

SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

22 June 2022

SPR.L

118p

Market Cap: £139.2m

SHARE PRICE (p)



12m high/low

172p/116p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(43.0)m (at 30/11/21)
Enterprise value	£182.2m
Index/market	AIM
Next news	FY results, Sep
Shares in Issue (m)	118.4
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

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Forecasts up after 'pay-as-you-go' acquisition

We have raised our FY2023E and FY2024E PBT estimates for Scotland's only quoted housebuilder by 5% and 10%, respectively, following its £46m acquisition of the housebuilding business of Mactaggart & Mickel Group. The deal is structured with payments phased over five years in line with homes sold, so we are not changing our net debt estimates. Springfield also reiterated guidance for FY2022E, with improved net debt.

- Premium brand.** Springfield, one of Scotland's leading developers of private, affordable and private rented sector (PRS) homes, is to acquire the housing operations of Mactaggart and Mickel Group, active across the Central Belt for almost 100 years. Mactaggart & Mickel develops larger premium-priced homes centred around Glasgow and Edinburgh.
- Estimates raised; effectively 'self-funding'.** Our new forecasts are examined in detail in Figure 1 (overleaf). The total consideration is £46.3m, comprising £10.5m cash paid on completion and a deferred cash consideration of £35.8m to be paid proportionally as homes are sold over five years, with any year's minimum deferrable for 12 months. With higher profit and lower working capital requirements offsetting the phased payments, we are not changing our net debt for FY2023E and FY2024E.
- Flexible deal.** This is the fifth strategic acquisition for Springfield, which floated in 2017. It initially brings six sites, and a further 11 will transfer to Springfield as homes are sold in line with the payments of the deferred consideration. Together they will yield c.700 homes with a gross development value of c.£230m. Springfield intends to retain all Mactaggart & Mickel's housebuilding employees. The groups have formed an alliance to give Springfield opportunities for future acquisitions from Mactaggart & Mickel's remaining land bank of 2,300 acres.
- Second timber-frame factory cuts carbon footprint.** The deal also includes Mactaggart & Mickel's timber-frame factory near Glasgow. Timber-frame has a lower carbon footprint than traditional construction, allowing the group not only to secure its own kit supply but also to source more locally for the Central Belt than from its existing Elgin plant.
- Guidance reiterated.** A trading update reiterated guidance for FY2022E, with improved cashflow, leading us to cut our net debt by £11m to £39m. The group's multi-tenure model, including its unique 'village' communities, is explored on page 6, *Springfield in brief*.

FYE MAY (£M)	2020	2021	2022E	2023E	2024E
Revenue	143.5	216.7	259.9	356.9	391.3
Fully Adj PBT	10.2	18.5	22.0	29.9	36.0
Fully Adj EPS (p)	8.2	14.2	15.9	20.2	22.5
Dividend per share (p)	2.00	5.75	6.50	7.50	8.00
PER (x)	0.0x	8.3x	7.4x	5.8x	5.2x
Dividend yield (%)	1.7%	4.9%	5.5%	6.4%	6.8%
EV/EBITDA (x)	13.4x	8.3x	7.1x	5.3x	4.5x

Source: Company Information and Progressive Equity Research estimates.

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

Mactaggart & Mickel's higher priced family homes increase Springfield's forecast volumes and average selling prices

Volumes and average prices raised on fifth acquisition

We have raised our FY2023E and FY2024E PBT estimates by 5.3% and 10.0%, respectively (see Figure 1). The net effect of the acquisition is to add c.175 and 100 homes per year (the lower figure for FY2024E reflects a degree of substitution relative to our previous assumptions).

The increase in our average selling prices reflects the award-winning larger homes that 'Mac & Mic' focuses on, typically selling for c. £400,000. We have slightly diluted our gross margins, reflecting a changing mix in Springfield's output.

The only change we have made to our FY2022E estimates is to reduce net debt by £11m. Our FY2023E and FY2024E net debt estimates are essentially unchanged due to the effectively self-funding structure of the deal. The considerations of £10.5m and an estimated second payment £5.2m for FY2023E and £7.7m for FY2024E (on top of existing deferred payments of £6.5m for both years) are offset in our cashflow forecasts (Figure 4) by increased profitability and lower working capital requirements.

Figure 1: Estimate updates

Year-end May (£m)	2022E			2023E			2024E		
	Old	New	Diff. (%)	Old	New	Diff. (%)	Old	New	Diff. (%)
Completions	1,260	1,260	0.0%	1,376	1,555	13.0%	1,622	1,650	1.7%
ASAP (£000)	205.5	205.5	0.0%	209.7	229.6	9.5%	203.2	237.2	16.7%
Revenue	259.9	259.9	0.0%	308.7	356.9	15.6%	339.7	391.3	15.2%
Gross profit	46.4	46.4	0.0%	57.4	64.2	11.9%	63.2	70.4	11.5%
Gross margin (%)	17.9%	17.9%		18.6%	18.0%		18.6%	18.0%	
Operating profit	23.4	23.4	0.0%	30.4	31.9	5.1%	35.0	38.1	9.0%
Op margin (%)	9.0%	9.0%		9.9%	9.0%		10.3%	9.7%	
PBT pre-exc, g/w	22.0	22.0	0.0%	28.4	29.9	5.4%	32.9	36.0	9.6%
Adj EPS (p)	15.9	15.9	0.0%	19.2	20.2	5.4%	20.5	22.5	9.6%
Dividend (p)	6.5	6.5	0.0%	7.5	7.5	0.0%	8.0	8.0	0.0%
NAV (p)	121.4	121.4	0.0%	134.0	135.1	0.8%	149.9	150.2	0.3%
Net debt	(49.9)	(39.0)	-21.8%	(52.2)	(52.3)	0.1%	(55.8)	(56.0)	0.4%
Net assets	143.8	143.8	0.0%	158.7	159.9	0.8%	177.4	177.9	0.3%

Source: Company Information and Progressive Equity Research estimates.

Figure 2: Revenue estimates

Year-end May (£m)	2017	2018	2019	2020	2021	2022E	2023E	2024E
Private Housing								
Completions	437	460	630	419	550	720	900	1,000
YoY change (%)	9.5%	5.3%	37.0%	-33.5%	31.3%	30.9%	25.0%	11.1%
ASP (£000)	197.6	221.5	227.0	236.0	252.1	248.4	284.7	288.1
YoY change (%)	1.0%	12.0%	2.5%	4.0%	6.8%	-1.5%	14.6%	1.2%
Revenue	86.4	101.9	143.3	98.9	138.6	178.9	256.2	288.1
Affordable Housing								
Completions	183	310	322	308	363	440	430	440
YoY change (%)	90.6%	69.4%	3.9%	-4.3%	17.9%	21.2%	-2.3%	2.3%
ASP (£000)	127.0	120.2	133.0	138.0	145.8	152.4	163.0	165.5
YoY change (%)	1.2%	-5.4%	10.6%	3.8%	5.7%	4.5%	7.0%	1.5%
Revenue	23.3	37.3	42.9	42.5	52.9	67.0	70.1	72.8
Contracting								
Completions					51	100	225	210
YoY change (%)						96.1%	125.0%	-6.7%
ASP (£000)					158.9	130.4	136.2	145.0
YoY change (%)						-17.9%	4.4%	6.5%
Revenue				-	8.1	13.0	30.6	30.4
Total completions	620	770	952	727	964	1,260	1,555	1,650
YoY change (%)	25.3%	24.2%	23.6%	-23.6%	32.6%	30.7%	23.4%	6.1%
Total ASP (£000)	176.8	180.7	195.6	194.5	207.1	205.5	229.6	237.2
YoY change (%)	-2.9%	2.2%	8.2%	-0.5%	6.5%	-0.8%	11.7%	3.3%
Other revenue	1.0	1.6	4.6	2.1	17.0	1.0	-	-
Total revenue	110.6	140.7	190.8	143.5	216.7	259.9	356.9	391.3
YoY change (%)	22.7%	27.2%	35.6%	-24.8%	51.0%	20.0%	37.3%	9.6%

Source: Company Information and Progressive Equity Research estimates.

Figure 3: Profit and per share estimates

Year-end May (£m)	2017	2018	2019	2020	2021	2022E	2023E	2024E
Total revenue	110.6	140.7	190.8	143.5	216.7	259.9	356.9	391.3
Gross profit	16.7	22.1	34.3	27.4	38.8	46.4	64.2	70.4
<i>Margin (%)</i>	15.1%	15.7%	18.0%	19.1%	17.9%	17.9%	18.0%	18.0%
Admin, other income	(8.9)	(11.5)	(17.3)	(16.1)	(19.0)	(23.0)	(32.3)	(32.3)
EBIT	7.8	10.6	17.0	11.3	19.8	23.4	31.9	38.1
Share in PBT of JV	-	0.0	0.6	0.9	-	-	-	-
Total op profit	7.8	10.7	17.6	12.1	19.8	23.4	31.9	38.1
<i>Margin (%)</i>	7.1%	7.6%	9.2%	8.4%	9.1%	9.0%	9.0%	9.7%
Exceptionals	-	(0.6)	(0.6)	(0.4)	(0.6)	(0.2)	-	-
Net interest	(1.1)	(0.9)	(1.1)	(2.0)	(1.2)	(1.4)	(2.0)	(2.1)
PBT, reported	6.7	9.2	16.0	9.7	17.9	21.8	29.9	36.0
<i>U-lying tax rate (%)</i>	19.1	19.0	18.8	20.6	22.6	19.0	19.0	25.0
Reported tax	(1.3)	(1.9)	(3.1)	(2.1)	(4.2)	(4.2)	(5.7)	(9.0)
Net attrib. profit	5.4	7.4	12.8	7.6	13.7	17.7	24.3	27.0
Adj PBT	6.7	9.8	16.5	10.2	18.5	22.0	29.9	36.0
YE shares (million)	7.3	96.3	96.3	97.9	102.1	118.4	118.4	118.4
Wtd. ave (million)	58.4	73.4	96.3	96.9	99.4	110.2	118.4	118.4
Diluted (million)	58.4	73.6	97.3	97.9	101.2	112.0	120.2	120.2
EPS, basic (p)	9.2	10.0	13.3	7.9	13.8	16.0	20.5	22.8
Adj EPS, (p)	9.2	10.8	13.9	8.3	14.4	16.2	20.5	22.8
Adj EPS, dil. (p)	9.2	10.7	13.8	8.2	14.2	15.9	20.2	22.5
DPS - declared (p)	2.8	3.7	4.4	2.0	5.75	6.5	7.5	8.0
NAV (p)		82.0	91.9	98.0	109.0	121.4	135.1	150.2
Dividend cover (x)	3.3	2.9	3.2	4.2	2.5	2.5	2.7	2.9

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	31.9	38.3
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	(7.1)	(9.5)	(9.7)
Operating cash flow	16.0	(26.6)	57.0	18.3	24.6	30.6
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)	(5.7)	(9.0)
Free cashflow	10.7	(31.8)	51.5	12.7	17.0	19.5
Acquisitions, net	(20.9)	(3.2)	0.3	(23.8)	(22.2)	(14.2)
Dividends - paid	(3.8)	(3.1)	(3.3)	(7.1)	(8.1)	(9.1)
Financing	4.9	36.5	(34.2)	-	-	-
Chg cash/net cash, f-cast	(9.0)	(1.5)	14.3	(18.2)	(13.3)	(3.8)
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	154.5	164.0	173.7
Provisions, others	(16.0)	(9.3)	(8.9)	14.9	37.1	51.3
Net cash/(debt)	(29.6)	(70.9)	(20.8)	(39.0)	(52.3)	(56.0)
Net assets	88.6	95.9	111.2	143.8	159.9	177.9

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 Mactaggart & Mickel move is Springfield's fifth strategic acquisition and continues its record of regional expansion in Scotland with, in our view, innovative deal structures. Tulloch, in December 2021, strengthened the group's presence in the Highlands. It followed Dawn Homes in 2018, in the West of Scotland, while Walker Group in 2019 focused on 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.
- **Evolving 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. Timber-frame has a lower carbon footprint than traditional construction and a second factory reduces road miles.

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

	2020	2021	2022E	2023E	2024E
PROFIT & LOSS					
Revenue	143.5	216.7	259.9	356.9	391.3
Adj EBITDA	13.6	21.9	25.6	34.1	40.3
Adj EBIT	12.1	19.8	23.4	31.9	38.1
Reported PBT	9.7	17.9	21.8	29.9	36.0
Fully Adj PBT	10.2	18.5	22.0	29.9	36.0
NOPAT	8.9	15.3	19.0	25.9	28.6
Reported EPS (p)	7.9	13.8	16.0	20.5	22.8
Fully Adj EPS (p)	8.2	14.2	15.9	20.2	22.5
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	18.3	24.6	30.6
Free Cash flow	(31.8)	51.5	12.7	17.0	19.5
FCF per share (p)	(32.8)	51.8	11.6	14.3	16.5
Acquisitions	(3.2)	0.3	(23.8)	(22.2)	(14.2)
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)	(39.0)	(52.3)	(56.0)
NAV AND RETURNS					
Net asset value	95.9	111.2	143.8	159.9	177.9
NAV/share (p)	98.0	109.0	121.4	135.1	150.2
Net Tangible Asset Value	94.2	109.6	138.7	154.9	172.8
NTAV/share (p)	96.3	107.4	117.2	130.8	146.0
Average equity	83.8	92.2	103.5	127.5	151.9
Post-tax ROE (%)	9.1%	14.9%	17.1%	19.0%	17.8%
METRICS					
Revenue growth		51.0%	20.0%	37.3%	9.6%
Adj EBITDA growth		60.9%	16.6%	33.4%	18.1%
Adj EBIT growth		63.1%	18.5%	36.5%	19.4%
Adj PBT growth		82.1%	18.8%	36.1%	20.3%
Adj EPS growth			12.3%	26.9%	11.4%
Dividend growth		187.5%	13.0%	15.4%	6.7%
Adj EBIT margins	8.4%	9.1%	9.0%	9.0%	9.7%
VALUATION					
EV/Sales (x)	1.3	0.8	0.7	0.5	0.5
EV/EBITDA (x)	13.4	8.3	7.1	5.3	4.5
PER (x)		8.3	7.4	5.8	5.2
Dividend yield (%)	1.7%	4.9%	5.5%	6.4%	6.8%
P/NAV (x)		1.08	0.97	0.87	0.78
FCF yield		44.1%	9.8%	12.2%	14.0%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

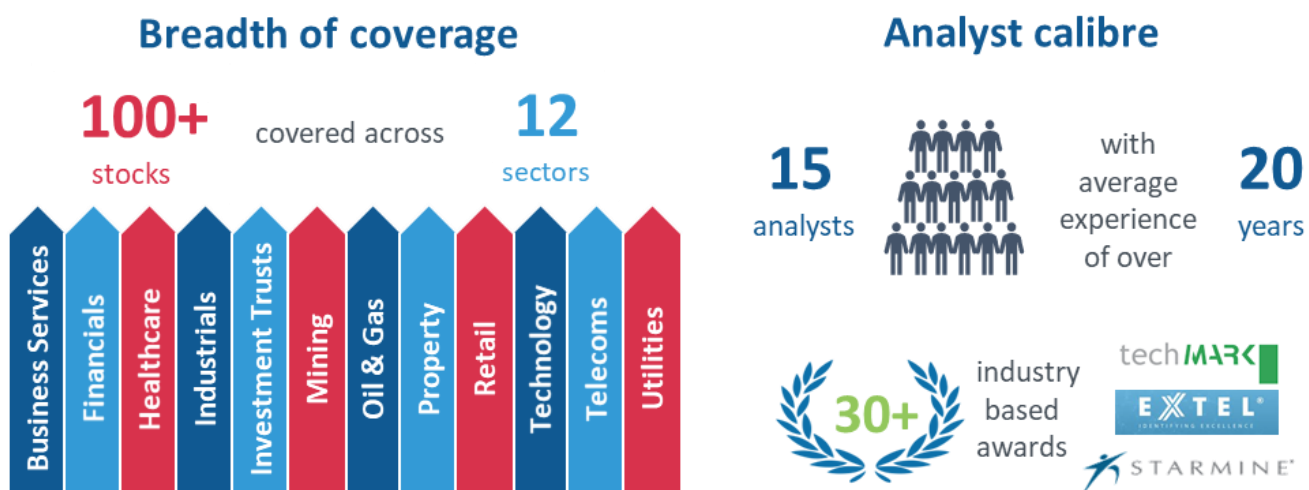
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