

SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

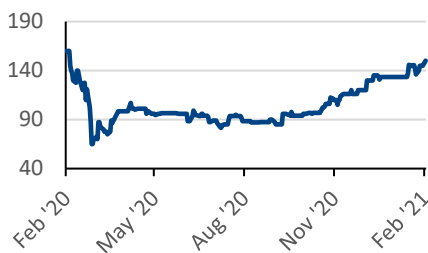
23 February 2021

SPR.L

150p

Market Cap: £151m

SHARE PRICE (p)



12m high/low

160p/65p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(33.2)m (at 30/11/20)
Enterprise value	£184.2m
Index/market	AIM
Next news	Trading update, July
Shares in Issue (m)	100.7
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



www.progressive-research.com

H1 results point to 'significant' full year growth

Scotland's only quoted housebuilder has delivered a 43% jump in adj PBT for the six months to November, as the country emerged from its extended site lockdown, releasing cash on sales that had narrowly missed completing by the May 2020 year-end. The Group "remains on track to report significant growth for the full year, slightly ahead of market expectations"; we are maintaining our P&L estimates for now but believe that, in the absence of any unforeseen circumstances, the risk has moved more to the upside.

- Strong H1 rebound after unlocking of market.** HY revenue grew by 18.3% Y/Y to £94.4m, slightly outstripping the c. 17% increase guided to in the 15 December period-end trading update. The stronger sales and gross profit plus the early results of an efficiency programme resulted in a 42.0% increase in operating profit. An interim dividend of 1.3p (HY 2020, 0p) was declared. As signalled in the update, net debt fell sharply to £33.2m, from £68.8m at 31 May, driven by cash receipts from home sales as well as tight operational and working capital controls.
- Substantial visibility for significant FY growth.** Pent-up demand has continued and there is "substantial visibility" over full year revenue forecasts based on homes delivered, contracted and reserved. For now, we are not changing our P&L forecasts (pages 4 - 7), but believe the risk is more on the upside, but we have cut YE 2021E net debt by £3m to £42.7m.
- Restrictions turn focus to efficiency and innovation.** The Group has risen to the economic challenges of the pandemic by introducing an efficiency and rationalisation programme to reduce costs going forward, which began during the period. Despite the ending of site lockdowns, there are still significant restrictions on movement in Scotland and the website now features a 'virtual walkthrough' on its show homes (link on page 3).
- Strong Scottish market and unique multi-tenure model.** We believe the Scottish housing market should offer significant growth in volumes and prices, due to relative undersupply. This is despite the early closure to new applicants of Help to Buy (Scotland): its cessation only impacts c. 5% of Group revenue, the company estimates. A distinctive feature is Springfield's 'Village' communities, while its multi-tenure model was highlighted by today's commencement of its first private rental sector development with Sigma. (Springfield in brief, page 8).

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	12.3	15.5	19.0
Dividend per share (p)	4.4	2.0	4.5	5.0	5.5
PER (x)	0.0x	18.2x	12.2x	9.7x	7.9x
Dividend yield (%)	2.9%	1.3%	3.0%	3.3%	3.7%
EV/EBITDA (x)	9.9x	13.5x	9.7x	7.9x	6.6x

Source: Company Information and Progressive Equity Research estimates.

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

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

First half benefits from unlocking of Scottish market

The interim results to November shows a reversal of much of the impact of the first lockdown, which struck in March at the height of Springfield's busiest selling period, in the run-up to the May 2020 year-end.

Private Housing: strong rebound after lockdown

There was a 20.5% Y/Y increase in home completions in H1 (see page 4 for detailed divisional breakdown), primarily reflecting completion of homes originally scheduled to be delivered in April and May 2020 but postponed due to the pandemic. Sales achieved in H1 and those in the pipeline for H2 and beyond have been supported by pent-up demand and increasing demand for the larger housing with plenty of green space that Springfield offers. The rise in completions and an 8.1% increase in average selling price drove a 30% increase in revenue.

Continued progress was made on the Group's distinctive 'Village' developments during the period, including the opening of retail facilities at Bertha Park, Perth and Dykes of Gray, Dundee and Planning approval received for private rental sector (PRS) homes at Bertha Park, in partnership with Sigma PRS Management.

The proportion of private housing plots in the land bank with planning permission grew to 52.1% (5,639 plots), from 49.7% in May, while 26.7% is going through the planning process and 21.2% are at the pre-planning stage.

Affordable Housing: stronger second half expected

Completions in the Affordable Housing division (which carries out developments directly for housing associations and local authorities) fell by 26.7% to 132. The reduction was primarily due to monthly valuations (of work completed) largely recommencing in July, following work on site resuming from late June, compared with a full six-month period for H1 20. We expect the situation to reverse in H2, with 222 homes estimated to complete.

Markets: undersupply continues to support private and affordable housing

According to the results statement, the outlook "continues to be supported by strong short- and long-term market drivers across its private and affordable housing". As we have observed in past research, we believe demand for housing in Scotland continues to outstrip supply due to undersupply of both tenures, underpinning the outlook for private prices. The Group pointed out that, although Help to Buy (Scotland) was recently largely closed to new applicants ahead of schedule, the pricing for the majority of its private housing falls outside the scheme limit and its cessation is applicable to approximately 5% of Group revenue. However, the Scottish Government continues to support the private housing market with the First Home Fund, an interest-free equity loan of up to £25,000 for first time buyers, which is not restricted by house price.

The Scottish Government has reiterated its commitment to the delivery of affordable housing, including in its recently published Infrastructure and Investment Plan. Over £3.4bn has been earmarked for affordable housing funding through to March 2026, starting with an allocation of £787.6m for 2021 - 22.

Big rise in revenue reflecting delayed sales completions towards end of FY 2020

Big H2 rebound expected for division

Outlook supported by "strong short- and long-term market drivers across its private and affordable housing"

YE 2021 net debt estimate cut by £3m

Long standing commitment to environment and social responsibility

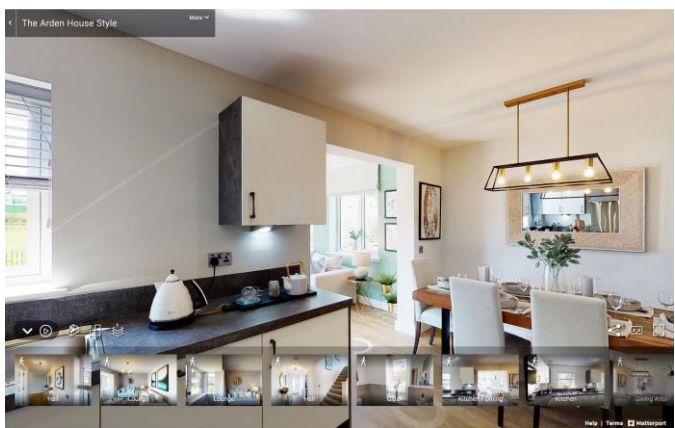
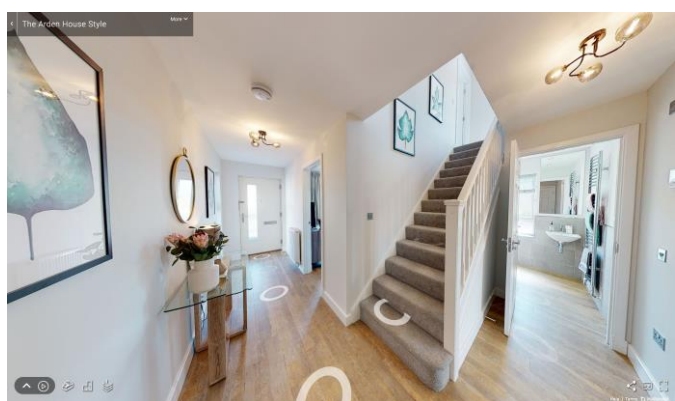
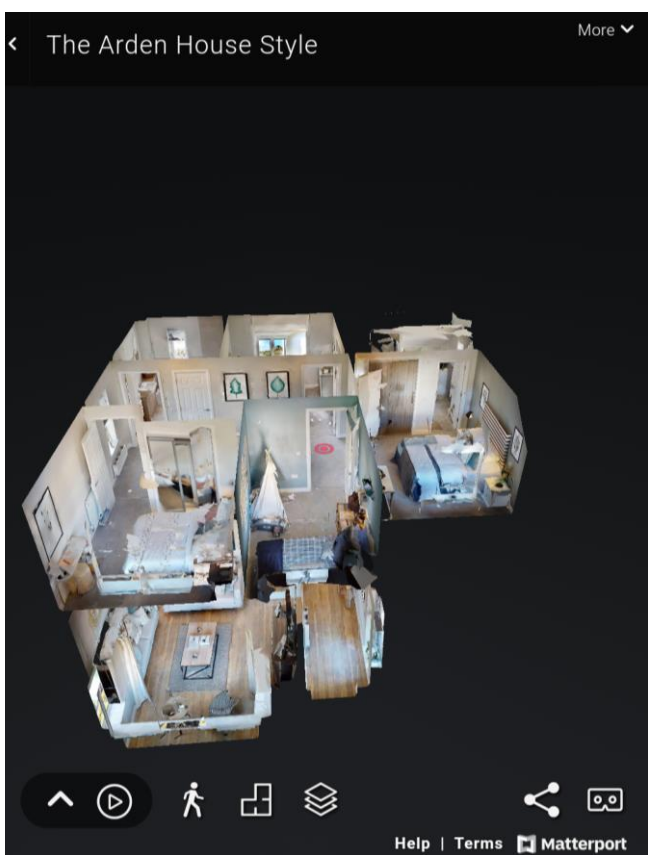
Net debt to fall as balance sheet is “sweated”

We have further reduced our YE 2021E net debt projection from £45.7m to £42.7m - down from high of £68.8m at May 2020. Both that high and the big fall to the November half year were distorted by the swings in cashflow immediately due to the lockdown and reversal. We have not changed our estimates of net debt, which falls to £29.9m by YE 2023E. The land bank fell to 15,029 plots at the HY, down from 15,882 in May.

Sustainability: innovative environmental solutions and commitment to training

In our last research report, [Resurgent Scottish market fuels cash inflow](#), 15 December 2021, we highlighted Springfield’s ongoing commitment to ‘ESG’, including innovative solutions in energy saving, biodiversity, water management and waste reduction and, on the social side, an active training programme in local communities.

‘Virtual’ visits to show homes possible from buyers’ sofas



One of Springfield’s innovations during the lockdown has been its ‘360 virtual visit walkthroughs’ which let customers experience a Springfield house from their sofa, using a laptop or smartphone. Offered via the Group’s [springfield.co.uk](#) website, it allows potential buyers to walk through every room in a ‘real’ (as opposed to an architect’s graphic) show house. As an example, the Arden House style ([link](#)) offers a wide range of views of the , including a 3D model and 2D floor plans, fully fitted out (above, left) and, from there, customers can follow the white circles to ‘walk’ through the house (above, right), in a similar means to widely used ‘street view’ functions in web mapping apps. According to Springfield, “this is an amazing tool that is fun and easy to use, and a really valuable addition to our digital offering during these times of restricted travel”.

Source: Springfield Properties website

Estimates

Majority of FY 2021F Private Housing output completed or contracted already

The group has delivered 311 Private completions in H1, 59% of our FY 2021E estimate of 524, partly because the delayed sales in the last two months of FY 2020, but the Group has indicated the strong contracted order book gives significant visibility for the second half.

H1 and H2 forecasts and estimates FY 2020 and FY 2021E

Year-end May (£m)	2020 H1	2020 H2	2020 FY	2021 H1	2021 H2E	2021 FYE
Private Housing						
Completions	258	161	419	311	213	524
YoY change (%)	10.3%	-59.3%	-33.5%	20.5%	32.1%	25.0%
ASP (£000)	221.2	260.0	236.1	239.0	231.6	236.0
YoY change (%)	-2.7%	14.3%	4.0%	8.1%	-10.9%	0.0%
Revenue	57.1	41.9	98.9	74.3	49.3	123.6
YoY change (%)	7.3%	-53.5%	-30.9%	30.3%	17.7%	24.9%
Affordable Housing						
Completions	180	128	308	132	222	354
YoY change (%)	24.1%	-27.7%	-4.3%	-26.7%	73.6%	15.0%
ASP (£000)	123.1	166.3	141.0	147.6	148.3	148.1
YoY change (%)	-6.7%	23.8%	6.0%	19.9%	-10.8%	5.0%
Revenue	22.2	21.3	43.4	19.5	33.0	52.4
YoY change (%)	15.8%	-10.5%	1.2%	-12.1%	54.9%	20.7%
Total completions	438	289	727	443	435	878
YoY change (%)	15.6%	-49.6%	-23.6%	1.1%	50.5%	20.8%
H1:H2 split (%)	60.2%	39.8%		50.5%	49.5%	
Total ASP (£000)	180.8	218.5	195.8	211.8	189.1	200.5
YoY change (%)	-5.2%	10.0%	0.1%	17.1%	-13.5%	2.4%
Other revenue	0.6	1.5	2.1	0.6	1.4	2.0
Total revenue	79.8	64.6	144.4	94.4	83.6	178.0
YoY change (%)	5.4%	-43.9%	-24.3%	18.3%	29.4%	23.3%

Source: Company Information and Progressive Equity Research estimates.

H1 and H2 forecasts and estimates FY 2020 and FY 2021E (cont.)

Year-end May (£m)	2020 H1	2020 H2	2020 FY	2021 H1	2021 H2E	2021 FYE
Total gross profit	15.9	11.5	27.4	18.5	17.1	35.6
<i>Margin (%)</i>	<i>19.9%</i>	<i>17.7%</i>	18.9%	<i>19.6%</i>	<i>20.4%</i>	20.0%
Admin, other income	(9.0)	(7.1)	(16.1)	(8.7)	(10.3)	(19.0)
EBIT	6.9	4.3	11.3	9.8	6.8	16.6
Share in PBT of JV	0.4	0.4	0.9	-	-	-
Total operating profit	7.3	4.8	12.1	9.8	6.8	16.6
<i>Margin (%)</i>	<i>9.2%</i>	<i>7.4%</i>	8.4%	<i>10.4%</i>	<i>8.1%</i>	<i>9.3%</i>
Exceptionals	-	(0.4)	(0.4)	(0.5)	(0.0)	(0.5)
Net interest	(1.0)	(0.9)	(2.0)	(0.7)	(0.8)	(1.5)
PBT, reported	6.3	3.4	9.7	8.6	6.0	14.6
PBT, pre-exc	6.3	3.9	10.2	9.0	6.1	15.1
<i>H1:H2 split (%)</i>	<i>62.0%</i>	<i>38.0%</i>		<i>59.9%</i>	<i>40.1%</i>	
Tax	(1.2)	(0.9)	(2.1)	(1.6)	(1.2)	(2.9)
Net attrib. Profit	5.1	2.6	7.6	6.9	4.8	11.7
Wtd ave shares (million)	96.3		96.9	97.9		97.9
Wtd ave dil. shares (million)	97.3		97.9	99.3		99.3
Basic EPS (p)	5.3		7.9	7.1		12.0
Adjusted EPS (p)	5.3		8.3	7.5		12.5
Adjusted, fully dil. EPS (p)	5.2		8.2	7.4		12.6
DPS - declared (p)	-		2.0	1.3		4.5
NAV (p)	94.2		98.0	103.3		103.6
Net cash/(debt) pre-IFRS16	(53.7)		(68.8)	(33.3)		(42.7)

Source: Company Information and Progressive Equity Research estimates.

P&L and per share data, FY 2018 - 23E						
Year-end May (£m)	2018	2019	2020	2021E	2022E	2023E
Group revenue	140.7	190.8	144.4	178.0	228.5	248.4
Gross profit	22.1	34.3	27.4	35.6	41.1	46.4
Operating expenses	(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	10.7	17.6	12.1	16.6	21.1	25.4
Exceptionals	(0.6)	(0.6)	(0.4)	(0.5)	-	-
Interest	(0.9)	(1.1)	(2.0)	(1.5)	(1.5)	(1.5)
PBT, reported	9.2	16.0	9.7	14.6	19.6	23.9
<i>Underlying tax rate (%)</i>	<i>19.0</i>	<i>18.8</i>	<i>20.6</i>	<i>19.0</i>	<i>19.0</i>	<i>19.0</i>
Reported tax	(1.9)	(3.1)	(2.1)	(2.9)	(3.7)	(4.5)
Net attrib. profit	7.4	12.8	7.6	11.7	15.8	19.4
PBT pre-exceptionals	9.8	16.5	10.2	15.1	19.6	23.9
Wtd. ave. shares (million)	73.4	96.3	96.9	97.9	100.7	100.7
Diluted shares (million)	73.6	97.3	97.9	99.3	102.1	102.1
EPS, basic (p)	10.0	13.3	7.9	12.0	15.7	19.2
EPS, pre-exceptionals (p)	10.8	13.9	8.3	12.5	15.7	19.2
EPS, diluted, pre-exc (p)	10.7	13.8	8.2	12.3	15.5	19.0
DPS - declared (p)	3.7	4.4	2.0	4.5	5.0	5.5
NAV (p)	82.0	91.9	98.0	103.6	114.5	128.6
Dividend cover (x)	2.9	3.2	4.2	2.8	3.1	3.5
EBITDA	11.7	18.6	13.6	18.9	23.4	27.8
FCFPS (p)	14.8	11.2	(32.8)	30.1	10.4	13.8
TNAV (p)	81.4	90.2	96.3	102.0	112.9	126.9

Source: Company Information and Progressive Equity Research estimates.

Cashflow and balance sheet, FY 2018 - 23E

Year-end May (£m)	2018	2019	2020	2021E	2022E	2023E
Adjusted cash flow statement						
Group op profit inc exc.	10.1	16.5	10.8	16.1	21.1	25.4
Depreciation	1.1	1.6	2.4	2.4	2.4	2.4
Intangible amortisation	-	-	0.0	-	-	-
Other	0.2	0.6	2.4	-	-	-
Working capital changes	3.1	(2.7)	(42.2)	16.0	(7.0)	(7.0)
Operating cash flow	14.4	16.0	(26.6)	34.4	16.4	20.8
Capex	(0.7)	(1.2)	(0.5)	(0.6)	(0.7)	(0.8)
Interest	(1.1)	(1.2)	(1.6)	(1.5)	(1.5)	(1.5)
Tax	(1.7)	(2.9)	(3.1)	(2.9)	(3.7)	(4.5)
Free cashflow	10.9	10.7	(31.8)	29.5	10.5	13.9
Acquisitions, investments	(15.3)	(20.9)	(3.2)	-	(2.0)	-
Dividends - paid	(0.8)	(3.8)	(3.1)	(3.3)	(4.9)	(5.2)
Financing	8.9	4.9	36.5	-	-	-
Change in cash/(net cash, forecast)	3.7	(9.0)	(1.5)	26.3	3.6	8.7
Summary balance sheet						
Intangible fixed assets	0.6	1.6	1.6	1.6	1.6	1.6
Tangible fixed assets	4.5	5.0	6.3	4.5	2.9	1.3
Investments	1.9	2.4	5.3	5.3	5.3	5.3
Working capital	90.8	125.1	162.6	146.6	153.6	160.6
Provisions, others	(3.5)	(16.0)	(11.2)	(11.2)	(9.2)	(9.2)
Net cash/(debt)	(15.3)	(29.6)	(68.8)	(42.5)	(38.9)	(30.2)
Net assets	79.0	88.6	95.9	104.3	115.3	129.4

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: 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, Springfield 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, Stirling, Livingston 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.
- **Private rental progress.** Today the commencement was also announced of Springfield's first private rental sector (PRS) development, in partnership with private rental specialist Sigma and Springfield acting as strategic delivery partner. The site, for 75 family homes at Bertha Park, will be 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.

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

	2019	2020	2021E	2022E	2023E
PROFIT & LOSS					
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	17.6	12.1	16.6	21.1	25.4
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	12.0	15.7	19.2
Fully Adj EPS (p)	13.8	8.2	12.3	15.5	19.0
Dividend per share (p)	4.4	2.0	4.5	5.0	5.5
CASH FLOW & BALANCE SHEET					
Operating cash flow	16.0	(26.6)	34.4	16.4	20.8
Free Cash flow	10.7	(31.8)	29.5	10.5	13.9
FCF per share (p)	11.2	(32.8)	30.1	10.4	13.8
Acquisitions	(20.9)	(3.2)	0.0	(2.0)	0.0
Disposals					
Shares issued					
Net cash flow	(9.0)	(1.5)	26.3	3.6	8.7
Overdrafts / borrowings	32.6	70.3	44.4	44.4	44.4
Cash & equivalents	3.1	1.5	1.9	5.5	14.2
Net (Debt)/Cash	(29.6)	(68.8)	(42.5)	(38.9)	(30.2)
NAV AND RETURNS					
Net asset value	88.5	95.9	104.3	115.3	129.4
NAV/share (p)	91.9	98.0	103.6	114.5	128.6
Net Tangible Asset Value	86.9	94.2	102.7	113.6	127.8
NTAV/share (p)	90.2	96.3	102.0	112.9	126.9
Average equity	83.8	92.2	100.1	109.8	122.3
Post-tax ROE (%)	15.3%	8.3%	11.7%	14.4%	15.8%
METRICS					
Revenue growth		(24.3%)	23.3%	28.3%	8.7%
Adj EBITDA growth		(26.9%)	39.0%	23.6%	18.5%
Adj EBIT growth		(31.3%)	36.9%	27.0%	20.6%
Adj PBT growth		(38.5%)	48.4%	29.7%	22.2%
Adj EPS growth			49.2%	26.2%	22.2%
Dividend growth		(54.5%)	125.0%	11.1%	10.0%
Adj EBIT margins	9.2%	8.4%	9.3%	9.2%	10.2%
VALUATION					
EV/Sales (x)	1.0	1.3	1.0	0.8	0.7
EV/EBITDA (x)	9.9	13.5	9.7	7.9	6.6
EV/NOPAT (x)	13.3	20.6	13.7	10.8	9.0
PER (x)		18.2	12.2	9.7	7.9
Dividend yield (%)	2.9%	1.3%	3.0%	3.3%	3.7%
FCF yield		(21.9%)	20.1%	6.9%	9.2%

Source: Company information and Progressive Equity Research estimates

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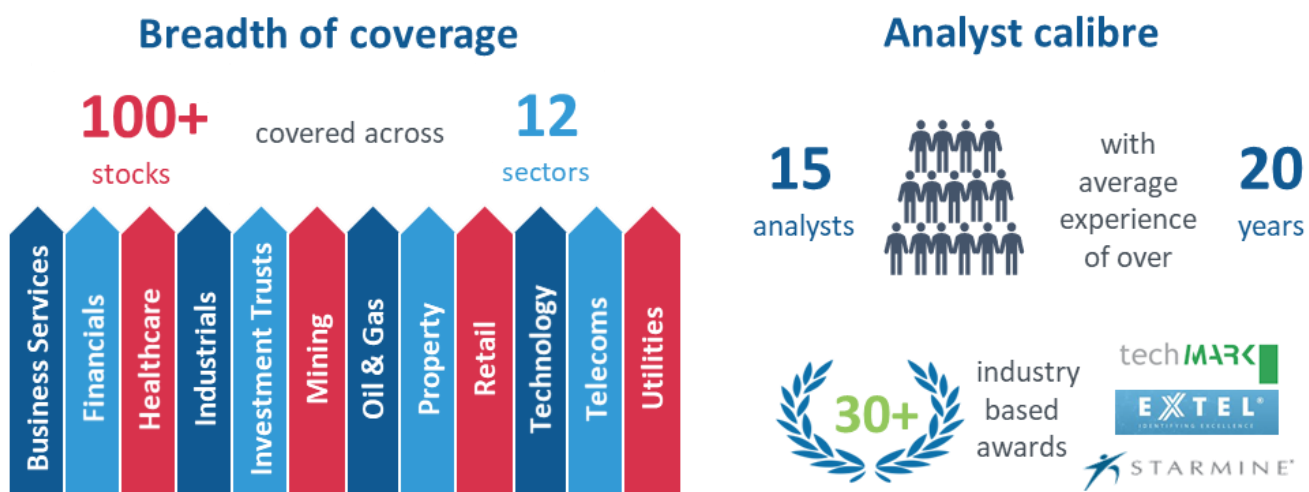
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To arrange a meeting with the management team, or for further information about Progressive, please contact:

Emily Ritchie
+44 (0) 20 7781 5311
eritchie@progressive-research.com