SPRINGFIELD PROPERTIES
HOME CONSTRUCTION

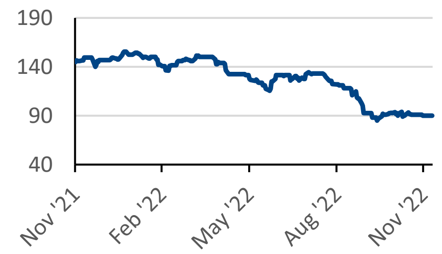
12 December 2022

SPR.L

90p

Market Cap: £106.6m

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	£140.7m
Index/market	AIM
Next news	HY results, February
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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Taking a prudent outlook in uncertain markets

Springfield Properties, Scotland's only quoted housebuilder, has prudently, in our view, adjusted its guidance for FY23E due to more challenging housing market conditions and specific external factors referred to in September's FY22 results. Consequently, we cut our estimates for FY23E and, again prudently, for FY24E. Our sector view is that the market may decline less than widely feared, but for now we adopt Springfield's conservative view.

- **'Cautious' update.** The update confirms that the group has maintained its FY23E revenue estimate, largely due to its strong order book and the security provided by the Scottish 'missive' system (Springfield in brief, page 5). However, the Board is taking a "cautious approach to expectations of future sales rates, being cognisant of the continued market uncertainty". This is mainly due to an assumed decline in market demand in FY24E, and to inflationary pressures and political moves Springfield first highlighted in its HY results in September.
- **Our estimates.** Details of our changes are given on pages 2-4. Our volume and revenue expectations are broadly unchanged for FY23E, but we have assumed a modest decline in Private Housing business volumes for FY24E, whereas we had expected a low-teens percentage increase. We assume inflationary pressure will depress margins, particularly in the Affordable Housing business due to the ongoing impact of a number of fixed price contracts, outlined in the FY22 results. Additionally, Contracting revenue is assumed to fall because of the Scottish government's rent freeze. We have reduced our PBT and EPS by 38% and 36% for both years, respectively, and reflected this in the same reduction in dividend estimates. This is similar to the 40% Y/Y decline in the share price.
- **Over-conservative?** Our broad view on the wider Scottish and UK housing markets is that there could be improvements during later CY23, which could potentially make our new FY24E assumptions over-conservative. However, for now we take our lead from Springfield's caution.
- **Strong land bank.** Springfield's extensive land bank, in our view, provides it with a platform for a recovery and shorter-term options for land sales.
- **Unique multi-tenure model.** A distinctive feature is Springfield's multi-tenure 'Village' communities: private sales; affordable rental, supported by the Scottish Government's focus on the sector; and private rented homes, where new supply could be further constrained by the rent freeze.

FYE MAY (£M)	2020	2021	2022	2023E	2024E
Revenue	143.5	216.7	257.1	351.7	319.4
Fully Adj PBT	10.2	18.5	20.8	17.0	21.0
Fully Adj EPS (p)	8.2	14.2	15.4	11.4	13.0
Dividend per share (p)	2.00	5.75	6.20	4.70	5.10
PER (x)	0.0x	6.4x	5.9x	7.9x	6.9x
Dividend yield (%)	2.2%	6.4%	6.9%	5.2%	5.7%
EV/EBITDA (x)	10.3x	6.4x	5.8x	6.1x	5.4x

Source: Company Information and Progressive Equity Research estimates.

Revenue: estimates maintained for FY23E; a conservative approach for FY24E

Private and Affordable Housing assumptions largely unchanged for FY23E, with Private underpinned by missives

For both Private and Affordable Housing divisions, we have left our FY23E revenue estimates broadly unchanged, at £265m and £62m, respectively. This reflects slightly lower Private homes sold at 900 (vs our previous 933), but still up 26% vs FY22. Private volumes are underpinned by most of the reservations for the second half being protected by the missive system. Meanwhile there is little change in either our volume or price assumptions for Affordable.

More prudent assumptions – possibly over-conservative – taken for Private sales in FY24E; Affordable outlook unchanged

For FY24E, we reflect Springfield's prudent view on the current sales market feeding through to fewer new Private reservations, and take our volume estimate down from 1,050 to 873 – a modest reduction compared with FY23E. Our broad view on the wider Scottish and UK housing markets is that there could be improvements during later CY23, which could potentially make our new FY24E assumptions over-conservative. However, for now we are taking our lead from Springfield's cautious reaction to current market conditions. Our Affordable volume and price assumptions are, again, essentially unchanged.

Contracting revenues for FY24E could be hit by Scottish government's rent freeze; land sales can partly mitigate

For Contracting, construction work carried out for third-party housing clients, we have increased our revenue estimate for FY23E from £15m to £20m, reflecting strong work levels on Bertha Park, Springfield's Village in Perth. However, we have cut FY24E from £30m to £10m – this is due to Springfield's previous indications that private rental sector (PRS) work for Sigma Capital Group was likely to be curtailed as a result of the Scottish government's announcement in October of a rent freeze across all private, public and housing association homes until at least 31 March 2023. We believe the resulting uncertainty could curtail development of new private, and possibly affordable, housing until greater clarity emerges.

One benefit of Springfield's extensive landbank, in our view, is that the company can mitigate changing market conditions by selling parts of its sites, with the additional benefit of 'sweating its assets'. We have assumed £15m for FY24E (previously zero), with £5m estimated for FY23E.

As a result, we have nudged down our estimate for total group revenue for FY23E from £360m to £352m and for FY24E, taking a more conservative view, from £372m to £319m.

Profits: margins depressed following previously highlighted issues

Inflationary pressures in Affordable Housing already referred to at FY22; rent freeze likely to depress investment until greater clarity appears

The statement points out that inflationary pressures in materials and labour have become more acute as supply chain disruption has persisted. House price growth is no longer anticipated in the short term, making the increase in build costs more difficult to mitigate in Private Housing. Affordable Housing continues to be impacted due to its fixed price contracts – previously highlighted – and the Scottish government has yet to review its affordable housing investment benchmark. As a result, we have reduced our FY23E gross margin from 17.8% to 15.1%. We have it recovering to 17.8% for FY24E, compared with our previous estimate of 18.6%. We have also slightly cut our administrative costs by £1.7m and £1.0m for both years and nudged up our interest costs by a similar amount. Our PBT and EPS have been reduced by 38% and 36%, with a corresponding reduction in dividends.

Other financials

Our tax rate remains unchanged. Pre-IFRS 16 net debt moves to £56.8m for FY23E then £55.7m for FY24E, from £46.1m for both years previously. NAV is 125.8p and 134.3p, from 132.6p and 145.8p previously.

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	900	873
YoY change (%)	*9.5%*	*5.3%*	*37.0%*	*-33.5%*	*33.4%*	*27.4%*	*26.4%*	*-3.0%*
ASP (£000)	197.6	221.5	227.0	236.0	248.0	245.0	294.5	279.8
YoY change (%)	*1.0%*	*12.0%*	*2.5%*	*4.0%*	*5.1%*	*-1.2%*	*20.2%*	*-5.0%*
Revenue	86.4	101.9	143.3	98.9	138.6	174.4	265.0	244.2
Affordable Housing								
Completions	183	310	322	308	363	405	400	320
YoY change (%)	*90.6%*	*69.4%*	*3.9%*	*-4.3%*	*17.9%*	*11.6%*	*-1.2%*	*-20.0%*
ASP (£000)	127.0	120.2	133.0	138.0	145.8	158.6	154.8	156.4
YoY change (%)	*1.2%*	*-5.4%*	*10.6%*	*3.8%*	*5.7%*	*8.8%*	*-2.4%*	*1.0%*
Revenue	23.3	37.3	42.9	42.5	52.9	64.3	62.0	50.1
Contracting								
Completions					51	125	130	70
YoY change (%)						*145.1%*	*4.0%*	*-46.0%*
ASP (£000)					159.6	132.0	151.7	144.2
YoY change (%)						*-17.3%*	*15.0%*	*-5.0%*
Revenue				-	8.1	16.5	19.7	10.1
Total completions	**620**	**770**	**952**	**727**	973	1,242	1,430	1,263
YoY change (%)	*25.3%*	*24.2%*	*23.6%*	*-23.6%*	*33.8%*	*27.6%*	*15.1%*	*-11.7%*
Total ASP (£000)	176.8	180.7	195.6	194.5	205.3	205.5	242.4	241.0
YoY change (%)	*-2.9%*	*2.2%*	*8.2%*	*-0.5%*	*5.5%*	*0.1%*	*18.0%*	*-0.6%*
Other revenue	1.0	1.6	4.6	2.1	17.0	1.9	5.0	15.0
Total revenue	**110.6**	**140.7**	**190.8**	**143.5**	**216.7**	**257.1**	**351.7**	**319.4**
YoY change (%)	*22.7%*	*27.2%*	*35.6%*	*-24.8%*	*51.0%*	*18.6%*	*36.8%*	*-9.2%*

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**	**351.7**	**319.4**
Gross profit	**16.7**	**22.1**	**34.3**	**27.4**	**38.8**	**43.1**	**53.0**	**56.5**
Margin (%)	*15.1%*	*15.7%*	*18.0%*	*19.1%*	*17.9%*	*16.8%*	*15.1%*	*17.7%*
Admin, other income	(8.9)	(11.5)	(17.3)	(16.1)	(19.0)	(20.6)	(32.0)	(32.5)
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**	**21.0**	**24.0**
Margin (%)	*7.1%*	*7.6%*	*9.2%*	*8.4%*	*9.1%*	*8.8%*	*6.0%*	*7.5%*
Exceptionals	-	(0.6)	(0.6)	(0.4)	(0.6)	(1.1)	(1.0)	-
Net interest	(1.1)	(0.9)	(1.1)	(2.0)	(1.2)	(1.8)	(4.0)	(3.0)
PBT, reported	**6.7**	**9.2**	**16.0**	**9.7**	**17.9**	**19.7**	**16.0**	**21.0**
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)	(3.0)	(5.3)
Net attrib. profit	**5.4**	**7.4**	**12.8**	**7.6**	**13.7**	**16.1**	**13.0**	**15.8**
Adj PBT	**6.7**	**9.8**	**16.5**	**10.2**	**18.5**	**20.8**	**17.0**	**21.0**
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	11.0	13.3
Adj EPS, (p)	9.2	10.8	13.9	8.3	14.4	15.8	11.6	13.3
Adj EPS, dil. (p)	**9.2**	**10.7**	**13.8**	**8.2**	**14.2**	**15.4**	**11.4**	**13.0**
DPS - declared (p)	**2.8**	**3.7**	**4.4**	**2.0**	**5.75**	**6.2**	**4.7**	**5.1**
NAV (p)		82.0	91.9	98.0	109.0	121.2	125.8	134.3
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	121.0	129.5

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 since floating are supportive of a return to growth. See our Springfield research section on Progressive's website.

- **Long-term, a more attractive market?** While there are challenges across the UK housing market, we remain upbeat on Scottish opportunities. 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.** Springfield has had a longstanding commitment to ESG, recognised in recent top industry awards. 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)

PROFIT & LOSS	**2020**	**2021**	**2022**	**2023E**	**2024E**
Revenue	143.5	216.7	257.1	351.7	319.4
Adj EBITDA	13.6	21.9	24.3	23.0	26.0
Adj EBIT	12.1	19.8	22.6	21.0	24.0
Reported PBT	9.7	17.9	19.7	16.0	21.0
Fully Adj PBT	10.2	18.5	20.8	17.0	21.0
NOPAT	8.9	15.3	18.6	17.0	18.0
Reported EPS (p)	7.9	13.8	14.7	11.0	13.3
Fully Adj EPS (p)	8.2	14.2	15.4	11.4	13.0
Dividend per share (p)	2.0	5.8	6.2	4.7	5.1
CASH FLOW & BALANCE SHEET	**2020**	**2021**	**2022**	**2023E**	**2024E**
Operating cash flow	(26.6)	57.0	19.1	11.1	29.4
Free Cash flow	(31.8)	51.5	13.8	3.9	21.0
FCF per share (p)	(32.8)	51.8	12.7	3.3	17.7
Acquisitions	(3.2)	0.3	(44.0)	(22.2)	(14.2)
Disposals					
Net cash flow	(1.5)	14.3	0.6	(25.7)	1.1
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)	(63.8)	(62.7)
Net (Debt)/Cash, pre-IFRS 16		(18.2)	(34.1)	(56.8)	(55.7)
NAV AND RETURNS	**2020**	**2021**	**2022**	**2023E**	**2024E**
Net asset value	95.9	111.2	143.5	149.1	159.1
NAV/share (p)	98.0	109.0	121.2	125.8	134.3
Net Tangible Asset Value	94.2	109.6	137.8	143.3	153.4
NTAV/share (p)	96.3	107.4	116.3	121.0	129.5
Average equity	83.8	92.2	103.5	127.4	146.3
Post-tax ROE (%)	9.1%	14.9%	15.5%	10.2%	10.8%
METRICS	**2020**	**2021**	**2022**	**2023E**	**2024E**
Revenue growth		51.0%	18.6%	36.8%	(9.2%)
Adj EBITDA growth		60.9%	10.9%	(5.3%)	13.1%
Adj EBIT growth		63.1%	14.3%	(6.9%)	14.3%
Adj PBT growth		82.1%	12.5%	(18.3%)	23.6%
Adj EPS growth			8.5%	(26.0%)	14.4%
Dividend growth		187.5%	7.8%	(24.2%)	8.5%
Adj EBIT margins	8.4%	9.1%	8.8%	6.0%	7.5%
VALUATION	**2020**	**2021**	**2022**	**2023E**	**2024E**
EV/Sales (x)	1.0	0.6	0.5	0.4	0.4
EV/EBITDA (x)	10.3	6.4	5.8	6.1	5.4
PER (x)		6.4	5.9	7.9	6.9
Dividend yield (%)	2.2%	6.4%	6.9%	5.2%	5.7%
P/NAV (x)		0.83	0.74	0.72	0.67
FCF yield		57.6%	14.1%	3.7%	19.7%

Source: Company information and Progressive Equity Research estimates

Progressive EQUITY RESEARCH

12 December 2022

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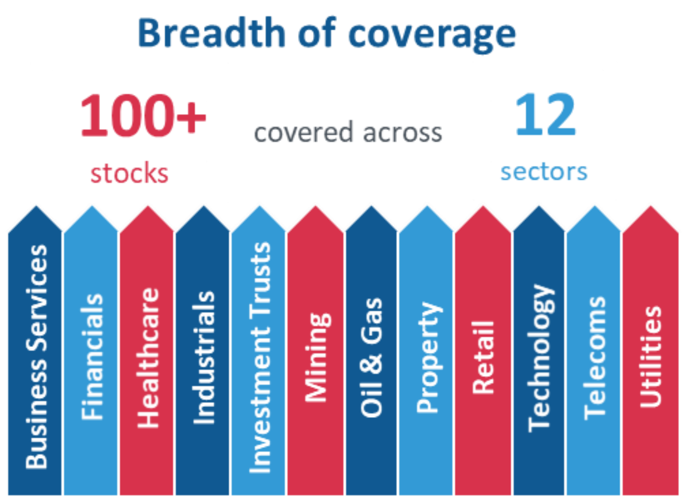

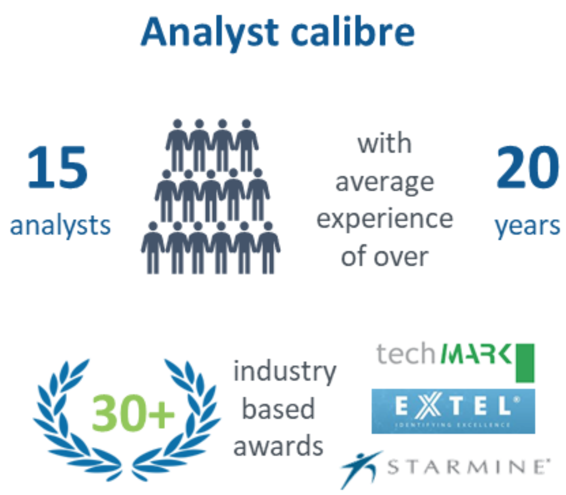

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