

SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

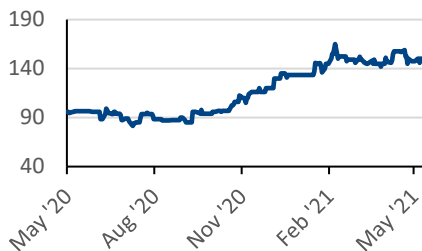
1 June 2021

SPR.L

150p

Market Cap: £152.9m

SHARE PRICE (p)



12m high/low 165p/82p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(33.2)m (at 30/11/20)
Enterprise value	£186.1m
Index/market	AIM
Next news	Trading update, July
Shares in Issue (m)	101.9
Chairman	Sandy Adam
Chief Executive	Innes Smith
Finance Director	Michelle Motion

COMPANY DESCRIPTION

Scotland's only quoted housebuilder, admitted to AIM in 2017, building over 1,000 private and affordable homes a year

www.springfield.co.uk

SPRINGFIELD PROPERTIES IS A RESEARCH CLIENT OF PROGRESSIVE

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“Excellent” H2 sales drive FY2021E upgrades

We have raised our FY2021E PBT and EPS estimates by almost 20% and cut our net debt projections following an unscheduled trading update, which guided to profits “significantly ahead of market expectations”, driven by “excellent” private housing activity and land sales. At this point we are not changing our FY2022E and FY2023E P&L estimates but expect the risk is on the upside and will re-examine these following the scheduled update in July.

- Profit and cashflow estimates raised.** We have increased PBT for the year to May 2021 by 19.2% from £15.1m to £18.0m and EPS by the same ratio from 12.3p to 14.7p. We have cut our net debt projection from £42.5m to £25.2m. We have not changed our P&L estimates for FY2022E and 2023E but have cut our net debt from £38.9m to £29.7m for FY2022E and from £30.2m to £25.0m for the following year. We will examine our estimates and dividend assumptions in more detail following the year-end update.
- Upgrade driven by market strength and land sales.** According to the statement, the strong rebound in build and sales activity seen in the first half was sustained throughout the year with the Group continuing to experience high demand across the business. In particular, “excellent sales of the Group’s private housing have been driven by the increased desirability for the type of housing Springfield offers”. These are characterised by more spacious homes, with gardens and greenspace and, especially with the Group’s Village developments. In addition, Springfield generated “material” proceeds from the sale of a total of c. 200 plots on two large developments in the Central Belt to two national housebuilders.
- Land sales boost cashflow.** Our £2.9m PBT upgrade reflects a roughly 50:50 impact from higher volumes in the Private Housing division and the profit from the land sales. The land sale demonstrates the Group’s “continued focus on realising value from its large, high-quality land bank and strengthening the balance sheet through cash generation”.
- Strong Scottish market and unique multi-tenure model.** We believe the Scottish housing market should offer significant growth in volumes and prices, due to relative undersupply. A distinctive feature is Springfield’s ‘Village’ communities; the Affordable Housing should benefit from the Scottish Government’s focus on the sector; its multi-tenure model also features its recent rental partnership Sigma. (Springfield in brief, page 2).

FYE MAY (£M)	2019	2020	2021E	2022E	2023E
Revenue	190.8	144.4	199.3	228.6	248.6
Fully Adj PBT	16.5	10.2	18.0	19.6	23.9
Fully Adj EPS (p)	13.8	8.2	14.7	15.4	18.8
Dividend per share (p)	4.4	2.0	4.5	5.0	5.5
PER (x)	0.0x	18.2x	10.2x	9.8x	8.0x
Dividend yield (%)	2.9%	1.3%	3.0%	3.3%	3.7%
EV/EBITDA (x)	10.0x	13.7x	8.5x	7.9x	6.7x

Source: Company Information and Progressive Equity Research estimates.

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Scottish market underpinned by long-term growth prospects and a distinctive home buying model. Springfield offers a differentiated and lower risk model

Springfield in brief: distinctive model in growth market

Springfield was founded by current Chairman Sandy Adam, who began housebuilding in 1988, and the Group was admitted to AIM in October 2017. We continue to believe that economic and political dynamics are likely to support growth in housebuilding volumes and prices in Scotland, where values have lagged most of the UK. In our view, Springfield benefits from a distinctive business model and we believe strategically important acquisitions and an innovative rental partnership over the past three years are supportive of a return to growth once the logistical and economic hurdles of Covid-19 normalise. For more a more detailed introduction, see our initiation note of 12 February 2019, Local hero, featured within the [Springfield research section](#) on Progressive's website.

- **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 100,000 affordable homes by 2031-32. House prices in Scotland are more affordable in relation to household incomes than almost any other region of the UK's mainland.
- **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 (the latter is provided both as part of planning requirements in the Private Housing division as well as in its own right in the Affordable Housing division, see over). The Group buys land mainly 'off market' at more attractive prices, it argues, than in the mainstream market, preferring more complex long-term projects, demonstrated particularly in its Village sites.
- **Distinctive Village communities.** A cornerstone of Springfield's strategy is its focus on mid-sized Village communities. All of these are set in a rural context, but close to fast growing cities, located in Dundee, Perth, Stirling, Livingston and Elgin. A factor in Springfield's success in securing these sites has been its close co-operation with local councils and other stakeholders, a key differentiator for the company, in our view.
- **Smart deals.** The acquisitions of Dawn Homes in 2018 increased Springfield's presence in the West of Scotland, while Walker Group in 2019 strengthens its position in popular commuter areas around Edinburgh, with higher priced homes and stronger gross margins than Springfield's then existing Private Housing division.
- **Private rental progress.** Earlier this year marked the commencement of Springfield's first private rental sector (PRS) development, in partnership with private rental specialist Sigma and Springfield acting as strategic delivery partner. The site, for 75 family homes at Bertha Park, will be the first development of single family homes for the private rented sector in Scotland. A number of existing Springfield sites, primarily in its Village developments, have been identified as potential sites for PRS development.

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

	2019	2020	2021E	2022E	2023E
PROFIT & LOSS					
Revenue	190.8	144.4	199.3	228.6	248.6
Adj EBITDA	18.6	13.6	21.9	23.5	27.8
Adj EBIT	17.6	12.1	19.5	21.1	25.4
Reported PBT	16.0	9.7	17.5	19.6	23.9
Fully Adj PBT	16.5	10.2	18.0	19.6	23.9
NOPAT	13.8	8.9	15.8	17.1	20.6
Reported EPS (p)	13.3	7.9	14.4	15.6	19.0
Fully Adj EPS (p)	13.8	8.2	14.7	15.4	18.8
Dividend per share (p)	4.4	2.0	4.5	5.0	5.5
CASH FLOW & BALANCE SHEET					
Operating cash flow	16.0	(26.6)	52.4	8.5	16.8
Free Cash flow	10.7	(31.8)	46.8	2.5	10.0
FCF per share (p)	11.2	(32.8)	47.8	2.5	9.8
Acquisitions	(20.9)	(3.2)	0.0	(2.0)	0.0
Disposals					
Shares issued					
Net cash flow	(9.0)	(1.5)	43.6	(4.4)	4.7
Overdrafts / borrowings	32.6	70.3	27.3	27.3	27.3
Cash & equivalents	3.1	1.5	2.1	(2.3)	2.4
Net (Debt)/Cash	(29.6)	(68.8)	(25.2)	(29.7)	(25.0)
NAV AND RETURNS					
Net asset value	88.5	95.9	106.7	117.6	131.7
NAV/share (p)	91.9	98.0	104.7	115.4	129.2
Net Tangible Asset Value	86.9	94.2	105.0	115.9	130.1
NTAV/share (p)	90.2	96.3	103.1	113.8	127.6
Average equity	83.8	92.2	101.3	112.1	124.7
Post-tax ROE (%)	15.3%	8.3%	13.9%	14.2%	15.6%
METRICS					
Revenue growth		(24.3%)	38.0%	14.7%	8.7%
Adj EBITDA growth		(26.9%)	60.6%	7.2%	18.5%
Adj EBIT growth		(31.3%)	61.2%	8.0%	20.6%
Adj PBT growth		(38.5%)	77.3%	8.7%	22.2%
Adj EPS growth			78.3%	4.5%	22.2%
Dividend growth		(54.5%)	125.0%	11.1%	10.0%
Adj EBIT margins	9.2%	8.4%	9.8%	9.2%	10.2%
VALUATION					
EV/Sales (x)	1.0	1.3	0.9	0.8	0.7
EV/EBITDA (x)	10.0	13.7	8.5	7.9	6.7
EV/NOPAT (x)	13.4	20.8	11.8	10.9	9.0
PER (x)		18.2	10.2	9.8	8.0
Dividend yield (%)	2.9%	1.3%	3.0%	3.3%	3.7%
FCF yield		(21.9%)	31.9%	1.6%	6.5%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

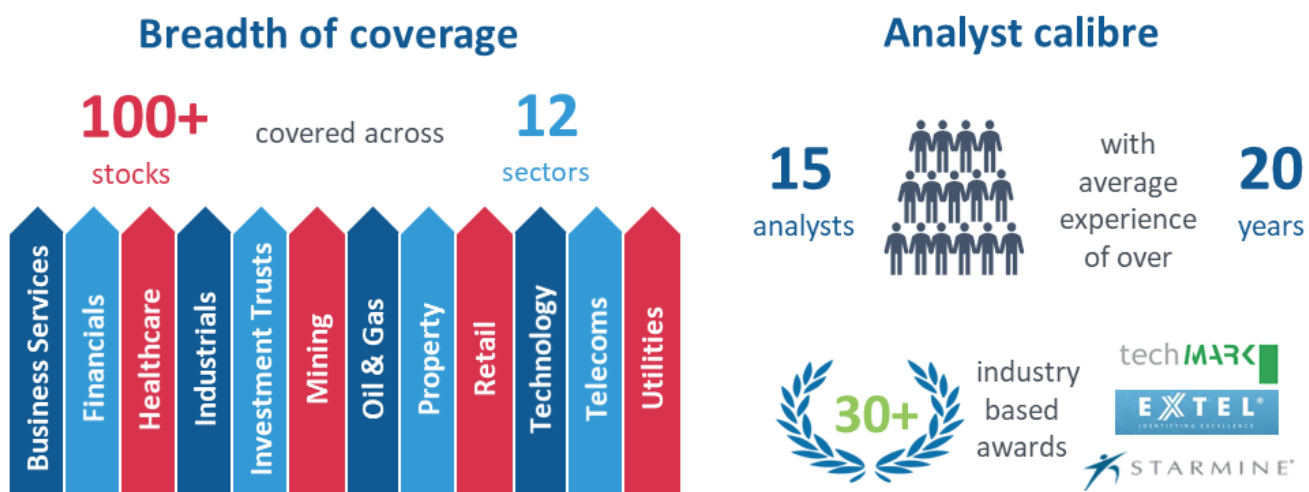
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