

SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

21 February 2023

SPR.L

88p

Market Cap: £104.3m

SHARE PRICE (p)



12m high/low

152p/75p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(67.8)m (at 30/11/22)
Enterprise value	£172.1m
Index/market	AIM
Next news	YE trading update, June
Shares in Issue (m)	118.5
Chairman	Sandy Adam
Chief Executive Officer	Innes Smith
Chief Financial Officer	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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Guidance maintained as buyers return

Springfield has maintained FY23E guidance for adjusted PBT in today's half-year results. Scotland's only quoted housebuilder was ahead of larger UK peers in outlining a more prudent outlook in December but now reports a recovery in buyer activity since the new year, although the Affordable Housing and Contracting businesses continue to face headwinds due to Scottish Government policies. In order to concentrate on debt reduction, Springfield has temporarily suspended the interim dividend for FY23E, but we maintain our FY24E dividend and cut our net debt estimate for next year.

- Private resilience to offset Affordable pressures.** Revenue for the six months to 30 November rose by 86% to £162m, reflecting acquisitions and organic growth in the Private Housing business. Previously flagged cost pressures, particularly in Affordable Housing, contained the rise in adjusted PBT to 3%, at £6.6m. We maintain our FY23E adjusted PBT estimate at £17.0m, with stronger performance in Private Housing offsetting the other two business lines. For FY24E we have maintained our EBIT estimate but increased our interest charge by £0.8m.
- Buyer revival.** The unique Scottish 'missives' conveyancing approach locks in buyers earlier in the process than in England, underpinning our FY23E private volume estimates with the pipeline representing 94% of anticipated sales. There has been an improvement in the reservation rate post-Christmas, with Scotland remaining the most affordable UK region.
- Focus on debt reduction.** Pre-IFRS 16 net bank debt rose to £67.8m from £39.7m, reflecting a temporary working capital build-up and the acquisitions of Tulloch and Mactaggart & Mickel. In response, the Board is not proposing an interim dividend for FY23E, but we continue to expect a final pay-out of 3.1p. However, cost reductions and a tighter focus on working capital have led us to reduce our FY24E net debt estimate from £55.7m to £46.1m, while maintaining our 5.1p dividend forecast.
- Strong land bank.** The group land bank increased in size and quality, up to 16,975 plots from 16,652 in May 2022, with a higher proportion of plots with planning consent. This should reduce working capital spend.
- Unique multi-tenure model.** A distinctive feature is Springfield's 'Village' communities: private sales; affordable rental, with housing association partners, supported by the Scottish Government; 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	339.5	291.0
Fully Adj PBT	10.2	18.5	20.8	17.0	20.2
Fully Adj EPS (p)	8.2	14.2	15.2	11.4	12.5
Dividend per share (p)	2.00	5.75	6.20	3.10	5.10
PER (x)	0.0x	6.2x	5.8x	7.7x	7.0x
Dividend yield (%)	2.3%	6.5%	7.0%	3.5%	5.8%
EV/EBITDA (x)	12.6x	7.9x	7.1x	7.4x	6.6x

Source: Company Information and Progressive Equity Research estimates.

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

Organic and acquisitive growth boosts volumes, while selling prices mainly offset cost pressure

Private Housing: reinforced by market, missives and acquisitions

Private home completions grew by 118% Y/Y to 429, reflecting both organic growth and contributions from Tulloch Homes and then Mactaggart & Mickel Homes. Despite the challenging environment in the wider housing market, completion numbers in H1 and moving into H2 have been largely underpinned by the Scottish missive system. As a result of this and the relative improvement in reservation numbers in the new year, the private pipeline currently represents c.94% of market forecast private housing revenue for FY23E.

The average selling price in H1 rose by 15.3% to £277k because of the higher prices in Tulloch and Mactaggart & Mickel's ranges, plus underlying house price inflation. This mitigated some of the previously disclosed build-cost pressures. Post period-end, the division's selling prices 'have remained stable across its developments, supported by the established reputation of high quality across its brands'.

The group land bank increased in size and quality following the latest acquisition, up to 16,975 plots, with a gross development value of £3.7bn, from 16,652 plots in May 2022. Within this, consented land was strengthened by the high proportion of Mactaggart & Mickel plots that have planning consent. As at 30 November, 54.5% (6,500 plots) of total Private Housing plots had planning consent (31 May 2022: 52.2%), with 21.8% going through the planning process and 23.7% at the pre-planning stage.

There were signs – echoed by UK national housebuilders' recent trading statements – that activity among potential buyers has improved in January and February, with Springfield 'encouraged' by reservation rates and an increase in customers visiting sales offices as homebuyers adjust to market conditions and a reduction in mortgage rates since the spike following the mini-budget in September. Nevertheless, Springfield is adopting a cautious approach to commencing new developments, including undertaking 'soft launches' to test the market before making further investment into site infrastructure, which should have the added benefit of controlling working capital in order to reduce net debt.

Affordable Homes and Contract Housing: policy challenges continue

During the first half, 175 affordable homes were completed (H1 2022, 204), with an average selling price in line with the same period of the prior year at £159k.

As explained in December's trading update, the margin in Affordable Housing was significantly impacted by build-cost inflation due to the industry's model of fixed price contracts, in particular two long-term contracts signed in early 2020, during Covid, on expectations of lower material and labour costs. The Scottish Government is yet to review its affordable housing investment benchmark to take account of recent inflation. As a result, Springfield took the decision during the period to pause entering into new long-term affordable contracts, and it has maintained this position since period-end. However, it believes that the longer-term fundamentals of affordable housing remain strong and thus expects to recommence signing contracts when more normal market conditions resume. Our expectations for FY23E revenue are unchanged, albeit with inherently lower margin assumptions, compensated for by performance in Private Housing and a previously assumed land sale profit.

Post period-end, Contract Housing completed the final handovers of homes under its first Private Rental Sector (PRS) contract. As previously noted, Springfield's plans to deliver further PRS homes have been suspended, since 'the Scottish Government's intervention in rent control has created uncertainty and reduced the appetite of PRS providers to invest in Scotland'.

Scottish Government stance on costs and rent freeze maintain temporary pressure on divisions

Cost savings, lower land spend and temporary dividend suspension reduce FY24E net debt estimates

Scotland has the most affordable private housing of any UK region

Focus on debt reduction

Although we have left our P&L forecasts broadly unchanged, net debt at the half-year end was impacted by normal seasonal working capital moves and infrastructure spend as well as the Mactaggart & Mickel acquisition (in total £46.3m, with £10.5m in cash on completion and a deferred consideration of £35.8m paid proportionally as homes are sold over a five-year period) and Tulloch Homes in H2 2022. We see working capital rises as a temporary issue but have increased our FY23E pre-IFRS16 net debt estimate from £56.8m to £70.7m.

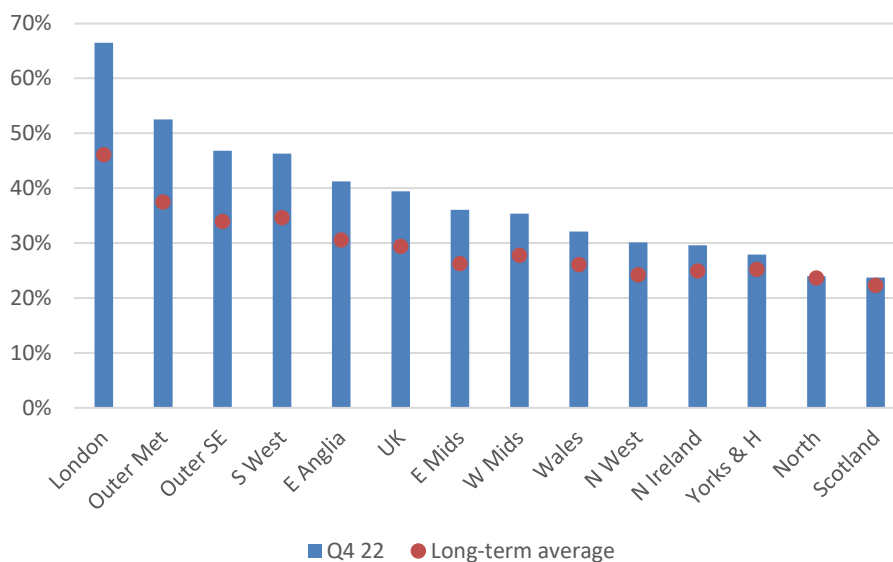
The Board’s main focus is on bringing debt down, to be achieved through: annualised cost savings of c.£3m; a tight focus on working capital and site openings; and potential land sales. It is also not recommending the payment of an interim dividend, which we previously assumed to be 1.6p out of our FY23E total estimate of 4.7p. We continue to expect a final dividend of 3.1p.

As a result of these decisive actions, we have cut our FY24E net debt estimate from £55.7m to a still potentially conservative £46.1m, while maintaining our existing estimate of a 5.1p total dividend, paid one-third / two-thirds.

Market backdrop: affordability attractions north of the border

We continue to believe that a principal attraction of Springfield is the potential for long-term growth in the overall housing market and prices north of the border. According to the latest Affordability Report from the Nationwide Building Society ([link](#)), Scotland emerges as the most affordable region of the UK under a number of measures including household price-earnings ratios and first-time buyers’ mortgage payments (see Figure 1).

Figure 1: Affordability: first-time buyer mortgage payments vs take home pay (%)



Source: Nationwide Building Society

Yesterday’s Rightmove House Price Index ([link](#)) shows an encouraging rebound in the number of people across the UK contacting estate agents, with Scotland performing well.

The current rent freeze, however, has put PRS investment on hold. But we believe this will only increase appetite for institutionally-backed private rental once the policy is lifted.

Figure 2: FY and HY revenue by division

Year-end May (£m)	2020 FY	2021 FY	2022 H1	2022 H2	2022 FYE	2023 H1	2023 H2E	2023 FYE	2024 FYE
Private Housing									
Completions	419	559	197	515	712	429	456	885	870
YoY change (%)	-33.5%	33.4%	-34.1%	98.1%	27.4%	117.8%	-11.5%	24.3%	-1.7%
ASP (£000)	236.1	248.0	239.9	247.0	245.0	276.5	301.2	289.3	275.9
YoY change (%)	4.0%	5.1%	-0.2%	-3.8%	-1.2%	15.3%	22.0%	18.1%	-4.7%
Revenue	98.9	138.6	47.3	127.2	174.4	118.6	137.4	256.0	240.0
Affordable Housing									
Completions	308	363	204	201	405	175	200	375	250
YoY change (%)	-4.3%	17.9%	61.9%	-15.2%	11.6%	-14.2%	-0.5%	-7.4%	-33.3%
ASP (£000)	138.0	145.8	155.2	162.1	158.6	159.1	153.5	156.1	163.9
YoY change (%)	3.8%	5.7%	6.6%	11.0%	8.8%	2.5%	-5.3%	-1.6%	5.0%
Revenue	42.5	52.9	31.7	32.6	64.3	27.8	30.7	58.5	41.0
Contracting									
Completions		51	58	67	125	69	61	130	35
YoY change (%)			na	103.0%	145.1%	19.0%	-9.0%	4.0%	-73.0%
ASP (£000)		159.6	129.5	134.1	132.0	154.1	144.8	149.8	142.3
YoY change (%)			-38.8%	2.1%	-17.3%	19.0%	8.0%	13.5%	-5.0%
Revenue		8.1	7.5	9.0	16.5	10.6	8.8	19.5	5.0
Total completions	727	973	459	783	1,242	673	717	1,390	1,155
YoY change (%)	-23.6%	33.8%	3.6%	47.7%	27.6%	46.6%	-8.4%	11.9%	-16.9%
Total ASP (£000)	194.5	205.3	188.3	215.5	205.5	233.4	246.7	240.3	247.6
YoY change (%)	-0.5%	5.5%	-11.3%	8.1%	0.1%	24.0%	14.5%	16.9%	3.0%
Other revenue	2.1	17.0	0.8	1.1	1.9	4.8	0.7	5.5	5.0
Total revenue	143.5	216.7	87.3	169.8	257.1	161.9	177.6	339.5	291.0
YoY change (%)	-24.8%	51.0%	-7.6%	38.9%	18.6%	85.6%	4.6%	32.1%	-14.3%

Source: Company Information and Progressive Equity Research estimates.

Figure 3: FY and HY profit and per share summary

Year-end May (£m)	2020 FY	2021 FY	2022 H1	2022 H2	2022 FYE	2023 H1	2023 H2E	2023 FYE	2024 FYE
Total revenue	143.5	216.7	87.3	169.8	257.1	161.9	177.6	339.5	291.0
Gross profit	27.4	38.8	16.1	27.0	43.1	22.7	28.3	51.0	53.5
<i>Margin (%)</i>	19.1%	17.9%	18.5%	15.9%	16.8%	14.0%	16.0%	15.0%	18.4%
Admin, other income	(16.1)	(19.0)	(9.3)	(11.3)	(20.6)	(14.5)	(15.2)	(29.7)	(29.5)
Share in PBT of JV	0.9	-	-	-	-	-	-	-	-
Total op profit	12.1	19.8	6.8	15.8	22.6	8.2	13.1	21.3	24.0
<i>Margin (%)</i>	8.4%	9.1%	7.8%	9.3%	8.8%	5.1%	7.4%	6.3%	8.3%
Exceptionals	(0.4)	(0.6)	(0.2)	(0.9)	(1.1)	(0.6)	-	(0.6)	-
Net interest	(2.0)	(1.2)	(0.4)	(1.3)	(1.8)	(1.6)	(2.7)	(4.3)	(3.8)
PBT, reported	9.7	17.9	6.2	13.5	19.7	5.9	10.5	16.4	20.2
<i>U-lying tax rate (%)</i>	20.6%	22.6%	18.4%	18.1%	18.2%	15.5%	21.2%	19.0%	25.0%
Reported tax	(2.1)	(4.2)	(1.2)	(2.5)	(3.7)	(0.9)	(2.2)	(3.1)	(5.1)
Net attrib. profit	7.6	13.7	5.0	11.0	16.1	5.0	8.2	13.3	15.2
Adj PBT	10.2	18.5	6.4	14.5	20.8	6.6	10.5	17.0	20.2
Wtd. ave (million)	96.9	99.4	102.3		109.0	118.5		118.5	118.5
Diluted (million)	97.9	101.2	104.2		111.8	121.8		121.3	121.3
EPS, basic (p)	7.89	13.79	4.93		14.74	4.24		11.20	12.82
Adj EPS, (p)	8.34	14.41	5.09		15.63	4.68		11.64	12.82
Adj EPS, dil. (p)	8.24	14.16	4.99		15.24	4.55		11.37	12.52
DPS - declared (p)	2.00	5.75	1.50	4.70	6.20	-	3.10	3.10	5.10
NAV (p)	98.0	109.0	109.7		121.2	121.1		127.7	135.7
TNAV (p)	96.3	107.4	108.1		116.3	116.3		122.8	130.8

Source: Company Information and Progressive Equity Research estimates.

Figure 4: 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	20.7	24.0
Depreciation	1.6	2.4	2.2	1.7	2.0	2.0
Intangible amortisation	-	0.0	-	-	-	-
Other	0.6	2.4	0.5	12.4	-	-
Working capital changes	(2.7)	(42.2)	35.2	(16.5)	(25.0)	27.5
Operating cash flow	16.0	(26.6)	57.0	19.1	(2.3)	53.5
Capex	(1.2)	(0.5)	0.0	(0.1)	(0.2)	(0.1)
Interest	(1.2)	(1.6)	(1.3)	(1.6)	(4.3)	(3.8)
Tax	(2.9)	(3.1)	(4.2)	(3.5)	(3.1)	(5.1)
Free cashflow	10.7	(31.8)	51.5	13.8	(9.9)	44.5
Acquisitions, net	(20.9)	(3.2)	0.3	(44.0)	(22.2)	(14.2)
Dividends - paid	(3.8)	(3.1)	(3.3)	(6.3)	(5.6)	(5.7)
Financing	4.9	36.5	(34.2)	37.1	-	-
Chg cash/net cash, f-cast	(9.0)	(1.5)	14.3	0.6	(37.7)	24.7
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	4.0	2.1
Investments	2.4	5.3	6.0	8.3	8.3	8.3
Working capital	125.1	162.8	128.8	182.9	207.9	180.4
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)	(75.7)	(51.1)
Net assets	88.6	95.9	111.2	143.5	151.2	160.7
<i>Net debt – pre IFRS16</i>			(18.2)	(34.1)	(70.7) ¹	(46.1) ¹

Source: Company Information and Progressive Equity Research estimates. ¹ £5m of lease liabilities, including the electric car fleet

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 transformed into a housebuilder by current chairman Sandy Adam in the 1990s and it 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 expansion of innovative multi-tenure rental partnerships 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 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 its 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.** Mactaggart & Mickel was 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. This 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 2011 acquisition of Redrow's Scottish business took Springfield into central Scotland, a step change for revenue.
- **Private rental initiative.** In early 2021, Springfield commenced its first 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 when the market returns.
- **Evolving ESG credentials.** Springfield has had a longstanding commitment to ESG, recognised in recent top industry awards (see our [note](#)). 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
PROFIT & LOSS					
Revenue	143.5	216.7	257.1	339.5	291.0
Adj EBITDA	13.6	21.9	24.3	23.3	26.0
Adj EBIT	12.1	19.8	22.6	21.3	24.0
Reported PBT	9.7	17.9	19.7	16.4	20.2
Fully Adj PBT	10.2	18.5	20.8	17.0	20.2
NOPAT	8.9	15.3	18.5	17.3	18.0
Reported EPS (p)	7.9	13.8	14.7	11.2	12.8
Fully Adj EPS (p)	8.2	14.2	15.2	11.4	12.5
Dividend per share (p)	2.0	5.8	6.2	3.1	5.1
CASH FLOW & BALANCE SHEET					
Operating cash flow	(26.6)	57.0	19.1	(2.3)	53.5
Free Cash flow	(31.8)	51.5	13.8	(9.9)	44.5
FCF per share (p)	(32.8)	51.8	12.7	(8.4)	37.6
Acquisitions	(3.2)	0.3	(44.0)	(22.2)	(14.2)
Disposals					
Net cash flow	(1.5)	14.3	0.6	(37.7)	24.7
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)	(75.7)	(51.1)
Net (Debt)/Cash, pre-IFRS 16		(18.2)	(34.1)	(70.7)	(46.1)
NAV AND RETURNS					
Net asset value	95.9	111.2	143.5	151.2	160.7
NAV/share (p)	98.0	109.0	121.2	127.7	135.7
Net Tangible Asset Value	94.2	109.6	137.8	145.5	155.0
NTAV/share (p)	96.3	107.4	116.3	122.8	130.8
Average equity	83.8	92.2	103.5	127.4	147.4
Post-tax ROE (%)	9.1%	14.9%	15.5%	10.4%	10.3%
METRICS					
Revenue growth		51.0%	18.6%	32.1%	(14.3%)
Adj EBITDA growth		60.9%	10.9%	(4.0%)	11.6%
Adj EBIT growth		63.1%	14.3%	(5.5%)	12.7%
Adj PBT growth		82.1%	12.5%	(18.2%)	18.9%
Adj EPS growth			7.6%	(25.4%)	10.1%
Dividend growth		187.5%	7.8%	(50.0%)	64.5%
Adj EBIT margins	8.4%	9.1%	8.8%	6.3%	8.3%
VALUATION					
EV/Sales (x)	1.2	0.8	0.7	0.5	0.6
EV/EBITDA (x)	12.6	7.9	7.1	7.4	6.6
PER (x)		6.2	5.8	7.7	7.0
Dividend yield (%)	2.3%	6.5%	7.0%	3.5%	5.8%
P/NAV (x)		0.81	0.73	0.69	0.65
FCF yield		58.9%	14.4%	(9.5%)	42.7%

Source: Company information and Progressive Equity Research estimates

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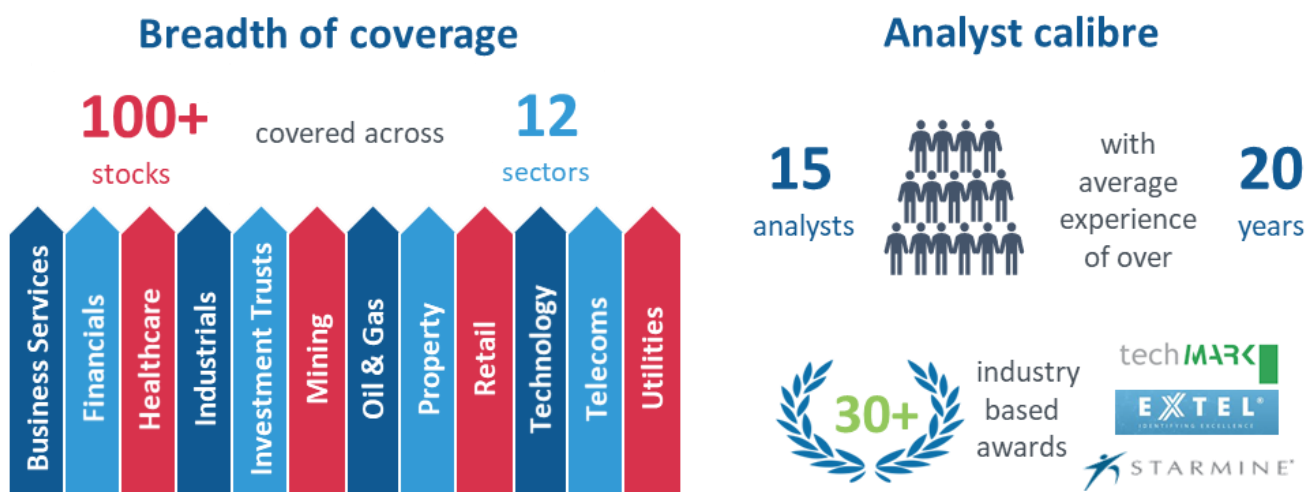
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