Progressive EQUITY RESEARCH

SPRINGFIELD PROPERTIES
HOME CONSTRUCTION

1 December 2021

SPR.L

148p

Market Cap: £151m

SHARE PRICE (p)

12m high/low	172p/105p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(20.8)m *(at 31/05/21)*
Enterprise value	£171.8m
Index/market	AIM
Next news	HY results, Feb
Shares in Issue (m)	102.4
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

ANALYSTS

Alastair Stewart

+44 (0) 20 7781 5308

astewart@progressive-research.com

Earnings-enhancing deal lifts Highlands growth

Scotland's only quoted housebuilder, Springfield Properties, has acquired Highlands developer, Tulloch Homes, for an enterprise value of £56.4m – a premium of only 6% over pro-forma NAV. The group states that it will be earnings enhancing in the current financial year, and significantly so in FY2023E. We have upgraded our estimates accordingly. Tulloch strengthens Springfield's presence in the economically vibrant region around Inverness. The consideration is to be part-funded by a £22m placing, with a £13m deferred element effectively funded by Tulloch's strong cashflow.

- **Acquisition details.** Springfield is paying an EV of £56.4m, net of Tulloch's £21.2m cash, with an initial cash consideration of £43.4m funded by £22.0m of placing shares and an expanded bank facility of £21.4m. Two deferred cash payments of £6.5m will be made in December 2022 and August 2023. The EV represents a premium of only 6.4% to Tulloch's pro-forma NAV. It takes effect from 1 December, the start of Springfield's H2.
- **Estimates hiked.** We have increased our EPS estimates (see below) for FY2022E-24E by 7.0%, 12.3% and 9.9%. respectively, while our new dividend estimates are 6.5p, 7.5p and 8.0p, up from 6.0p, 6.75p and 7.5p. Our YE2022E TNAV per share goes up from 116.0p to 117.3p. The net debt forecast for YE2022E has been raised by £20m, with roughly the same 'delta' carried through to the following two years, the deferred payments effectively being met by Tulloch's strong cashflow.
- **Current trading "in line".** The strong order book and buyer demand reported in Springfield's FY2021 results on 14 September "has been maintained throughout the first half with good sales in private housing" and delivery of the record order book in affordable housing.
- **Solid record integrating acquisitions.** This marks Springfield's fourth strategic acquisition, all of which have taken the group into new regions of Scotland, and which have been successfully integrated. The strong regional Tulloch brand and operational structure will be retained.
- **Strong Scottish market and unique multi-tenure model.** We believe the Scottish market offers significant growth in volumes and prices, due to 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 delivery of private rented homes with Sigma Capital. (Springfield in brief, page 7)

FYE MAY (£M)	2020	2021	2022E	2023E	2024E
Revenue	143.5	216.7	259.8	308.8	340.0
Fully Adj PBT	10.2	18.5	22.0	28.4	32.9
Fully Adj EPS (p)	8.2	14.2	15.9	19.2	20.6
Dividend per share (p)	2.00	5.75	6.50	7.50	8.00
PER (x)	0.0x	10.4x	9.3x	7.7x	7.2x
Dividend yield (%)	1.4%	3.9%	4.4%	5.1%	5.4%
EV/EBITDA (x)	12.6x	7.8x	6.7x	5.3x	4.6x

Source: Company Information and Progressive Equity Research estimates.

Northern exposure broadened by latest acquisition

Financially attractive deal reinforces Springfield's presence in growth area boosted by new industries and population expansion

We believe the group's fourth acquisition offers strong financial and strategic attractions:

- **Expanding into vibrant growth region.** We see the move as another example of Springfield's targeting of acquisitions to grow in targeted geographies. The acquisition in 2011 of Redrow's housebuilding business strengthened the then Elgin-centred group's presence in the 'Central Belt'. Dawn Homes and Walker Group increased the presence in the West of Scotland and the Edinburgh region. Tulloch enhances the already stated intention to target the region around Inverness (Figure 1). This has been one of Scotland's fastest growing areas before and since being granted city status in 2000. Since then, the population of what is now Scotland's fifth city has expanded by 15%. New industries include life sciences and renewables, supported by the new £100m Inverness Campus and Airport Business Park; a Scottish and UK Government plan aims to unlock £1bn of investment. Meanwhile the Highlands has seen growing tourism, which should benefit from second homes and 'staycations' post-Covid.
- **Modest premium.** The EV of £56.4m represents a premium of only 6.4% over Tulloch's pro-forma NAV at 30 June of £53.4m, adjusted for the £21.2m cash acquired. We estimate acquired goodwill of £3.4m on top of the previously low £1m.
- **"Significantly" earnings enhancing.** The acquisition becomes effective on 1 December, the day after the November half-year end. The half-year contribution will increase our FY2022E estimates for revenue, PBT and diluted EPS by 14.4%, 15.4% and 7.0%, respectively. For FY2023E, the same items go up by 24.2%, 30.0% and 12.3% (Figure 2).
- **Current trading remains in-line.** Springfield reports that with "with sustained house price inflation and active management of cost and supply chain pressures", it continues to trade in line with market expectations for FY2022E.
- **Cash-generative.** Tulloch controls 1,791 plots across 33 sites in and around Inverness. Of these, 91% are owned outright while 9% are contracted. This is a far higher owned proportion than Springfield's c. one-third, which means development should be significantly more cash-generational as it will not have to pay for sites once they gain planning permission. Tulloch also has strategic options over land for 600 homes.
- **Placing increases liquidity.** The placing will increase the free float of the company from 49% to 56% and should boost the liquidity of the shares.
- **Solid record of integrating acquisitions.** We believe the attractive valuation achieved in this and other acquisitions reflects the relative independence that Springfield offers companies. Tulloch's Finance Director, Sandy Grant, who has been with the group for over 18 years, will manage the business, which will retain its brand identity, as have Dawn and Walker. Tulloch's current CEO George Fraser will be retiring. The Inverness office will be retained and there are no immediate plans for rationalisation of operational employees; any potential synergies would be in addition to management's current financial projections.
- **Timetable.** General Meeting, 20 December; admission of new shares, 21 December.

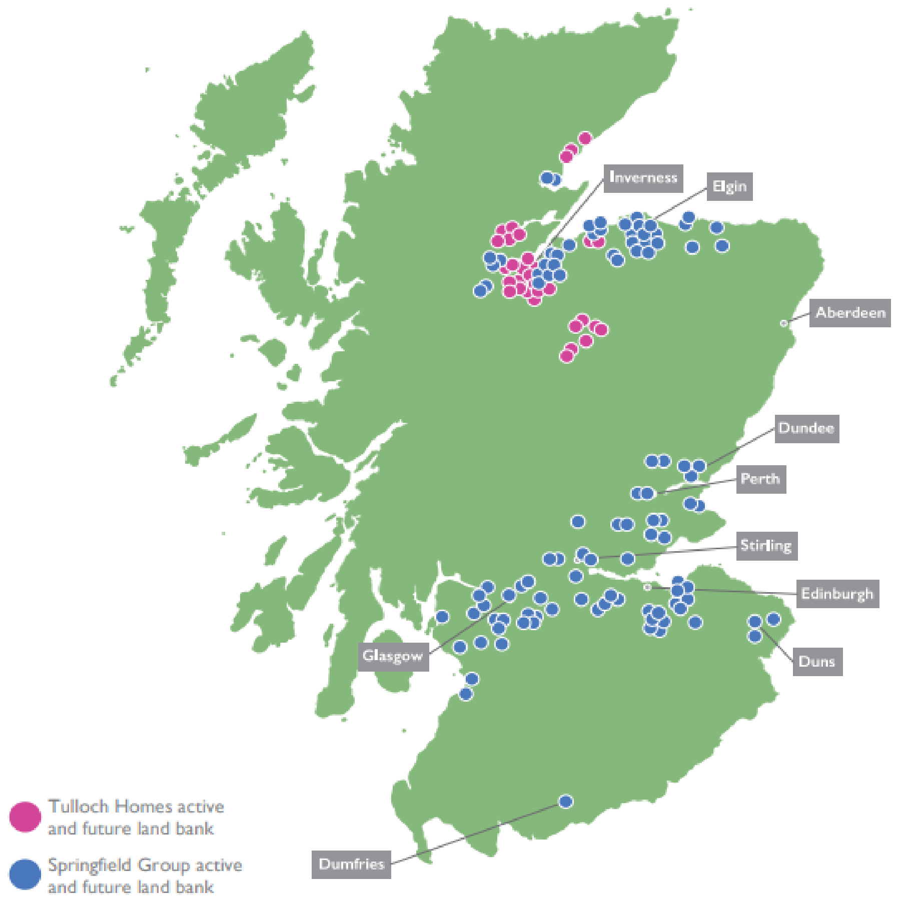
Enlarged group: volumes to be boosted by a quarter

Land bank boosted to 17,072 plots with total GDV of £3.5bn

In the first full year, FY2023E, we estimate that Tulloch will increase total home completions by 24% to 1,376. Total plots owned or controlled will rise from 15,281 at May 2021 to 17,072, 56% with planning permission, which the group estimates have a total gross development value of £3.5bn over 14 years with target gross margin of 19%.

Tulloch increases geographical footprint into Inverness and surrounding countryside

Figure 1: Tulloch and Springfield land bank



Source: Company presentation.

Figure 2: Key estimate changes, FY 2022E - 2024E

Year-end May (£m)	2022E			2023E			2024E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	**259.8**	227.1	*14.4%*	**308.8**	248.7	*24.2%*	**340.0**	283.1	*20.1%*
Adj PBT	**22.0**	19.0	*15.4%*	**28.4**	21.9	*30.0%*	**32.9**	25.2	*31.0%*
Adj EPS, diluted (p)	**15.9**	14.8	*7.0%*	**19.2**	17.1	*12.3%*	**20.6**	18.7	*9.9%*
Dividend (p)	**6.5**	6.0	*8.3%*	**7.5**	6.75	*11.1%*	**8.0**	7.5	*6.7%*
NAV (p)	**121.6**	117.6	*3.3%*	**134.2**	128.7	*4.2%*	**150.0**	143.2	*4.8%*
TNAV (p)	**117.3**	116.0	*1.1%*	**129.9**	127.1	*2.2%*	**145.8**	141.6	*3.0%*
Net debt, pre-IFRS 16	**(49.7)**	(29.8)		**(52.1)**	(29.2)		**(55.6)**	(35.3)	

Source: Company Information and Progressive Equity Research estimates.

Figure 3: Revenue estimates, FY 2019 - 2024E

Year-end May (£m)	2019	2020	2021	2022E	2023E	2024E
Private Housing						
Completions	630	419	593	575	646	698
YoY change (%)	*37.0%*	*-33.5%*	*41.5%*	*-3.0%*	*12.3%*	*8.0%*
ASP (£000)	227.0	236.0	243.8	243.8	251.1	253.6
YoY change (%)	*2.5%*	*4.0%*	*3.3%*	*0.0%*	*3.0%*	*1.0%*
Revenue	143.3	98.9	144.6	140.2	162.3	177.0
Affordable Housing						
Completions	322	308	380	494	459	620
YoY change (%)	*3.9%*	*-4.3%*	*23.4%*	*30.0%*	*-7.0%*	*35.0%*
ASP (£000)	133.0	138.0	145.1	149.5	153.2	138.6
YoY change (%)	*10.6%*	*3.8%*	*5.2%*	*3.0%*	*2.5%*	*-9.5%*
Revenue	42.9	42.5	55.1	73.8	70.4	86.0
Tulloch Homes						
Completions				140	270	300
YoY change (%)					*92.9%*	*11.1%*
ASP (£000)				197.7	215.2	223.5
YoY change (%)					*8.9%*	*3.8%*
Revenue				27.7	58.1	67.0
Total completions	952	727	973	1,209	1,376	1,618
YoY change (%)	*23.6%*	*-23.6%*	*33.8%*	*24.3%*	*13.8%*	*17.6%*
Total ASP (£000)	195.6	194.5	205.3	199.9	211.4	204.0
YoY change (%)	*8.2%*	*-0.5%*	*5.5%*	*-2.6%*	*5.7%*	*-3.5%*
Other revenue	4.6	2.1	17.0	18.0	18.0	10.0
Total revenue	**190.8**	**143.5**	**216.7**	**259.8**	**308.8**	**340.0**
YoY change (%)	*35.6%*	*-24.8%*	*51.0%*	*19.9%*	*18.9%*	*10.1%*

Source: Company Information and Progressive Equity Research estimates.

Figure 4: P&L and per share data, FY 2019 - 2024E

Year-end May (£m)	2019	2020	2021	2022E	2023E	2024E
Group revenue	**190.8**	**143.5**	**216.7**	**259.8**	**308.8**	**340.0**
Gross profit	**34.3**	**27.4**	**38.8**	**46.4**	**57.4**	**63.2**
Gross margin (%)	*18.0%*	*19.1%*	*17.9%*	*17.9%*	*18.6%*	*18.6%*
Operating expenses	(17.3)	(16.1)	(19.0)	(23.0)	(27.0)	(28.2)
Share in JV net income	0.6	0.9	-	-	-	-
Operating profit	**17.6**	**12.1**	**19.8**	**23.4**	**30.4**	**35.0**
Operating margin (%)	*9.2%*	*8.4%*	*9.1%*	*9.0%*	*9.9%*	*10.3%*
Exceptionals	(0.6)	(0.4)	(0.6)	-	-	-
Interest	(1.1)	(2.0)	(1.2)	(1.4)	(2.0)	(2.1)
PBT, reported	**16.0**	**9.7**	**17.9**	**22.0**	**28.4**	**32.9**
Underlying tax rate (%)	*18.8*	*20.6*	*22.6*	*19.0*	*19.0*	*25.0*
Reported tax	(3.1)	(2.1)	(4.2)	(4.2)	(5.4)	(8.2)
Net attrib. profit	**12.8**	**7.6**	**13.7**	**17.8**	**23.0**	**24.7**
PBT pre-exceptionals	**16.5**	**10.2**	**18.5**	**22.0**	**28.4**	**32.9**
Period end shares (million)	96.3	97.9	102.1	118.4	118.4	118.4
Wtd. ave. shares (million)	96.3	96.9	99.4	110.2	118.4	118.4
Diluted shares (million)	97.3	97.9	101.2	112.0	120.2	120.2
EPS, basic (p)	13.3	7.9	13.8	16.1	19.4	20.9
EPS, diluted, pre-exc (p)	**13.8**	**8.2**	**14.2**	**15.9**	**19.2**	**20.6**
DPS - declared (p)	4.40	2.00	5.75	6.50	7.50	8.00
NAV (p)	91.9	98.0	109.0	121.6	134.2	150.0
Dividend cover (x)	3.2	4.2	2.5	2.5	2.6	2.6
EBITDA	**18.6**	**13.6**	**21.9**	**25.5**	**32.6**	**37.2**
FCFPS (p)	11.2	(32.8)	51.8	1.8	10.3	7.5
TNAV (p)	90.2	96.3	107.4	117.3	129.9	145.8

Source: Company Information and Progressive Equity Research estimates.

Figure 5: Cashflow and balance sheet, FY 2019 - 2024E

Year-end May (£m)	2019	2020	2021	2022E	2023E	2024E
Adjusted cash flow statement						
Group op profit inc exc.	16.5	10.8	19.1	23.4	30.4	35.0
Depreciation	1.6	2.4	2.2	2.2	2.2	2.2
Intangible amortisation	-	0.0	-	-	-	-
Other	0.6	2.4	0.5	-	-	-
Working capital changes	(2.7)	(42.2)	35.2	(18.0)	(13.0)	(18.0)
Operating cash flow	**16.0**	**(26.6)**	**57.0**	**7.5**	**19.6**	**19.2**
Capex	(1.2)	(0.5)	0.0	0.0	0.0	0.0
Interest	(1.2)	(1.6)	(1.3)	(1.4)	(2.0)	(2.1)
Tax	(2.9)	(3.1)	(4.2)	(4.2)	(5.4)	(8.2)
Free cashflow	**10.7**	**(31.8)**	**51.5**	**2.0**	**12.2**	**8.9**
Acquisitions, net	(20.9)	(3.2)	0.3	(23.8)	(6.5)	(6.5)
Dividends - paid	(3.8)	(3.1)	(3.3)	(7.1)	(8.1)	(5.9)
Financing	4.9	36.5	(34.2)	-	-	-
Chg cash/net cash, f-cast	**(9.0)**	**(1.5)**	**14.3**	**(28.9)**	**(2.4)**	**(3.5)**
Summary balance sheet						
Intangible fixed assets	1.6	1.6	1.6	5.0	5.0	5.0
Tangible fixed assets	5.0	6.3	4.5	2.3	0.2	(2.0)
Investments	2.4	5.3	6.0	6.0	6.0	6.0
Working capital	125.1	162.8	128.8	165.4	178.4	196.4
Provisions, others	(16.0)	(9.3)	(8.9)	14.9	21.4	27.9
Net cash/(debt)	(29.6)	(70.9)	(20.8)	(49.7)	(52.1)	(55.6)
Net assets	**88.6**	**95.9**	**111.2**	**143.9**	**158.9**	**177.6**

Source: Company Information and Progressive Equity Research estimates.

Springfield in brief: distinctive model in growth market

Scottish market underpinned by long-term growth prospects and a distinctive home-buying model

Springfield offers a differentiated and lower-risk model

Springfield was founded by current chairman Sandy Adam, who began housebuilding in the 1990s, 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 now that the logistical and economic hurdles of Covid-19 are normalising. 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 110,000 affordable homes by 2031-32, with almost £3.5bn earmarked through to March 2026. House prices in Scotland are more affordable in relation to household incomes than in almost any other region of the UK's mainland.
- **A distinctive model.** Springfield has a differentiated business model that 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). 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 latest acquisition follows on from Dawn Homes in 2018, which increased Springfield's presence in the West of Scotland, while Walker Group in 2019 strengthened its position in popular commuter areas around Edinburgh, with higher-priced homes and stronger gross margins than Springfield's then existing Private Housing division. The acquisition in 2011 of Redrow's Scottish housebuilding business took the group into central Scotland and marked a step change in the group's revenue.
- **Private rental progress.** In early 2021, Springfield commenced its first private rental sector (PRS) development with specialist Sigma Capital. 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.
- **Formalising ESG credentials.** As we observed in our 15 December 2020 note, *Resurgent Scottish market fuels cash inflow*, Springfield has had for a number of years an ongoing commitment to 'ESG' – arguably before it rose up the investment agenda. This includes evolving solutions in energy saving, biodiversity, water management and waste reduction and, on the social side, an active training programme in local communities. The group is already established on the route map to net zero and well prepared for the next step changes in energy standards. A Group Quality, Environment and Sustainability Manager has been appointed and the group has engaged with a specialist consultant to work with the Board and senior management.

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

PROFIT & LOSS	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Revenue	143.5	216.7	259.8	308.8	340.0
Adj EBITDA	13.6	21.9	25.5	32.6	37.2
Adj EBIT	12.1	19.8	23.4	30.4	35.0
Reported PBT	9.7	17.9	22.0	28.4	32.9
Fully Adj PBT	10.2	18.5	22.0	28.4	32.9
NOPAT	8.9	15.3	18.9	24.6	26.3
Reported EPS (p)	7.9	13.8	16.1	19.4	20.9
Fully Adj EPS (p)	8.2	14.2	15.9	19.2	20.6
Dividend per share (p)	2.0	5.8	6.5	7.5	8.0

CASH FLOW & BALANCE SHEET	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Operating cash flow	(26.6)	57.0	7.5	19.6	19.2
Free Cash flow	(31.8)	51.5	2.0	12.2	8.9
FCF per share (p)	(32.8)	51.8	1.8	10.3	7.5
Acquisitions	(3.2)	0.3	(23.8)	(6.5)	(6.5)
Disposals					
Shares issued					
Net cash flow	(1.5)	14.3	(28.9)	(2.4)	(3.5)
Overdrafts / borrowings	72.4	36.6	36.6	36.6	
Cash & equivalents	1.5	15.8	(13.1)	(15.5)	
Net (Debt)/Cash	(70.9)	(20.8)	(49.7)	(52.1)	(55.6)

NAV AND RETURNS	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Net asset value	95.9	111.2	143.9	158.9	177.6
NAV/share (p)	98.0	109.0	121.6	134.2	150.0
Net Tangible Asset Value	94.2	109.6	138.9	153.8	172.6
NTAV/share (p)	96.3	107.4	117.3	129.9	145.8
Average equity	83.8	92.2	103.5	127.6	151.4
Post-tax ROE (%)	9.1%	14.9%	17.2%	18.0%	16.3%

METRICS	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Revenue growth		51.0%	19.9%	18.9%	10.1%
Adj EBITDA growth		60.9%	16.5%	27.6%	14.2%
Adj EBIT growth		63.1%	18.3%	30.2%	15.2%
Adj PBT growth		82.1%	18.7%	29.4%	15.9%
Adj EPS growth			12.2%	20.6%	7.3%
Dividend growth		187.5%	13.0%	15.4%	6.7%
Adj EBIT margins	8.4%	9.1%	9.0%	9.9%	10.3%

VALUATION	**2020**	**2021**	**2022E**	**2023E**	**2024E**
EV/Sales (x)	1.2	0.8	0.7	0.6	0.5
EV/EBITDA (x)	12.6	7.8	6.7	5.3	4.6
PER (x)		10.4	9.3	7.7	7.2
Dividend yield (%)	1.4%	3.9%	4.4%	5.1%	5.4%
P/NAV (x)		1.35	1.21	1.10	0.98
FCF yield		35.1%	1.2%	7.0%	5.1%

Source: Company information and Progressive Equity Research estimates

Progressive Equity Research

1 December 2021

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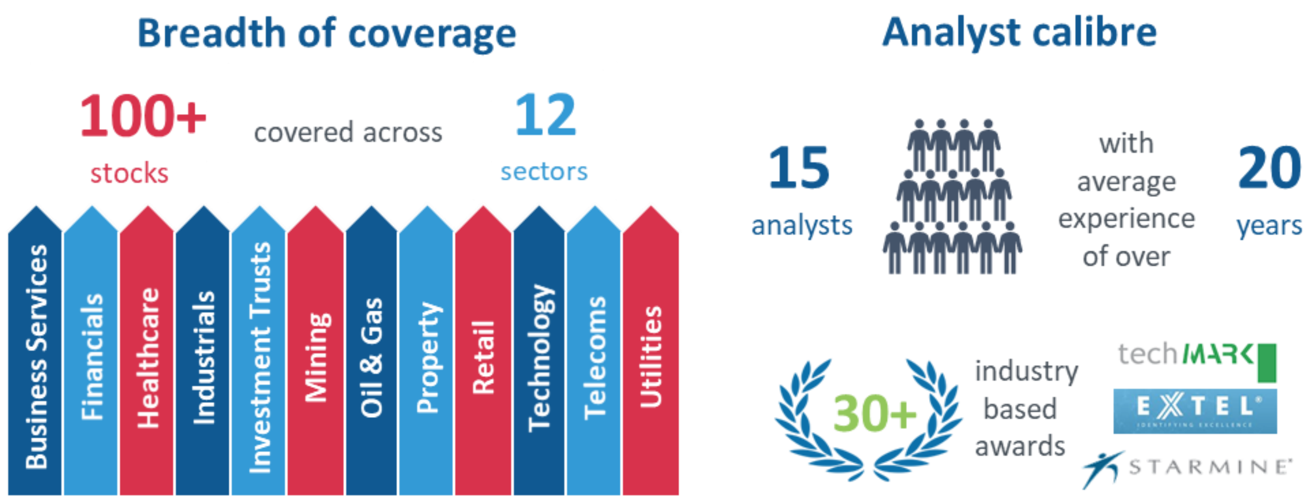

To arrange a meeting with the management team, or for further information about Progressive, please contact:
Emily Ritchie
+44 (0) 20 7781 5311
eritchie@progressive-research.com