Springfield Properties

Results in-line; Prioritising cash generation in FY24

20th September 2023

Springfield's results to May '23 are in line with expectations, confirming a record year of completions despite a challenging market backdrop. Decisive action has been taken to reduce costs (£4m annualised savings) and the main focus for FY24 is cash generation, which should result in a meaningful reduction in net debt by the year end. Whilst the broader market outlook remains uncertain in the near term, we are encouraged by recent developments in Affordable housing (increase in Scottish Government Affordable Housing Investment Benchmarks) and remain confident in the Group's long term growth prospects, which are underpinned by the large land bank and a very strong market position (top three builder in Scotland).

FY23 results in line with expectations

Springfield's results to May '23 confirm significant growth in completions, driven by Private housing. Revenue increased by 29% to £332.1m (ED forecast: £333.5m) and Adjusted PBT was £16.0m (ED forecast: £16.1m), 23% lower than the prior year, reflecting the impact of cost inflation on margins, particularly in Affordable housing.

FY24 focus on cash generation, sensible approach in uncertain market

Net debt at the end of May '23 was £67m and management is aiming to reduce this to <£60m by May '24. The Group is actively pursuing land sales and will further reduce the cost base, where necessary. Cash generation should also benefit from the recent upturn in the affordable housing pipeline. No dividend was declared for FY'23 and we expect the same in FY'24 with cash generation the priority. PBT guidance for FY24 is between £10m and £14m. We prudently assume the lower end of the range (previous forecast £17.6m), suggesting some potential upside to our forecast.

Large landbank underpins long term value creation

As of 31st May, the Group had 6,712 owned plots and strategic options over a further 3,255 acres (equivalent of a further 33,000 plots). The gross development of the owned landbank is c.£1.9bn, providing firm underpinning for long term shareholder value. We recently initiated coverage (Click: An undervalued, high quality growth story) and continue to see scope for a material re-rating of the shares. Our Fair Value is 110p, based on an undemanding rating of 0.9x Price/ Book.

Key Financials & Valuation metrics

Year-end May, £m	2019A	2020A	2021A	2022A	2023A	2024E
Sales	190.8	144.4	216.7	257.1	332.1	279.7
EBITDA	18.7	14.5	22.0	24.4	23.2	20.9
Adjusted PBT	16.0	10.2	20.7	22.7	16.0	10.1
FD EPS (p)	13.2	8.2	14.1	15.2	10.4	6.2
DPS (p)	4.4	2.0	5.8	6.2	0.0	0.0
Net Cash/(Debt)*	-29.6	-70.9	-20.8	-38.1	-67.7	-60.0
Net Cash/(Debt)**	-27.9	-67.5	-18.2	-34.1	-61.8	-54.1
Net Debt**/EBITDA	1.6x	4.9x	0.9x	1.6x	2.9x	2.9x
P/E	4.7x	7.6x	4.4x	4.1x	6.0x	10.1x
EV/EBITDA	0.0x	10.0x	4.3x	4.6x	6.1x	6.4x
Price/ Book	0.7x	0.6x	0.6x	0.5x	0.5x	0.5x
Dividend yield	7.0%	3.2%	9.2%	9.9%	0.0%	0.0%
FCF yield	17.8%	-52.5%	82.9%	20.1%	2.2%	27.8%

*Source: ED analysis, all numbers IFRS 16 basis * including leases ** excluding lease*

Company Data

EPIC	SPR.L
Price (last close)	62p
52 weeks Hi/Lo	121p/55p
Market cap £m	£74.1m
ED Fair Value	110p
Proforma net cash (debt)	(£60.0m)
Avg. daily volume	40,000

Share Price, p

Source: ADVFN

Description

Springfield Properties is one of Scotland's leading housebuilders (top three by volume). It has an enviable track record of growth and profitability and a reputation for building high quality homes in attractive locations. It has multiple awards for the quality of its homes and innovation.

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Record year of completions despite market challenges

Results in line with expectations

Springfield's results to May '23 are in line with our expectations, confirming significant growth in completions, driven by Private housing. Market challenges have been well documented. High build cost inflation has weighed on margins, whilst homebuyer confidence was de-railed by the mini-budget last September and further unsettled by the escalation of interest rates over recent months.

Revenue increased by 29% to £332.1m (ED forecast: £333.5m), driven by a 45% increase in Private housing revenue. This reflects the acquisitions of Tulloch Homes and Mactaggart & Mickel, which cemented the Group's position as a top three housebuilder in Scotland.

Gross margin declined by 230 bps to 14.5%. As previously reported, this was the result of the significant impact of build cost inflation, particularly on fixed-price contracts in affordable housing.

Adjusted PBT of £16.0m (ED forecast: £16.1m) was in line with expectations and 23% lower than the prior year. Adjusted EPS was 10.7p and no dividend was declared, given the focus on cash generation.

Net debt at the year end was £67.7m (ED forecast: £68.0m), compared to £73.7m at 30th November '22 and £38.1m at 31st May '22. **The Group has secured an additional £18m term loan and 12-month extension to its overdraft facility to ensure sufficient headroom in the short term.**

Divisional trends

Affordable housing – encouraging signs

Springfield paused entering into new affordable-only housing contracts during FY'23 as margins were severely impacted by the combination of fixed pricing and excessive build cost inflation. More recently, build cost inflation has eased considerably from its peak (now below 5%, having been as high as 30% at peak) and the Scottish Government has increased its affordable housing investment benchmarks. As a result, Springfield is again engaging with affordable housing providers, albeit on typically shorter duration contracts. The pipeline is encouraging, with contracts signed on 31st May for £9.7m, another post year-end for £8.1m and a further 13 currently under negotiation. Springfield has delivered affordable housing in Scotland for over 20 years. It has developed strong relationships with established partners and is one of the few providers of scale in this attractive segment of the market.

Private housing – uncertain near-term outlook, adjustment to build rates

Trading conditions have remained challenging in the early weeks of the new financial year, as highlighted in recent reports from sector peers. The timing of recovery is uncertain. As interest rates approach their peak and mortgage rates stabilise, homebuyer confidence should improve, but Springfield does not expect to see a material improvement until next Spring. As a result, the Group has paused all speculative private housing development and will "build based on sales, not sell based on build". Over the medium term, the fundamentals of the Scottish housing market remain highly attractive.

Guidance for FY24 – clear focus on cash generation

Net debt at the end of May '23 was £67m and management is aiming to reduce this to <£60m by May '24. We assume net debt of £60m at that date, including c.£6m of leases. The Group is actively pursuing land sales and is currently in discussions with a number of housebuilders about a selection of its sites. Cash generation should also benefit from the recent upturn in the Affordable housing pipeline, given the strong cash flow dynamics of that business. No dividend was declared for FY'23 and we expect the same in FY'24 with cash generation the priority. PBT is expected to reduce to between £10m and £14m in FY'24 and we prudently assume the lower end of the range (previous forecast £17.6m PBT).

One of the largest landbanks in Scotland underpins growth plans

Springfield has one of the largest landbanks in Scotland, which was further strengthened by the acquisition of Mactaggart & Mickel during the year. As of 31st May, the Group had 6,712 owned plots and strategic options over a further 3,255 acres (equivalent of a further 33,000 plots). Of the owned landbank, 83% has planning permission (including detailed and outline planning), which underpins long term growth plans and also offers scope for cash realisation. The gross development value of the owned landbank is c.£1.9bn.

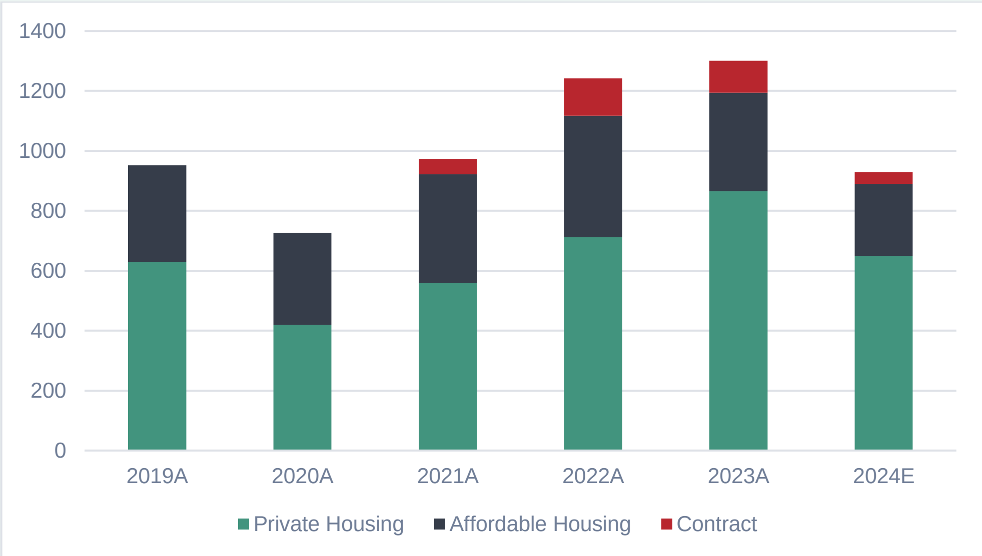
At the year end, the Group had 50 active developments (31st May '22: 51). During the year, 16 developments were completed and 15 new active developments were added to the landbank (7 with Mactaggart & Mickel).

The landbank provides excellent visibility and security over future growth. In response to current market conditions, the Group has significantly reduced its land buying activity and is focused on realising the value of its existing land bank. In H1'23 the Group made a strategic sale of 60 plots to a national housebuilder, and it is actively seeking further opportunities for land sales where the terms and price are desirable.

Volume and Average Selling Price Trends

Overall, sales volume increased by 5% to 1,301 homes, a record year of completions. This was driven by 22% growth in Private homes completions, partially offset by a 19% decline in Affordable, given the particular challenges faced by that business during the year. In FY24, we expect volume to decline, reflecting the Group's focus on cash generation and a careful approach to build rates, given the uncertain near-term outlook. Springfield is well placed to accelerate site development when market confidence returns with a large number of sites with planning already in place.

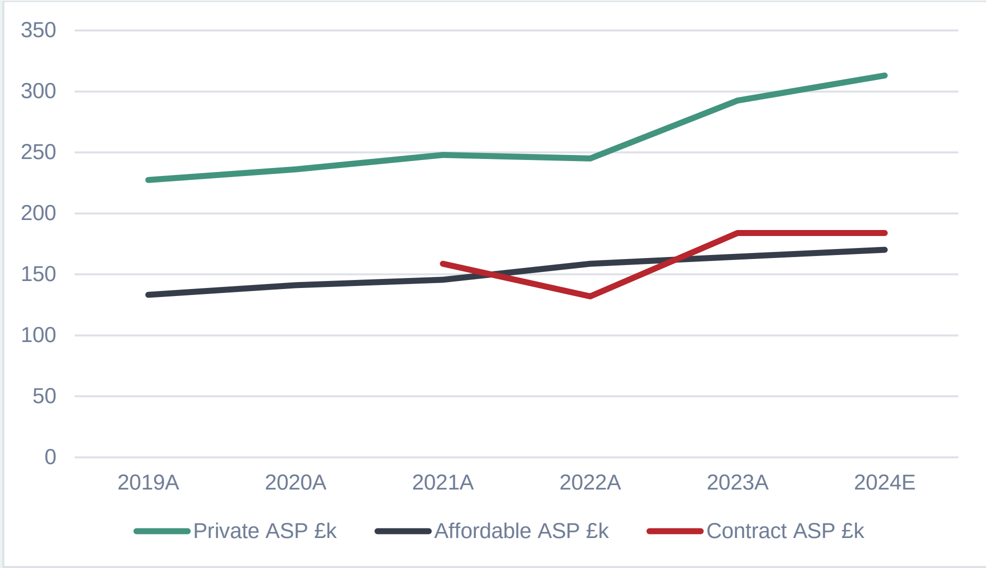
Number of home completions by division



Source: Company historic data, ED forecasts and analysis

The main movements in average selling price in FY'23 related to site mix, supported by the acquisition of Mactaggart & Mickel, a builder of family homes across the Central Belt. We expect this to continue to have a beneficial impact on mix in FY'24.

Average selling price by division



Source: Company historic data, ED forecasts and analysis

Gross margin – Inflation impact seen in FY'23, recovery FY'24

Gross margin in FY'23 was impacted by the inflationary environment, most notably in the Affordable business, where the industry was unable to put through pricing increases in response to rising costs mid-contract. Springfield paused entering into new affordable-only contracts for a period as a result. By contrast, within the Private business, rising house prices have helped to offset the impact of material and labour inflation on gross margins.

We assume a recovery in Affordable margins in FY24 following the completion of loss-making contracts, although the benefit from the current Affordable pipeline is more likely to be seen from FY25. We also expect some improvement in Private margins as inflationary pressures continue to ease (cost price inflation now <5% and Springfield is experiencing price reductions in many materials).

Sales and gross margin trends

Source: Company historic data, ED forecasts and analysis

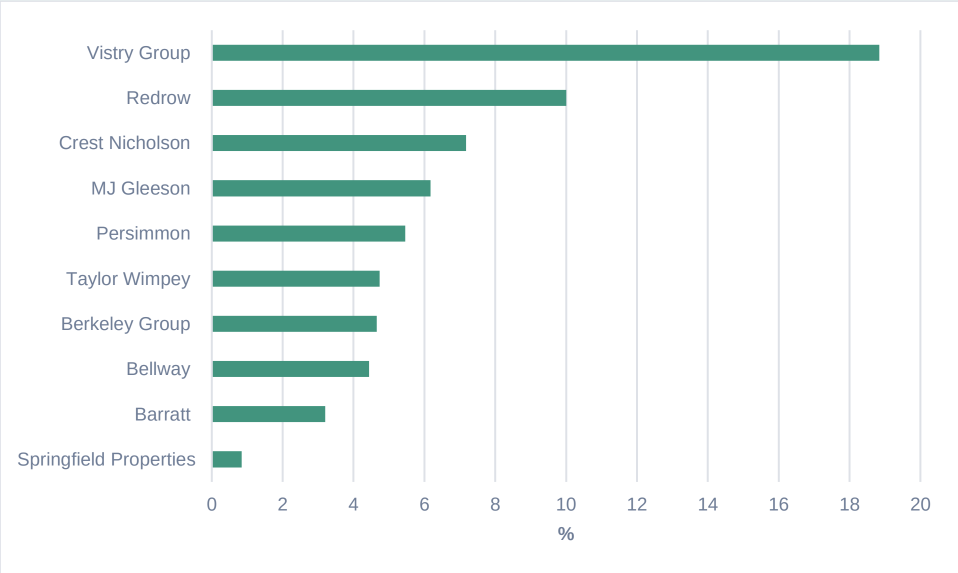
Market challenges reflected across the sector

Company reports suggest demand has stabilised at a low level

Last week was a busy one for corporate reporting with results from Vistry, Redrow and MJ Gleeson. The results cover a very challenging period with the cost-of-living crisis and escalating mortgage rates impacting confidence in the housing market. Whilst management teams remain **cautious over the potential timing of market recovery**, last week's statements offered enough encouragement to underpin a meaningful uplift in sector share prices.

In broader terms, sector sentiment continues to be influenced by macro-economic factors and particularly interest rate expectations. The market is currently expecting another 0.25% increase in the Bank of England base rate this coming Thursday, but commentators are now suggesting that this could mark the peak of the current tightening cycle. If so, this would be a positive for the sector, providing stability to the mortgage market, after a year of volatility.

One-week share price performance



Source: Equity Development, share prices to 14th September '23

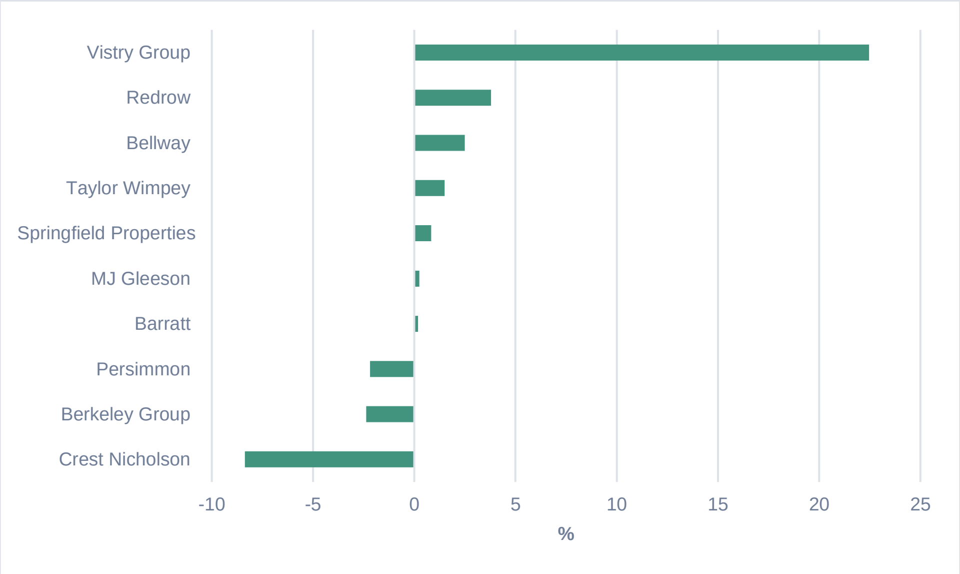
Vistry announced a new strategy alongside its results, shifting its focus entirely towards Partnerships (social housing) and transitioning away from private housebuilding. The market clearly welcomed this news, alongside plans to return £1bn to investors over the next three years. (Click: Vistry's results)

Redrow gave updated guidance for the year ahead, with sales likely to fall 20% year on year and profits expected to fall by 50%. The numbers reflect the challenging environment, but the market had been expecting this and took comfort from signs of stability in the reservation rate (albeit at a low level) and management's confidence in the medium-term outlook. (Click: Redrow's results)

MJ Gleeson, in contrast with Redrow, is expecting a return to growth in the current year. The new year has started with a stronger forward order book, which has been strengthened for the first time by multi-unit and investor sales. Strategic progress includes the development of a Partnerships offering following the appointment of a new partnerships director; and a broadening of Gleeson Homes' demographic reach (more next time buyers and more over 55s). (Click: Gleeson's results)

Crest Nicholson shares also performed well last week as it recovered some of the ground lost after it warned on profits three weeks ago, highlighting the impact of rising interest rates on buyer confidence. Crest Nicholson remains the worst performer over the past month.

One-month share price performance

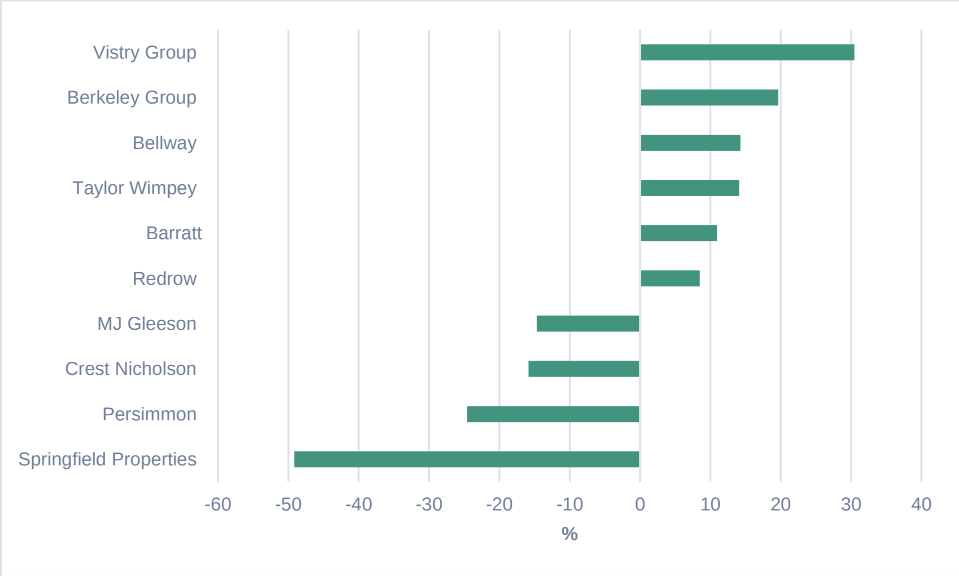


Source: Equity Development, share prices to 14th September '23

Significant recovery potential when confidence returns to the market

Springfield has underperformed peers on a twelve-month view, as illustrated by the chart below.

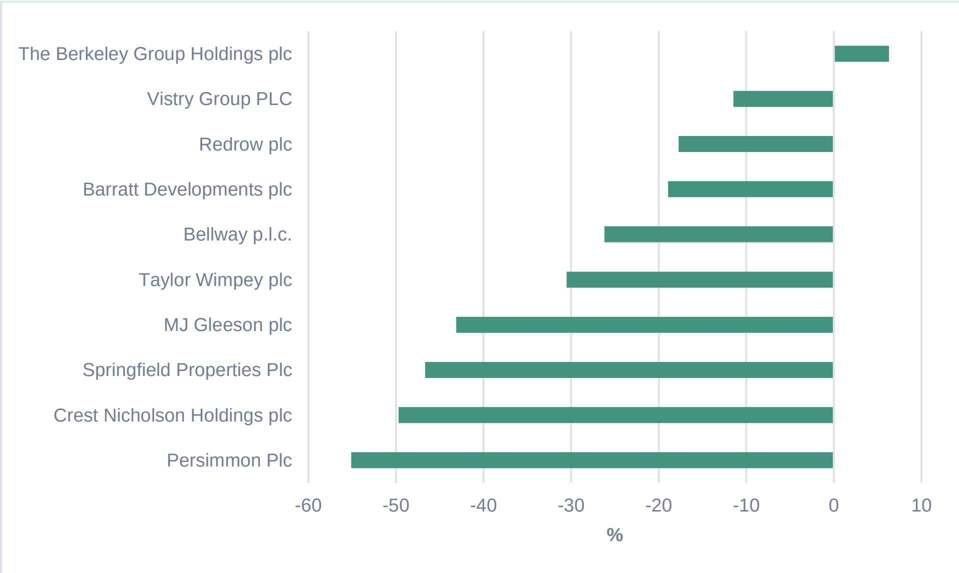
One-year share price performance



Source: Equity Development, share prices to 14th September '23

Five-year share price charts suggest further recovery potential across much of the housebuilding sector, as market conditions improve.

Five-year share price performance



Source: Equity Development, share prices to 14th September '23

Valuation – attractive following rebasing of forecasts

Peer Group Valuation Metrics

Company	Share Price	Market Cap	Ent. Value	P/TBV (LTM)	P/E (NTM)	P/E (FY1)	P/E (FY2)	EV/EBITDA (NTM)	Yield (NTM)
Barratt	4.51	4,386	3,367	1.0x	16.2x	16.2x	12.6x	8.3x	3.4%
Bellway	22.12	2,642	2,350	0.8x	9.2x	6.8x	14.5x	5.7x	6.0%
Crest Nicholson	1.85	474	410	0.6x	12.2x	12.2x	13.6x	7.1x	9.2%
MJ Gleeson	3.96	231	226	0.8x	9.4x	9.4x	8.3x	5.6x	3.7%
Persimmon	10.72	3,422	3,077	1.1x	12.8x	13.3x	12.3x	7.9x	5.6%
Redrow	5.15	1,652	1,417	0.8x	13.0x	13.0x	10.3x	7.0x	3.1%
Springfield Properties	0.62	74	134	0.5x	10.1x	10.1x	n/a	6.4x	0.0%
Taylor Wimpey	1.18	4,168	3,541	0.9x	12.8x	12.8x	12.7x	7.6x	8.0%
The Berkeley Group	41.57	4,411	4,006	1.3x	11.7x	11.7x	12.3x	8.1x	6.0%
Vistry	9.46	3,271	3,698	1.7x	10.0x	10.0x	10.1x	7.5x	4.6%
Peer Group Average				**1.0x**	**11.7x**	**11.6x**	**11.9x**	**7.1x**	**5.0%**

Source: Equity Development analysis, share prices as of 14th September'23 COB

We have seen several companies providing firmer forecast guidance in recent weeks (e.g. Redrow, Vistry, Gleeson last week) and we have also updated our Springfield forecasts within this note, to reflect guidance provided within the results statement.

With the focus on cash generation and the decision to curtail speculative private housebuilding, we expect Group revenue to decline by 16% in the current year. Guidance in today's results statement suggest that PBT is expected to be between £10m and £14m in FY24. We prudently assume the lower end of the range, suggesting some potential upside to our forecast. We expect to introduce FY'25 forecasts when we have a better sense of the shape of the market recovery.

With guidance now pitched at, we believe, realistic or potentially conservative levels, the valuation table above should provide a sensible basis for comparison.

We acknowledge that Springfield is, unlike its peers, in a current net debt position, which may have a bearing on sentiment towards the shares, but we would highlight the Group's excellent track record of cash generation and successful navigation of both the financial crisis and the COVID crisis.

Since IPO in 2017, Springfield's long term average Price/ Book multiple has been 1.2x and its long-term average P/E rating has been 9.6x. These are in line with typical housebuilding sector ratings through the period, although individual company ratings will vary to reflect business models/ market focus etc.

Our Fair Value is 110p, equivalent to a rating of 0.9x Price/ Book, which represents a 10% discount to the peer group above.

Financials and Forecasts

Income statement						
Year End May, £m	**2019(A)**	**2020(A)**	**2021(A)**	**2022(A)**	**2023(A)**	**2024(E)**
Group revenue	190.8	144.4	216.7	257.1	332.1	279.7
% growth	53%	-24%	50%	19%	29%	-16%
% 2 Year CAGR	33%	8%	7%	33%	24%	4%
COGS	-156.5	-117.1	-177.9	-214.0	-284.2	-234.4
% growth	51%	-25%	52%	20%	33%	-18%
% of revenue	82%	81%	82%	83%	86%	84%
Gross profit	**34.3**	**27.4**	**38.8**	**43.1**	**48.0**	**45.3**
% growth	67%	-20%	42%	11%	11%	-6%
% margin	18%	19%	18%	17%	14%	16%
Admin expenses	-16.6	-14.1	-17.2	-19.1	-25.4	-24.4
% of revenue	9%	10%	8%	7%	8%	9%
Other operating income	1.0	1.3	0.4	0.4	0.7	0.0
Adj. EBITDA	**18.7**	**14.5**	**22.0**	**24.4**	**23.2**	**20.9**
% growth	79%	-22%	52%	11%	-5%	-10%
% margin	10%	10%	10%	10%	7%	7%
Depreciation	-1.6	-2.4	-2.2	-1.7	-2.3	-2.3
Amortisation	0.0	0.0	-0.1	-0.2	-0.3	-0.3
Adj. EBITA	**17.1**	**12.1**	**19.8**	**22.5**	**20.7**	**18.3**
% growth	64%	-29%	63%	14%	-8%	-12%
% margin	9%	8%	9%	9%	6%	7%
Net interest	-1.1	-2.0	-1.2	-1.8	-4.7	-8.2
Adj. PBT	**16.0**	**10.2**	**18.5**	**20.8**	**16.0**	**10.1**
% growth	75%	-36%	82%	12%	-23%	-37%
% margin	8%	7%	9%	8%	5%	4%
Other/ Exceptional Items	0.0	-0.4	-0.6	-1.1	-0.7	0.0
Reported PBT	**16.0**	**9.7**	**17.9**	**19.7**	**15.3**	**10.1**
Underlying tax	-3.1	-2.1	-4.2	-3.7	-3.3	-2.5
Underlying tax rate (%)	20%	21%	23%	18%	21%	25%
Adj. PAT	12.9	8.1	14.3	17.0	12.7	7.6
PAT	12.9	7.6	13.7	15.9	12.1	7.6

Source: Company historic data, ED forecasts and analysis

Cash flow						
Year End May, £m	**2019(A)**	**2020(A)**	**2021(A)**	**2022(A)**	**2023(A)**	**2024(E)**
Adj. EBITA	17.1	12.1	19.8	22.5	20.7	18.3
Depreciation	1.6	2.4	2.2	1.7	2.3	2.3
Amortisation	0.0	0.0	0.1	0.2	0.3	0.3
PPE disposal (gain)	0.0	0.0	0.0	0.0	-0.3	0.0
Exceptional items	0.0	-0.3	-0.6	-1.1	-0.7	0.0
IPO costs	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash	0.1	1.4	0.4	0.5	0.7	0.0
Working Capital	-2.7	-42.1	35.2	-4.7	-14.5	11.0
Operating Cash Flow	**16.0**	**-26.6**	**57.0**	**19.0**	**8.4**	**31.9**
Net Interest	-1.2	-1.6	-1.3	-1.6	-3.8	-8.2
Tax	-2.9	-3.1	-4.2	-3.5	-2.9	-2.5
Net Op. Cash Flow	**11.9**	**-31.3**	**51.5**	**13.9**	**1.7**	**21.2**
Purchase of PPE	-1.5	-0.6	-0.2	-0.5	-0.5	-0.5
Sale of PPE proceeds	0.4	0.1	0.2	0.2	0.4	0.0
Total Net Capex	-1.2	-0.5	0.0	-0.2	-0.1	-0.5
Equity Free Cash Flow	**10.7**	**-31.8**	**51.5**	**13.7**	**1.6**	**20.7**
M&A	-20.9	-4.0	0.3	-43.9	-22.0	-13.0
Dividend	-3.8	-3.1	-3.3	-6.3	-5.6	0.0
Share Issue	0.0	0.0	2.2	22.0	0.0	0.0
Lease additions	-0.4	-3.3	-0.7	-2.8	-4.0	0.0
FX/Other	0.0	0.8	0.0	0.0	0.5	0.0
Net Change in Net Debt	**-14.3**	**-41.3**	**50.1**	**-17.3**	**-29.5**	**7.7**
Net Debt - BOP	-15.3	-29.6	-70.9	-20.8	-38.1	-67.7
Net Debt - EOP	-29.6	-70.9	-20.8	-38.1	-67.7	-60.0

Source: Company historic data, ED forecasts and analysis

Balance sheet						
Year End May, £m	**2019(A)**	**2020(A)**	**2021(A)**	**2022(A)**	**2023(A)**	**2024(E)**
Non-Current assets						
PPE	5.0	6.3	4.5	5.8	7.8	6.0
Intangible assets	1.6	1.6	1.6	5.8	6.0	5.4
Investments	1.5	0.2	0.0	0.5	0.0	0.0
Accounts receivable	0.9	4.9	5.4	5.6	5.0	5.4
Other	0.0	0.2	0.5	2.1	1.8	0.5
Sub-total NCAs	**9.0**	**13.3**	**12.1**	**19.9**	**20.6**	**17.3**
Current Assets						
Inventories and WIP	148.6	174.4	156.8	230.1	277.6	267.6
Trade/other receivables	20.1	9.0	23.7	21.4	22.6	24.6
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Cash/cash equivalents	3.1	1.5	15.8	16.4	8.9	8.9
Sub-total CAs	**171.9**	**184.9**	**196.3**	**267.8**	**309.1**	**301.1**
Net working capital	**125.1**	**162.6**	**128.8**	**182.9**	**243.3**	**232.3**
Total Assets	**180.9**	**198.2**	**208.4**	**287.7**	**329.7**	**318.4**
Current Liabilities						
Trade and other payables	-43.7	-20.8	-51.6	-68.5	-57.0	-60.0
Land creditor	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	-0.8	-1.3	-1.3
Corporation tax	-2.0	-0.8	-0.9	-0.3	-0.4	-0.4
Leases	-1.0	-1.2	-0.8	-1.3	-1.9	-1.9
Borrowings	0.0	-18.0	-34.0	0.0	0.0	0.0
Deferred consideration	0.0	-2.1	0.0	-6.1	-11.8	-8.0
Sub-total CLs	**-46.7**	**-42.9**	**-87.3**	**-77.0**	**-72.3**	**-71.5**
Non-current liabilities						
Borrowings	-31.0	-51.0	0.0	-50.5	-70.7	-63.0
Leases	-0.6	-2.3	-1.9	-2.7	-4.0	-4.0
Provisions	-14.0	-3.8	-1.2	-1.8	-2.1	-2.1
Deferred taxation	0.0	-2.4	-2.9	-3.7	-3.6	-3.6
Deferred consideration	0.0	0.0	-3.9	-8.5	-26.3	-16.0
Sub-total NCLs	**-45.6**	**-59.5**	**-9.9**	**-67.2**	**-106.7**	**-88.7**
Total Liabilities	**-92.3**	**-102.3**	**-97.2**	**-144.2**	**-179.0**	**-160.3**
Net Assets	**88.6**	**95.9**	**111.2**	**143.5**	**150.6**	**158.2**
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	**88.6**	**95.9**	**111.2**	**143.5**	**150.6**	**158.2**

Source: Company historic data, ED forecasts and analysis

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