

SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

22 February 2022

SPR.L

150p

Market Cap: £177.4m

SHARE PRICE (p)



12m high/low

172p/138p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(43.0)m (at 30/11/21)
Enterprise value	£220.4m
Index/market	AIM
Next news	FY trading update, Jun
Shares in Issue (m)	118.3
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



FY guidance reiterated in HY results

Scotland's only quoted housebuilder, Springfield Properties, has reiterated its FY2022E guidance in its interim results, supporting our estimates for FY2022E-24E, which we increased in December following the Tulloch Homes acquisition. The latest results show a sales record for Affordable Housing and the first private rental sector revenue, further diversifying the group's revenue streams. The interim dividend was lifted from 1.3p to 1.5p – in our view underscoring the Board's confidence in the FY outturn.

- Results reflect strong comparatives.** Total home completions rose 3.6% versus H1 2021 to 459, with a 62% increase to 204 in Affordable Housing, while Private Housing sales fell to 197 from 299, with H1 2021 boosted by homes delayed from FY2020 due to lockdowns. The change in mix led to an 8% reduction in total revenue. Adjusted diluted EPS declined from 7.4p to 5.0p. Net debt increased from £20.8m at YE 2021 to £43.0m, reflecting increased WIP due for delivery in H2.
- Guidance maintained.** The Board "remains confident of delivering growth for the full year in line with market expectations", with a stronger H2 weighting supported by the substantial level of WIP, record order book and high level of missive sales pending. We are keeping our estimates, which we increased in December following the Tulloch deal. This points to a 19% increase in adjusted PBT to £22.0m in FY2022E, followed by 29% and 16% increases in FY2023E and FY2024E, respectively (Figures 1 - 4).
- Record in Affordable Housing.** With demand continuing to outstrip supply in Scotland, Private Housing remains resilient and there was a particularly strong outturn in Affordable Housing, with the group "on track to achieve a record year" in the division. Springfield also received its first revenue from private rental sector (PRS) housing, further diversifying revenue.
- Solid record integrating acquisitions.** Post period end Springfield acquired Tulloch, its fourth strategic acquisition, all of which have taken the group into new regions (see [Earnings-enhancing deal lifts Highlands growth](#)).
- Strong Scottish market and unique multi-tenure model.** We believe the Scottish market offers significant growth in volumes and prices (currently running at 11%) 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. (Springfield in brief, page 7.)

FYE MAY (£M)	2020	2021	2022E	2023E	2024E
Revenue	143.5	216.7	259.9	308.7	339.7
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	20.5
Dividend per share (p)	2.00	5.75	6.50	7.50	8.00
PER (x)	0.0x	10.6x	9.4x	7.8x	7.3x
Dividend yield (%)	1.3%	3.8%	4.3%	5.0%	5.3%
EV/EBITDA (x)	16.2x	10.1x	8.6x	6.8x	5.9x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

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

First half shows record result for Affordable Housing

- **Private Housing.** There was a fall in private homes completed, to 197 in the period from 299 in H1 2021 (Figure 1). This reflected a more typical seasonal phasing of completions, with H1 2021 being boosted by homes that had been scheduled for the end of FY 2020 but had been delayed due to the extended lockdown in Scotland. It also reflected early contributions from eight new developments opened during the period, which should gather pace in the second half and beyond. Average selling prices were unchanged, at £240k, but, stripping out regional variations, were higher on an underlying basis. The division ended the half with a record order book, with the proportion of available-for-sale homes that were ‘missived’ or reserved at 30 November 2021 higher than at both 31 May 2021 and 30 November 2020.
- **Affordable Housing.** Affordable home completions leapt by 62% to 204 as the previous strong order book fed through to activity during the period, and this places the division on track to achieve its record full-year revenue in FY22E. Average selling prices rose 6.6% to £155k as a result of changes in housing mix.
- **Contract Housing.** As of this year, the group is separately disclosing revenue from development services to third-party private organisations (compared with Affordable Housing where its services are delivered to local authorities, housing associations or other public bodies). Currently this consists of services provided to Bertha Park Ltd, the developer of the Bertha Park Village, under a framework agreement. A key milestone was achieved with the commencement of revenue for the delivery of Springfield’s first PRS housing, in partnership with Sigma Capital Group. At Bertha Park, Springfield will deliver 75 purpose-built homes for families to rent privately, which, following handover, will be owned, let and managed by Sigma. This is expected to increase the build-out rate for the Village.
- **Villages.** A distinguishing feature of Springfield’s approach is its standalone ‘Village’ developments, typically of around 3,000, mainly private, homes with green spaces and community facilities. There were 74 private completions during the half year.
- **Land bank.** This edged up from 15,281 to 15,308 plots during the period and grew further with the subsequent Tulloch acquisition, which brought another 1,791. The group was working on 44 active developments during the period and a planning application has been made for a development of up to 1,000 homes near Edinburgh.

Financials: on track for a strong second half

We are not changing our forecasts or material underlying assumptions. As previously indicated by the group, FY2022E is expected to be more second half-weighted than in previous years. H1 2021 had been boosted by an additional £20m of revenue, which rolled over from FY2020 due to lockdown delays. Our PBT estimate for FY2022E assumes a H1:H2 percentage split of 29:71 versus 49:51 in FY2021 (the more typical FY2019 split was 37:63).

During the half year, the gross margin slipped to 18.5% from 19.6%. This was due to changes in sales mix, particularly the record revenue from Affordable Housing, which carries slightly lower margins (but benefits from better cashflow and ROCE characteristics).

Net debt moved up from £20.8m at May 2021 to £43.0m, reflecting increased WIP, which underpins our forecasts for strong revenue and profits in the second half.

We have not changed our headline P&L and cashflow estimates for FY2023E-24E, which imply CAGR in EPS of 13.2% over FY2021E-24E.

Figure 1: HY and FY revenue estimates

Year-end May (£m)	FY20	H1 21	H2 21	FY 21	H1 22	H2 22E	FY 22E	FY 23E	FY 24E
Private Housing									
Completions	419	299	251	550	197	523	720	705	775
YoY change (%)	-33.5%	15.9%	55.9%	31.3%	-34.1%	108.3%	30.9%	-2.1%	10.0%
ASP (£000)	236.1	240.4	266.0	252.1	239.9	251.6	248.4	258.9	261.5
YoY change (%)	4.0%	8.7%	2.3%	6.8%	-0.2%	-5.4%	-1.5%	4.2%	1.0%
Revenue	98.9	71.9	66.8	138.6	47.3	131.6	178.9	182.5	202.8
Affordable Housing									
Completions	308	126	237	363	204	236	440	502	677
YoY change (%)	-4.3%	-30.0%	85.2%	17.9%	61.9%	-0.4%	21.2%	14.1%	35.0%
ASP (£000)	138.0	145.6	146.0	145.8	155.2	149.9	152.4	165.6	153.2
YoY change (%)	3.8%	18.3%	-8.2%	5.7%	6.6%	2.7%	4.5%	8.7%	-7.5%
Revenue	42.5	18.3	34.6	52.9	31.7	35.4	67.0	83.1	103.8
Contracting									
Completions		18	33	51	58	42	100	170	170
YoY change (%)					na	27.3%	96.1%	69.6%	0.0%
ASP (£000)		211.5	130.3	158.9	129.5	131.8	130.4	136.2	136.2
YoY change (%)					-38.8%	1.1%	-17.9%	4.4%	0.0%
Revenue		3.8	4.3	8.1	7.5	5.5	13.0	23.1	23.1
Total completions	727	443	521	964	459	801	1,260	1,376	1,622
YoY change (%)	-23.6%	1.1%	80.3%	32.6%	3.6%	53.7%	30.7%	9.2%	17.9%
Total ASP (£000)	194.5	212.3	202.8	207.1	188.3	215.4	205.5	209.7	203.2
YoY change (%)	-0.5%	17.4%	-5.8%	6.5%	-11.3%	6.2%	-0.8%	2.1%	-3.1%
Other revenue	2.1	0.4	16.6	17.0	0.8	0.2	1.0	20.0	10.0
Total revenue	143.5	94.4	122.3	216.7	87.3	172.7	259.9	308.7	339.7
YoY change (%)	-24.8%	18.3%	92.0%	51.0%	-7.6%	41.2%	20.0%	18.7%	10.0%

Source: Company Information and Progressive Equity Research estimates.

Figure 2: HY and FY profit estimates

Year-end May (£m)	FY20	H1 21	H2 21	FY 21	H1 22	H2 22E	FY 22E	FY 23E	FY 24E
Total revenue	143.5	94.4	122.3	216.7	87.3	172.7	259.9	308.7	339.7
Gross profit	27.4	18.5	20.3	38.8	16.1	30.3	46.4	57.4	63.2
<i>Margin (%)</i>	19.1%	19.6%	16.6%	17.9%	18.5%	12.0%	17.9%	18.6%	18.6%
Admin, other income	(16.1)	(8.7)	(10.3)	(19.0)	(9.3)	(13.7)	(23.0)	(27.0)	(28.2)
EBIT	11.3	9.8	10.0	19.8	6.8	16.6	23.4	30.4	35.0
Share in PBT of JV	0.9	-	-	-	-	-	-	-	-
Total op profit	12.1	9.8	10.0	19.8	6.8	16.6	23.4	30.4	35.0
<i>Margin (%)</i>	8.4%	10.4%	8.2%	9.1%	7.8%	6.6%	9.0%	9.9%	10.3%
Exceptionals	(0.4)	(0.5)	(0.2)	(0.6)	(0.2)	-	(0.2)	-	-
Net interest	(2.0)	(0.7)	(0.5)	(1.2)	(0.4)	(1.0)	(1.4)	(2.0)	(2.1)
PBT, reported	9.7	8.6	9.3	17.9	6.2	15.6	21.8	28.4	32.9
PBT, pre-exc	10.2	9.0	9.5	18.5	6.4	15.6	22.0	28.4	32.9
<i>H1:H2 split (%)</i>		48.8%	51.2%		29.0%	71.0%			

Source: Company Information and Progressive Equity Research estimates.

Figure 3: 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	259.9	308.7	339.7
Gross profit	34.3	27.4	38.8	46.4	57.4	63.2
<i>Gross margin (%)</i>	<i>18.0%</i>	<i>19.1%</i>	<i>17.9%</i>	<i>17.9%</i>	<i>18.6%</i>	<i>18.6%</i>
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
<i>Operating margin (%)</i>	<i>9.2%</i>	<i>8.4%</i>	<i>9.1%</i>	<i>9.0%</i>	<i>9.9%</i>	<i>10.3%</i>
Exceptionals	(0.6)	(0.4)	(0.6)	(0.2)	-	-
Interest	(1.1)	(2.0)	(1.2)	(1.4)	(2.0)	(2.1)
PBT, reported	16.0	9.7	17.9	21.8	28.4	32.9
<i>Underlying tax rate (%)</i>	<i>18.8%</i>	<i>20.6%</i>	<i>22.6%</i>	<i>19.0%</i>	<i>19.0%</i>	<i>25.0%</i>
Reported tax	(3.1)	(2.1)	(4.2)	(4.2)	(5.4)	(8.2)
Net attrib. profit	12.8	7.6	13.7	17.7	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	16.0	19.4	20.8
EPS, diluted, pre-exc (p)	13.8	8.2	14.2	15.9	19.2	20.5
DPS - declared (p)	4.40	2.00	5.75	6.50	7.50	8.00
NAV (p)	91.9	98.0	109.0	122.1	134.0	149.9
Dividend cover (x)	3.2	4.2	2.5	2.5	2.6	2.6
EBITDA	18.6	13.6	21.9	25.6	32.6	37.2
FCFPS (p)	11.2	(32.8)	51.8	1.7	10.3	7.5
TNAV (p)	90.2	96.3	107.4	117.8	129.8	145.6

Source: Company Information and Progressive Equity Research estimates.

Figure 4: 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	23.2	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	7.4	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	1.8	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)	(6.3)	(8.9)	(5.9)
Financing	4.9	36.5	(34.2)	-	-	-
Chg cash/net cash, f-cast	(9.0)	(1.5)	14.3	(28.3)	(3.2)	(3.6)
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)	(49.1)	(52.2)	(55.8)
Net assets	88.6	95.9	111.2	144.6	158.7	177.5

Source: Company Information and Progressive Equity Research estimates.

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 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 February 2019 initiation note, *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. The Scottish missives laws provide more certainty to buyers and sellers than in the relatively ad-hoc English conveyancing approach.
- **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 acquisition of Tulloch, strengthening presence in the Highlands, follows 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 a longstanding commitment to 'ESG'. 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.

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

	2020	2021	2022E	2023E	2024E
PROFIT & LOSS					
Revenue	143.5	216.7	259.9	308.7	339.7
Adj EBITDA	13.6	21.9	25.6	32.6	37.2
Adj EBIT	12.1	19.8	23.4	30.4	35.0
Reported PBT	9.7	17.9	21.8	28.4	32.9
Fully Adj PBT	10.2	18.5	22.0	28.4	32.9
NOPAT	8.9	15.3	19.0	24.6	26.2
Reported EPS (p)	7.9	13.8	16.0	19.4	20.8
Fully Adj EPS (p)	8.2	14.2	15.9	19.2	20.5
Dividend per share (p)	2.0	5.8	6.5	7.5	8.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(26.6)	57.0	7.4	19.6	19.2
Free Cash flow	(31.8)	51.5	1.8	12.2	8.9
FCF per share (p)	(32.8)	51.8	1.7	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			
Overdrafts / borrowings	72.4	36.6			
Cash & equivalents	1.5	15.8			
Net (Debt)/Cash, pre-IFRS 16	(70.9)	(20.8)	(49.9)	(52.2)	(55.8)
NAV AND RETURNS					
Net asset value	95.9	111.2	143.8	158.7	177.4
NAV/share (p)	98.0	109.0	121.4	134.0	149.9
Net Tangible Asset Value	94.2	109.6	138.7	153.7	172.4
NTAV/share (p)	96.3	107.4	117.2	129.8	145.6
Average equity	83.8	92.2	103.5	127.5	151.2
Post-tax ROE (%)	9.1%	14.9%	17.1%	18.0%	16.3%
METRICS					
Revenue growth		51.0%	20.0%	18.7%	10.0%
Adj EBITDA growth		60.9%	16.6%	27.4%	14.0%
Adj EBIT growth		63.1%	18.5%	30.0%	15.0%
Adj PBT growth		82.1%	18.8%	29.2%	15.7%
Adj EPS growth			12.3%	20.4%	7.1%
Dividend growth		187.5%	13.0%	15.4%	6.7%
Adj EBIT margins	8.4%	9.1%	9.0%	9.9%	10.3%
VALUATION					
EV/Sales (x)	1.5	1.0	0.8	0.7	0.6
EV/EBITDA (x)	16.2	10.1	8.6	6.8	5.9
PER (x)		10.6	9.4	7.8	7.3
Dividend yield (%)	1.3%	3.8%	4.3%	5.0%	5.3%
P/NAV (x)		1.38	1.24	1.12	1.00
FCF yield		34.5%	1.1%	6.9%	5.0%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

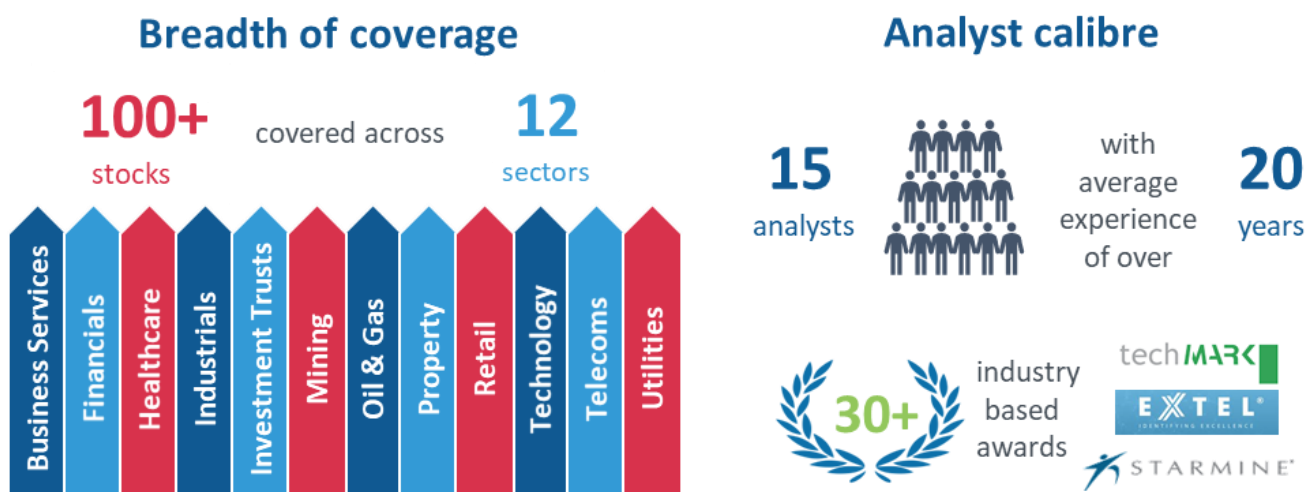
Copyright 2022 Progressive Equity Research Limited (“PERL”). All rights reserved. Progressive’s research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL’s directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.



To arrange a meeting with the management team, or for further information about Progressive, please contact:

Keith Hodgskiss
+44 (0) 20 7781 5300
khodgskiss@progressive-research.com