

Strong delivery against cash generation targets

11th July 2024

Springfield's year-end trading update confirms a positive conclusion to FY24 with profit and cash generation both ahead of forecast despite the challenging market backdrop. The key focus for the year was debt reduction and Springfield has once again proven its ability to reduce debt rapidly in response to changing market conditions. Bank debt reduced by over £20m during the year to c.£40m, well below management's original £55m target. Current trading is steady, and Springfield is well positioned to capitalise on any improvement in market conditions. We make no changes to our prudent FY25 forecasts and consider the shares attractively valued, noting a 33% valuation discount to peers.

Profit ahead of expectations despite lower revenue

Full year revenue is expected to be c.£266m, a 20% reduction year on year, reflecting challenging market conditions as well as Springfield's decision to pause new affordable-only contracts during FY23. Revenue is therefore c.7% lower than forecast, but the impact has been more than fully offset by profitable land sales completed during the period. Adjusted PBT is therefore expected to be slightly ahead of market expectations (we increase our forecast by c.3%).

Optimising cash generation in challenging markets

Bank debt reduced by over £20m during the year to c.£40m, comfortably outperforming management's original £55m target. Land sales of £28m during the period were a significant driver (notably the deal with Barratt for land at Durieshill, which brought in £10m prior the year-end). Importantly these sales do not affect the Group's development pipeline over the near term and Springfield retains one of the largest land banks in Scotland.

FY25 expectations maintained despite market challenges

We make no notable changes to our FY25 forecasts, which were already conservatively positioned and assume only modest revenue growth year-on-year.

Reiterating ED Fair Value of 140p

We note that Springfield continues to trade at a marked discount to sector peers, notably a c.33% discount on a P/Book basis. We reiterate our Fair Value / share estimate of 140p, which equates to FY25 P/E rating of 17.5x and P/Book of 1.0x.

Company Data	
EPIC	SPR.L
Price (last close)	97.5p
52 weeks Hi/Lo	103p/51p
Market cap	£117m
ED Fair Value / share	140p
Proforma net cash/ (debt)	(£46.1m)
Avg. daily volume	148,000



Source: ADVFN

Description

Springfield Properties is one of Scotland's leading housebuilders. It has an enviable track record of growth and profitability and a reputation for building high quality homes in attractive locations.

The Group has won multiple awards for the quality of its homes and innovation.

Next news: Full year results
September 2024

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Key Financials & Valuation metrics						
Year-end May, £m	2020A	2021A	2022A	2023A	2024E	2025E
Sales	144.4	216.7	257.1	332.1	266.0	268.7
EBITDA	14.5	22.0	24.4	23.2	20.2	19.9
Adjusted PBT	10.2	20.7	22.7	16.0	10.4	13.0
FD EPS (p)	8.2	14.1	15.2	10.4	6.6	8.0
DPS (p)	2.0	5.8	6.2	0.0	0.0	1.5
Net Cash/(Debt)*	-70.9	-20.8	-38.1	-67.7	-46.1	-41.4
Net Cash/(Debt)**	-67.5	-18.2	-34.1	-61.8	-40.2	-35.5
P/E	11.9x	7.0x	6.4x	9.4x	14.8x	12.3x
EV/EBITDA	12.9x	6.3x	6.3x	7.9x	8.0x	7.9x
Price/ Book	1.0x	0.9x	0.7x	0.8x	0.7x	0.7x
Dividend yield	2.0%	5.8%	6.3%	0.0%	0.0%	1.5%
FCF yield	-33.4%	52.7%	12.8%	1.4%	30.0%	6.1%

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

Year-end update highlights strong cash generation

Springfield's full year trading update confirms a positive conclusion to FY24, with profit before tax expected to be slightly ahead of market expectations. The clear highlight, for us, is the significant reduction in bank debt to c.£40m, >£20m lower than the prior year end and well below the Group's stated target of £55m.

Revenue is expected to be c.£266m (2023: £332.1m), a reduction of 20% year on year, reflecting the challenging market conditions experienced across the industry. Nevertheless, profit before tax is expected to be ahead of forecast, supported by profitable land sales of £28m during the period.

Recent land sales do not affect the Group's near term development pipeline. The total owned landbank of c.5,600 plots (c.88% with planning) represents c.6 years of supply (based on FY24 completions), whilst strategic options are in place over a further c.3,150 acres, equating to c.31,500 plots, 3,915 of which already have planning. Springfield has a strong presence in regions with attractive market dynamics, as set out in our initiation note ([Click here](#)). One particular area of interest is the Scottish Highlands and the opportunity presented by Springfield's land holdings around the Inverness and Cromarty Firth Green Freeport ([Click here for more information on this transformative project](#) that is expected to create up to 10,250 jobs locally).

Private Housing revenue is expected to be c.£185m (2023: £253.4m) and Springfield continues to experience steady level of reservations with selling prices also being maintained.

Affordable Housing revenue is expected to be c.£46.5m (2023: £53.9m), the reduction reflecting the Group's decision to pause signing new affordable-only contracts during FY23. During FY24, the Group recommenced actively engaging with affordable housing providers and signed affordable housing contracts totalling over £50m for delivery during FY24 and beyond, providing good visibility over FY25 forecasts.

Recap of recent significant land sales

Outside of the housebuilding divisions, we estimate **other revenue for FY24 was c.£30m**, including £28m of land sales. Land sales played a key role in the strong cash generation during the period. As previously announced, three sites were sold for c.£18m followed by a strategic collaboration with Barratt for the development of the Group's Durieshill site, creating a new village near Stirling. We discussed this in detail in our note of 3rd June ([Click here](#)). In summary, Barratt made a cash payment of £10m for the profitable sale of the initial 34 acres of land and Barratt will, in consideration for half the land at Durieshill, provide and fund the infrastructure development for the entire site over the next five years.

Forecast update - outperforming on profit and cash generation

We reduce our revenue forecast, reflecting wider market challenges and the guidance within today's update. Despite this, our PBT and net debt forecasts for FY24 both improve slightly, reflecting the contribution from land sales. We make no notable changes to our FY25 forecasts, which were already conservatively positioned and assume only modest revenue growth year-on-year.

Forecast changes						
Year End May	2024(E) Revised	2024(E) Old	2024(E) Change	2025(E) Revised	2025(E) Old	2025(E) Change
Revenue £m	266.0	287.2	-7.4%	268.7	270.4	-0.6%
PBT (underlying) £m	10.4	10.1	3.1%	13.0	13.0	0.0%
EPS fully diluted p	6.6	6.4	3.1%	8.0	8.0	0.0%
Dividend	0.0	0.0	0.0%	1.5	1.5	0.0%
Net cash/ (debt) £m	-46.1	-46.9	-1.6%	-41.4	-41.7	-0.6%
Net cash/ (debt) ex. leases £m	-40.2	-41.0	-1.8%	-35.5	-35.8	-0.7%

Source: Equity Development estimates

Springfield shares trading at c.33% discount to peers

Since Springfield's last update in early June, sector share prices have been largely stable, with no notable impact from the General Election. The new Labour government has pledged to reform the planning framework with a target of building 1.5 million homes over the next five years and the focus on housebuilding has been welcomed by some of the National housebuilders (e.g. Barratt and Vistry over the past two days). As a reminder, housing policy in Scotland is devolved to the Scottish government, but wider UK market sentiment is still, no doubt, important to market confidence in Scotland and Springfield's share price is also inevitably influenced by broader sector share price trends.

Peer Group Valuation Metrics								
Company	Share Price £	Market Cap £m	P/E (FY1)	P/E (FY2)	EV/EBITDA (FY1)	EV/EBITDA (FY2)	P/TBV (LTM)	Div Yield (NTM)
Barratt	4.91	4,761	18.8	15.4	11	8.7	1.1	3.0%
Berkeley	47.28	4,993	13.7	14.3	9.1	9.5	1.4	5.2%
Bellway	25.80	3,061	21	16.8	13.3	10.6	0.9	1.9%
Crest Nicholson	2.39	612	33.7	19.2	18.1	11.8	0.8	1.7%
MJ Gleeson	5.80	338	17.8	16.5	10.7	9.9	1.2	1.9%
Persimmon	14.19	4,536	17.5	13.7	10.5	8.3	1.4	4.2%
Redrow	6.96	2,232	17.6	15.4	11.1	9.8	1.1	2.0%
Springfield	0.99	118	14.8	12.3	8.0	7.9	0.8	0.0%
Taylor Wimpey	1.51	5,334	18.1	14.3	10.9	8.6	1.2	6.3%
Vistry	12.71	4,279	14.3	11.9	8.7	7.7	2.1	3.8%
Mean Average			18.7x	15.0x	11.1x	9.3x	1.2x	3.0%
Median Average			17.7x	14.9x	10.8x	9.1x	1.2x	2.5%

Source: Koyfin, Equity Development analysis, share prices as of 9th July '24

In our view, Springfield's shares remain attractively valued and we note that Springfield continues to trade at a discount to the sector average of c.20% on a P/E basis and c.33% on a P/Book basis.

We reiterate our ED Fair Value / share estimate of 140p, which equates to FY25 P/E rating of 17.5x and P/Book of 1.0x.

Next news will be the full year results in September.

Financials and Forecasts

Income statement						
Year End May, £m	2020(A)	2021(A)	2022(A)	2023(A)	2024(E)	2025(E)
Group revenue	144.4	216.7	257.1	332.1	266.0	268.7
% growth	-24%	50%	19%	29%	-20%	1%
% 2 Year CAGR	8%	7%	33%	24%	2%	-10%
COGS	-117.1	-177.9	-214.0	-284.2	-222.2	-225.7
% growth	-25%	52%	20%	33%	-22%	2%
% of revenue	81%	82%	83%	86%	84%	84%
Gross profit	27.4	38.8	43.1	48.0	43.8	43.0
% growth	-20%	42%	11%	11%	-9%	-2%
% margin	19%	18%	17%	14%	16%	16%
Admin expenses	-14.1	-17.2	-19.1	-25.4	-23.6	-23.1
% of revenue	10%	8%	7%	8%	9%	9%
Other operating income	1.3	0.4	0.4	0.7	0.0	0.0
Adj. EBITDA	14.5	22.0	24.4	23.2	20.2	19.9
% growth	-22%	52%	11%	-5%	-13%	-1%
% margin	10%	10%	10%	7%	8%	7%
Depreciation	-2.4	-2.2	-1.7	-2.3	-2.3	-2.2
Amortisation	0.0	-0.1	-0.2	-0.3	-0.3	-0.2
Adj. EBITA	12.1	19.8	22.5	20.7	17.6	17.5
% growth	-29%	63%	14%	-8%	-15%	-1%
% margin	8%	9%	9%	6%	7%	7%
Net interest	-2.0	-1.2	-1.8	-4.7	-7.2	-4.5
Adj. PBT	10.2	18.5	20.8	16.0	10.4	13.0
% growth	-36%	82%	12%	-23%	-35%	25%
% margin	7%	9%	8%	5%	4%	5%
Other/ Exceptional Items	-0.4	-0.6	-1.1	-0.7	-1.0	0.0
Reported PBT	9.7	17.9	19.7	15.3	9.4	13.0
Underlying tax	-2.1	-4.2	-3.7	-3.3	-2.3	-3.3
Underlying tax rate (%)	21%	23%	18%	21%	22%	25%
Adj. PAT	8.1	14.3	17.0	12.7	8.1	9.8
PAT	7.6	13.7	15.9	12.1	7.4	9.8

Source: Company historic data, ED forecasts and analysis

Cash flow						
Year End May, £m	2020(A)	2021(A)	2022(A)	2023(A)	2024(E)	2025(E)
Adj. EBITA	12.1	19.8	22.5	20.7	17.6	17.5
Depreciation	2.4	2.2	1.7	2.3	2.3	2.2
Amortisation	0.0	0.1	0.2	0.3	0.3	0.2
PPE disposal (gain)	0.0	0.0	0.0	-0.3	0.0	0.0
Exceptional items	-0.3	-0.6	-1.1	-0.7	-1.0	0.0
IPO costs	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash	1.4	0.4	0.5	0.7	0.0	0.0
Working Capital	-42.1	35.2	-4.7	-14.5	25.5	-4.5
Operating Cash Flow	-26.6	57.0	19.0	8.4	44.7	15.4
Net Interest	-1.6	-1.3	-1.6	-3.8	-7.2	-4.5
Tax	-3.1	-4.2	-3.5	-2.9	-2.3	-3.2
Net Op. Cash Flow	-31.3	51.5	13.9	1.7	35.2	7.8
Purchase of PPE	-0.6	-0.2	-0.5	-0.5	-0.3	-0.6
Sale of PPE proceeds	0.1	0.2	0.2	0.4	0.1	0.0
Total Net Capex	-0.5	0.0	-0.2	-0.1	-0.2	-0.6
Equity Free Cash Flow	-31.8	51.5	13.7	1.6	35.0	7.2
M&A	-4.0	0.3	-43.9	-22.0	-13.0	-2.5
Dividend	-3.1	-3.3	-6.3	-5.6	0.0	0.0
Share Issue	0.0	2.2	22.0	0.0	0.0	0.0
Lease additions	-3.3	-0.7	-2.8	-4.0	-0.5	0.0
FX/Other	0.8	0.0	0.0	0.5	0.0	0.0
Net Change in Net Debt	-41.3	50.1	-17.3	-29.5	21.5	4.7
Net Debt - BOP	-29.6	-70.9	-20.8	-38.1	-67.7	-46.1
Net Debt - EOP	-70.9	-20.8	-38.1	-67.7	-46.1	-41.4
Net Bank Debt (ex. leases)	-67.5	-18.2	-34.1	-61.8	-40.2	-35.5

Source: Company historic data, ED forecasts and analysis

Balance sheet						
Year End May, £m	2020(A)	2021(A)	2022(A)	2023(A)	2024(E)	2025(E)
Non-Current assets						
PPE	6.3	4.5	5.8	7.8	5.8	4.2
Intangible assets	1.6	1.6	5.8	6.0	5.4	5.2
Investments	0.2	0.0	0.5	0.0	0.0	0.0
Accounts receivable	4.9	5.4	5.6	5.0	5.4	5.4
Other	0.2	0.5	2.1	1.8	0.5	0.5
Sub-total NCAs	13.3	12.1	19.9	20.6	17.1	15.3
Current Assets						
Inventories and WIP	174.4	156.8	230.1	277.6	227.1	231.6
Trade/other receivables	9.0	23.7	21.4	22.6	30.6	30.6
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Cash/cash equivalents	1.5	15.8	16.4	8.9	8.9	8.9
Sub-total CAs	184.9	196.3	267.8	309.1	266.6	271.1
Net working capital	162.6	128.8	182.9	243.3	217.8	222.3
Total Assets	198.2	208.4	287.7	329.7	283.7	286.4
Current Liabilities						
Trade and other payables	-20.8	-51.6	-68.5	-57.0	-40.0	-40.0
Land creditor	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	-0.8	-1.3	-1.3	-1.3
Corporation tax	-0.8	-0.9	-0.3	-0.4	-0.4	-0.4
Leases	-1.2	-0.8	-1.3	-1.9	-1.9	-1.9
Borrowings	-18.0	-34.0	0.0	0.0	0.0	0.0
Deferred consideration	-2.1	0.0	-6.1	-11.8	-8.0	-5.5
Sub-total CLs	-42.9	-87.3	-77.0	-72.3	-51.5	-49.0
Non-current liabilities						
Borrowings	-51.0	0.0	-50.5	-70.7	-49.1	-44.4
Leases	-2.3	-1.9	-2.7	-4.0	-4.0	-4.0
Provisions	-3.8	-1.2	-1.8	-2.1	-2.1	-2.1
Deferred taxation	-2.4	-2.9	-3.7	-3.6	-3.6	-3.6
Deferred consideration	0.0	-3.9	-8.5	-26.3	-16.0	-16.0
Sub-total NCLs	-59.5	-9.9	-67.2	-106.7	-74.9	-70.2
Total Liabilities	-102.3	-97.2	-144.2	-179.0	-126.4	-119.2
Net Assets	95.9	111.2	143.5	150.6	157.4	167.2
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	95.9	111.2	143.5	150.6	157.4	167.2

Source: Company historic data, ED forecasts and analysis



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