Progressive Property & Construction Daily

5 May 2022: BDEV, MGNS, COST, DLN, HOME | Construction workload continues growth, led by infrastructure

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

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Company news

Barratt Developments (BDEV, 484p, £4,953m mkt cap)

UK's biggest housebuilder by volume. Trading update, Jan - May. *Guidance:* "On track to deliver total home completions of between 18,000 and 18,250 homes including around 750 JV home completions, resulting in a trading outlook for the full year in line with the Board's previous expectations". YE (Jun) net cash expected to be £1.0 - 1.1bn. *Trading:* "We are seeing strong demand across the country for our homes and our operational teams are working hard to meet this demand. We expect to deliver full year trading results in line with the Board's expectations as we remain focused on growing towards our medium-term target of 20,000 homes a year". Net private reservation rate, 0.93 homes per site per week (equiv. prior year period, 0.83); fully forward-sold for FY 22, +19%, £4.4bn. FY build cost inflation expectations unchanged at 6%; price inflation in order book, c. 7%. As a result, "we continue to expect the effect of build cost inflation on margin to be broadly neutral or positive for the second half of FY 22". The group brought forward its regular annual salary review from 1 July to 1 April 2022, awarding an increase to all eligible employees "recognising the impact of recent rises in the cost of living and as part of our commitment to being the employer of choice in the house building industry". Land purchases 5,076 (6,399); targeting an owned and controlled land bank of around 4.5 years in the medium term. *Outlook:* "The overall strength of the housing market, our operational performance since the onset of the pandemic and our strong financial position provides us with the platform and flexibility to react to any challenges and opportunities in the remainder of FY 22 and beyond". **Viewpoint:** A particularly bullish tone in the statement and accompanying conference call - against a backdrop of war, cost-of-living crisis, rising interest rates (watch out at midday for a possible further hike), tax rises, restriction on Help to Buy etc. The standout metric was the sales rate of 0.93 (the industry's rule of thumb is c. 0.7), which management was well ahead of what they were expecting six months ago. The early salary rise is a stark reminder of the pressure in the industry (see below).

Morgan Sindall Group (MGNS, 2,080p, £965m)

Construction, regeneration and fit-out group. AGM trading update. *Guidance:* "The positive momentum across the group coming into 2022 has continued and overall trading in the year to date has been in line with expectations set at that time of the 2021 full year results in February". *Trading:* Orders +6% Y/Y, £8.6bn (o/w: construction activities +14%, £4.5bn; regeneration -1%, £4.1bn). Inflationary pressures and supply issues "remain a significant challenge across the group, with an already difficult trading environment being exacerbated by the conflict in Ukraine. Notwithstanding this, however, the impact continues to be minimised on most projects through focused sourcing through the supply chain and ongoing operational efficiency". Construction & Infrastructure - "both are anticipated to deliver margins in the year which are in line with their medium-term targets announced in February". Fit Out - "trading remains very strong and its forward order book visibility provides confidence for the rest of the year". Property Services - "A slower start to the year than expected due to lower planned maintenance work, however this is expected to improve through the rest of the year". Partnership Housing - "continued good levels of market demand, with further strategic and operational progress driving performance". Urban Regeneration - "Progress with developments and schemes has been as planned". *Finances:* Ave daily net cash, 1 Jan - 30 Apr, £279m (same period in FY 21, £290m). *Outlook:* "Current market conditions are expected to continue for the foreseeable future". **Viewpoint:** MS is a good bellwether of overall industry health and the positivity in housing, highlighted by Barratt, seems to be shared by most other sectors (although public housing RMI continues to look fragile) - a view supported in the RICS survey (below).

Costain Group (COST, 42p, £115m)

UK construction and infrastructure services group. AGM trading update. *Guidance:* "We are trading in line with market expectations. Whilst we are mindful of the macro-economic backdrop, particularly regarding cost inflation, we continue to expect to deliver further progress in 2022 and remain confident in the Group's strategy and longer-term prospects".

Derwent London (DLN, 2,900p, £3,256m)

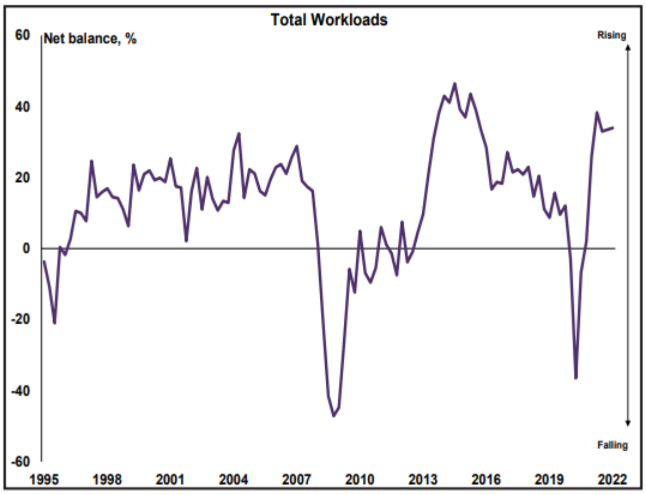
Real estate investment trust owning commercial portfolio predominantly in central London. Q1 business update. *Portfolio:* £3.9m of new leases achieved YTD, 8.2% above December 2021 ERV. £3.3m of space is under offer, at rents above ERV, including 28,000 sq ft at The Featherstone Building EC1 (125,000 sq ft) which reached practical completion in April. EPRA vacancy rate, 3.1% (FY 21, 1.6%), with current vacancy at 6.4%, "in line with our expectations and principally reflecting Featherstone completion". *Finances:* LTV 23.2%; cash and undrawn facilities of £441m. *Outlook:* "London is busy again and maintains its global appeal in an uncertain macro environment. The flight to quality continues, our portfolio is well positioned and we are seeing a high level of enquiries and viewings. As a result, we have committed to our next major office development at Network Building" (137,000 sq ft of offices; start on site June).

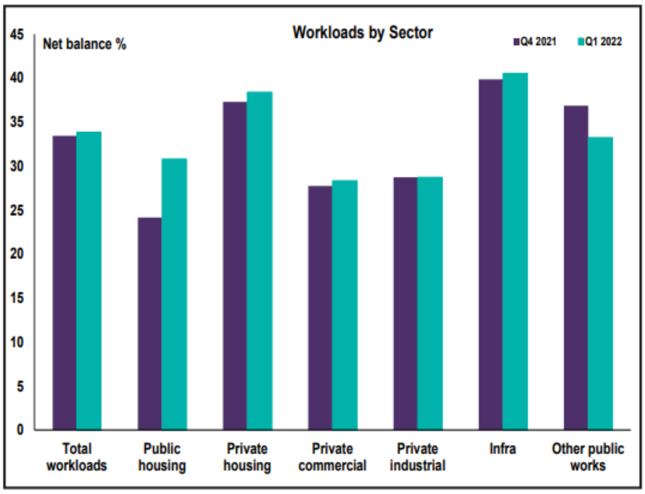
Home REIT (HOME, 121p, £680m)

Real estate investment trust funding the acquisition and creation of properties providing accommodation to the homeless. HY (Feb) results. EPRA TNAV +5.8%, 111p; PBT, £38.3m (H1 21, £11.4m); EPS, 7.4p (6.6p); dividends, 2.21p (targeting a minimum total dividend of 5.5p). Acquisition of 874 investment properties within the period, increasing the portfolio to 1,585 properties in total. The portfolio was independently valued on 28 February 2022 at £713m. Finances: net debt, £230m (£106m). *Outlook:* "The Board has been encouraged by the strong performance during the period, deploying the proceeds of the September 2021 equity issue to increase the Group's sustainable portfolio of assets. The company is continuing to build responsibly on this sustainable growth momentum. We remain confident about delivering further value for shareholders and wider stakeholders and fulfilling our long-term ambitions in achieving significant positive social impact in the next financial period to 31 August 2022 and beyond".

Economic data

Construction workloads remained strongly positive in Q1, with most sectors of seeing rises, particularly infrastructure, according to the latest RICS UK Construction and Infrastructure Monitor (link). The balance (% of responses seeing rises minus those seeing falls) for total construction ticked up to +34 from +33 in the previous two quarters and close to the recent high of +38 in Q2 21 (below, left). Infrastructure remained strongest, at +41, although public housing had the biggest increase between quarters; only 'Other public works' saw declining growth (below, right). The biggest constraint on activity continued to be shortages of materials (a net 84% of respondents, but this was unchanged from the previous survey; shortages of labour was the second biggest limitation, at 74%, but this edged down from the 77% in the last survey. **Viewpoint:** This appears to support anecdotal comment that, although still serious, supply-chain pressures may be beginning to dissipate. It's going to take a while though …





Prices are as at the previous day's close.