SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

13 December 2023

SPR.L

74p

Market Cap: £87.8m

SHARE PRICE (p)

12m high/low	102p/51p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(61.8)m *(at 31/05/23)*
Enterprise value	£149.6m
Index/market	AIM
Next news	Interims, February (TBC)
Shares in issue (m)	118.6
Chairman	Sandy Adam
CEO	Innes Smith
CFO	Iain Logan

COMPANY DESCRIPTION

Springfield Properties, Scotland's only quoted housebuilder, is focused on delivering private and affordable housing.

www.springfield.co.uk

SPRINGFIELD PROPERTIES IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

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Profitability and debt reduction on track

Springfield has confirmed in its first-half trading update that it is 'confident of meeting market expectations' for profitability and debt reduction for the full year to May. We retain our FY24E PBT estimate and introduce forecasts for FY25E that show 26% growth in adjusted PBT and a further substantial decline in debt. We expect the Group's recovery prospects will be supported by shortages of housing across all tenures and the major economic stimulus from the newly created Highlands freeport.

- **Encouraging trading update.** Springfield's update for the six months to 30 November confirms that trading in the period was in line with management expectations. Demand in the Private Housing division 'remained stable but subdued' and the Affordable Housing unit recommenced signing contracts with lower pricing risks.
- **Focus on debt reduction on track.** Net debt at the period end rose from £62m at year-end to c.£94m, in line with normal seasonal working capital. This excludes £8.8m of outstanding proceeds from recent land sales and the Group is 'on track to meet the target of reducing net bank debt to c.£55.0m by 31 May'. Further land sales are expected and, encouragingly, the additional term loan secured in September has not been utilised.
- **New forecasts point to rebound.** Our newly introduced estimates for FY25E, which we believe are conservative, show a 26% increase in adjusted PBT, mainly through deleveraging. Net bank debt should fall further to c.£35m. We have forecast the resumption of dividends in FY25E, with a final 1.5p assuming this positive trajectory is maintained.
- **Strong housing dynamics.** We have previously noted how undersupply across all tenures in Scotland, and the country's rent controls, have driven up prices and rents more than in any other UK region. Three cities have declared 'housing emergencies'. On a more positive note, a major 'Green Freeport' has been announced for the Inverness region, where Springfield increased its land holdings following the 2021 Tulloch acquisition.
- **Unique multi-tenure model.** Springfield provides private, affordable rental and PRS homes – all in demand in Scotland – particularly in its distinctive 'Village' communities (page 8).

FYE MAY (£M)	2021	2022	2023	2024E	2025E
Revenue	216.7	257.1	332.1	281.1	272.5
Fully Adj PBT	18.5	20.8	16.0	10.3	13.0
Fully Adj EPS (p)	14.2	15.2	10.4	6.4	8.1
Dividend per share (p)	5.75	6.20	0.00	0.00	1.50
PER (x)	5.2x	4.9x	7.1x	11.5x	9.1x
Dividend yield (%)	7.8%	8.4%	N/A	N/A	2.0%
EV/EBITDA (x)	6.8x	6.2x	6.6x	7.3x	7.7x

Source: Company Information and Progressive Equity Research estimates.

Encouraging statement, proceeding to plan

Profit and debt reduction on track; private housing demand stable; outlook improving

We view the statement as encouraging on several fronts. Profit and debt reduction are on track to meet FY24E guidance. There has been a revival of Affordable Housing contracts on more secure terms and, although 'subdued', private housing remains stable.

The sales from the Group's extensive landbank are not only positive financially but signify increasing confidence in long-term growth prospects in the Scottish housing market, from both domestic developers and, we believe, large UK groups. Encouragingly, the additional term loan secured in September has not been utilised.

Possibly conservative forecasts introduced for FY25E assume profit recovery and further debt reduction; resumption of dividend possible?

We have introduced forecasts for FY25E on what we believe to be an initially conservative stance. We see increasing signs in Scotland and across the UK that the private market may be improving, along with a clear undersupply in housing of all tenures north of the border. A specific opportunity for Springfield is the creation of the Inverness and Cromarty Firth Green Freeport, where the Group has strong landholdings following the Tulloch acquisition in 2021. We expect that if profitability and debt reduction remain on track during FY25E, the Group could consider the resumption of dividend payments.

FY24E PBT and debt expectations unchanged

Second-half weighting expected for current year

We have not changed our key headline forecasts or operating assumptions for FY24E, although we suspect that in Affordable Housing we may nudge up our revenue and slightly reduce our margin assumptions, with no impact on profitability, once greater detail is available at the HY results.

We expect differing H1:H2 splits for Private Housing and Affordable Housing. For Private Housing, we expect home sales to fall by about one-third relative to H1 23. However, we have assumed a pick-up in absolute sales for the second half, mainly reflecting normal seasonal buying patterns.

Conversely, we are factoring in a stronger H1 weighting for Affordable Housing completions, with potential upside for H2, offset as described with slightly lower margins. The division entered into £24m of new contracts for delivery in the second half of FY24E and beyond, and is in advanced negotiations for further contracts that it expects to be awarded in H2 24. We expect demand to grow, given the mounting political and media focus on undersupply across all tenures, with three local authorities declaring housing emergencies.

Land sales progressing to plan

During the period the Group signed two agreements for profitable sales of land totalling £9.3m and it is confident of signing other agreements in the near term. This is in line with our forecast total of £28.0m for land sales and other revenue.

We expect gross margins for the first half to be above the 14.0% reported in H1 23, partly reflecting the drag from large fixed-price contracts in the comparative period and the ongoing reduction in build cost inflation, estimated to be c.4% during the latest half year.

We have assumed a further modest exceptional charge of £0.5m for restructuring and a tax charge of 24%.

Debt reduction on track

Land sales made without impacting the Group's development pipeline … and highlighting confidence in Scottish market

The key factor, in our view, is that debt reduction is on track with the strategy Springfield outlined in its FY23 results. Net bank debt, excluding c.£5m of lease liabilities, was c.£94.0m as at 30 November 2023. This figure does not include the c.£8.8m of outstanding proceeds from contracted land sales to be received by the end of the financial year, with additional profitable sales expected in the second half.

The increase in debt over the period primarily reflects £11.0m in scheduled deferred payments relating to the acquisitions of Tulloch Homes and Mactaggart & Mickel Homes and £6.0m in contracted payments for land. It also reflects the usual seasonal working capital cycle, with work-in-progress building at the end of the first half for delivery in the second half. A positive feature is that the £18.0m additional term loan secured in September to provide extra surety against the challenging market backdrop has not been utilised.

The land sales have been made without impacting the Group's development pipeline. Springfield has one of the largest land banks in Scotland, with c.6,500 owned plots, of which c.85% has planning consent, and strategic options over a further 3,255 acres, equating to c.33,000 plots.

Conservative FY25E estimates shows deleveraging benefit

Especially conservative view of private housing demand

We have introduced estimates for FY25E that are prudent in terms of Private Housing. We assume a further fall in Private Housing completions, -12.5%, with a softening in prices, partly due to mix effects.

However, Affordable Housing should see a significant rise in completions, following new contracts being recommenced in the latest period: 'The Group has maintained its approach of only pursuing new affordable housing contracts that have a 12-18 month delivery timeframe, which bring lower pricing risk.'

We have assumed a similar level of land sales and expect further moderation of build cost inflation – in line with comments from most major quoted UK housebuilders.

For now, profit increase driven by lower in interest charge

Our assumption of a slightly lower overall gross margin of 15.6% is due to the increased exposure to Affordable Housing. However, we expect a reduction in admin and other costs, leaving our assumed operating margin almost unchanged at 6.4%.

A sharp fall in forecast interest, from £8.2m to £4.5m, reflects a further sharp fall in year-end net bank debt, which we anticipate will decline to c.£35m, from £55m at FY24E. This results in a 26% increase in adjusted PBT and the same in EPS, to 8.1p. Our FY25E NAV of 142p represents a PNAV of 0.52x, substantially below the historical sector average of 1.14x.

Further debt reduction expected. And a resumption of dividend payments?

If performance continues to plan we expect resumption of dividend to be considered

We expect the further land sales to be reflected in a positive working capital contribution in cash flow, with lower interest charges. This, and a lower deferred payment of £2m, should bring net debt down further to c.£35m in our projections, despite more site openings.

If profitability and debt reduction continue as we anticipate during FY25E, the Group could consider the resumption of dividend payments. We have prudently assumed this would be at the final dividend stage and we have factored in 1.5p, payable in FY26E.

Looking further: steady recovery in demand across all tenures

Private sales demand should gather pace, along with further strength in social housing investment

For FY26E and beyond, we expect recovery in private housing demand to become more established, while investment by Springfield's affordable housing clients will continue at a high level, underpinned by demand for all tenures, including Private Rental Sector (PRS), within Contract Housing, which continues to be supressed for now by continuing rent controls. Our view is supported by the trading update statement that: 'The interest that the Group is receiving in its land bank – and at attractive valuations – reflects the market preparing for an upturn in trading conditions.'

Market outlook continues to be supportive

Most indicators pointing in right direction

We outlined in detail the relatively strong dynamics of the Scottish housing sector in our 20 September FY23 note, *Focused on cutting debt in uncertain market*. An undersupply of housing across all tenures has contributed to Scotland outstripping all UK regions in terms of growth in private prices (the country has the lowest average price to earnings ratio) and rents (reflecting private tenants seeking new tenancies, which are not covered by the rent freeze as well as general undersupply of new PRS accommodation).

We also believe the wider UK outlook is improving. Average fixed-rate mortgages have been falling consistently since mid-July. The inflation outlook is improving, with a cut in BoE rates expected sometime in mid-2024. This is partly supported by this week's wage data, which fell to 7.3%, from a 20-year-plus record of 7.9% two months earlier. Real wage growth of 1.4% is probably benign for the market: low enough not to unnerve rate setters, but positive for housing affordability. In recent results presentations housebuilders have pointed to early improvements in market sentiment.

We will further examine the market outlook in light of early evidence for CY24 in our coverage of Springfield's HY results, expected around mid-February.

Freeport fillip

Green Freeport should add 10,000 new jobs in a core region for Springfield, boosting housing demand

There has been considerable media coverage of the housing emergencies declared by Glasgow and Edinburgh city councils. This should accelerate demand for further investment, which should further boost Affordable Housing activity.

An additional stimulus for all tenures is the awarding of Freeport status to Inverness and Cromarty Firth Green Freeport in an area that was already experiencing strong economic growth, a key attraction in Springfield acquiring Tulloch in 2021. The Green Freeport, one of up to 10 Freeports with unique operational, regulatory and customs rules across the UK, is expected to attract £3bn of investment and around 10,000 new jobs into the region.

Partners on the project include the Port of Cromarty Firth and Global Energy Group, as well as other regional and national businesses, academia and the public sector. The primary objective is 'to maximise the local benefits from a pipeline of renewable energy projects which will create business opportunities and employment, attract inward investment, research and development, and position the Highlands at the heart of the country's commitment to becoming a net-zero economy.'

Figure 1: Revenue by division

Year-end May (£m)	2020	2021	2022	2023	2024E	2025E
Private Housing						
Completions	419	559	712	866	650	568
Change (%)	*-33.5%*	*33.4%*	*27.4%*	*21.6%*	*-25.0%*	*-12.5%*
ASP (£000)	236.0	248.0	245.0	292.6	313.0	300.5
Change (%)	*4.0%*	*5.1%*	*-1.2%*	*19.4%*	*7.0%*	*-4.0%*
Revenue	98.9	138.6	174.4	253.4	203.3	170.8
Affordable Housing						
Completions	308	363	405	328	240	342
Change (%)	*-4.3%*	*17.9%*	*11.6%*	*-19.0%*	*-26.8%*	*42.5%*
ASP (£000)	138.0	145.8	158.6	164.4	171.0	192.4
Change (%)	*3.8%*	*5.7%*	*8.8%*	*3.6%*	*4.0%*	*12.5%*
Revenue	42.5	52.9	64.3	53.9	41.1	65.8
Contract Housing						
Completions		51	125	107	40	30
YoY change (%)			*145.1%*	*-14.4%*	*-63.0%*	*-25.0%*
ASP (£000)		159.6	132.0	183.9	220.7	264.9
Change (%)			*-17.3%*	*39.4%*	*20.0%*	*20.0%*
Revenue	-	8.1	16.5	19.7	8.7	7.9
Total completions	727	973	1,242	**1,301**	**929**	940
Change (%)	*-23.6%*	*33.8%*	*27.6%*	*4.8%*	*-28.6%*	*1.2%*
Total ASP (£000)	194.5	205.3	205.5	251.3	272.4	260.0
Change (%)	*-0.5%*	*5.5%*	*0.1%*	*22.3%*	*8.4%*	*-4.5%*
Other revenue	2.1	17.0	1.9	5.2	28.0	28.0
Total revenue	**143.5**	**216.7**	**257.1**	**332.1**	**281.1**	**272.5**
Change (%)	*-24.8%*	*51.0%*	*18.6%*	*29.2%*	*-15.4%*	*-3.1%*

Source: Company Information and Progressive Equity Research estimates.

Figure 2: Profit and per share summary

Year-end May (£m)	2020	2021	2022	2023	2024E	2025E
Total revenue	**143.5**	**216.7**	**257.1**	**332.1**	**281.1**	**272.5**
Gross profit	**27.4**	**38.8**	**43.1**	**48.0**	**45.5**	**42.5**
Margin (%)	*19.1%*	*17.9%*	*16.8%*	*14.4%*	*16.2%*	*15.6%*
Admin, other income	(16.1)	(19.0)	(20.6)	(27.3)	(27.0)	(25.0)
Share in PBT of JV	0.9	-	-	-	-	-
Total op profit	**12.1**	**19.8**	**22.6**	**20.7**	**18.5**	**17.5**
Margin (%)	*8.4%*	*9.1%*	*8.8%*	*6.2%*	*6.6%*	*6.4%*
Exceptionals	(0.4)	(0.6)	(1.1)	(0.7)	(0.5)	-
Net interest	(2.0)	(1.2)	(1.8)	(4.7)	(8.2)	(4.5)
PBT, reported	**9.7**	**17.9**	**19.7**	**15.3**	**9.8**	**13.0**
U-lying tax rate (%)	*20.6*	*22.6*	*18.2*	*20.5*	*24.0*	*24.0*
Reported tax	(2.1)	(4.2)	(3.652)	(3.2)	(2.4)	(3.1)
Net attrib. profit	**7.6**	**13.7**	**16.1**	**12.1**	**7.5**	**9.9**
Adj PBT	**10.2**	**18.5**	**20.8**	**16.0**	**10.3**	**13.0**
Wtd. ave share (mn)	96.9	99.4	109.0	118.5	118.5	118.5
Diluted shares (mn)	97.9	101.2	111.8	122.0	122.0	122.0
EPS, basic (p)	7.89	13.79	14.74	10.19	6.31	8.34
Adj EPS, (p)	8.34	14.41	15.63	10.74	6.63	8.34
Adj EPS, dil. (p)	**8.25**	**14.16**	**15.24**	**10.43**	**6.44**	**8.10**
DPS - declared (p)	**2.0**	**5.75**	**6.2**	**-**	**-**	**1.5**
Dividend cover (x)	4.2	2.5	2.5	na	na	5.6
NAV (p)	98.0	109.0	121.2	127.1	133.3	141.7
TNAV (p)	96.3	107.4	116.3	122.1	128.3	136.6

Source: Company Information and Progressive Equity Research estimates.

Figure 3: Cashflow and balance sheet

Year-end May (£m)	2020	2021	2022	2023	2024E	2025E
Adjusted cash flow statement						
Group op profit inc exc.	10.8	19.1	21.5	20.0	18.0	17.5
Depreciation	2.4	2.2	1.7	2.0	2.0	2.0
Intangible amortisation	0.0	-	-	-	-	-
Other	2.4	0.5	12.4	0.6	-	-
Working capital changes	(42.2)	35.2	(16.5)	(14.5)	12.0	10.0
Operating cash flow	**(26.6)**	**57.0**	**19.1**	**8.1**	**32.0**	**29.5**
Capex	(0.5)	0.0	(0.1)	(0.1)	(0.0)	(0.0)
Interest	(1.6)	(1.3)	(1.6)	(4.7)	(8.2)	(4.5)
Tax	(3.1)	(4.2)	(3.5)	(3.2)	(2.4)	(3.1)
Free cashflow	**(31.8)**	**51.5**	**13.8**	**0.2**	**21.4**	**21.8**
Acquisitions, net	(3.2)	0.3	(44.0)	(22.2)	(14.2)	(2.0)
Dividends - paid	(3.1)	(3.3)	(6.3)	(5.6)	-	-
Financing	36.5	(34.2)	37.1	-	-	-
Chg cash/net cash, f-cast	**(1.5)**	**14.3**	**0.6**	**(27.6)**	**7.2**	**19.8**
Summary balance sheet						
Intangible fixed assets	1.6	1.6	5.8	6.0	6.0	6.0
Tangible fixed assets	6.3	4.5	5.8	7.8	5.9	3.9
Investments	5.3	6.0	8.3	6.8	6.8	6.8
Working capital	162.8	128.8	182.9	243.3	231.3	221.3
Provisions, others	(9.3)	(8.9)	(21.2)	(45.5)	(31.3)	(29.3)
Net cash/(debt) – IFRS16	(70.9)	(20.8)	(38.1)	(67.7)	(60.4)	(40.6)
Net assets	**95.9**	**111.2**	**143.5**	**150.6**	**158.1**	**168.0**
Net debt – pre IFRS16		*(18.2)*	*(34.1)*	*(61.8)*	*(55.4)*	*(35.6)*

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 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. We believe 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, and the recent increase in the Affordable Housing Investment Benchmark reinforces this commitment. House prices in Scotland are more affordable in relation to household incomes than in any other UK region.
- **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 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 Group, in our view.
- **Smart deals.** Mactaggart & Mickel was Springfield's fifth strategic acquisition and continues its record of regional expansion in Scotland with 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 with its results in September 2022, and an annual update on progress has been published alongside its 2023 results including a pathway to net zero by 2045 or earlier.

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

PROFIT & LOSS	**2021**	**2022**	**2023**	**2024E**	**2025E**
Revenue	216.7	257.1	332.1	281.1	272.5
Adj EBITDA	21.9	24.3	22.7	20.5	19.5
Adj EBIT	19.8	22.6	20.7	18.5	17.5
Reported PBT	17.9	19.7	15.3	9.8	13.0
Fully Adj PBT	18.5	20.8	16.0	10.3	13.0
NOPAT	15.3	18.5	16.4	14.1	13.3
Reported EPS (p)	13.8	14.7	10.2	6.3	8.3
Fully Adj EPS (p)	14.2	15.2	10.4	6.4	8.1
Dividend per share (p)	5.8	6.2	0.0	0.0	1.5
CASH FLOW & BALANCE SHEET	**2021**	**2022**	**2023**	**2024E**	**2025E**
Operating cash flow	57.0	19.1	8.1	32.0	29.5
Free Cash flow	51.5	13.8	0.2	21.4	21.8
FCF per share (p)	51.8	12.7	0.2	18.1	18.4
Acquisitions	0.3	(44.0)	(22.2)	(14.2)	(2.0)
Disposals					
Net cash flow	14.3	0.6	(27.6)	7.2	19.8
Overdrafts / borrowings					
Cash & equivalents					
Net (Debt)/Cash, post-IFRS 16	(20.8)	(38.1)	(67.7)	(60.4)	(40.6)
Net (Debt)/Cash, pre-IFRS 16	(18.2)	(34.1)	(61.8)	(55.4)	(35.6)
NAV AND RETURNS	**2021**	**2022**	**2023**	**2024E**	**2025E**
Net asset value	111.2	143.5	150.6	158.1	168.0
NAV/share (p)	109.0	121.2	127.1	133.3	141.7
Net Tangible Asset Value	109.6	137.8	144.7	152.2	162.0
NTAV/share (p)	107.4	116.3	122.1	128.3	136.6
Average equity	103.5	127.4	147.1	154.4	163.1
Post-tax ROE (%)	13.2%	12.6%	8.2%	4.8%	6.1%
METRICS	**2021**	**2022**	**2023**	**2024E**	**2025E**
Revenue growth		18.6%	29.2%	(15.4%)	(3.1%)
Adj EBITDA growth		10.9%	(6.6%)	(9.5%)	(5.0%)
Adj EBIT growth		14.3%	(8.4%)	(10.4%)	(5.6%)
Adj PBT growth		12.5%	(23.1%)	(35.4%)	25.8%
Adj EPS growth		7.6%	(31.6%)	(38.2%)	25.8%
Dividend growth		7.8%	(100.0%)	N/A	N/A
Adj EBIT margins	9.1%	8.8%	6.2%	6.6%	6.4%
VALUATION	**2021**	**2022**	**2023**	**2024E**	**2025E**
EV/Sales (x)	0.77	0.66	0.54	0.55	0.55
EV/EBITDA (x)	6.8	6.2	6.6	7.3	7.7
PER (x)	5.2	4.9	7.1	11.5	9.1
Dividend yield (%)	7.8%	8.4%	N/A	N/A	2.0%
P/NAV (x)	0.68	0.61	0.58	0.55	0.52
FCF yield	70.0%	17.1%	0.2%	24.4%	24.9%

Source: Company information and Progressive Equity Research estimates

13 December 2023

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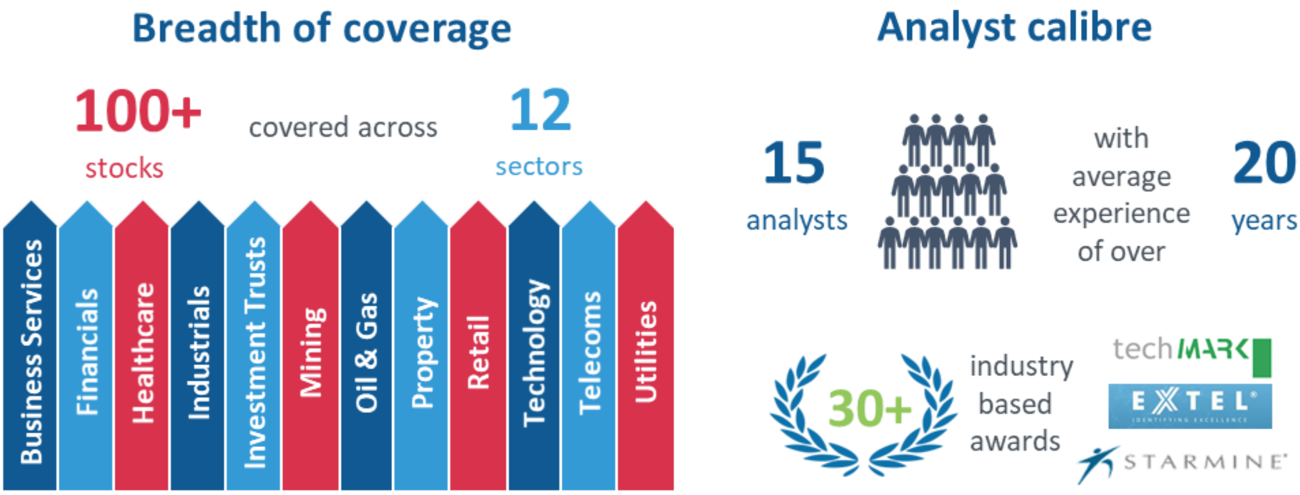

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