

SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

8 July 2020

SPR.L

93.5p

Market Cap: £91.4m

SHARE PRICE (p)



12m high/low

164p/65p

Source: LSE Data

KEY DATA

| | |
|---------------------|------------------------|
| Net (Debt)/Cash | £(29.6)m (at 31/05/19) |
| Enterprise value | £121m |
| Index/market | AIM |
| Next news | FY results, Oct |
| Shares in Issue (m) | 97.8 |
| Chairman | Sandy Adam |
| Chief Executive | Innes Smith |
| Finance Director | Michelle Motion |

COMPANY DESCRIPTION

Scotland's only quoted housebuilder, admitted to AIM in 2017, building over 1,000 private and affordable homes a year

www.springfield.co.uk

SPRINGFIELD PROPERTIES IS A RESEARCH CLIENT OF PROGRESSIVE

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“Record week” on easing of Scottish lockdown

Scotland's only quoted housebuilder recorded its highest ever weekly number of reservations following the reopening of its sales offices after the prolonged construction lockdown north of the border. As a result, Q1 2021 sales are expected to be “significantly higher” Y/Y, after the inevitable disruption caused by Covid. In this morning's FY 2020 trading update, the Group also highlighted the widely reported trend across the housing market to larger homes with gardens, Springfield's ‘sweet spot’ in our view.

- Lockdown shifts completions into FY 2021.** As previously announced, the Group entered H2 2020, to May, with a strong order book and “good growth” across the business. But because of the lockdown, it was unable to complete the delivery of homes scheduled for April and May, which for the previous two years accounted for 30% of FY revenue, causing the majority of private completions for Q4 to be postponed into FY 2021.
- Strong start to new year.** All sites and sales offices were reopened by 29 June. The order book of contracted revenue is now over £110m, including £44m of largely constructed private housing, contracted under the Scottish missive system. FY 2020 revenue is thus expected to be some 25% lower, at c. £144m. Notably, Springfield achieved the same revenue in affordable housing as FY 2019, underlining, in our view, its resilience. It expects to report a higher gross margin and PBT of at least £9m.
- Sound finances.** Net debt at 7 July was £69m with a total credit facility of £85m. With operations restarted, a strong order book and “significant customer demand”, management expects a reduction in net debt.
- Greater demand for ‘villages’ and affordable homes.** The Group's distinctive model could benefit in the near term from two trends highlighted in the update: buyers wanting “larger homes, with gardens, within commuting distance of cities” (served by Springfield's ‘village’ concept) and an “even more acute” shortage of affordable housing.
- Strong fundamentals.** We believe that, once the logistical obstacles from Coronavirus normalise, the Scottish housing market should offer significant growth in volumes and prices, due to relative under-supply. Springfield's proactive multi-tenure model was strengthened by last year's collaboration with Sigma Capital, which offers growth with modest capital requirement. FY results are expected in October.

| FYE MAY (£M) | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------|-------|-------|-------|-------|-------|
| Revenue | 84.3 | 90.8 | 110.6 | 140.7 | 190.8 |
| Adj EBITDA | 4.3 | 6.8 | 8.6 | 11.7 | 18.6 |
| Fully Adj PBT | 3.1 | 5.1 | 6.7 | 9.8 | 16.5 |
| Fully Adj EPS (p) | 0.0 | 57.1 | 9.2 | 10.7 | 13.9 |
| EV/Sales (x) | 1.4x | 1.3x | 1.1x | 0.9x | 0.6x |
| EV/EBITDA (x) | 28.1x | 17.8x | 14.1x | 10.3x | 6.5x |
| PER (x) | 0.0x | 1.6x | 10.2x | 8.7x | 6.7x |

Source: Company information. Guidance previously withdrawn.

This publication should not be seen as an inducement under MiFID II regulations.

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

Springfield in brief: distinctive model in growth market

Springfield was founded by current Chairman Sandy Adam, who began housebuilding in 1988, and the Group 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. In our view, the company benefits from a distinctive business model and we believe strategically important acquisitions and an innovative rental partnership over the past three years are supportive of a return to growth once the logistical and economic hurdles of Covid-19 normalise. For more a more detailed introduction, see our initiation note of 12 February 2019, [Local hero](#), and the [Springfield research section](#) on Progressive's website.

- **A more attractive market?** There is strong pressure in Scotland to build more private and affordable homes. Scotland lags England in the proportion of homes owned privately and the Scottish Government has pledged to build 50,000 affordable homes over five years to 2020-21. House prices in Scotland are more affordable in relation to household incomes than almost any other region of the UK's mainland.
- **A distinctive model.** Springfield has a differentiated business model which 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, see over). The Group buys land 'off market' at more attractive prices, it argues, 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 mid-sized 'village' communities. All of these are set in a rural context, but close to fast growing cities, located in Dundee, Perth, Sterling and Livingstone and Elgin. A factor Springfield's success in securing these sites has been the close co-operation it has worked in with local councils and other stakeholders, a key differentiator for the company, in our view.
- **Smart deals.** The acquisitions of Dawn Homes in 2018 increased Springfield's presence in the West of Scotland, while Walker Group in 2019 strengthens its position in popular commuter areas around Edinburgh, with higher priced homes and stronger gross margins than Springfield's then existing Private Housing division. In September 2019 the Group announced a partnership agreement with urban regeneration specialist Sigma Capital Group to deliver private rented homes in Scotland. Under the agreement, Springfield and Sigma will collaborate to acquire and develop sites for the private rental sector (PRS). A number of existing Springfield sites, primarily its 'Village' developments, have been identified as potential sites for PRS development. Subject to certain criteria, Sigma will purchase part of these sites from Springfield and will award Springfield construction contracts to deliver housing on the acquired land.

| Operational data | | | | |
|-------------------------------|-------------|--------------|--------------|--------------|
| Year end: May (£m) | 2016 | 2017 | 2018 | 2019 |
| Private Housing | | | | |
| Completions | 399 | 437 | 460 | 630 |
| Change (%) | 35.7% | 9.5% | 5.3% | 37.0% |
| ASP (£000) | 195.7 | 197.6 | 221.5 | 227.0 |
| Change (%) | -6.9% | 1.0% | 12.0% | 2.5% |
| Revenue | 78.1 | 86.4 | 101.9 | 143.3 |
| Change (%) | 26.3% | 10.6% | 17.9% | 40.6% |
| Affordable Housing | | | | |
| Completions | 96 | 183 | 310 | 322 |
| Change (%) | -47.8% | 90.6% | 69.4% | 3.9% |
| ASP (£000) | 125.6 | 127.0 | 120.2 | 133.0 |
| Change (%) | 11.7% | 1.2% | -5.4% | 10.6% |
| Revenue | 12.1 | 23.3 | 37.3 | 42.9 |
| Change (%) | -41.7% | 92.8% | 60.3% | 15.1% |
| Total completions | 495 | 620 | 770 | 952 |
| Change (%) | 3.6% | 25.3% | 24.2% | 23.6% |
| Total ASAP (£000) | 182.1 | 176.8 | 180.7 | 195.6 |
| Change (%) | 5.5% | -2.9% | 2.2% | 8.2% |
| Housebuilding revenue | 90.1 | 109.6 | 139.1 | 186.2 |
| Other revenue | 0.6 | 1.0 | 1.6 | 4.6 |
| Total revenue | 90.8 | 110.6 | 140.7 | 190.8 |
| Gross profit | | | | |
| Private Housing | 11.4 | 13.3 | 15.5 | 27.1 |
| Margin (%) | 14.6% | 15.4% | 15.2% | 18.9% |
| Affordable Housing | 2.3 | 3.4 | 6.4 | 7.6 |
| Margin (%) | 19.1% | 14.6% | 17.2% | 17.7% |
| Other | 0.1 | (0.0) | 0.2 | (0.4) |
| Gross profit | 13.8 | 16.7 | 22.1 | 34.3 |
| Margin (%) | 15.2% | 15.1% | 15.7% | 18.0% |
| Admin, other income | (7.7) | (8.9) | (11.5) | (17.3) |
| Share in PBT of JV | | - | 0.0 | 0.6 |
| Total operating profit | 6.1 | 7.8 | 10.7 | 17.6 |
| Margin (%) | 6.7% | 7.1% | 7.6% | 9.2% |
| Exceptionals | - | - | (0.6) | (0.6) |
| Net interest | (1.0) | (1.1) | (0.9) | (1.1) |
| PBT, reported | 5.1 | 6.7 | 9.2 | 16.0 |
| PBT, pre-exc | 5.1 | 6.7 | 9.8 | 16.5 |

Source: Company information. Guidance previously withdrawn.

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|--------------------------------------|--------|----------|---------|--------|--------|
| PROFIT & LOSS | | | | | |
| Revenue | 84.3 | 90.8 | 110.6 | 140.7 | 190.8 |
| Adj EBITDA | 4.3 | 6.8 | 8.6 | 11.7 | 18.6 |
| Adj EBIT | 3.8 | 6.1 | 7.8 | 10.6 | 17.0 |
| Reported PBT | (0.5) | 5.1 | 6.7 | 9.2 | 16.0 |
| Fully Adj PBT | 3.1 | 5.1 | 6.7 | 9.8 | 16.5 |
| NOPAT | 3.1 | 4.9 | 6.3 | 8.6 | 13.8 |
| Reported EPS (p) | 0.0 | 57.1 | 9.2 | 10.0 | 13.3 |
| Fully Adj EPS (p) | 0.0 | 57.1 | 9.2 | 10.7 | 13.9 |
| Dividend per share (p) | 0.0 | 0.0 | 2.8 | 3.7 | 4.4 |
| CASH FLOW & BALANCE SHEET | | | | | |
| Operating cash flow | (2.4) | (5.9) | 3.2 | 14.4 | 16.0 |
| Free Cash flow | (4.1) | (7.7) | 0.6 | 10.9 | 10.7 |
| FCF per share (p) | | (107.9) | 1.0 | 14.8 | 11.2 |
| Acquisitions | 0.0 | 0.0 | 0.0 | (15.3) | (20.9) |
| Disposals | 0.1 | 0.0 | 0.5 | 0.1 | 0.4 |
| Shares issued | 0.1 | 0.1 | 0.1 | 42.2 | 0.0 |
| Net cash flow | 0.5 | (0.2) | 8.8 | 3.7 | (9.0) |
| Overdrafts / borrowings | 21.4 | 30.6 | 41.5 | 27.3 | 32.6 |
| Cash & equivalents | 0.0 | 0.0 | 8.3 | 12.0 | 3.1 |
| Net (Debt)/Cash | (21.4) | (30.6) | (33.2) | (15.3) | (29.6) |
| NAV AND RETURNS | | | | | |
| Net asset value | 26.2 | 29.2 | 32.4 | 79.0 | 88.5 |
| NAV/share (p) | | | 443.3 | 82.0 | 91.9 |
| Net Tangible Asset Value | 26.2 | 29.2 | 32.4 | 78.4 | 86.9 |
| NTAV/share (p) | | | 443.3 | 81.4 | 90.2 |
| Average equity | 26.2 | 27.7 | 30.8 | 55.7 | 83.8 |
| Post-tax ROE (%) | (3.9%) | 14.7% | 17.4% | 13.2% | 15.4% |
| METRICS | | | | | |
| Revenue growth | | 7.7% | 21.8% | 27.2% | 35.6% |
| Adj EBITDA growth | | 57.4% | 26.8% | 36.4% | 58.8% |
| Adj EBIT growth | | 61.6% | 28.2% | 35.9% | 60.1% |
| Adj PBT growth | | 65.0% | 31.2% | 46.1% | 69.2% |
| Adj EPS growth | | | (83.9%) | 17.1% | 29.1% |
| Dividend growth | | N/A | N/A | 32.1% | 18.9% |
| Adj EBIT margins | 4.5% | 6.7% | 7.1% | 7.6% | 8.9% |
| VALUATION | | | | | |
| EV/Sales (x) | 1.4 | 1.3 | 1.1 | 0.9 | 0.6 |
| EV/EBITDA (x) | 28.1 | 17.8 | 14.1 | 10.3 | 6.5 |
| EV/NOPAT (x) | 38.9 | 24.9 | 19.1 | 14.0 | 8.7 |
| PER (x) | | 1.6 | 10.2 | 8.7 | 6.7 |
| Dividend yield | N/A | N/A | 3.0% | 4.0% | 4.7% |
| FCF yield | | (115.4%) | 1.0% | 15.8% | 11.9% |

Source: Company information. Guidance previously withdrawn.

Disclaimers and Disclosures

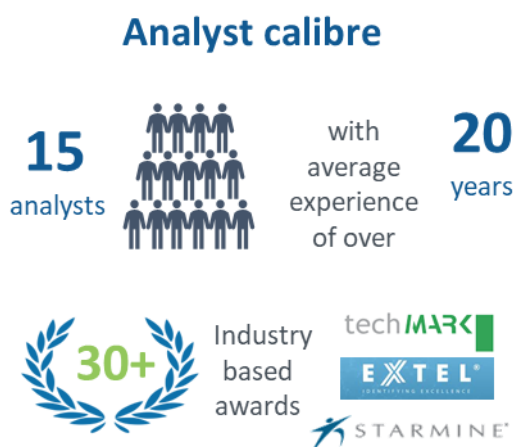
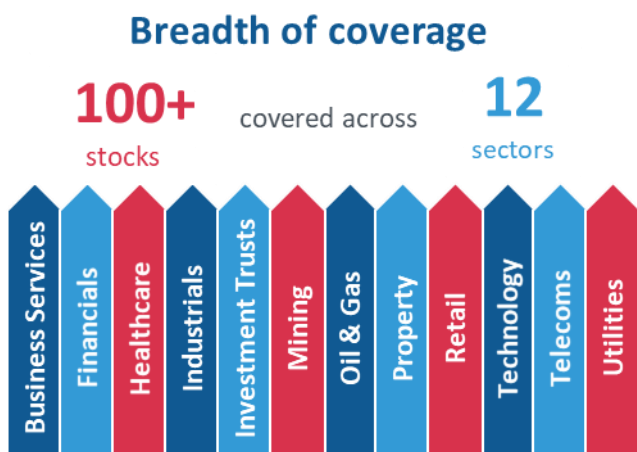
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