Progressive Property & Construction Daily

6 April 2022: BDEV, VTY, BWY, CSP, MSLH, HLCL | House price inflation picks up, but cost of living warning - Halifax | Boost for nuclear and offshore wind

A round-up of market statements, news, economics and views from the property and construction sectors

NOTE: This marketing communication has been produced by Progressive Equity Research Limited (PERL) and is a Minor Non-monetary Benefit. It does not contain investment recommendations. The views expressed are those of the research department of PERL. To view the Progressive Property & Construction Daily archive click here.

Company news

Barratt Developements (BDEV, 519p, 5,309m mkt cap); **Vistry Group** (VTY, 924p, £2,053m); **Bellway** (BWY, 2,554p, £3,154m)

Leading UK housebuilders. Further agreements from national housebuilders to sign up to the Government's fire safety Pledge for Developers (following Crest Nicholson, Persimmon, Taylor Wimpey and Redrow this week). It requires developers to fund the remediation of life critical fire safety issues on buildings over 11m, with which they had any involvement in the development, going back 30 years, and not to claim funds from the Government's Building Safety Fund. The remediation is expected to take some years to complete. The pledges are on top of the Residential Property Developer Tax of 4% of pre-tax profit which came into effect on 1 April. Below are the summary of estimated provisions and comments from companies about their past involvement in high rise. Some of the companies had already made earlier independent commitments to address cladding issues.

Barratt: (219 buildings under review, of which 83 are above 18m, and 19 where remediation has been completed). Estimated further costs, £350 - 400m, after £201m incurred to December 2021.

Vistry: The group continues to believe implied further remediation costs will be in the range of £35m to £50m, in addition to its existing fire safety provision of £25.2m as at 31 December 2021. It is increasing its dedicated resource to manage these remediation works and expect this to result in an increase to administrative expenses of c. £1.5 - 3.0m pa.

Bellway: (Work has been completed on four developments, is underway on 13 developments and is in design stages on a further three developments.) The best estimate of the cost of the pledge will be around £300m in addition to the £187m already set aside since 2017 and the latest remaining provision of £128m.

Viewpoint: Huge as some of the assessments this week have been, the housebuilders have at least managed to restrict their liabilities to what they have built over the past 30 years rather than the nebulous threats seemingly implied by 'Levelling Up' Secretary Michael Gove, which some observers suggested would result in the biggest developers picking up a tab, of up to £4bn, for all at risk buildings. For investors, if you can identify costs, you can price them (eg relative to the post-tax reduction in the net asset value following the announcements). Shares have fallen by over a quarter over the past 12 month, suggesting perhaps that the worst case has been fully- or even over-reflected. Countryside, however, has its own additional issues to contend with …

Countryside Partnerships (CSP, 279p, £1,414m)

Leading mixed-tenure housebuilder. Previously called Countryside Properties, before concentrating on its mixed-tenure operations. Update on fire safety review and addition update on site operations review. *Operations review:* "Large parts of the business are performing well today. However, the financial results in the current year do not reflect the range or quality of assets that the group has at its disposal. In particular: We have failed to realise the benefits of the Westleigh acquisition completed in 2018; the North has experienced significant operational challenges; the expansion into new regions has been too ambitious; excess manufacturing capacity has been established and the Board is considering all options to minimise losses". Initiatives include new management and consolidation of regional resources. *Current trading (six months to March):* Adj rev -13% vs 2021 (H1 21 boosted by delayed sales), £659m, (+24% vs H1 20); adj op profit, £45.6m (vs £78.6m vs H1 21; £55.3m, H1 20) including £6.1m loss for manufacturing (-£1.3m; -£1.0m); net cash +£9m (+£106m; -£128m); average net debt in past 10 weeks, £115m. The FY 22 operating profit includes £10.1m of one-off charges including £7.7m of aborted bid costs, end-of-development and other costs relating to prior periods plus a £2.4m charge to recognise the net realisable value of finished homes at one site. The adjusted operating profit before these charges and manufacturing losses would be £61.8m. Non-recurring cash charges of c. £13m plus non-cash goodwill charges of c. £72m relating to Westleigh and a further non-cash loss of £20 - 25m. Realisation of a total targeted £450m of legacy assets since July 2021 has so far reach c. £150m, "slightly ahead of our expectations"; "During the review, two significant sites were identified, representing £49m of capital employed, where realisation of the assets cannot be accelerated because we are contractually restricted from selling them. These assets will be retained and realised over the planned development cycle". £79m of shares bought back and further undertakings of up to £20m committed. *Outlook:* "Management has prepared a forecast for the current year on a site-by-site basis and expect to generate adjusted operating profit of approximately £150m in the current year (2021: £167m) including profit from bare land sales of approximately £15m (2021: £37m). This is based on increasing profit from the sale of private homes and the invoicing of work-in-progress on PRS and affordable homes ahead of last year, and significantly ahead in the second half".

Fire safety review: the group has developed around 290 buildings over 11m during the past 30 years. "Any further liabilities arising cannot currently be accurately quantified and we will provide a further update on this at the interim results in May".

Viewpoint: The big volte-face in this broadside is the apparent row back from the group's ambitious strategy for offsite manufacturing.

Marshalls (MSLH, 693p, £1,385m)

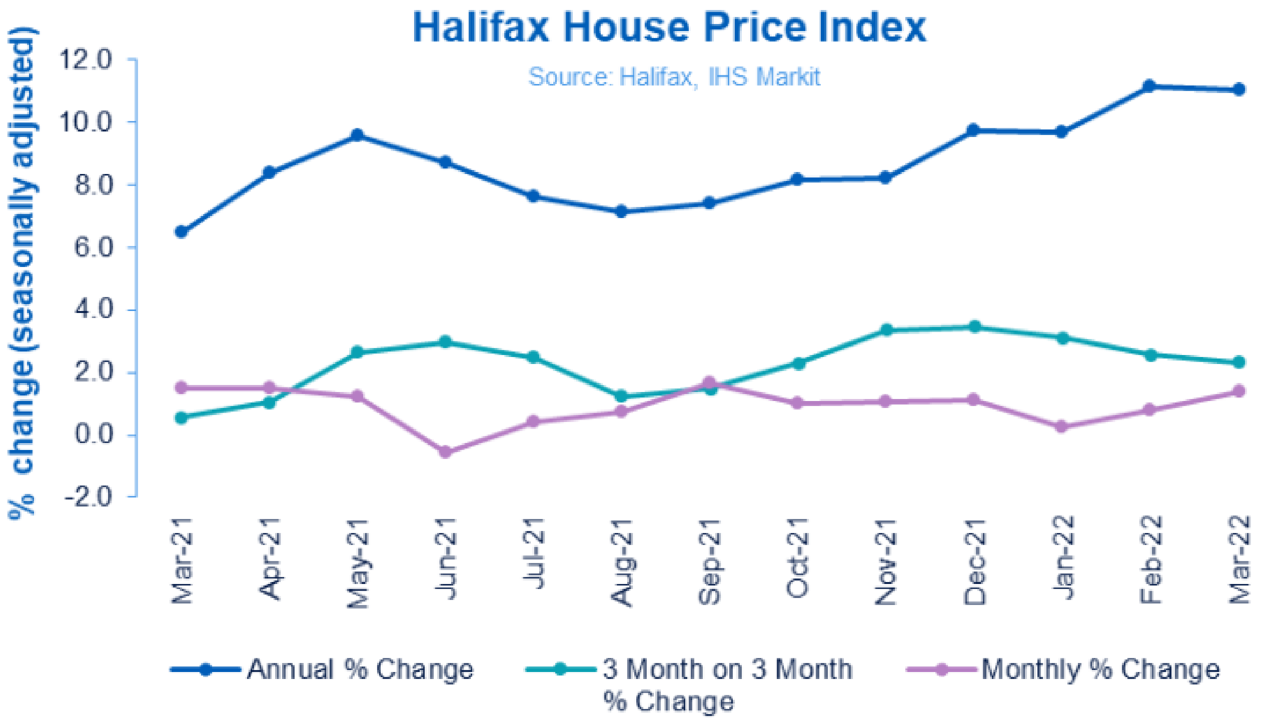
Leading manufacturer and supplier of paving and hard landscaping products. Acquisition and placing/open offer. Conditional agreement entered into to acquire the entire issued share capital of Marley Group from Inflexion Buyout V Investments LP, and certain management sellers for a total enterprise value of £535m on a cash free and debt free basis. Marley is a leader in the manufacture and supply of pitched roof systems to the Great Britain (GB) construction market. The acquisition comprises £371m in cash and 24.1 million new shares at an agreed price of 680p. The price represents a multiple of 10.7x Marley's Underlying EBITDA for the year ended 31 December 2021 and is expected to be "double digit EPS accretive in the first full financial year post completion". "The Directors believe that the enlarged group, through its greater scale, complementary sales channels and proven M&A capabilities, is well positioned to capitalise on significant growth opportunities over the medium term".

Helical (HLCL, 429p, £525m)

Commercial real estate investor, focused on London and Manchester offices. FY (Mar) trading update. The acquisition of 100 New Bridge Street, London EC4 "has substantially increased the group's development pipeline". A planning application will be made shortly for a complete refurbishment of the building, including the replacement of the existing cladding and additional floor space to the existing 167,026 sq ft. "The group has identified additional potential schemes which are at varying stages of assessment and discussion and would bolster its development pipeline. Meanwhile, good progress is being made at 33 Charterhouse Street, London EC1 which is on track for completion in September 2022. Leasing success at our investment assets continues to reconfirm the quality and appeal of our portfolio with high levels of rent collection throughout the past year and new lettings achieved at rents above March 2021 ERVs. This activity supports our steadfast conviction that London remains Europe's pre-eminent capital city for an increasingly diverse range of occupiers and that the importance of the office remains for businesses seeking a competitive edge over their peers". With effect from 1 April, Helical has converted into a Real Estate Investment Trust, "enhancing returns for Shareholders in future years". FY results, 24 May.

Economic data

House prices. Average prices rose 1.4% during March to £283k, the biggest monthly increase for six months, taking the annualised rate to +2.3%, down from +3.5% in December, in the latest data from the Halifax (link). In the two years since the first lockdown, house prices have now risen by £43,577. The UK's largest mortgage lender now expects "the cost of living pressure likely to slow the rate of house price growth this year".



In other news …

Energy strategy. Boris Johnson is today set to announce up to eight power plants, to take nuclear's share of electricity demand to 25% by 2050, and a five-fold expansion of offshore wind generation by 2030, according to the FT (link) and other media sources.

Prices are as at the previous day's close.

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 communication 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 email. However, PERL's directors, officers, employees and contractors may have a position in any or related securities mentioned in this email. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this email.

The value of securities mentioned in this communication 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 communication 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 email. Past performance is not necessarily a guide to future performance.