

# SPRINGFIELD PROPERTIES

## PERSONAL & HOUSEHOLD GOODS

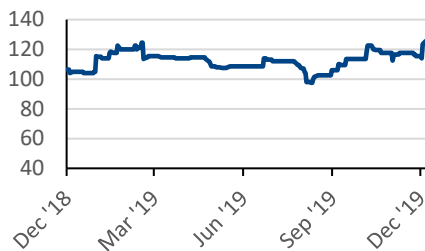
17 December 2019

SPR.L

126p

Market Cap: £120.9m

### SHARE PRICE (p)



12m high/low 126p/98p

Source: LSE Data

### KEY DATA

Net (Debt)/Cash	£(41.6)m
Enterprise value	£162.5m
Index/market	AIM
Next news	HY results, 25 Feb 2020
Shares in Issue (m)	96.3
Chairman	Sandy Adam
Chief Executive	Innes Smith
Finance Director	Michelle Motion

### COMPANY DESCRIPTION

Scotland's only quoted housebuilder, admitted to AIM in 2017 and building over 1,000 private and affordable homes pa  
[www.springfield.co.uk](http://www.springfield.co.uk)

SPRINGFIELD PROPERTIES IS A RESEARCH CLIENT OF PROGRESSIVE

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## H1 on-track as market faces “greater certainty”

Scotland's only quoted housebuilder confirms it is on-track with its revenue and gross margin aims for the first half and confirms that, with “greater market certainty” post-election, it is confident in its future prospects. We are not changing our estimates for FY 2020E and beyond and continue to believe Springfield will outperform larger UK housebuilders' growth, fuelled by under-supply of private and affordable homes north of the border.

- FY outlook in line.** Today's trading statement, for H1 to November, confirms it is on target for revenue growth and gross margin improvement in line with the management's expectations. This follows the good start to the year reported in its FY 2019 results and this momentum was maintained through the first half. We maintain our FY 2020E estimates, which imply 12% growth in EPS.
- First builder to reflect post-election outlook.** Shares in housebuilders have risen strongly since the emphatic General Election result and the RNS, the first official statement from the sector since then, hinted at the clearer political outlook: “with the UK entering a period promising greater market certainty, which will benefit our customers, our suppliers and our business, combined with a land bank providing work for at least 16 years and a skilled and dedicated workforce, we remain confident in our future prospects and in achieving our goals”.
- Private-affordable offer is group's 'USP'.** We believe Springfield stands to benefit from Scotland's under-supply of private and affordable housing – with the latter reflecting not only planning requirements on private-led developments, but also the company's partnerships housing associations and councils to supply affordable homes in their own right. We have interpreted this as a 'USP' for the group in securing development opportunities in Scotland, where affordable housing is a political imperative.
- First half highlights growth drivers.** The group has combined organic growth supplemented with two strategic acquisitions. Walker Group and Dawn Homes have both performed in line with management's expectations and the group added a third string in September 2019 with a partnership agreement with urban regeneration specialist Sigma Capital Group to deliver private rented homes in Scotland. We believe this could offer new revenue and land opportunities.

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)	1.2x	0.9x	0.8x	0.7x	0.6x
EV/EBITDA (x)	13.9x	8.7x	7.4x	6.7x	6.2x
PER (x)	11.7x	9.0x	8.1x	7.2x	6.6x

Source: Company Information and Progressive Equity Research estimates

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Please refer to important disclosures at the end of the document.

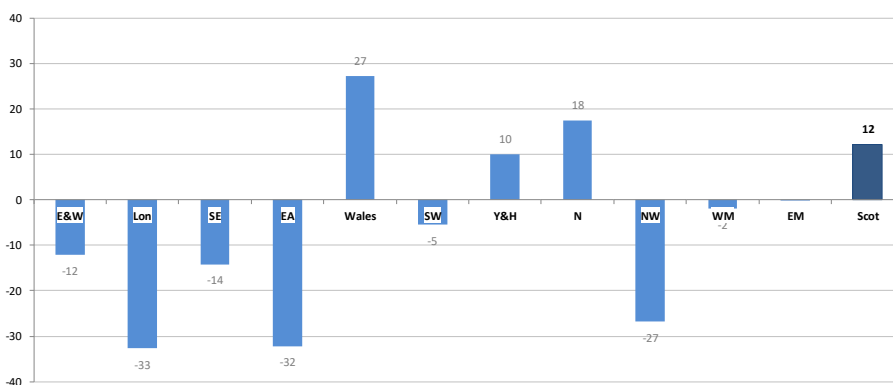
*Three strings to development bow – private, affordable and PRS – in distinctive ‘village’ communities*

## Multi-tenure approach supports broad approval

Following the agreement with Sigma Capital, the group offers a broad range of private, affordable and now private rented sector housing, in both its distinctive ‘village’ developments and in complex urban regeneration settings, summarised below.

- **Private Housing – pricing underpinned by undersupply.** As we argued in our initiation note, *Local hero*, 12 February 2019, a longstanding under-supply of private housing has allowed prices to rise at a greater rate than most of the rest of mainland Britain, demonstrated in string of latest RICS Residential Market Survey (below). We believe this should support margins, whereas several major UK housebuilders have reported downwards pressure.
- **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 trading statement provides updates of further progress.
- **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.
- **PRS partnership.** 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, have been identified as potential sites for PRS development. 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. This could offer land opportunities for both parties.
- **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 opportunities.** In September 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, 3 months to November (index\*, SA)



Source: RICS, FactSet

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

*Sharp rises in housebuilders' share prices as political uncertainty lifts*

## Political resolution lifts housing market expectations

Housebuilders' shares rose sharply, along with other property- and consumer-related stocks across the market in the two days following the General Election.

This, in our view, was in anticipation that the clear majority would unlock pent-up demand among buyers uncertain of the political and economic outlook prior to the election and in the months of political deadlock before.

There is also the prospect of substantial investment in social housing and infrastructure outlined in both the Conservative and SNP manifestos (see Progressive election special *Polls apart*, 10 December 2019, [link](#)).

**Financial Summary: Springfield Properties**

Year end: May (£m unless shown)

	2018	2019	2020E	2021E	2022E
<b>PROFIT &amp; LOSS</b>					
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
<b>CASH FLOW &amp; BALANCE SHEET</b>					
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)
<b>NAV AND RETURNS</b>					
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%
<b>METRICS</b>					
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%
<b>VALUATION</b>					
EV/Sales (x)	1.2	0.9	0.8	0.7	0.6
EV/EBITDA (x)	13.9	8.7	7.4	6.7	6.2
EV/NOPAT (x)	18.8	11.7	9.9	8.8	8.2
PER (x)	11.7	9.0	8.1	7.2	6.6
Dividend yield	2.9%	3.5%	4.1%	4.4%	4.8%
FCF yield	11.8%	8.9%	0.2%	5.7%	6.9%

Source: Company information and Progressive Equity Research estimates

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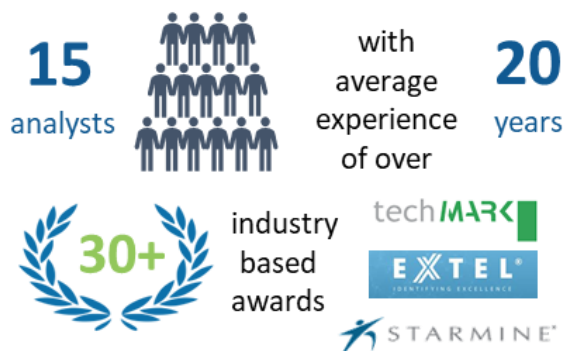
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