SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

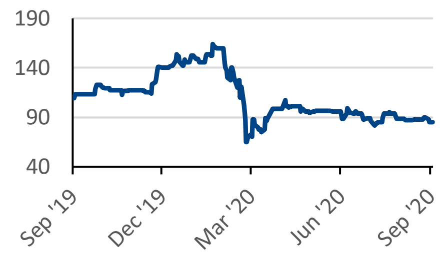
29 September 2020

SPR.L

85p

Market Cap: £83.2m

SHARE PRICE (p)



12m high/low	164p/65p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(41.9)m *(at 25/09/20)*
Enterprise value	£125.1m
Index/market	AIM
Next news	AGM, Oct
Shares in Issue (m)	97.9
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

ANALYSTS

Alastair Stewart

+44 (0) 20 7781 5308

astewart@progressive-research.com

Sales and cashflow rebound as lockdown lifts

Scotland's only quoted housebuilder's home completions and cashflow have recovered sharply from the country's prolonged lockdown, with delayed sales fuelling what the Group predicts will be a strong first half to the current financial year. Today's FY 2020 results, to May, show the impact of the lockdown in the final two months, which normally account for almost a third of sales, but confirm that delayed sales are expected to add to strong underlying demand in H1 2021, with debt having fallen by over £25m in four months and a 2p final dividend proposed. Our reinstated forecasts assume PBT surpassing the previous record by FY2022E and debt continuing to fall.

- **Results impacted by stricter Scottish freeze.** Total home completions for the year to May fell by 24%, with a 50% Y/Y decline in H2. Revenue fell by 24%, however gross margins increased during the year, limiting the fall in adjusted PBT to £10.2m, compared to guidance of at least £9m in the 8 July trading statement, despite lower overhead recovery. The lockdown, which was longer and stricter north of the border, hit cashflow pushing YE net debt to £68.8m from £53.7m at H1 2020.
- **H1 sales bounce reverses cash outflow.** Private homes reservations in Q1 2021 rose by 24% Y/Y. Many homes now being sold were close to completion at lockdown and this has led to net debt reducing to £41.9m at 25 September. A final dividend of 2p was proposed after the interim was withdrawn in March to preserve cash.
- **Increased visibility supports the return of forecasts.** We have reinstated forecasts, now for FY 2021 - 23E. Today's statement predicts "significantly higher" revenue for FY 2021, supported by strong visibility including contracted Private Housing sales and "solid pipeline" of contracted Affordable Housing. This broadly assumes anticipated profit moving one year 'to the right', with FY 2022E and 2023E being similar or better than our last estimates for FY 2021 - 22E. We estimate net debt should fall to £30m with dividends rising to 5.5p at the end of the forecast period.
- **Strong Scottish 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.

FYE MAY (£M)	2019	2020	2021E	2022E	2023E
Revenue	190.8	144.4	178.0	228.5	248.4
Fully Adj PBT	16.5	10.2	15.1	19.6	23.9
Fully Adj EPS (p)	13.8	8.2	12.5	16.2	19.8
Dividend per share (p)	4.4	2.0	4.5	5.0	5.5
PER (x)	0.0x	10.3x	6.8x	5.3x	4.3x
Dividend yield (%)	5.2%	2.4%	5.3%	5.9%	6.5%
EV/EBITDA (x)	6.7x	9.2x	6.6x	5.3x	4.5x

Source: Company Information and Progressive Equity Research estimates

FY results hit by timing and severity of Scots lockdown

May YE exacerbated the impact of the longer Scottish lockdown

Springfield's results were hit by the duration, severity and timing of Scotland's lockdown. England's lasted from 24 March to 13 May and, even then, allowed limited activity on site, while Scotland's sites and sales offices only fully reopened by the end of June, after a stricter lockdown. Springfield's year end of May, in our view, exacerbated the impact on FY 2020 results, since 30% of its revenue in the previous two years were generated in April and May. (Predominantly English housebuilders with June period ends benefited from a shorter shutdown, with most of May and June to recoup some of their lost revenue.)

Total home completions for the year to May, fell by 23.6%, with a 49.6% Y/Y decline in H2 more than offsetting a 15.6% increase in H1. The resultant H1:H2 percentage split of 60:40 in FY 2020 was exactly the mirror image of the previous year (Figure 1). The Private Housing division's completions fell more steeply, by 59.3%, but overall selling prices for the two divisions were barely changed, reflecting bigger homes sold in Private Housing and a greater contribution to revenue from Affordable Housing, so group revenue fell to almost the same degree as total completions.

Gross margins for FY 2020 rose as guided in the 8 July trading statement, from 18.0% to 18.9%, but reduced overhead recovery led to fall in statutory PBT from £16.0m to £10.2m (adjusted £10.2m), compared to guidance of at least £9m trading statement.

Debt was hit by uncompleted, but contracted, sales …

The timing of the lockdown particularly hit YE net debt, which rose to £68.8m, excluding right-of-use lease liability under IFRS 16, from £53.7m at H1 2020, since many private homes were near to completion but could not receive sales receipts until they were sold. To strengthen the balance sheet in preparation for what the Board saw as a more prolonged period of shutdown than was the case, it secured an additional £18m, 12-month, term loan from Bank of Scotland. The additional loan increased the Group's total credit facility to £85m to secure sufficient capital in case of a twelve-month lockdown. Of the total credit facility, the £18m that was secured in April 2020 has been fully drawn, but is not currently being utilised.

There was a small net exceptional cost for FY 2020 of £0.4m, representing wage costs of furloughed employees net of furlough grant income. 80% of staff were brought back from furlough by the end of July.

Key development during the year include: further progress in planning, construction and sales, in the Group's 'Village' developments; increasing regional presence around Inverness; and, in Affordable Housing, planning consent for 237 affordable homes in Dalmarnock, Glasgow and an £18m agreement with West of Scotland Housing Association.

A completely different picture so far in FY 2021E

… completions of which have fuelled the strong start to FY 2021E

Conversely, the 1 June timing of the start to the financial year was beneficial to Springfield, despite some continuing site restrictions during the month. The 8 July trading statement reported its "record week" following and with all sites and sales offices subsequently reopened by 29 June. We believe it should benefit not only from the completion of delayed contracted sales under Scotland's 'missives' system, but what we see as a from broader uplift in demand and pricing in the broader Scottish housing market (page 11).

Importantly, in our view, net debt has fallen by £27m since the May year-end. We see this, and the Group's confidence in broader market demand as supporting the Board's decision to propose a final dividend of 2p for FY 2020. It chose to withdraw the declared interim dividend of 1.4p on 24 March.

Figure 1: HY revenue split 2018 – 2020

Year-end May (£m)	2018 H1	2018 H2	2018 FY	2019 H1	2019 H2	2019 FY	2020 H1	2020 H2	2020 FY
Private Housing									
Completions	184	276	**460**	234	396	**630**	258	161	**419**
YoY change (%)	*-6.1%*	*14.5%*	***5.3%***	*27.2%*	*43.5%*	***37.0%***	*10.3%*	*-59.3%*	***-33.5%***
ASP (£000)	233.5	213.4	**221.5**	227.2	227.5	**227.0**	221.2	260.0	**236.1**
YoY change (%)	*12.3%*	*12.7%*	***12.0%***	*-2.7%*	*6.6%*	***2.5%***	*-2.7%*	*14.3%*	***4.0%***
Revenue	43.0	58.9	**101.9**	53.2	90.1	**143.3**	57.1	41.9	**98.9**
Affordable Housing									
Completions	96	214	**310**	145	177	**322**	180	128	**308**
YoY change (%)	*41.2%*	*86.1%*	***69.4%***	*51.0%*	*-17.3%*	***3.9%***	*24.1%*	*-27.7%*	***-4.3%***
ASP (£000)	122.3	119.3	**120.2**	132.0	134.3	**133.0**	123.1	166.3	**141.0**
YoY change (%)	*-0.7%*	*-7.8%*	***-5.4%***	*7.9%*	*12.5%*	***10.6%***	*-6.7%*	*23.8%*	***6.0%***
Revenue	11.7	25.5	**37.3**	19.1	23.8	**42.9**	22.2	21.3	**43.4**
Total completions	**280**	**490**	**770**	**379**	**573**	**952**	**438**	**289**	**727**
H1:H2 split (%)	*36.4%*	*63.6%*		*39.8%*	*60.2%*		*60.2%*	*39.8%*	
Total ASP (£000)	195.4	172.3	**180.7**	190.8	198.7	**195.6**	180.8	218.5	**195.8**
Other revenue	0.1	1.5	**1.6**	3.4	1.2	**4.6**	0.6	1.5	**2.1**
Total revenue	**54.8**	**85.9**	**140.7**	**75.7**	**115.1**	**190.8**	**79.8**	**64.6**	**144.4**
YoY change (%)	*10.5%*	*40.9%*	***27.2%***	*38.3%*	*33.9%*	***35.6%***	*5.4%*	*-43.9%*	***-24.3%***

Source: Company Information

Figure 2: HY profit split 2018 - 2020

Year-end May (£m)	2018 H1	2018 H2	2018 FY	2019 H1	2019 H2	2019 FY	2020 H1	2020 H2	2020 FY
Total gross profit	**8.4**	**13.7**	**22.1**	**13.1**	**21.3**	**34.3**	**15.9**	**11.5**	**27.4**
Margin (%)	*15.4%*	*15.9%*	***15.7%***	*17.2%*	*18.5%*	***18.0%***	*19.9%*	*17.7%*	***18.9%***
Admin, other income	(4.8)	(6.7)	**(11.5)**	(6.9)	(10.4)	**(17.3)**	(9.0)	(7.1)	**(16.1)**
EBIT	**3.6**	**7.0**	**10.6**	**6.2**	**10.9**	**17.0**	**6.9**	**4.3**	**11.3**
Share in PBT of JV	-	0.0	**0.0**	0.2	0.4	**0.6**	0.4	0.4	**0.9**
Total operating profit	**3.6**	**7.0**	**10.7**	**6.4**	**11.2**	**17.6**	**7.3**	**4.8**	**12.1**
Margin (%)	*6.6%*	*8.2%*	***7.6%***	*8.4%*	*9.8%*	***9.2%***	*9.2%*	*7.4%*	***8.4%***
Exceptionals	(0.3)	(0.3)	**(0.6)**	-	(0.6)	**(0.6)**	-	(0.4)	**(0.4)**
Net interest	(0.6)	(0.3)	**(0.9)**	(0.3)	(0.8)	**(1.1)**	(1.0)	(0.9)	**(2.0)**
PBT, reported	**2.8**	**6.4**	**9.2**	**6.1**	**9.9**	**16.0**	**6.3**	**3.4**	**9.7**
PBT, pre-exc	**3.1**	**6.7**	**9.8**	**6.1**	**10.4**	**16.5**	**6.3**	**3.9**	**10.2**
H1:H2 split (%)	*31.4%*	*68.6%*		*36.9%*	*63.1%*		*62.0%*	*38.0%*	

Source: Company Information

Reinstated forecasts show similar but delayed trajectory

Forecasts have broadly moved 'one year to the right'

Springfield, in common with almost every quoted company in the broader property and construction sector, withdrew its guidance following the lockdown. We now feel there is sufficient visibility – at market and company level – to reinstate our estimates, on the same three-year forecast horizon. The obvious caveat is that this is dependent on no significant disruption from a similarly strict second lockdown or a marked economic decline. These result in, broadly, a similar trajectory to our last estimates for FY 2021E and FY 2022E – albeit shifted one year later (Figure 3).

Figure 3: main forecast changes

Year-end May (£m)	2020E Old	2021E Old	2022E Old	2020 Actual	2021E New	2022E New	2023E New
Total completions	1,063	1,191	1,245	727	878	1,159	1,204
Total revenue	**216.0**	**240.4**	**255.2**	**144.4**	**178.0**	**228.5**	**248.4**
Total gross profit	41.9	45.8	48.5	27.4	35.6	41.1	46.4
Total operating profit	20.3	22.8	24.6	12.1	16.6	21.1	25.4
PBT, pre-exc	**18.6**	**20.8**	**22.6**	**10.2**	**15.1**	**19.6**	**23.9**
Net debt[1]	(41.7)	(41.9)	(39.0)	(68.8)	(45.7)	(38.8)	(29.9)

Source: Company Information and Progressive Equity Research estimates [1] pre IFRS-16 for new forecasts

For our detailed forecasts, from FY 2022 we have included a new division, Contracting, which encompasses construction work for third party developers on the major Bertha Park Village and for the partnership with Sigma Capital, announced last year. We have expressed this in 'equivalent unit' terms for revenue, while the assumed margins are lower than for the other two divisions, but the contracting work ties up little or no capital and has potentially lower cyclical or market risk than Private Housing.

For FY 2022E, we have prudently assumed modest downward pressure in margins, due to heightened social-distancing and other new measures required in construction work.

On the cashflow statement and balance sheet (Figure 7), we expect a partial reversal in FY 2021E of the negative working capital move in FY 2020 and thereafter a continuation of the gradual build-up of working capital (negative for operating cashflow) thereafter, as work-in-progress builds up on the Village developments.

Figure 4: Revenue projections

Year-end May (£m)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Private Housing								
Completions	399	437	460	630	419	524	563	647
Change (%)	*35.7%*	*9.5%*	*5.3%*	*37.0%*	*-33.5%*	*25.0%*	*7.5%*	*15.0%*
ASP (£000)	195.7	197.6	221.5	227.0	236.0	236.0	240.7	246.7
Change (%)	*-6.9%*	*1.0%*	*12.0%*	*2.5%*	*4.0%*	*0.0%*	*2.0%*	*2.5%*
Revenue	78.1	86.4	101.9	143.3	98.9	123.6	135.5	159.8
Change (%)	*26.3%*	*10.6%*	*17.9%*	*40.6%*	*-30.9%*	*24.9%*	*9.7%*	*17.9%*
Affordable Housing								
Completions	96	183	310	322	308	354	496	456
Change (%)	*-47.8%*	*90.6%*	*69.4%*	*3.9%*	*-4.3%*	*15.0%*	*40.0%*	*-8.0%*
ASP (£000)	125.6	127.0	120.2	133.0	141.0	148.1	151.0	154.8
Change (%)	*11.7%*	*1.2%*	*-5.4%*	*10.6%*	*6.0%*	*5.0%*	*2.0%*	*2.5%*
Revenue	12.1	23.3	37.3	42.9	43.4	52.4	74.9	70.6
Change (%)	*-41.7%*	*92.8%*	*60.3%*	*15.1%*	*1.2%*	*20.7%*	*42.8%*	*-5.7%*
Construction								
Equiv. completions							100	100
ASP (£000)							180.5	180.5
Revenue							18.1	18.1
Total completions	**495**	**620**	**770**	**952**	**727**	**878**	1,159	1,204
Change (%)	*3.6%*	*25.3%*	*24.2%*	*23.6%*	*-23.6%*	*20.8%*	*32.0%*	*3.9%*
Total ASAP (£000)	182.1	176.8	180.7	195.6	195.8	200.5	197.1	206.4
Change (%)	*5.5%*	*-2.9%*	*2.2%*	*8.2%*	*0.1%*	*2.4%*	*-1.7%*	*4.7%*
Other revenue		1.0	1.6	4.6	2.1	2.0	-	-
Total revenue	**90.1**	**110.6**	**140.7**	**190.8**	**144.4**	**178.0**	**228.5**	**248.4**
Change (%)	*9.2%*	*22.7%*	*27.2%*	*35.6%*	*-24.3%*	*23.3%*	*28.3%*	*8.7%*

Source: Source: Company Information and Progressive Equity Research estimates

Figure 5: Profit projections

Year-end May (£m)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Gross profit	**13.8**	**16.7**	**22.1**	**34.3**	**27.4**	**35.6**	**41.1**	**46.4**
Margin (%)	*15.3%*	*15.1%*	*15.7%*	*18.0%*	*18.9%*	*20.0%*	*18.0%*	*18.7%*
Admin, other income	(7.7)	(8.9)	(11.5)	(17.3)	(16.1)	(19.0)	(20.0)	(21.0)
EBIT	**6.1**	**7.8**	**10.6**	**17.0**	**11.3**	**16.6**	**21.1**	**25.4**
Share in PBT of JV		-	0.0	0.6	0.9	-	-	-
Total operating profit	**6.1**	**7.8**	**10.7**	**17.6**	**12.1**	**16.6**	**21.1**	**25.4**
Margin (%)	*6.8%*	*7.1%*	*7.6%*	*9.2%*	*8.4%*	*9.3%*	*9.2%*	*10.2%*
Exceptionals	-	-	(0.6)	(0.6)	(0.4)	(0.5)	-	-
Net interest	(1.0)	(1.1)	(0.9)	(1.1)	(2.0)	(1.5)	(1.5)	(1.5)
PBT, reported	**5.1**	**6.7**	**9.2**	**16.0**	**9.7**	**14.6**	**19.6**	**23.9**
PBT, pre-exc	**5.1**	**6.7**	**9.8**	**16.5**	**10.2**	**15.1**	**19.6**	**23.9**

Source: Company Information and Progressive Equity Research estimates

Figure 6: P&L and per share projections

Year-end May (£m)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Group revenue	**90.1**	**110.6**	**140.7**	**190.8**	**144.4**	**178.0**	**228.5**	**248.4**
COGS	(76.4)	(93.9)	(118.6)	(156.5)	(117.1)	(142.5)	(187.4)	(202.0)
Gross profit	**13.8**	**16.7**	**22.1**	**34.3**	**27.4**	**35.6**	**41.1**	**46.4**
Operating expenses	(7.7)	(8.9)	(11.5)	(17.3)	(16.1)	(19.0)	(20.0)	(21.0)
Share in JV net income	-	-	0.0	0.6	0.9	-	-	-
Operating profit	**6.1**	**7.8**	**10.7**	**17.6**	**12.1**	**16.6**	**21.1**	**25.4**
Exceptionals	-	-	(0.6)	(0.6)	(0.4)	(0.5)	-	-
Interest	(1.0)	(1.1)	(0.9)	(1.1)	(2.0)	(1.5)	(1.5)	(1.5)
PBT, reported	**5.1**	**6.7**	**9.2**	**16.0**	**9.7**	**14.6**	**19.6**	**23.9**
Underlying tax rate (%)	*20.3*	*19.1*	*19.0*	*18.8*	*20.6*	*19.0*	*19.0*	*19.0*
Reported tax	(1.0)	(1.3)	(1.9)	(3.1)	(2.1)	(2.9)	(3.7)	(4.5)
Minority interests	-	(0.1)	(0.0)	(0.0)	0.0	-	-	-
Net attrib. profit	**4.1**	**5.4**	**7.4**	**12.8**	**7.6**	**11.7**	**15.8**	**19.4**
PBT pre-exc, g/w	**5.1**	**6.7**	**9.8**	**16.5**	**10.2**	**15.1**	**19.6**	**23.9**
Period end shares (million)		7.3	96.3	96.3	97.9	97.9	97.9	97.9
Wtd. ave. shares (million)	7.1	58.4	73.4	96.3	96.9	96.9	96.9	96.9
Dilutive shares (million)		-	0.2	1.0	1.1	1.1	1.1	1.1
Diluted shares (million)	7.1	58.4	73.6	97.3	97.9	97.9	97.9	97.9
EPS, basic (p)	57.1	9.2	10.0	13.3	7.9	12.1	16.4	20.0
EPS, pre-exc & g/w (p)	57.1	9.2	10.8	13.9	8.3	12.6	16.4	20.0
EPS, dil., pre-exc, g/w (p)	**57.1**	**9.2**	**10.7**	**13.8**	**8.2**	**12.5**	**16.2**	**19.8**
DPS - declared (p)		2.8	3.7	4.4	2.0	4.5	5.0	5.5
NAV (p)			82.0	91.9	98.0	106.4	118.0	132.6
Dividend cover (x)		3.3	2.9	3.2	4.2	2.8	3.3	3.6
EBITDA	**6.8**	**8.6**	**11.7**	**18.6**	**13.6**	**18.9**	**23.4**	**27.8**

Source: Company Information and Progressive Equity Research estimates

Figure 7: Adjusted cashflow statement and summary balance sheet

Year-end May (£m)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Adj. cashflow statement								
Group op profit inc exc.	6.1	7.8	10.6	17.0	10.8	16.1	21.1	25.4
Depreciation	0.7	0.8	1.1	1.6	2.4	2.4	2.4	2.4
Intangible amortisation	-	-	-	-	0.0	-	-	-
Other	(2.6)	(0.1)	(0.4)	0.1	2.4	-	-	-
Working capital changes	(10.1)	(5.3)	3.1	(2.7)	(42.2)	13.0	(4.0)	(7.0)
Operating cash flow	**(5.9)**	**3.2**	**14.4**	**16.0**	**(26.6)**	**31.4**	**19.4**	**20.8**
Capex	(0.3)	(0.3)	(0.7)	(1.2)	(0.5)	(0.6)	(0.7)	(0.8)
Interest	(1.0)	(1.1)	(1.1)	(1.2)	(1.6)	(1.5)	(1.5)	(1.5)
Tax	(0.5)	(1.1)	(1.7)	(2.9)	(3.1)	(2.9)	(3.7)	(4.5)
Free cashflow	**(7.7)**	**0.6**	**10.9**	**10.7**	**(31.8)**	**26.5**	**13.5**	**13.9**
Acquisitions, investments	-	(0.0)	(15.3)	(20.9)	(3.2)	-	(2.0)	-
Dividends - paid	(2.1)	(2.3)	(0.8)	(3.8)	(3.1)	(3.4)	(4.6)	(5.1)
Financing	9.7	10.6	8.9	4.9	36.5	-	-	-
Chg cash/(net cash, f-cast)	**(0.2)**	**8.8**	**3.7**	**(9.0)**	**(1.5)**	**23.1**	**6.9**	**8.9**
Summary balance sheet								
Intangible fixed assets	-	-	0.6	1.6	1.6	1.6	1.6	1.6
Tangible fixed assets	2.2	2.8	4.5	5.0	6.3	4.5	2.9	1.3
Investments	0.5	0.5	1.9	2.4	5.3	5.3	5.3	5.3
Working capital	57.9	63.2	90.8	125.1	162.6	149.6	153.6	160.6
Provisions, others	(0.8)	(0.9)	(3.5)	(16.0)	(11.2)	(11.2)	(9.2)	(9.2)
Net cash/(debt)	(30.6)	(33.2)	(15.3)	(29.6)	(68.8)	(45.7)	(38.8)	(29.9)
Net assets	**29.2**	**32.4**	**79.0**	**88.6**	**95.9**	**104.2**	**115.4**	**129.7**

Source: Company Information and Progressive Equity Research estimates

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 (see below), 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*, featured within 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.

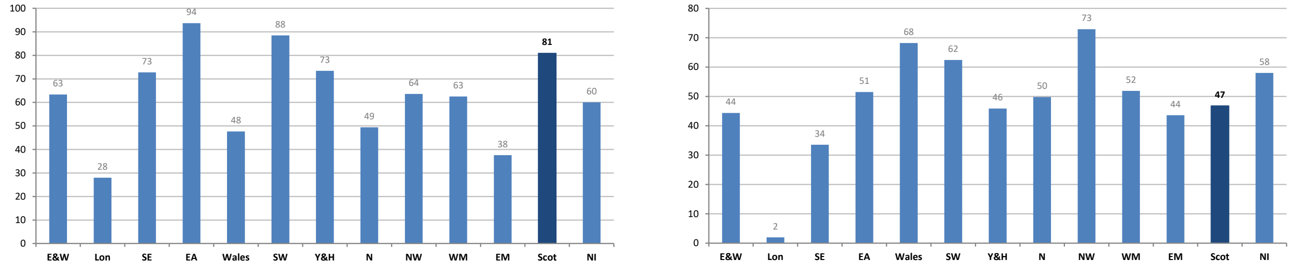
Scottish housing market shows continued momentum

Shortage of private and affordable housing supports continuing demand as market reopens

Since the IPO, there has been evidence of a steady improvement in Scottish housing demand and pricing relative to some of the more arguably overheated markets in London and southern England. The release of pent-up demand since the re-opening of the housing market has also been evident north of the border.

The RICS's influential monthly Residential Market Survey (link) provides more evidence of this, with Scotland delivering the third strongest increase in buyer enquiries and better than average increases in pricing in the latest period, August 2020 (Figure 8).

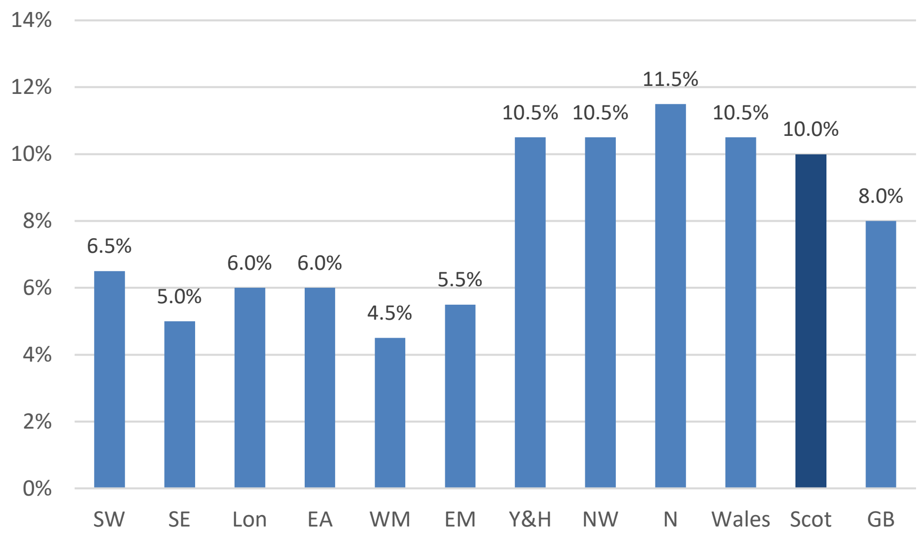
Figure 8: New buyer enquiries, change during month (index*), LHS; Pricing, change during month (index*), RHS



*Source: RICS * % of respondents reporting a rise minus*

A recent report from estate agents Hamptons International (link) has Scotland forecast to deliver one of the highest cumulative growth in house prices, 10%, over a four-year period.

Figure 9: Forecast four-year cumulative price change, 2019-23 (%)



Source: Hamptons International

Diversified model in the 'sweet spot' to address Scottish demand

The Group's distinctive model could benefit in the near term from two trends highlighted in recent surveys from numerous industry surveys: buyers wanting larger homes, with gardens, within commuting distance of cities; and a growing need to provide affordable rental housing.

We believe the former suits Springfield's Village concept and the group's relatively large house designs and an increasing acute shortage of affordable homes, addressed through the Affordable Housing division – with more 'mid market' rental to be provided through the Sigma partnership.

Figure 9: Examples of Village communities. Bertha Park, Perth, LHS; Dykes of Gray, Dundee, RHS

Source: Company information

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

PROFIT & LOSS	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Revenue	190.8	144.4	178.0	228.5	248.4
Adj EBITDA	18.6	13.6	18.9	23.4	27.8
Adj EBIT	17.0	11.3	16.6	21.1	0.0
Reported PBT	16.0	9.7	14.6	19.6	23.9
Fully Adj PBT	16.5	10.2	15.1	19.6	23.9
NOPAT	13.8	8.9	13.4	17.1	20.6
Reported EPS (p)	13.3	7.9	12.1	16.4	20.0
Fully Adj EPS (p)	13.8	8.2	12.5	16.2	19.8
Dividend per share (p)	4.4	2.0	4.5	5.0	5.5

CASH FLOW & BALANCE SHEET	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Operating cash flow	16.0	(26.6)	31.4	19.4	20.8
Free Cash flow	10.7	(31.8)	26.5	13.5	13.9
FCF per share (p)	11.2	(32.8)	27.4	13.9	14.4
Acquisitions	(20.9)	(3.2)	0.0	(2.0)	0.0
Disposals					
Shares issued					
Net cash flow	(9.0)	(1.5)	23.1	6.9	8.9
Overdrafts / borrowings	32.6	70.3	47.6	47.6	47.6
Cash & equivalents	3.1	1.5	1.9	8.8	17.7
Net (Debt)/Cash	(29.6)	(68.8)	(45.7)	(38.8)	(29.9)

NAV AND RETURNS	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Net asset value	88.5	95.9	104.2	115.4	129.7
NAV/share (p)	91.9	98.0	106.4	118.0	132.6
Net Tangible Asset Value	86.9	94.2	102.5	113.8	128.1
NTAV/share (p)	90.2	96.3	104.7	116.3	130.9
Average equity	83.8	92.2	100.0	109.8	122.6
Post-tax ROE (%)	15.3%	8.3%	11.7%	14.4%	15.8%

METRICS	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Revenue growth		(24.3%)	23.3%	28.3%	8.7%
Adj EBITDA growth		(26.9%)	39.0%	23.6%	18.5%
Adj EBIT growth		(33.9%)	47.3%	27.0%	(100.0%)
Adj PBT growth		(38.5%)	48.4%	29.7%	22.2%
Adj EPS growth			51.3%	29.7%	22.2%
Dividend growth		(54.5%)	125.0%	11.1%	10.0%
Adj EBIT margins	8.9%	7.8%	9.3%	9.2%	0.0%

VALUATION	**2019**	**2020**	**2021E**	**2022E**	**2023E**
EV/Sales (x)	0.7	0.9	0.7	0.5	0.5
EV/EBITDA (x)	6.7	9.2	6.6	5.3	4.5
EV/NOPAT (x)	9.0	14.0	9.3	7.3	6.1
PER (x)		10.3	6.8	5.3	4.3
Dividend yield (%)	5.2%	2.4%	5.3%	5.9%	6.5%
FCF yield		(38.6%)	32.2%	16.4%	16.9%

Source: Company information and Progressive Equity Research estimates

29 September 2020

Disclaimers and Disclosures

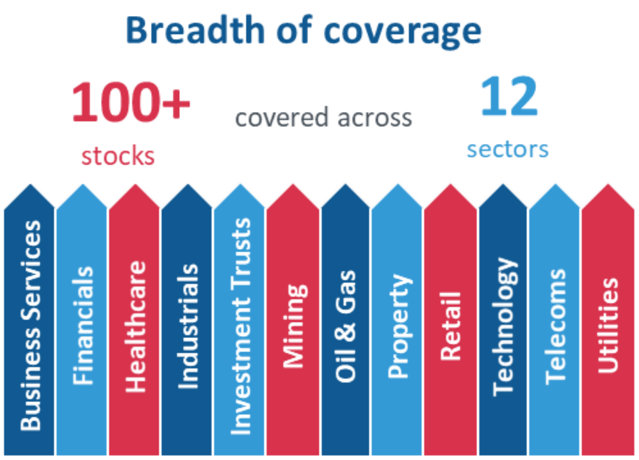
Copyright 2020 Progressive Equity Research Limited ("PERL"). All rights reserved. Progressive's research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

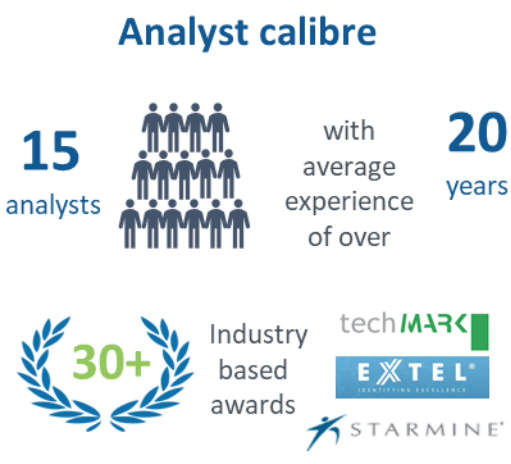
This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL's directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.





To arrange a meeting with the management team, or for further information about Progressive, please contact:
Emily Ritchie
+44 (0) 20 7781 5311
eritchie@progressive-research.com