

# SPRINGFIELD PROPERTIES

## HOME CONSTRUCTION

24 November 2022

SPR.L

91p

Market Cap: £107.8m

### SHARE PRICE (p)



12m high/low

156p/85p

Source: LSE Data (priced as at prior close)

### KEY DATA

Net (Debt)/Cash	£(34.1)m (at 31/05/22)
Enterprise value	£141.9m
Index/market	AIM
Next news	HY end, 30 November
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](http://www.springfield.co.uk)

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## ESG credentials spotlighted in industry awards

Springfield's longstanding focus on sustainability, which it detailed along with social and governance commitments in its September ESG strategy report, was recognised last week in top housebuilding awards for two of its 'Village' developments – in our view, one of the multi-tenure developer's key differentiators. Scotland's only quoted housebuilder has, on these and other locations, provided a range of green energy, social initiatives and innovative approaches to construction.

- Sustainability recognised in UK-wide awards.** In September, Springfield published a 35-page report detailing its environmental, social and governance strategy, alongside its FY22 results. We have previously explained that sustainability has been a core commitment of the group from well before ESG gained its current prominence. This commitment was recognised last week when its Villages near Perth and Dundee were awarded Gold and Silver, respectively, in 'Best Sustainable Development' and 'Best Public Realm' at the UK-wide WhatHouse? Awards.
- Above and beyond tough Scottish energy ambitions.** Scotland already has demanding commitments to energy efficiency in new homes. Springfield has gone further, including air-source heating and electric car charging infrastructure in the two featured Villages.
- Low running costs could add to attractions of new housing.** We believe that the steep rise in energy costs will increase the attractiveness to buyers of new homes over generally less-efficient second-hand homes. In October, the Home Builders Federation estimated that buyers of a new-build house across the UK will save on average around £2,600 per annum in energy bills at current costs.
- Unique multi-tenure model.** A distinctive feature of Springfield's 'Village' communities with housing delivered across tenures: private for sale; affordable housing, which benefits from the Scottish Government's focus on the sector; and private rented homes (PRS), with 75 homes for PRS delivered at Bertha Park. We believe there will be strong demand for more privately rented homes. (Springfield in brief, page 4.)

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	6.4x	5.9x	5.0x	4.5x
Dividend yield (%)	2.2%	6.3%	6.8%	8.2%	8.8%
EV/EBITDA (x)	10.4x	6.5x	5.8x	4.4x	3.8x

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.

*New ESG strategy sums up long-term journey for Springfield*

*Gold Award winner for Best Sustainable Development: a multi-tenure community of 3,000 homes with energy efficiency and bio-diversity at the forefront*

## Energy efficiency a cost-saving strategy for occupants

The awards for sustainability and ‘placemaking’ at last week’s awards confirmed what has been a well-established commitment for Springfield. In our 15 December 2020 [interim results note](#), we highlighted Springfield’s approach, which was firmly in place well before ESG gained its current significance with investors. This was formally detailed in September in [Environment and People: Our ESG strategy](#). The Group has also recently secured ISO:14001 certification on Environmental Management, recognising a range of environmental processes on themes such as pollution prevention, ecology and waste management. Appropriately in our view, the awards were for two of Springfield’s distinctive Villages (page 4), which were planned from the outset with sustainability, placemaking and energy efficiency at their core.

New homes in Scotland are built to some of the highest technical standards in Europe, with the Scottish Government Building Standards in October 2015 resulting in a 75% reduction in carbon emissions compared with 1990 levels. The Scottish Parliament has also committed to end fossil fuel heating in new build homes by 2024, at least a year earlier than the planned ban in the rest of the UK. Energy efficiency for Springfield is maximised by use of timber-frame construction, still a minority technique in England, which is supplied from the Group’s two factories. We expect the steep rise in energy costs to increase the attractiveness to buyers of new homes, which are generally four times more efficient than older second-hand homes. The Home Builders Federation estimates that buyers of a new-build house across the UK will save on average around £2,600 pa at current pricing.

## Bertha Park – gold standard for sustainability

Once complete, Bertha Park will include a mix of 3,000 homes across a range of tenures. Spanning 823 acres, it is set in extensive bio-diverse spaces, including allotments and an orchard. Community facilities already include a local shop, destination play park and the first purpose-built high school in Scotland for 20 years, one of 17 Microsoft flagship schools worldwide, with opportunities for cafes and businesses as the Village continues to grow.

### Bertha Park, Perth



Source: Company

*Energy efficient homes, with electric car charging and community infrastructure*

*Silver Award winner for Best Public Realm: community involvement key to master-planning and operations*

The homes at Bertha Park, which was also named Development of the Year 2022 by Scottish Home Awards, feature a number of sustainable options including PV solar panels, full air-source heat pumps and a hybrid combination of air-source and gas boiler technology. This technology allows householders to ensure that the cheapest tariff is used. The development is the first in Scotland to make electric vehicle charging infrastructure available in all homes with driveways.

Bertha Park also features the range of Springfield’s tenures: private, affordable housing and, via its partnership with Sigma Capital, private rented sector homes (PRS). Connectivity with Perth includes a new dedicated bus route and the development has a Community Engagement Co-ordinator to organise events and promote community spirit.

### **Dykes of Gray – a leader in public realm development**

Springfield’s commitment to community and sustainable design was identified specifically in the Silver Award for Best Public Realm for its Dykes of Gray Village in Dundee. The development, to the west of Dundee, will eventually provide 1,500 new homes and extensive public spaces.

During master-planning, the Group engaged early with Dundee City Council and identified that, alongside housing, key community facilities should be factored into the design including a village hall, nursery, retail, office spaces and communal community areas. The process involved an analysis of historical Scottish villages and the Scottish Government’s aspirations of ‘20-minute neighbourhoods’.

The ‘village core’ at the heart of Dykes of Gray is already home to a thriving convenience store, that also offers hot food and drinks, bus stop, public artwork, village green, play park and an amphitheatre – designed as a multifunctional space that can be enjoyed year-round.

Throughout the Village there are green corridors, open spaces and tree-lined streets to encourage walking, jogging and cycling. A green spine runs through the development with a footpath, public art and benches, designed to provide viewpoints to the surrounding area.

#### **Dykes of Gray, Dundee**



Source: Company



*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 since floating are supportive of a return to growth. 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.
- **Scottish Missive system.** With buyers legally-bound much earlier than in England and Wales, the missive system offers high revenue visibility and a secure income stream.
- **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 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 allowing payment as homes are sold. 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 business took Springfield into central Scotland – a step change for 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 [December 2020 note](#), Springfield has had a longstanding commitment to ESG. The group published its first ESG Strategy alongside its annual results in September 2022. 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)

	2020	2021	2022	2023E	2024E
<b>PROFIT &amp; LOSS</b>					
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
<b>CASH FLOW &amp; BALANCE SHEET</b>					
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)
<b>NAV AND RETURNS</b>					
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%
<b>METRICS</b>					
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%
<b>VALUATION</b>					
EV/Sales (x)	1.0	0.7	0.6	0.4	0.4
EV/EBITDA (x)	10.4	6.5	5.8	4.4	3.8
PER (x)		6.4	5.9	5.0	4.5
Dividend yield (%)	2.2%	6.3%	6.8%	8.2%	8.8%
P/NAV (x)		0.84	0.75	0.69	0.62
FCF yield		56.9%	13.9%	13.6%	21.6%

Source: Company information and Progressive Equity Research estimates

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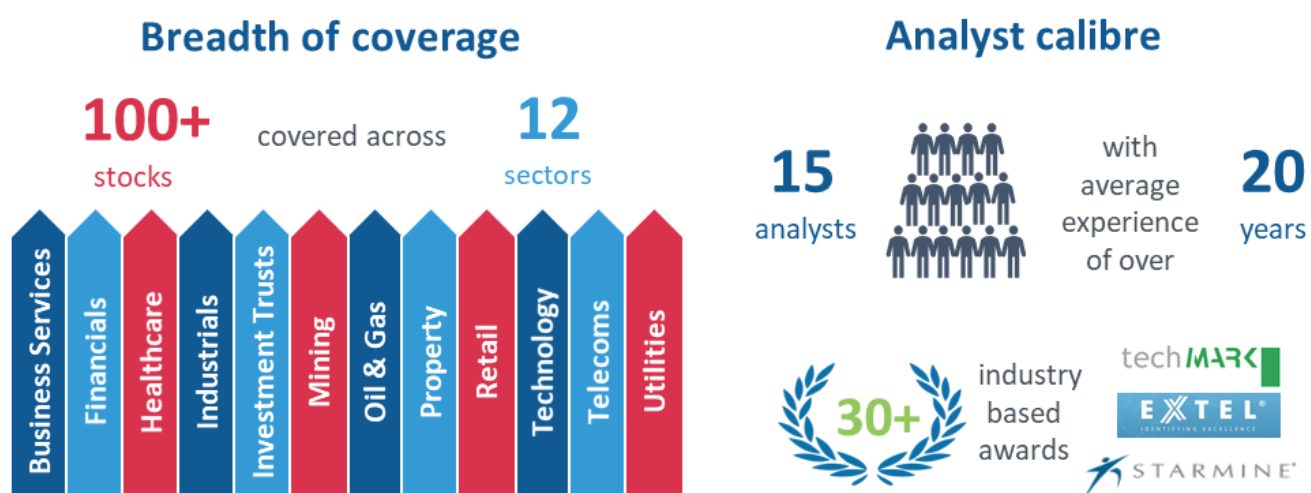
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