

# WATKIN JONES

## HOME CONSTRUCTION

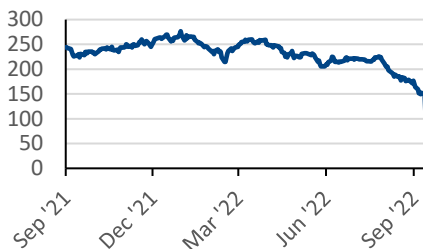
5 October 2022

### WJG.L

101p

Market Cap: £258.8m

#### SHARE PRICE (p)



12m high/low

277p/101p

Source: LSE Data (priced as at prior close)

#### KEY DATA

Net (Debt)/Cash	£75.0m (at 30/09/22)
Enterprise value	£183.8m
Index/market	AIM
Next news	FY results, Jan 2023
Shares in Issue (m)	256.2
Chairman	Alan Giddins
CEO	Richard Simpson
CFO	Sarah Sergeant

#### COMPANY DESCRIPTION

Watkin Jones develops large-scale residential-for-rent properties in the build-to-rent & student accommodation markets.

[www.watkinjones.com](http://www.watkinjones.com)

WATKIN JONES IS A RESEARCH CLIENT OF  
PROGRESSIVE

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## Board's share purchases highlight confidence

We note that the Chairman and CEO of Watkin Jones yesterday purchased over 72,000 shares between them after a large fall in the price following that morning's trading update. We believe this demonstrates management's view that the market had overreacted to the announcement and that, despite guidance being lowered, they remain confident in the long-term prospects for the residential-for-rent developer and manager. We continue to believe that these prospects will be driven by strong demand from tenants, underpinning rental income for the group's institutional clients.

- Share purchases.** Chairman Alan Giddins purchased 48,000 shares at 102.50p each, while CEO Richard Simpson bought 24,441 at an average price of 102.20p. The share price fell from 152p at Monday's close to end the day down 33% at 101p.
- Guidance lowered.** The trading update for the 12 months to 30 September had stated that softness in margins in H2 and slippage into FY23E of two forward sales meant the Board expected underlying operating profit to be c.10% below market expectations. For FY23E, we took a prudent view of the near-term impact of the economic climate on investment activity and reduced our EBIT by 31%. However, we view this as growth delayed rather than cancelled and highlight the group's £75m net cash. See [Strong rental market offset by margin pressure](#), 4 October 2022.
- Long-term rental demand opens up opportunities.** We reiterate our view of the group's fundamentals: we believe that both the build-to-rent (BTR) and student accommodation markets offer substantial long-term growth opportunities, driven by the rising demand among tenants and the attractive income characteristics for institutional investors, with WJG's forward-funding model offering lower risk for both parties. We believe the group's net cash could offer major opportunities in the land market.
- Unique capital-light, low-risk model.** WJG develops BTR, student accommodation and urban regeneration assets, forward-funded by institutions, which in our view reduces risk and cyclicity with low capital tie-up. The accommodation management division has relatively sustainable revenues and provides synergies of the other divisions.

FYE SEP (£M)	2019	2020	2021	2022E	2023E
Revenue	374.8	354.1	430.2	421.3	545.4
Fully Adj PBT	50.4	45.8	51.1	49.0	50.0
Fully Adj EPS, dil (p)	16.1	14.7	16.3	15.5	15.8
Dividend per share (p)	8.4	7.4	8.2	7.8	7.9
PER (x)	6.3x	6.9x	6.2x	6.5x	6.4x
Dividend yield (%)	8.3%	7.3%	8.1%	7.7%	7.8%
EV/EBITDA (x)	2.8x	3.0x	2.8x	2.9x	2.8x

Source: Company Information and Progressive Equity Research estimates.

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

**Financial Summary: Watkin Jones**

**Year end: September (£m unless shown)**

	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
<b>PROFIT &amp; LOSS</b>					
Revenue	374.8	354.1	430.2	421.3	545.4
Adj EBITDA	64.8	61.1	65.9	63.8	64.8
Adj EBIT	55.6	51.7	57.3	54.0	55.0
Reported PBT	47.9	25.3	51.1	21.0	50.0
Fully Adj PBT	50.4	45.8	51.1	49.0	50.0
NOPAT	41.1	37.6	41.9	39.7	40.5
Reported EPS (p)	15.2	8.2	16.4	4.6	15.8
Fully Adj EPS (p)	16.1	14.7	16.3	15.5	15.8
Dividend per share (p)	8.4	7.4	8.2	7.8	7.9
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	38.9	54.9	76.3	(9.6)	45.2
Free Cash flow	23.8	38.0	61.3	(24.1)	30.4
FCF per share (p)	9.3	14.9	23.9	(9.4)	11.9
Acquisitions	0.2	0.8	0.1	0.0	0.0
Net cash flow	9.0	18.9	1.8	(45.1)	10.4
Overdrafts / borrowings	176.3	174.1	141.2	141.2	141.2
Cash & equivalents	115.7	134.5	136.3	91.2	101.6
Net (Debt)/Cash, pre-IFRS 16	88.4	94.8	124.3	75.0	80.4
IFRS 16 Lease liabilities	(149.0)	(134.5)	(129.3)	(125.0)	(120.0)
Net (Debt)/Cash post-IFRS 16	(60.7)	(39.6)	(4.9)	(50.0)	(39.6)
<b>NAV AND RETURNS</b>					
Net asset value	161.1	167.8	184.8	175.6	196.1
NAV/share (p)					
Net Tangible Asset Value	147.3	154.6	172.1	163.4	184.5
NTAV/share (p)					
Average equity	157.1	164.5	176.3	180.2	185.8
Post-tax ROE (%)	28.1%	23.6%	12.0%	23.3%	6.3%
<b>METRICS</b>					
Revenue growth	3.2%	(5.5%)	21.5%	(2.1%)	29.4%
Adj EBITDA growth	27.2%	(5.7%)	7.9%	(3.2%)	1.6%
Adj EBIT growth	12.1%	(7.1%)	10.8%	(5.6%)	1.8%
Adj PBT growth	0.8%	(9.3%)	11.7%	(4.1%)	2.0%
Adj EPS growth	0.7%	(8.5%)	11.2%	(5.3%)	2.0%
Dividend growth	9.9%	(12.0%)	11.6%	(5.5%)	2.0%
Adj EBIT margins	14.8%	14.6%	13.3%	12.8%	10.1%
<b>VALUATION</b>					
EV/Sales (x)	0.5	0.5	0.4	0.4	0.3
EV/EBITDA (x)	2.8	3.0	2.8	2.9	2.8
EV/NOPAT (x)	4.5	4.9	4.4	4.6	4.5
PER (x)	6.3	6.9	6.2	6.5	6.4
Dividend yield (%)	8.3%	7.3%	8.1%	7.7%	7.8%
FCF yield	9.2%	14.7%	23.7%	(9.3%)	11.8%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

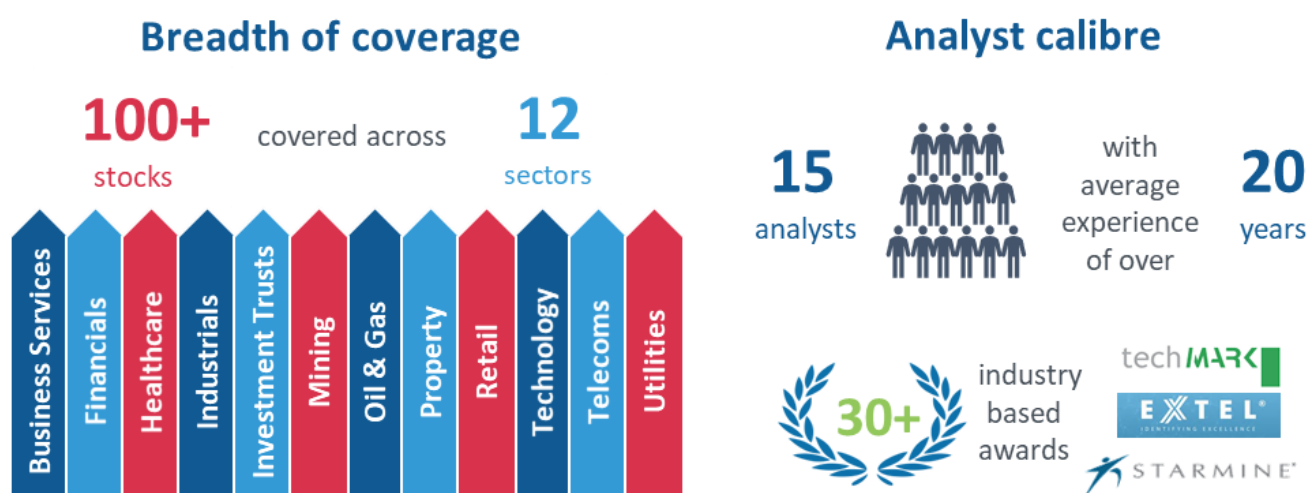
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