

# SPRINGFIELD PROPERTIES

## HOME CONSTRUCTION

11 July 2024

### SPR.L

97.5p

Market Cap: £115.7m

#### SHARE PRICE (p)



12m high/low

103p/51p

Source: LSE Data (priced as at prior close)

#### KEY DATA

Net (debt)/cash	£(40.0)m (at 31/05/24)
Enterprise value	£155.7m
Index/market	AIM
Next news	FY results, Sep
Shares in issue (m)	118.8
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.thespringfieldgroup.co.uk](http://www.thespringfieldgroup.co.uk)

SPRINGFIELD PROPERTIES IS A RESEARCH CLIENT OF PROGRESSIVE

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## FY24E land sales drive debt reduction

Springfield's year-end trading statement reveals that adjusted PBT will be slightly ahead of market expectations due to profitable land sales, which also drove greater than originally targeted debt reduction. We are, conservatively, maintaining our PBT forecasts for now. With one of the largest land banks in Scotland, amid a sharply increased appetite across the industry for sites in recent months, the Group is 'well-positioned to be able to capitalise on the pent-up demand for high quality, energy efficient housing as market conditions improve'.

- Results boosted by land sales.** Revenue for the 12 months ended 31 May is expected to be c.£266m (FY23: £332m), 'reflecting a market backdrop of challenging trading conditions experienced across the industry'. Adjusted PBT will be 'slightly ahead of market expectations' due to profitable land sales of £28m during the period. Bank debt reduced to c.£40m, ahead of an originally stated target of £55m.
- Estimates unchanged, but greater land profit in mix.** We are not changing our FY24E adjusted PBT of £10.3m. We are changing the mix, reflecting lower private sales completions, reflecting the impact of market conditions, rather than the rate of incoming reservations, which remain steady. This will largely be offset by significant land profits (pages 2 - 3).
- Sector's hunger for land increases.** The heightened land sales reflect a substantial jump in the sector's appetite for land in recent months. The 10 July update from Barratt Developments (BDEV), following similar indications from Taylor Wimpey (TW) and others, included confirmation by 'land promoters' that demand for sites has stepped up after months of reticence. Springfield's owned land bank is c.5,600 plots (31 May 2023: 6,712), of which c.88% had planning permission, with strategic options over a further c.3,150 acres (31 May 2023: 3,255 acres).
- Unique multi-tenure model.** Springfield provides a unique mix of private and affordable homes in key market areas in Scotland, including village developments (page 4). The FY results are likely to be released in mid-September, at which point we believe political support for housebuilding in Scotland may well have improved following the election. Another major opportunity is the planned £3bn Inverness and Cromarty Firth Green Freeport, which could lead to 8,000-10,000 new jobs in the Highlands in the next 10 years where Springfield has a significant land holding enhanced by the acquisition of Tulloch Homes in Inverness in 2021.

FYE MAY (£M)	2021	2022	2023	2024E	2025E
Revenue	216.7	257.1	332.1	267.2	272.3
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)	6.9x	6.4x	9.3x	15.2x	12.1x
Dividend yield (%)	5.9%	6.4%	N/A	N/A	1.5%
EV/EBITDA (x)	7.1x	6.4x	6.8x	7.8x	7.9x

Source: Company Information and Progressive Equity Research estimates.

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

*Reduction in Private profits due to lower volumes rather than price or margin pressure*

## Land sale profits offset lower private completions

The main changes in our estimates for FY24E are lower completions in private housing, offset by greater profit from land sales. Our estimates for FY25E are unchanged. (Revenue assumptions, page 3. More detail on the P&L can be found in our note of 3 June, [Village partnership with Barratt speeds growth.](#))

- Our estimate for private completions in F24E comes down from 650 to 585, with a slightly higher average price of £316k (previously £313k). The slower completions for FY24E slipping into the following year helps underpin our estimates for FY25E.
- Affordable housing revenue was higher than we had anticipated, £46.5m rather than £41.1m, but down 14% from the £53.9m achieved in FY23, reflecting the decision in FY23 to pause entering new affordable-only contracts until the economics became more attractive. This began to be realised during FY24E and we expect this trajectory to continue in FY25E, with a c. 40% step change in revenue.
- Land sale profits should largely offset the decline in private housing profits, which were the result of the lower completions rather than price or significant margin pressure. (The sites sold 'do not affect the Group's development pipeline in the near term'.)
- Our other P&L assumptions for both forecast years are largely unchanged, although our FY24E net interest cost estimate has been reduced from £8.2m to £7.3m, based on the lower net bank debt.

**Figure 1: Divisional revenue analysis**

Year-end May (£m)	FY21	FY22	1H 23	2H 23	FY23	1H 24	2H 24E	FY24E	FY25E
<b>Private Housing</b>									
Completions	559	712	429	437	866	279	306	585	568
YoY change (%)	33.4%	27.4%	117.8%	-15.1%	21.6%	-35.0%	-30.0%	-32.4%	-2.9%
ASP (£000)	248.0	245.0	276.5	308.3	292.6	314.2	318.1	316.3	300.5
YoY change (%)	5.1%	-1.2%	15.3%	24.8%	19.4%	13.6%	3.2%	8.1%	-5.0%
Revenue	138.6	174.4	118.6	134.7	253.4	87.7	97.3	185.0	170.7
<b>Affordable Housing</b>									
Completions	363	405	175	153	328	144	116	260	342
YoY change (%)	17.9%	11.6%	-14.2%	-23.9%	-19.0%	-17.7%	-24.2%	-20.7%	31.5%
ASP (£000)	145.8	158.6	159.1	170.5	164.4	176.8	181.2	178.7	192.3
YoY change (%)	5.7%	8.8%	2.5%	5.2%	3.6%	11.1%	6.3%	8.7%	7.6%
Revenue	52.9	64.3	27.8	26.1	53.9	25.5	21.0	46.5	65.8
<b>Contract Housing</b>									
Completions	51	125	69	38	107	9	15	24	30
YoY change (%)	0.0%	145.1%	19.0%	-43.3%	-14.4%	-87.0%	-60.5%	-77.6%	25.0%
ASP (£000)	159.6	132.0	154.1	238.1	183.9	206.9	187.8	195.0	263.2
YoY change (%)	0.0%	-17.3%	19.0%	77.6%	39.4%	34.2%	-21.1%	6.0%	35.0%
Revenue	8.1	16.5	10.6	9.0	19.7	1.9	2.8	4.7	7.9
<b>Total completions</b>	<b>973</b>	<b>1,242</b>	<b>673</b>	<b>628</b>	<b>1,301</b>	<b>432</b>	<b>437</b>	<b>869</b>	<b>940</b>
YoY change (%)	33.8%	27.6%	46.6%	-19.8%	4.8%	-35.8%	-30.4%	-33.2%	8.2%
Total ASP (£000)	205.3	205.5	233.4	270.5	251.3	266.2	277.3	271.8	259.9
YoY change (%)	5.5%	0.1%	24.0%	25.5%	22.3%	14.0%	2.5%	8.1%	-4.4%
Other revenue	17.0	1.9	4.8	0.3	5.2	6.7	24.3	31.0	28.0
<b>Total revenue</b>	<b>216.7</b>	<b>257.1</b>	<b>161.9</b>	<b>170.2</b>	<b>332.1</b>	<b>121.7</b>	<b>145.5</b>	<b>267.2</b>	<b>272.3</b>
YoY change (%)	51.0%	18.6%	85.6%	0.2%	29.2%	-24.9%	-14.5%	-19.6%	1.9%

Source: Company Information and Progressive Equity Research estimates

*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: unique model in resilient 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. 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 declared a 'housing emergency' and remains committed to a target build 110,000 affordable homes by 2031-32; the increase in the Affordable Housing Investment Benchmark in June 2023 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). Springfield 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 Springfield'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.
- **Evolving ESG credentials.** Springfield has had a longstanding commitment to ESG and an inherent culture of looking after people and the environment. The Group published its first formal ESG Strategy in 2022 with updates reported annually.

**Financial Summary: Springfield Properties**

Year end: May (£m unless shown)

	2021	2022	2023	2024E	2025E
<b>PROFIT &amp; LOSS</b>					
Revenue	216.7	257.1	332.1	267.2	272.3
Adj EBITDA	21.9	24.3	22.9	19.9	19.7
Adj EBIT	19.8	22.6	20.7	17.6	17.5
Reported PBT	17.9	19.7	15.3	9.4	13.0
Fully Adj PBT	18.5	20.8	16.0	10.3	13.0
NOPAT	15.3	18.5	16.4	13.4	13.3
Reported EPS (p)	13.8	14.7	10.2	6.0	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
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	57.0	19.1	8.1	46.5	14.7
Free Cash flow	51.5	13.8	1.4	36.9	7.1
FCF per share (p)	51.8	12.7	1.2	31.1	6.0
Acquisitions	0.3	(44.0)	(21.4)	(14.2)	(2.0)
Disposals					
Net cash flow	14.3	0.6	(7.5)	22.7	5.1
Overdrafts / borrowings					
Cash & equivalents					
Net (Debt)/Cash, post-IFRS 16	(20.8)	(38.1)	(67.7)	(45.0)	(39.9)
Net (Debt)/Cash, pre-IFRS 16	(18.2)	(34.1)	(61.8)	(40.0)	(34.9)
<b>NAV AND RETURNS</b>					
Net asset value	111.2	143.5	150.6	157.8	167.7
NAV/share (p)	109.0	121.2	127.1	133.0	141.3
Net Tangible Asset Value	109.6	137.8	144.7	151.8	161.7
NTAV/share (p)	107.4	116.3	122.1	128.0	136.3
Average equity	103.5	127.4	147.1	154.2	162.7
Post-tax ROE (%)	13.2%	12.6%	8.2%	4.6%	6.1%
<b>METRICS</b>					
Revenue growth		18.6%	29.2%	(19.6%)	1.9%
Adj EBITDA growth		10.9%	(5.6%)	(13.4%)	(0.7%)
Adj EBIT growth		14.3%	(8.4%)	(14.9%)	(0.8%)
Adj PBT growth		12.5%	(23.1%)	(35.6%)	25.9%
Adj EPS growth		7.6%	(31.6%)	(38.4%)	25.9%
Dividend growth		7.8%	(100.0%)	N/A	N/A
Adj EBIT margins	9.1%	8.8%	6.2%	6.6%	6.4%
<b>VALUATION</b>					
EV/Sales (x)	0.7	0.6	0.5	0.6	0.6
EV/EBITDA (x)	7.1	6.4	6.8	7.8	7.9
PER (x)	6.9	6.4	9.3	15.2	12.1
Dividend yield (%)	5.9%	6.4%	N/A	N/A	1.5%
P/NAV (x)	0.89	0.80	0.77	0.73	0.69
FCF yield	53.1%	13.0%	1.2%	31.9%	6.1%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

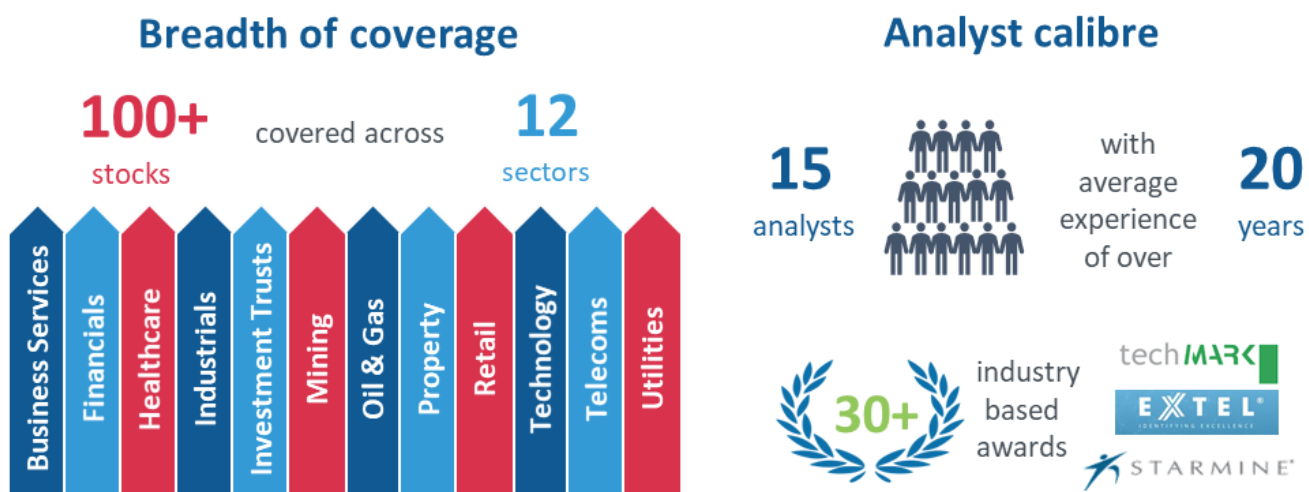
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