23.9)
Share of associates income	-	-	0.0	0.6	-	-	-
Total operating profit	6.1	7.8	10.7	17.6	20.3	22.8	24.6
Margin (%)	6.7%	7.1%	7.6%	9.2%	9.4%	9.5%	9.6%
Exceptionals	-	-	(0.6)	(0.6)	-	-	
Net interest	(1.0)	(1.1)	(0.9)	(1.1)	(1.7)	(2.0)	(2.0)
PBT, reported	5.1	6.7	9.2	16.0	18.6	20.8	22.6
PBT, pre-exc & g-will	5.1	6.7	9.8	16.5	18.6	20.8	22.6

Source: Company, Progressive estimates

P&L and per share estimates

Year-end May (£m)	2016	2017	2018	2019	2020E	2021E	2022E
PBT, reported	5.1	6.7	9.2	16.0	18.6	20.8	22.6
<i>Underlying tax rate (%)</i>	20.3	19.1	19.0	18.8	19.0	19.0	19.0
Reported tax	(1.0)	(1.3)	(1.9)	(3.1)	(3.5)	(4.0)	(4.3)
Minority interests	-	(0.1)	(0.0)	-	-	-	-
Net attrib. profit	4.1	5.4	7.4	12.9	15.0	16.8	18.3
Year-end shares (million)		na	96.3	96.3	96.3	96.3	96.3
Wtd. ave. shares (million)		58.4	73.4	96.3	96.3	96.3	96.3
Diluted shares (million)		58.4	73.6	96.7	96.7	96.7	96.7
EPS, basic (p)		9.2	10.0	13.3	15.6	17.5	19.0
EPS, dil., pre-exc, g/w (p)		9.2	10.7	13.9	15.5	17.4	18.9
DPS - declared (p)		2.8	3.7	4.4	5.2	5.5	6.0
NAV (p)		na	82.0	91.9	103.0	115.2	128.6
Dividend cover (x)		3.3	2.9	3.2	3.0	3.2	3.2
EBITDA	6.8	8.6	11.7	18.6	21.8	24.4	26.2
FCFPS (p)		1.0	14.8	11.2	5.5	7.2	8.6
TNAV (p)		na	81.4	90.2	101.3	113.5	126.9

Source: Company, Progressive estimates

Cash flow and balance sheet

Year-end May (£m)	2016	2017	2018	2019	2020E	2021E	2022E
Adjusted cashflow statement							
Operating profit inc exc.	6.1	7.8	10.6	17.0	20.3	22.8	24.6
Depreciation	0.7	0.8	1.1	1.6	1.6	1.6	1.6
Intangible amortisation	-	-	-	-	-	-	-
Other	(2.6)	(0.1)	(0.4)	(0.2)	-	-	-
Working capital changes	(10.1)	(5.3)	3.1	(2.4)	(15.0)	(10.0)	(10.0)
Operating cash flow	(5.9)	3.2	14.4	16.0	6.8	14.4	16.2
Capex	(0.3)	(0.3)	(0.7)	(1.2)	(1.3)	(1.5)	(1.6)
Interest	(1.0)	(1.1)	(1.1)	(1.2)	(1.7)	(2.0)	(2.0)
Tax	(0.5)	(1.1)	(1.7)	(2.9)	(3.5)	(4.0)	(4.3)
Free cashflow	(7.7)	0.6	10.9	10.7	0.3	6.9	8.3
Acquisitions	-	(0.0)	(15.3)	(20.9)	(8.0)	(2.0)	-
Dividends – paid	(2.1)	(2.3)	(0.8)	(3.8)	(4.3)	(5.1)	(5.4)
Financing	9.7	10.6	8.9	4.9	-	-	-
Change in cash¹	(0.2)	8.8	3.7	(9.0)	(12.0)	(0.1)	2.9
Summary balance sheet							
Intangible fixed assets	-	-	0.6	1.6	1.6	1.6	1.6
Tangible fixed assets	2.2	2.8	4.5	5.0	4.7	4.6	4.6
Investments	0.5	0.5	1.9	2.4	2.4	2.4	2.4
Working capital	57.9	63.2	90.8	125.1	140.1	150.1	160
Provisions, others	(0.8)	(0.9)	(3.5)	(16.0)	(8.0)	(6.0)	(6.0)
Net cash/(debt)	(30.6)	(33.2)	(15.3)	(29.6)	(41.6)	(41.8)	(38.8)
Net assets	29.2	32.4	79.0	88.6	99.3	111.0	123.9

Source: Company, Progressive estimates. ¹ change in net cash in forecast period ² deferred consideration

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

PROFIT & LOSS	2018	2019	2020E	2021E	2022E
Revenue	140.7	190.8	216.0	240.4	255.2
Adj EBITDA	11.7	18.6	21.8	24.4	26.2
Adj EBIT	10.6	17.0	20.3	22.8	24.6
Reported PBT	9.2	16.0	18.6	20.8	22.6
Fully Adj PBT	9.8	16.5	18.6	20.8	22.6
NOPAT	8.6	13.8	16.4	18.5	19.9
Reported EPS (p)	10.0	13.3	15.6	17.5	19.0
Fully Adj EPS (p)	10.7	13.9	15.5	17.4	18.9
Dividend per share (p)	3.7	4.4	5.2	5.5	6.0
CASH FLOW & BALANCE SHEET	2018	2019	2020E	2021E	2022E
Operating cash flow	14.4	16.0	6.8	14.4	16.2
Free Cash flow	10.9	10.7	0.3	6.9	8.3
FCF per share (p)	14.8	11.2	0.3	7.2	8.6
Acquisitions	(15.3)	(20.9)	(8.0)	(2.0)	0.0
Disposals	0.1	0.4	0.0	0.0	0.0
Shares issued	42.2	0.0	0.0	0.0	0.0
Net cash flow	3.7	(9.0)	(12.0)	(0.1)	2.9
Overdrafts / borrowings	27.3	32.6	45.1	45.6	45.6
Cash & equivalents	12.0	3.1	3.5	3.9	6.8
Net (Debt)/Cash	(15.3)	(29.6)	(41.6)	(41.8)	(38.8)
NAV AND RETURNS	2018	2019	2020E	2021E	2022E
Net asset value	79.0	88.5	99.2	111.0	123.9
NAV/share (p)	82.0	91.9	103.0	115.2	128.6
Net Tangible Asset Value	78.4	86.9	97.6	109.3	122.2
NTAV/share (p)	81.4	90.2	101.3	113.5	126.9
Average equity	55.7	83.8	93.9	105.1	117.4
Post-tax ROE (%)	13.2%	15.4%	16.0%	16.0%	15.6%
METRICS	2018	2019	2020E	2021E	2022E
Revenue growth	N/A	35.6%	13.2%	11.3%	6.2%
Adj EBITDA growth	N/A	58.8%	17.2%	11.6%	7.5%
Adj EBIT growth	N/A	60.1%	18.8%	12.5%	8.0%
Adj PBT growth	N/A	69.2%	12.2%	12.1%	8.7%
Adj EPS growth	N/A	29.1%	12.0%	12.1%	8.7%
Dividend growth	N/A	18.9%	18.2%	5.8%	9.1%
Adj EBIT margins	7.6%	8.9%	9.4%	9.5%	9.6%
VALUATION	2018	2019	2020E	2021E	2022E
EV/Sales (x)	1.0	0.8	0.7	0.6	0.6
EV/EBITDA (x)	12.5	7.9	6.7	6.0	5.6
EV/NOPAT (x)	17.1	10.6	9.0	8.0	7.4
PER (x)	10.2	7.9	7.0	6.3	5.8
Dividend yield	3.4%	4.0%	4.7%	5.0%	5.5%
FCF yield	13.5%	10.2%	0.3%	6.6%	7.9%

Source: Company information and Progressive Equity Research estimates

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