SPRINGFIELD PROPERTIES
HOME CONSTRUCTION

20 September 2022

SPR.L

111p

Market Cap: £131.5m

SHARE PRICE (p)

12m high/low	156p/111p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(34.1)m *(at 31/05/22)*
Enterprise value	£165.6m
Index/market	AIM
Next news	AGM, 31 Oct
Shares in Issue (m)	118.5
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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Record result against inflationary backdrop

Springfield Properties, Scotland's only quoted housebuilder, has delivered record FY22 results despite supply chain pressures, with homes completed rising 28%. Adjusted PBT rose 12% to £20.8m, 5% below our estimate mainly due to challenges in Affordable Housing (AH), while Private Housing continued to perform strongly. However, the Scottish government's temporary freeze on rents will inevitably impact AH and Private Rental Sector (PRS) volumes, necessitating us to trim our PBT by 9% and 8%, respectively, for FY23E and FY24E. Despite this *force majeure*, we remain confident in Springfield's longer-term outlook.

- **Results.** Total completions reached 1,242 (Private +27%, AH +12% and PRS +145%). Total revenue grew 19% to £257m, 1.1% below our estimate. Gross margins were in line with management's expectations in Private but were diluted by cost increases and the failure of three subcontractors mainly affecting AH. The dividend was lifted 7.8% to 6.2p, just below our 6.5p estimate, and net debt including leases rose from £20.8m to £38.1m.
- **Forecasts.** We continue to project further growth in FY23E and FY24E. Private Housing's pipeline totals c.75%-80% of forecast revenue for FY23E, in line with the visibility at the same point last year. However, total volumes and profits will reflect the pausing of new AH fixed price contracts until inflationary accommodations are agreed. The Scottish government's rent freeze is initially planned to last until March 2023, but we believe this could pause development appraisals by both housing associations and PRS investors. This has led us to cut our volumes in both these divisions and trim our gross margin assumptions. We have not changed our dividend or net debt assumptions. (Financials, pages 4-6)
- **Strong private demand; rent freeze will only increase demand.** Notwithstanding the rent freeze, we believe the outlook remains positive. Private housing demand, in our view, is underpinned by under-supply and Scottish prices lagging the UK average. We are convinced the rent freeze will have the unintended consequence of reduced supply of affordable and private rental housing, leading to a strong rebound from FY25.
- **Unique multi-tenure model.** A distinctive feature is Springfield's 'Village' communities; Affordable Housing should benefit from the Scottish government's focus on the sector (arguably hampered by the freeze); we also believe there will be strong demand for privately rented homes. (Springfield in brief, page 7).

FYE MAY (£M)	2020	2021	2022	2023E	2024E
Revenue	143.5	216.7	257.1	359.9	372.0
Fully Adj PBT	10.2	18.5	20.8	27.3	33.0
Fully Adj EPS (p)	8.2	14.2	15.4	18.2	20.4
Dividend per share (p)	2.00	5.75	6.20	7.50	8.00
PER (x)	0.0x	7.8x	7.2x	6.1x	5.4x
Dividend yield (%)	1.8%	5.2%	5.6%	6.8%	7.2%
EV/EBITDA (x)	12.2x	7.6x	6.8x	5.2x	4.4x

Source: Company Information and Progressive Equity Research estimates.

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Growth to continue despite cost and political pressures

Consistent record of organic and acquisitive growth since IPO

The latest results demonstrate a record of continued organic growth and successful acquisitions since Springfield came to market. Total group completions rose 28% to 1,242 (divisional breakdown, Figure 1). To put this in context, this represents an increase from 770 in FY18, the year of the IPO, CAGR of 12.7%. Despite continuing inflationary pressures and this month's 'bolt from the blue' of a rent freeze, we continue to forecast growth.

Private Housing: buoyant demand continues

Sales pipeline entering FY23E equivalent to a year earlier

Completions rose 27% to 712, reflecting growth across most of the group's brands and regions as well as the contribution from Tulloch Homes following the acquisition. Business remained buoyant, with an increase in the number of homes 'missived' (sales legally confirmed under Scotland's conveyancing laws) or reserved at 31 May 2022 compared with the previous year. The division currently has homes delivered, missived or reserved representing approximately 75%-80% of forecast private housing revenue for FY23E, in line with the visibility at the same point last year.

The 1.2% decline to £245k in the average selling price reflected the regional and house-type mix, with a larger proportion of revenue and completions in regions that typically have lower house prices. Prices increased on an underlying basis, offsetting cost price inflation to ensure the division's gross margins were maintained.

Village expansion continues

Total completions increased in the group's signature 'Village' developments, and there was an increase in private completions at Dykes of Gray and Bertha Park, which is delivered under contract. There was also a continued expansion of amenities and community engagement. Bertha Park won Development of the Year at the Scottish Home Awards.

Affordable Housing: cost challenges being addressed

Pause on new long-term fixed contracts while inflation impact is addressed

The number of affordable home completions increased 12% to 405. The average price increased 9% to £159k, reflecting a change in housing mix. However, revenue and margin were impacted by price inflation. This was partly due to three key subcontractors going out of business. Securing replacement subcontractors led to some delays and higher costs. In particular, margin suffered from the delivery of two large long-term contracts that had been signed in early 2020, thus based on expectations of lower material and labour costs.

The division has paused the signing of new long-term fixed price contracts to build affordable homes until appropriate inflationary accommodations are introduced. It has undertaken a detailed review of all existing projects and reassessed costs to completion, and believes it is well-positioned for when market conditions normalise.

Scottish government remains committed to affordable housing growth

The longer-term fundamentals of affordable housing remain strong, according to the group, which expects to recommence signing contracts when more normal market conditions resume and following the Scottish government's next affordable housing investment review to reflect inflation, which is expected to occur this November. The Scottish government remains committed to its target of supplying 110,000 energy efficient affordable homes by 2032.

Contract Housing: growth paused until clarity is provided

First PRS homes handed over

In contract housing, the group provides development services to third-party private organisations (compared with affordable housing where services are delivered to local authorities, housing associations or other public bodies). To date, contract housing delivery has consisted of services provided to Bertha Park Limited, the developer of the Bertha Park Village, under a framework agreement. Springfield performs development services and receives revenue based on costs incurred plus a fixed mark-up. At Bertha Park, the group is delivering private, affordable and PRS housing.

Springfield handed over its first PRS housing with Sigma, which specialises in family homes. The group is delivering 75 purpose-built homes for families to rent privately at Bertha Park, which, following handover, will be owned, let and managed by Sigma. To date, 45 PRS homes have been completed at Bertha Park.

Strategy on hold until consequences of rent freeze are clearer

However, the strategy to expand its PRS activity with Sigma has been paused due to emergency legislation to freeze rents, which also imposes a moratorium on evictions until at least 31 March 2023. While this does not impact the agreement to deliver 75 PRS homes, any decisions on the expansion of activities will wait until the policy environment is clearer. For FY23E we have assumed slower volumes in AH and PRS will be partly offset by £15m of land sales.

Planning and land: continuing to grow

9% rise in total land bank, while latest acquisition will add more

The total land bank grew 9% to 16,652 plots with gross development value up 13% at £3.5bn. The acquisition of Tulloch Homes added 1,791 plots, of which 91% were owned and paid for, and 87% had planning permission. This particularly strengthened Springfield's presence in the Highlands, in and around Inverness, a newly created city that has been growing rapidly.

Post year-end, the group's land bank grew further with the acquisition of the housebuilding business of Mactaggart & Mickel, comprising a total of 17 sites, 11 of which will transfer to Springfield as homes are sold. In addition, the group has established a strategic alliance with an agreement that gives Springfield opportunities for future purchases of sites from Mactaggart & Mickel's remaining land bank of c.2,300 acres.

During FY22 a planning application was submitted by the Private Housing division for a large development of up to 1,000 homes in the Edinburgh commuter belt.

Figure 1: Revenue by division

Year-end May (£m)	2017	2018	2019	2020	2021	2022	2023E	2024E
Private Housing								
Completions	437	460	630	419	559	712	933	1,050
YoY change (%)	*9.5%*	*5.3%*	*37.0%*	*-33.5%*	*33.4%*	*27.4%*	*31.0%*	*12.6%*
ASP (£000)	197.6	221.5	227.0	236.0	248.0	245.0	284.2	276.0
YoY change (%)	*1.0%*	*12.0%*	*2.5%*	*4.0%*	*5.1%*	*-1.2%*	*16.0%*	*-2.9%*
Revenue	86.4	101.9	143.3	98.9	138.6	174.4	265.1	289.8
Affordable Housing								
Completions	183	310	322	308	363	405	397	318
YoY change (%)	*90.6%*	*69.4%*	*3.9%*	*-4.3%*	*17.9%*	*11.6%*	*-2.0%*	*-20.0%*
ASP (£000)	127.0	120.2	133.0	138.0	145.8	158.6	163.4	163.4
YoY change (%)	*1.2%*	*-5.4%*	*10.6%*	*3.8%*	*5.7%*	*8.8%*	*3.0%*	*0.0%*
Revenue	23.3	37.3	42.9	42.5	52.9	64.3	64.9	51.9
Contracting								
Completions					51	125	110	209
YoY change (%)						*145.1%*	*-12.0%*	*90.0%*
ASP (£000)					159.6	132.0	136.2	145.0
YoY change (%)						*-17.3%*	*3.2%*	*6.5%*
Revenue				-	8.1	16.5	15.0	30.3
Total completions	**620**	**770**	**952**	**727**	973	1,242	1,440	1,577
YoY change (%)	*25.3%*	*24.2%*	*23.6%*	*-23.6%*	*33.8%*	*27.6%*	*15.9%*	*9.5%*
Total ASP (£000)	176.8	180.7	195.6	194.5	205.3	205.5	239.6	235.9
YoY change (%)	*-2.9%*	*2.2%*	*8.2%*	*-0.5%*	*5.5%*	*0.1%*	*16.6%*	*-1.5%*
Other revenue	1.0	1.6	4.6	2.1	17.0	1.9	15.0	-
Total revenue	**110.6**	**140.7**	**190.8**	**143.5**	**216.7**	**257.1**	**359.9**	**372.0**
YoY change (%)	*22.7%*	*27.2%*	*35.6%*	*-24.8%*	*51.0%*	*18.6%*	*40.0%*	*3.4%*

Source: Company Information and Progressive Equity Research estimates.

Figure 2: Profit and per share summary

Year-end May (£m)	2017	2018	2019	2020	2021	2022	2023E	2024E
Total revenue	**110.6**	**140.7**	**190.8**	**143.5**	**216.7**	**257.1**	**359.9**	**372.0**
Gross profit	**16.7**	**22.1**	**34.3**	**27.4**	**38.8**	**43.1**	**64.0**	**69.0**
Margin (%)	*15.1%*	*15.7%*	*18.0%*	*19.1%*	*17.9%*	*16.8%*	*17.8%*	*18.6%*
Admin, other income	(8.9)	(11.5)	(17.3)	(16.1)	(19.0)	(20.6)	(33.7)	(33.5)
EBIT	**7.8**	**10.6**	**17.0**	**11.3**	**19.8**	**22.6**	**30.3**	**35.5**
Share in PBT of JV	-	0.0	0.6	0.9	-	-	-	-
Total op profit	**7.8**	**10.7**	**17.6**	**12.1**	**19.8**	**22.6**	**30.3**	**35.5**
Margin (%)	*7.1%*	*7.6%*	*9.2%*	*8.4%*	*9.1%*	*8.8%*	*8.4%*	*9.5%*
Exceptionals	-	(0.6)	(0.6)	(0.4)	(0.6)	(1.1)	-	-
Net interest	(1.1)	(0.9)	(1.1)	(2.0)	(1.2)	(1.8)	(3.0)	(2.5)
PBT, reported	**6.7**	**9.2**	**16.0**	**9.7**	**17.9**	**19.7**	**27.3**	**33.0**
U-lying tax rate (%)	*19.1*	*19.0*	*18.8*	*20.6*	*22.6*	*17.5*	*19.0*	*25.0*
Reported tax	(1.3)	(1.9)	(3.1)	(2.1)	(4.2)	(3.7)	(5.2)	(8.3)
Net attrib. profit	**5.4**	**7.4**	**12.8**	**7.6**	**13.7**	**16.1**	**22.1**	**24.8**
Adj PBT	**6.7**	**9.8**	**16.5**	**10.2**	**18.5**	**20.8**	**27.3**	**33.0**
YE shares (million)	7.3	96.3	96.3	97.9	102.1	118.5	118.5	118.5
Wtd. ave (million)	58.4	73.4	96.3	96.9	99.4	109.0	118.5	118.5
Diluted (million)	58.4	73.6	97.3	97.9	101.2	111.8	121.3	121.3
EPS, basic (p)	9.2	10.0	13.3	7.9	13.8	14.7	18.6	20.9
Adj EPS, (p)	9.2	10.8	13.9	8.3	14.4	15.8	18.6	20.9
Adj EPS, dil. (p)	**9.2**	**10.7**	**13.8**	**8.2**	**14.2**	**15.4**	**18.2**	**20.4**
DPS - declared (p)	**2.8**	**3.7**	**4.4**	**2.0**	**5.75**	**6.2**	**7.5**	**8.0**
NAV (p)		82.0	91.9	98.0	109.0	121.2	132.6	145.8
Dividend cover (x)	3.3	2.9	3.2	4.2	2.5	2.5	2.5	2.6
TNAV (p)		81.4	90.2	96.3	107.4	116.3	127.7	141.0

Source: Company Information and Progressive Equity Research estimates.

Figure 3: Cashflow and balance sheet

Year-end May (£m)	2019	2020	2021	2022	2023E	2024E
Adjusted cash flow statement						
Group op profit inc exc.	16.5	10.8	19.1	21.5	30.3	35.5
Depreciation	1.6	2.4	2.2	1.7	1.7	1.7
Intangible amortisation	-	0.0	-	-	-	-
Other	0.6	2.4	0.5	12.4	-	-
Working capital changes	(2.7)	(42.2)	35.2	(16.5)	(9.0)	(3.0)
Operating cash flow	**16.0**	**(26.6)**	**57.0**	**19.1**	**23.0**	**34.2**
Capex	(1.2)	(0.5)	0.0	(0.1)	(0.2)	(0.2)
Interest	(1.2)	(1.6)	(1.3)	(1.6)	(3.0)	(2.5)
Tax	(2.9)	(3.1)	(4.2)	(3.5)	(5.2)	(8.3)
Free cashflow	**10.7**	**(31.8)**	**51.5**	**13.8**	**14.6**	**23.3**
Acquisitions, net	(20.9)	(3.2)	0.3	(44.0)	(22.2)	(14.2)
Dividends - paid	(3.8)	(3.1)	(3.3)	(6.3)	(8.5)	(9.1)
Financing	4.9	36.5	(34.2)	37.1	-	-
Chg cash/net cash, f-cast	**(9.0)**	**(1.5)**	**14.3**	**0.6**	**(16.1)**	**0.0**
Summary balance sheet						
Intangible fixed assets	1.6	1.6	1.6	5.8	5.8	5.8
Tangible fixed assets	5.0	6.3	4.5	5.8	4.3	2.7
Investments	2.4	5.3	6.0	8.3	8.3	8.3
Working capital	125.1	162.8	128.8	182.9	191.9	194.9
Provisions, others	(16.0)	(9.3)	(8.9)	(21.2)	1.0	15.2
Net cash/(debt) – IFRS16	(29.6)	(70.9)	(20.8)	(38.1)	(54.1)	(54.1)
Net assets	**88.6**	**95.9**	**111.2**	**143.5**	**157.1**	**172.8**
Net debt – pre IFRS16			*(18.2)*	*(34.1)*	*(46.1)**	*(46.1)**

*Source: Company Information and Progressive Equity Research estimates. * £8m of lease liabilities, including the electric car fleet*

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. See our 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'. The group has published its first ESG Strategy alongside its annual results. The strategy includes setting a route map for net zero by at least 2045 and objectives to further evolve solutions in energy saving, biodiversity, water management and waste reduction. On the social side, the group has an active training programme for employees and strong engagement with local communities. 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)

PROFIT & LOSS	**2020**	**2021**	**2022**	**2023E**	**2024E**
Revenue	143.5	216.7	257.1	359.9	372.0
Adj EBITDA	13.6	21.9	24.3	32.0	37.2
Adj EBIT	12.1	19.8	22.6	30.3	35.5
Reported PBT	9.7	17.9	19.7	27.3	33.0
Fully Adj PBT	10.2	18.5	20.8	27.3	33.0
NOPAT	8.9	15.3	18.6	24.5	26.6
Reported EPS (p)	7.9	13.8	14.7	18.6	20.9
Fully Adj EPS (p)	8.2	14.2	15.4	18.2	20.4
Dividend per share (p)	2.0	5.8	6.2	7.5	8.0

CASH FLOW & BALANCE SHEET	**2020**	**2021**	**2022**	**2023E**	**2024E**
Operating cash flow	(26.6)	57.0	19.1	23.0	34.2
Free Cash flow	(31.8)	51.5	13.8	14.6	23.3
FCF per share (p)	(32.8)	51.8	12.7	12.4	19.7
Acquisitions	(3.2)	0.3	(44.0)	(22.2)	(14.2)
Disposals					
Net cash flow	(1.5)	14.3	0.6	(16.1)	0.0
Overdrafts / borrowings	72.4	36.6	54.4		
Cash & equivalents	1.5	15.8	16.4		
Net (Debt)/Cash, post-IFRS 16	(70.9)	(20.8)	(38.1)	(54.1)	(54.1)
Net (Debt)/Cash, pre-IFRS 16		(18.2)	(34.1)	(46.1)	(46.1)

NAV AND RETURNS	**2020**	**2021**	**2022**	**2023E**	**2024E**
Net asset value	95.9	111.2	143.5	157.1	172.8
NAV/share (p)	98.0	109.0	121.2	132.6	145.8
Net Tangible Asset Value	94.2	109.6	137.8	151.3	167.0
NTAV/share (p)	96.3	107.4	116.3	127.7	141.0
Average equity	83.8	92.2	103.5	127.4	150.3
Post-tax ROE (%)	9.1%	14.9%	15.5%	17.3%	16.5%

METRICS	**2020**	**2021**	**2022**	**2023E**	**2024E**
Revenue growth		51.0%	18.6%	40.0%	3.4%
Adj EBITDA growth		60.9%	10.9%	31.7%	16.4%
Adj EBIT growth		63.1%	14.3%	34.1%	17.3%
Adj PBT growth		82.1%	12.5%	31.0%	21.0%
Adj EPS growth			8.5%	18.6%	12.1%
Dividend growth		187.5%	7.8%	21.0%	6.7%
Adj EBIT margins	8.4%	9.1%	8.8%	8.4%	9.5%

VALUATION	**2020**	**2021**	**2022**	**2023E**	**2024E**
EV/Sales (x)	1.2	0.8	0.6	0.5	0.4
EV/EBITDA (x)	12.2	7.6	6.8	5.2	4.4
PER (x)		7.8	7.2	6.1	5.4
Dividend yield (%)	1.8%	5.2%	5.6%	6.8%	7.2%
P/NAV (x)		1.02	0.92	0.84	0.76
FCF yield		46.7%	11.4%	11.1%	17.7%

Source: Company information and Progressive Equity Research estimates

20 September 2022

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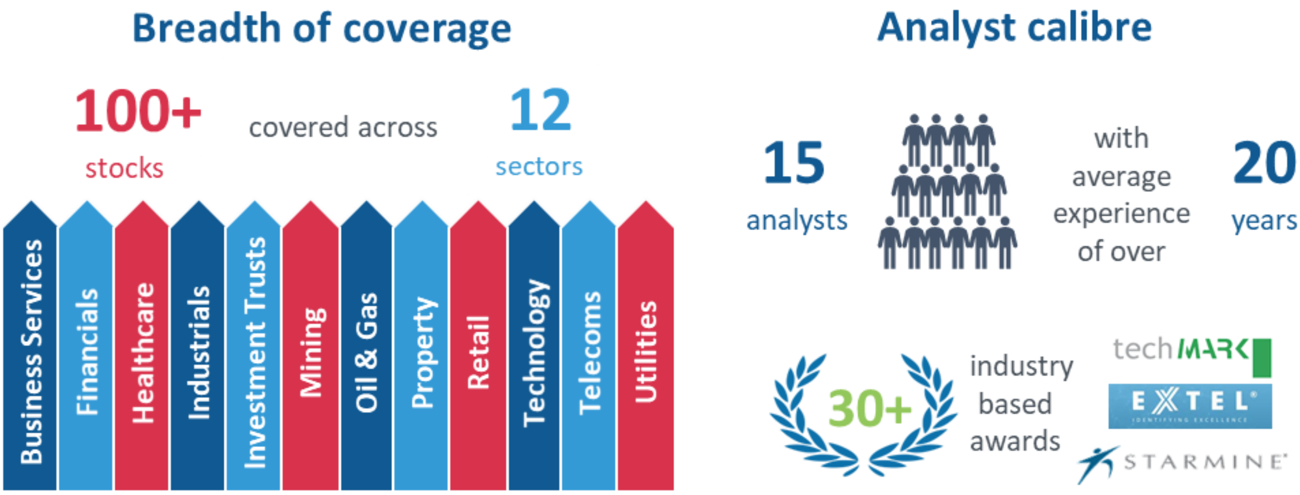

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