Progressive EQUITY RESEARCH

SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

20 February 2024

SPR.L

78p

Market Cap: £92.6m

SHARE PRICE (p)

12m high/low	98p/51p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(93.4)m *(at 30/11/23)*
Enterprise value	£186m
Index/market	AIM
Next news	YE update, July (TBC)
Shares in issue (m)	118.7
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

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On track as market recovery builds momentum

Today's interim results show that Springfield remains on track to meet FY24E expectations for both earnings and, helped by profitable land sales, debt reduction – amid gathering signs of recovery in all three of Springfield's sectors: private sales, affordable housing and, as Scotland's rent controls end, private rental. We maintain our FY24E and FY25E estimates but suggest our volume forecasts may be conservative. We believe the Barratt Redrow deal could highlight Springfield's low valuation.

- **Results in line with expectations.** Trading for the half year to 30 November was in line with management expectations. Revenue fell 25% to £122m, broadly in line with other listed housebuilders. Gross margins improved but higher interest costs led to a 70% fall in adjusted PBT to £2.0m. Net bank debt increased to £93m from £62m at 31 May 2023, not including £15m from land sales but including £11m in deferred consideration payments on prior-year acquisitions as well as normal seasonal working capital swings. As previously signalled, dividends have been paused until debt falls sufficiently.

- **Estimates unchanged, but conservative?** The statement confirmed prior guidance for FY24E for earnings, and for bank debt to fall to c.£55m. Private reservations since mid-January have increased by 62% compared to the rest of FY24E. We maintain our estimates but believe our FY25E assumptions for volumes in Private and Affordable may be conservative if market conditions continue to improve in the coming months (pages 3-5).

- **Housing markets: stars aligned.** Springfield addresses all three housing tenures: private sales, affordable housing and private rent. And we believe the prospects for the three divisions are improving (pages 9-12).

- **Discount highlighted amid consolidation focus.** The recommended all-share offer by Barratt Developments for Redrow has prompted speculation of further consolidation. and has turned investor focus to sector and individual company valuations. The current share price values Springfield at 0.64x the latest tangible NAV. This compares to 1.26x for the sector as a whole, itself a 24% discount to the 10-year average of 1.67x.

- **Unique multi-tenure model.** Springfield, which floated on AIM in 2017, provides private, affordable and PRS homes – all in demand in high-growth areas in Scotland – particularly through its distinctive 'Village' communities (page 13). The landbank is one of the largest in Scotland.

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)	5.5x	5.1x	7.5x	12.1x	9.6x
Dividend yield (%)	7.4%	7.9%	N/A	N/A	1.9%
EV/EBITDA (x)	8.5x	7.7x	8.1x	8.9x	9.4x

Source: Company Information and Progressive Equity Research estimates.

Positive signals emerge on all fronts in HY results

Improving demand benefits the private and affordable housing outlook, and the likely imminent end of rent controls should boost contract housing

The key message for us in the interim results was the outlook statement, which confirmed that Springfield is 'on track to report results for FY 2024 in line with market expectations, including meeting its target to reduce net bank debt to c.£55m by 31 May 2024'. We observe positive signals from all three businesses (see pages 3-5) as well in the Group's debt reduction strategy (pages 6-8). These include:

- Private housing reservation rates in calendar year 2024 are 'showing initial signs of recovery with a return in homebuyer confidence', notably a 62% Y/Y increase in average weekly reservation rates since mid-January compared with rest of FY24E.
- 'Strong' demand continuing in affordable housing, with £40m of contracts signed since May 2023 and confidence of signing further contracts in the near term now that the Scottish Government has authorised, from a provider point of view, more equitable development prices than in FY22 and FY23, when divisional margins on fixed-price contracts were hit by soaring building costs.
- Build cost inflation continuing to reduce and stabilising at around 2.5% and expected to stay there for the next 12 months.
- Advanced negotiations are underway for further profitable land sales, which should lead to debt reduction in the second half and beyond.
- The Scottish Government's emergency rent cap is due to end on 1 April, 'which offers the prospect of a return of investment in Scotland by PRS providers'. The rent freeze, introduced in September 2022, and subsequent cap curtailed the Group's progress in PRS soon after it entered the sector.

These positives come at a time when the markets underlying the three divisions all show signs of improving (pages 9-12), amid a UK sector that is now subject to consolidation speculation. We believe Springfield's multi-tenure model, including its distinctive 'Village' communities (page 13), offers it unique opportunities to address all these trends.

Sector consolidation sharpens investor focus on valuations

Despite a sector-beating rise from 52-week low, Springfield shares still trade at a steep discount to the sector P/TNAV average

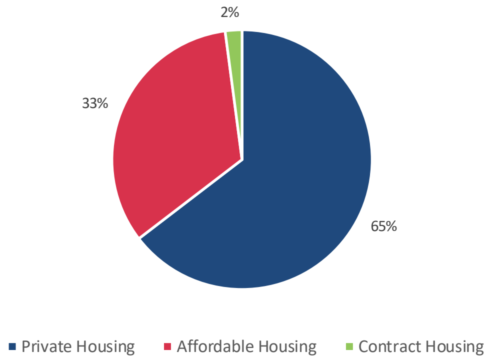
Springfield shares have risen 53% since the 52-week low of 50p on 20 October, while the main quoted housebuilders have risen by 43% on a market cap-weighted basis. The sector's performance has been fuelled by expectations of an early cut to base rates and reports of improving sales rates from most of the major housebuilders.

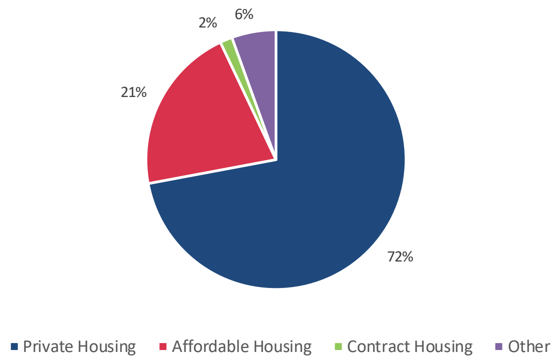
The key news in the sector, however, is the recommended all-share offer by the UK's largest housebuilder, Barratt Developments, for mid-ranking Redrow. This has prompted speculation of further consolidation and has turned investor focus to sector and individual company valuations.

The current share price values Springfield at 0.64x the latest tangible NAV. This compares to 1.26x for the sector as a whole, itself a 24% discount to the 10-year average of 1.67x.

We believe that a continued housing market recovery could support further increases in sector valuations towards the long-term norms, and that further evidence of Springfield's debt reduction would have the potential to narrow the discount to the wider sector.

Figure 1: Divisional splits – completions, LHS; revenue, RHS (%)





Source: Company Information and Progressive Equity Research estimates

Private housing: sharp rise in reservations after slow first half

Results: fall in H1 volumes reflects lower opening order book, interest rate rises and curtailed speculative development in response to uncertain outlook

Revenue fell by 26% to £88m, reflecting a lower forward order book entering the period, impacted by cost-of-living pressures, and subsequently rising Bank of England interest rates. As a result, in September the Group significantly reduced its speculative development activities, as previously announced, only building homes when reservations were secured. Reservation rates remained subdued, but stable, throughout the remainder of the period. Average prices rose by 14% to £316k, reflecting increased selling prices across all the Group's brands, helped by better affordability north of the Border (see page 9), as well as changes in the mix of homes sold.

Current conditions: marked improvement in reservation rates since January

However, average reservation rates since mid-January have increased strongly compared with the preceding months, reflecting 'indications of a return in homebuyer confidence' – a view we have observed with most of the major quoted UK housebuilders in their latest trading statement and results announcements.

Forecasts: Possibly over-conservative assumptions for volumes for FY25E?

Our estimates for FY24E assume a reduced rate of Y/Y volume decline in H2 (-15%), with overall FY completions down by 25%. For FY25E, our current estimate is for a further 12.5% reduction. This was based on a conservative outlook for the overall housing market when we introduced our forecast for the year in December 2023, as well as a full-year impact of the reduction in speculative activities. As the current year progresses, we will reassess whether we have been over-cautious in our assumptions.

Affordable housing: lower-risk contracts now feeding through

Backdrop: a strategic pause in contract bidding in FY23

The division had in FY22 and FY23 been impacted by cost overruns on a limited number of longer-term fixed price contracts entered into in 2020, before building cost inflation surged. This led the Group to curtail new undertakings until affordable housing providers (local authorities and housing associations) assumed more equitable terms for cost increases. During the first half, completions reduced by 18% to 144, with average prices up 11% to £177k, partly reflecting mix effect.

Current conditions: 'encouraging' rise in contract awards supports outlook, with strong revenue visibility and cash-flow dynamics

In terms of the volume outlook, the Group is 'encouraged' by the demand that it is now receiving since the Scottish Government increased the affordable housing investment 'benchmarks', which has enabled housing associations to increase the price of affordable housing contracts, and the fall in build cost inflation. As we have pointed out in previous research, affordable housing contracts offer high revenue visibility with low capital exposure and strong cash-flow dynamics. As previously announced, since, Springfield has signed contracts totalling c.£40m for delivery in this financial year and beyond and is in advanced negotiations on further ones it expects to be awarded during H2.

This includes a contract with Highland Housing Alliance, signed post period, that comprises a bulk sale element for £4.2m, due to complete during the current financial year, and a design and build element worth £11.2m, with the majority to be recognised in the next financial year. This should support the Group's overall sales rates as well as its efforts to maximise cash generation.

Forecasts: possibly over-conservative for FY24E, with a marked increase in FY25E

The recent increase in contract awards should feed into FY25E: for FY24E we continue to assume a 27% Y/Y decline (possibly over-conservative, since this implies a 37% Y/Y reduction in H2); for FY25E our forecast is for a 43% rebound, from a low base.

Contract housing: lifting of rent controls likely to end hiatus

Backdrop: Government rent controls had interrupted PRS growth strategy

The division provides development services to third-party private organisations, with revenue based on costs incurred plus a fixed mark-up. To date, this has largely consisted of services at the Bertha Park village development, including homes across all tenures – private, affordable and PRS housing. PRS activity was put on hold following the imposition of rent controls by the Scottish Government in FY23. However, with the Scottish Government's emergency rent cap scheduled to end on 1 April, the Group is hopeful that opportunities to build more PRS homes, particularly in its Village developments, will return.

Results: end of PRS contract hits revenues

Only nine homes were completed during the first half (H1 23: 69) – six private, two affordable and only one PRS at Bertha Park. The reduction reflects the reduced activity in private and affordable housing, with no new phases of private housing having been released, and the completion of its existing PRS contract, which had made a significant contribution to H1 23 contract housing revenue.

Forecasts: little visibility in short term; potential strong rebound once ending of rent controls is confirmed

While there is little visibility on how the likely end of the rent cap will unfold, we maintain our existing forecasts, which show only a nominal contribution from PRS to group revenue. However, there is substantial demand for PRS across the UK due to the undersupply of good-quality rental properties. Reduced gilt yields and a strong rental income outlook appear to be attracting institutional investors back into the sector, initially into the 'single family' sector; if the end of rent controls is confirmed, this could lead to a marked rebound.

Large land bank: supporting future growth and debt reduction

Profitable land sales helping to reduce debt, in line with strategy

The Group's high-quality land bank, one of the largest in Scotland, underpins its future operational targets and current debt reduction strategy. At the period end, it totalled 6,421 owned plots (FY23: 6,712), 86% with planning consent, and strategic options over a further 3,217 acres (3,255), equating to c.32,200 plots, or five years of output for the owned land bank and 25 for strategic land.

The Group agreed a profitable sale of land for £5.2m during the period and a further two agreements totalling £12.8m since, the second announced yesterday. It is in advanced discussions on further profitable sales and 'continues to be encouraged by the interest it is receiving in its land bank, a large proportion of which already has planning permission'.

Figure 2: Divisional revenue analysis

Year-end May (£m)	FY21	FY22	1H 23	2H 23	FY23	1H 24	2H 24E	FY24E	FY25E
Private Housing									
Completions	559	712	429	437	866	279	371	650	568
YoY change (%)	*33.4%*	*27.4%*	*117.8%*	*-15.1%*	*21.6%*	*-35.0%*	*-15.2%*	*-25.0%*	*-12.5%*
ASP (£000)	248.0	245.0	276.5	308.3	292.6	314.2	312.1	313.0	300.5
YoY change (%)	*5.1%*	*-1.2%*	*15.3%*	*24.8%*	*19.4%*	*13.6%*	*1.2%*	*7.0%*	*-4.0%*
Revenue	138.6	174.4	118.6	134.7	253.4	87.7	115.6	203.3	170.8
Affordable Housing									
Completions	363	405	175	153	328	144	96	240	342
YoY change (%)	*17.9%*	*11.6%*	*-14.2%*	*-23.9%*	*-19.0%*	*-17.7%*	*-37.2%*	*-26.8%*	*42.5%*
ASP (£000)	145.8	158.6	159.1	170.5	164.4	176.8	162.4	171.0	192.4
YoY change (%)	*5.7%*	*8.8%*	*2.5%*	*5.2%*	*3.6%*	*11.1%*	*-4.8%*	*4.0%*	*12.5%*
Revenue	52.9	64.3	27.8	26.1	53.9	25.5	15.6	41.1	65.8
Contract Housing									
Completions	51	125	69	38	107	9	31	40	30
YoY change (%)	*0.0%*	*145.1%*	*19.0%*	*-43.3%*	*-14.4%*	*-87.0%*	*-19.5%*	*-63.0%*	*-25.0%*
ASP (£000)	159.6	132.0	154.1	238.1	183.9	206.9	224.8	220.7	264.9
YoY change (%)	*0.0%*	*-17.3%*	*19.0%*	*77.6%*	*39.4%*	*34.2%*	*-5.6%*	*20.0%*	*20.0%*
Revenue	8.1	16.5	10.6	9.0	19.7	1.9	6.9	8.7	7.9
Total completions	973	1,242	673	628	1,301	432	497	929	940
YoY change (%)	*33.8%*	*27.6%*	*46.6%*	*-19.8%*	*4.8%*	*-35.8%*	*-20.8%*	*-28.6%*	*1.2%*
Total ASP (£000)	205.3	205.5	233.4	270.5	251.3	266.2	277.8	272.4	260.0
YoY change (%)	*5.5%*	*0.1%*	*24.0%*	*25.5%*	*22.3%*	*14.0%*	*2.7%*	*8.4%*	*-4.5%*
Other revenue	17.0	1.9	4.8	0.3	5.2	6.7	21.3	28.0	28.0
Total revenue	**216.7**	**257.1**	161.9	170.2	332.1	121.7	159.4	281.1	**272.5**
YoY change (%)	*51.0%*	*18.6%*	*85.6%*	*0.2%*	*29.2%*	*-24.9%*	*-6.3%*	*-15.4%*	*-3.1%*

Source: Company Information and Progressive Equity Research estimates

Finances: on track for FY24 earnings and debt targets

P&L: gross margins increased and overheads cut, partially offsetting revenue decline

The statement confirmed that first-half performance leaves Springfield on track to report FY24 results and net debt reduction in line with market expectations. Overall revenue fell by 25% Y/Y during the first half, broadly in line with other listed housebuilders.

The overall gross margin increased to 14.7% from 14.0%, primarily due to the improvement in gross margin in affordable housing. Our assumptions for FY24E are that there will also be a modest improvement in the gross margin in private housing. For H1 24, build cost inflation was c.4%, compared with a peak of c.30% during the prior year.

Administrative expenses, excluding exceptional items, were reduced by 14% to £12.6m from £14.7m, resulting from group-wide cost savings and rationalisation, generating annualised savings of c.£4m. The underlying operating margin eased to 4.6% from 5.1%.

Finance costs rose to £3.7m from £1.7m reflecting greater bank interest payments, due to the rise in interest rates and the increase in bank debt. Exceptional items were £0.9m (H1 23: £0.6m), which mainly relates to restructuring costs in reducing the cost base.

Net debt up, in line with normal seasonal cycles and reflecting deferred payments and land spend – FY24E target unchanged

Net bank debt at the period end was £93.4m (31 May 2023: £61.8m; 30 November 2022: £67.7m). This does not include the £15.0m of outstanding cash proceeds from land sales agreed during and post period that are to be received by the end of the financial year. The increase in net bank debt during the half primarily reflects £11.0m in scheduled deferred payments relating to the acquisitions of Tulloch Homes (the last such payment) and Mactaggart & Mickel Homes, and £6.0m in contracted payments for land. It also reflects the usual working capital cycle, with work-in-progress at the end of the first half, which will unwind as houses complete in the second half of the year.

Outlook: current volume estimates may be conservative

Any improvement in demand levels could boost both profitability cash flow and demand for land

We have not made any changes to our FY24E or FY25E estimates. We have already suggested that our assumptions for private housing completions in FY25E and affordable housing in FY24E may be over-conservative, particularly in terms of our overall FY25E estimates.

Figure 3: P&L and per share data

Year-end May (£m)	FY21	FY22	1H 23	2H 23	FY23	1H 24	2H 24E	FY24E	FY25E
Revenue	**216.7**	**257.1**	161.9	170.2	**332.1**	121.7	159.4	**281.1**	**272.5**
Gross profit	**38.8**	**43.1**	22.7	25.3	**48.0**	17.9	27.6	**45.5**	**42.5**
Margin (%)	*17.9%*	*16.8%*	*14.0%*	*14.8%*	*14.4%*	*14.7%*	*17.3%*	*16.2%*	*15.6%*
Admin, other income	(19.0)	(20.6)	(14.5)	(12.8)	(27.3)	(12.3)	(14.7)	(27.0)	(25.0)
Share in PBT of JV	-	-	-	-	-	-	-	-	-
Total operating profit	**19.8**	**22.6**	8.2	12.5	**20.7**	5.6	12.9	**18.5**	**17.5**
Margin (%)	*9.1%*	*8.8%*	*5.1%*	*7.3%*	*6.2%*	*4.6%*	*8.1%*	*6.6%*	*6.4%*
Exceptionals	(0.6)	(1.1)	(0.6)	(0.1)	(0.7)	(0.9)	0.4	(0.5)	-
Net interest	(1.2)	(1.8)	(1.6)	(3.0)	(4.7)	(3.6)	(4.6)	(8.2)	(4.5)
PBT, reported	**17.9**	**19.7**	**5.9**	**9.4**	**15.3**	**1.2**	**8.7**	**9.8**	**13.0**
PBT, pre-exc	**18.5**	**20.8**	6.6	9.4	**16.0**	2.0	8.3	**10.3**	**13.0**
H1:H2 split (%)			*41.0%*	*59.0%*		*19.6%*	*80.4%*		
Reported tax	(4.2)	(3.7)	(0.9)	(2.3)	(3.2)	0.0	(2.4)	(2.4)	(3.1)
Underlying tax rate (%)	*22.6%*	*18.2%*	*15.5%*	*24.0%*	*20.5%*	*7.0%*	*28.1%*	*24.0%*	*24.0%*
Net attrib profit	**13.7**	**16.1**	5.0	7.0	**12.1**	1.2	6.3	**7.5**	**9.9**
Basic EPS (p)	13.8	14.7	4.2		10.2	1.0		6.3	8.3
Adjusted EPS (p)	14.4	15.6	4.7		10.7	1.6		6.6	8.3
Adjusted, dil. EPS (p)	**14.2**	**15.2**	4.6		**10.4**	1.5		**6.4**	**8.1**
DPS - declared (p)	**5.75**	**6.20**	-	-	**-**	-	-	**-**	**1.50**
NAV (p)	109.0	121.2	121.1		127.1	127.5		133.3	141.6
TNAV (p)	107.4	116.3	116.3		122.1	122.6		128.2	136.6

Source: Company Information and Progressive Equity Research estimates

Figure 4: Adjusted cash flow statement and summary balance sheet

Year-end May (£m)	FY21	FY22	1H 23	2H 23	FY23	1H 24	2H 24E	FY 24E	FY25E
Adjusted cash flow statement									
Op profit inc exc.	19.1	21.5	(0.6)	20.6	20.0	(0.9)	18.9	18.0	17.5
Depreciation	2.2	1.7	1.1	1.2	2.3	1.2	1.0	2.3	2.3
Other	0.5	12.4	8.5	(8.2)	0.4	8.8	(8.8)	-	-
Working capital chg	35.2	(16.5)	(18.5)	4.1	(14.5)	(24.6)	36.6	12.0	10.0
Operating cash flow	**57.0**	**19.1**	**(9.5)**	**17.6**	**8.1**	**(15.5)**	**47.8**	**32.3**	**29.8**
Capex	0.0	(0.1)	(0.1)	0.0	(0.1)	0.0	(0.1)	(0.0)	(0.0)
Interest	(1.3)	(1.6)	(1.5)	(2.3)	(3.8)	(3.5)	(4.7)	(8.2)	(4.5)
Tax	(4.2)	(3.5)	(1.2)	(1.7)	(2.9)	(0.9)	(1.5)	(2.4)	(3.1)
Free cash flow	**51.5**	**13.8**	**(12.2)**	**13.6**	**1.4**	**(19.8)**	**41.5**	**21.7**	**22.1**
Acquisitions	0.3	(44.0)	(15.0)	(6.3)	(21.4)	(10.7)	(3.5)	(14.2)	(2.0)
Dividends - paid	(3.3)	(6.3)	(5.6)	-	(5.6)	-	-	-	-
Financing	(34.2)	37.1	35.7	(17.7)	18.0	27.8	(27.8)	-	-
Change in net cash	**14.3**	**0.6**	**3.0**	**(10.5)**	**(7.5)**	**(2.6)**	**10.1**	**7.5**	**20.1**
Summary balance sheet									
Intangible fixed assets	1.6	5.8	5.7		6.0	5.8		6.0	6.0
Tangible fixed assets	4.5	5.8	7.8		7.8	7.0		5.6	3.4
Investments, other FA	6.0	8.3	7.3		6.8	6.8		6.8	6.8
Working capital	128.8	182.9	246.6		243.3	263.8		231.3	221.3
Provisions, others	(8.9)	(21.2)	(50.1)		(45.5)	(33.5)		(31.3)	(29.3)
Net cash/(debt)*	(20.8)	(38.1)	(73.7)		(67.7)	(98.7)		(60.2)	(40.1)
Net assets	**111.2**	**143.5**	**143.5**		**150.6**	**151.2**		**158.1**	**168.0**
**Pre-IFRS 16*	*(18.2)*	*(34.1)*	*(67.8)*		*(61.8)*	*(93.4)*		*(55.2)*	*(35.1)*

Source: Company Information and Progressive Equity Research estimates

Scottish housing dynamics: improving for all tenures

All tenures have been challenged but the outlook appears to be improving across the board

Although the Scottish private housing market has not been immune to the challenges from rising interest rates and cost-of-living pressures experienced south of the border, transactions have fallen by less while prices have outperformed England and Wales, largely the result of greater affordability. Rental affordability is also among the best in the UK, but private and 'social' rented sectors have been greatly distorted by Scottish Government policies – which have impacted both Springfield's affordable housing and contract housing businesses. Affordable housing had been impacted by housing association benchmarks, which did not reflect build cost inflation. Meanwhile, an emergency rent freeze and then cap caused an almost immediate halt in investment in PRS, which hit contract housing (and, ironically, triggering the UK's highest rental inflation in new tenancies, which are not covered by the legislation). Both challenges appear to be lifting, with rising affordable contract awards and the imminent end to rent controls.

Sales market: improving after a shallower decline than UK

A range of data in recent weeks, as well as comments from larger quoted housebuilders, has suggested improving conditions in the UK, with Scotland appearing to be even more resilient.

Transactions: a more modest decline than rest of UK

Housing transaction volumes down by less than the UK average – possibly thanks to Scottish 'missives' house-buying convention

Housing transactions in Scotland in the 12 months to December 2023 totalled 93,050, down 11.1% Y/Y, less than the overall UK decline of 20.1%, according to ONS data (Figure 5, LHS). The total, based on all transactions including cash purchases, was 7.2% below the 10-year average of 100,270 and 23% lower than the recent peak of 121,600 in the 12 months to September 2021 in the aftermath of the Covid lockdowns.

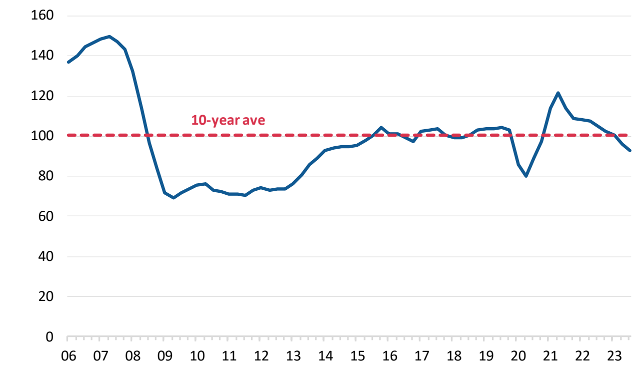
The rolling 12-month figure represents less of a reduction relative to the 10-year average than in England & Wales, 16% lower than the long-term norm. We have previously argued that Scotland's missives system reduces some of the volatility in the market.

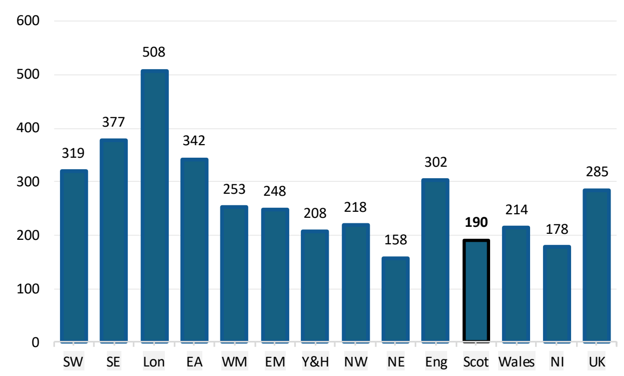
Prices: rising while other regions fall, thanks to greater affordability

Scottish transaction decline relatively modest due to better affordability

Average house prices in Scotland, at £190k in Q4 23, were exactly a third below the UK average of £285k (Figure 5, RHS).

Figure 5: Housing transactions, Scotland, rolling 12-month (000) – LHS; Regional house prices, Q4 2023 (£000) - RHS



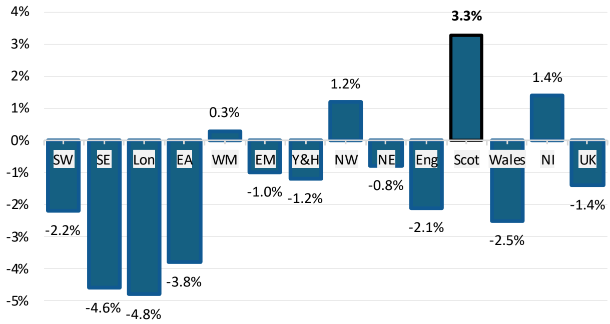


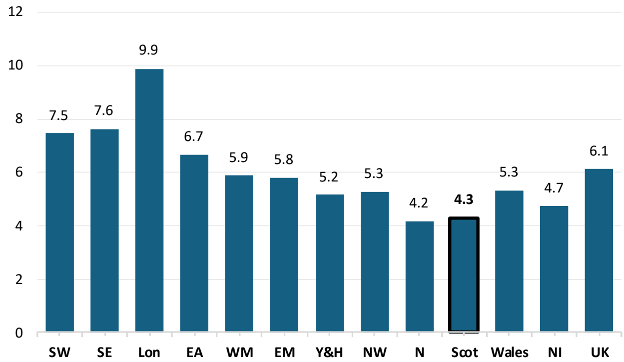
Source: ONS

The latest data from the ONS shows that Scotland not only had the greatest Y/Y house price increase in the UK (+3.3%), but that it was one of only four regions to show an increase in prices (Figure 6, LHS). One of the main reasons, in our view, is the relative affordability of Scotland compared with almost every other region.

Prices of mortgaged properties in Scotland are a 4.3x multiple of regional average wages, according to Nationwide, one of Britain's biggest home lenders. This compares with the UK average of 6.1x, with Scotland only above the North of England (Figure 6, RHS).

Figure 6: Regional house prices, Q4 2023: Y/Y chg (%) – LHS; Affordability, multiple of average wages (x) – RHS





Source: ONS, LHS; Nationwide, RHS

Other indicators add weight to positive outlook

Mortgage lenders, estate agents and property portals all agree on recovery trajectory

Halifax, the UK's biggest mortgage lender, reported a similar trend in its latest report, which showed a 4.0% annual rise in house prices in Scotland for January, the same as Wales and only lower than the +5.3% for Northern Ireland. The UK as a whole rose 2.5% (the second consecutive month showing an annualised increase and the fourth M/M rise). The English regions ranged from -2.3% (South East) to +3.2% (North West).

Other more forward-looking indicators from the RICS and the UK's two largest property portals, which measure initial asking prices (an earlier stage than at mortgage offer, in the case of the Halifax, and completion, for the ONS) suggest Scottish prices will continue to outperform most of the rest of the country, at least in the short term.

- Rightmove's House Price Index for February, released this week, showed asking prices in Scotland rose by 3.7% M/M and by 5.9% Y/Y. Both comparisons are higher than any other regions and compare with +0.9% M/M and +0.1% Y/Y for the whole UK. (On a wider UK basis, there was an encouraging 16% Y/Y increase in sales agreed.)
- Zoopla showed asking prices in Scotland in January rose 1.8% over the year, the highest of only four regions in positive territory and second only to the +3.2% for Northern Ireland. The UK as a whole declined by 0.8%.
- The wide-ranging monthly Residential Market Survey from the RICS, which arguably reflects an even earlier snapshot of buyer activity, indicates a benign picture for current price moves and buyer enquiries, as well as expectations for both pricing and volumes.

Rental market: soaring despite (or because) of rent controls

Emergency rent controls introduced in September 2022 disrupted the market, but are due to end in April …

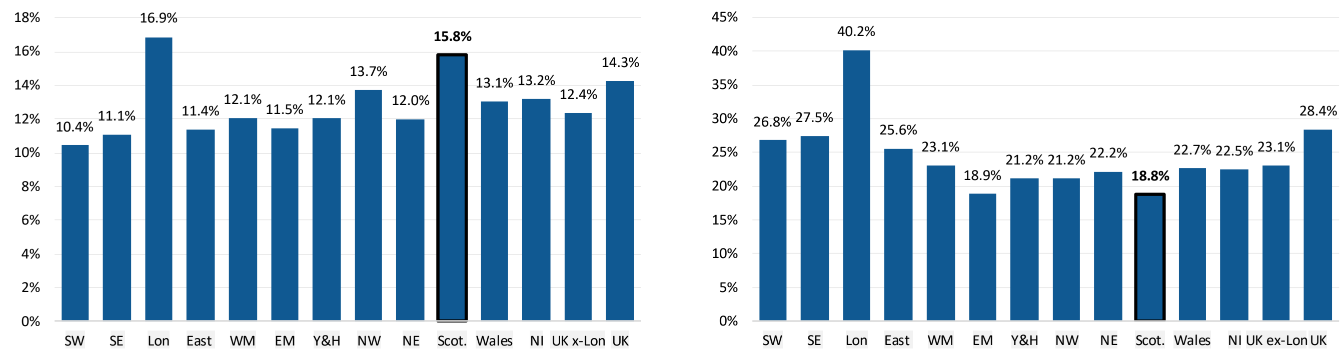
In September 2022, the Scottish Parliament introduced a temporary rent freeze followed by a cap on annual rent increases of 3%, applying to both social and (for the first time in ever in the UK) private social landlords. But in the latter case, it only applies to existing tenancies. Since then, average private sector asking rents in Scotland have increased by 15.8% compared with 12.4% for the UK, excluding London, according to Zoopla. The cause has widely been attributed to landlords readvertising the new tenants and – since there is greater demand in Scotland relative to the rest of the UK, demonstrated in lower re-letting times (12 days rather than the 13-day average) – rents have soared more than in any other region other than London (Figure 7, LHS).

Combined with the 'double whammy' of higher borrowing rates and gilt yields since the September 2022 mini-budget, these rent controls have greatly depressed investment decisions by institutional PRS funders in Scotland.

… which could allow Scotland to follow the recovering trend in UK institutional investment

However, the controls are expected to end on 1 April 2024, as indicated by the Scottish Government in September 2023. We doubt this will create a marked change in the buoyant conditions in the rental market, since Scotland has the greatest affordability (Figure 7, RHS). Falling bond yields should improve asset pricing as well as developers' borrowing costs. Reports, including from Savills, indicate a marked improvement in institutional investment intentions in private rental during Q4 2023 – with most investment currently focused on the single-family housing category built by Springfield, rather than on urban hi-rise. As soon the end of rental controls is confirmed, Scotland could follow the trend starting to emerge in English regions.

Figure 7: Regional asking rents, Q3 2024: Y/Y chg (%) – LHS; Affordability (% of single earnings) – RHS



Source: Zoopla

Affordable housing: soaring private rents fuel further housing 'emergency' talk

Media attention on housing emergencies in biggest cities could accelerate demand for further investment in social housing

The soaring level of private rents and low availability has prompted considerable media coverage of the housing emergencies declared by Glasgow and Edinburgh city councils. We believe this should accelerate demand for further investment in social housing, which should further boost the already recovering prospects for Springfield's affordable housing business.

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

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.'

Springfield in brief: unique model in resilient 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 that 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 have been 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; the recent increase in the Affordable Housing Investment Benchmark reinforces this commitment. House prices in Scotland are more affordable in relation to incomes than in almost 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 a 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, was 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. 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	22.9	20.8	19.8
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	32.3	29.8
Free Cash flow	51.5	13.8	1.4	21.7	22.1
FCF per share (p)	51.8	12.7	1.2	18.3	18.7
Acquisitions	0.3	(44.0)	(21.4)	(14.2)	(2.0)
Disposals					
Net cash flow	14.3	0.6	(7.5)	7.5	20.1
Overdrafts / borrowings					
Cash & equivalents					
Net (Debt)/Cash, post-IFRS 16	(20.8)	(38.1)	(67.7)	(60.2)	(40.1)
Net (Debt)/Cash, pre-IFRS 16	(18.2)	(34.1)	(61.8)	(55.2)	(35.1)
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	141.6
Net Tangible Asset Value	109.6	137.8	144.7	152.2	162.0
NTAV/share (p)	107.4	116.3	122.1	128.2	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%	(5.6%)	(9.4%)	(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)	0.9	0.7	0.6	0.7	0.7
EV/EBITDA (x)	8.5	7.7	8.1	8.9	9.4
PER (x)	5.5	5.1	7.5	12.1	9.6
Dividend yield (%)	7.4%	7.9%	N/A	N/A	1.9%
P/NAV (x)	0.72	0.64	0.61	0.59	0.55
FCF yield	66.4%	16.2%	1.5%	23.5%	23.9%

Source: Company information and Progressive Equity Research estimates

20 February 2024

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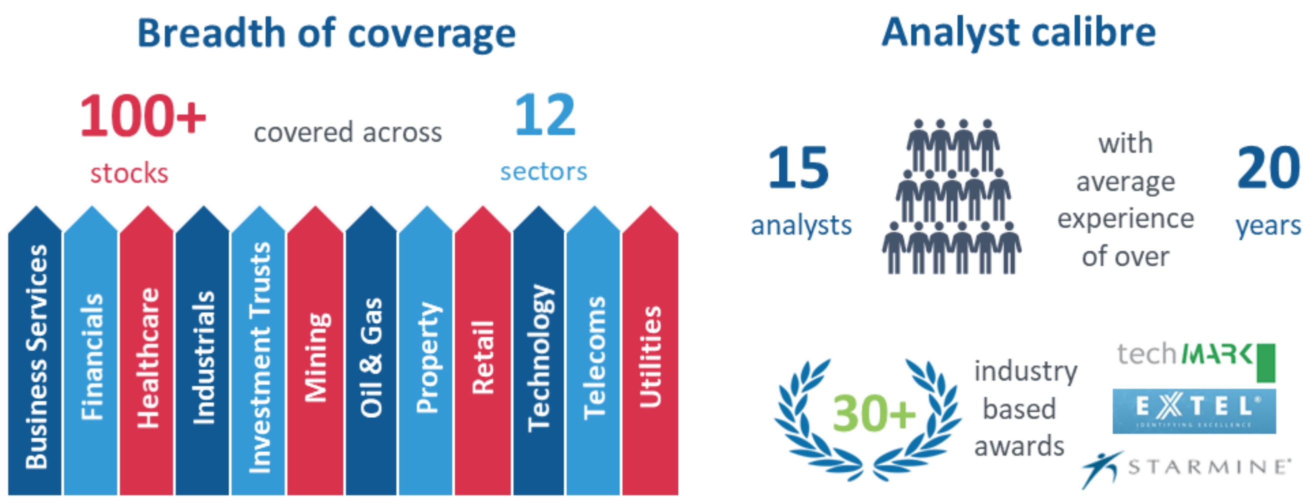

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