

Progressive Property & Construction Daily



25 July 2022: SHI, PRSR | Construction growth forecasts pulled back again by housing doubts | News – Saudi Arabia plans \$1trn ‘mega-city’ | Fortnight ahead

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

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Company news

SIG (SHI, 34p, £399m mkt cap)

Supplier of energy efficiency and specialist building materials to trade customers across Europe. Acquisition. Miers Construction Products acquired for an initial cash consideration of £28m on a debt- and cash-free basis. A further contingent cash payment of up to £6.7m will be payable, subject to performance during the period to 31 December 2023, together with a deferred cash payment of £1.8m, payable in 24 months. The acquisition is expected to be immediately accretive to SIG’s underlying EPS as well as SIG’s operating margins. ROIC is expected to exceed SIG’s WACC in the first full year of ownership. MCP is “one of the UK’s leading suppliers of specialist construction materials, broadening SIG’s UK offering in high-performance construction accessories and fixings. [It offers] significant growth opportunities across the combined business, driven by SIG’s national supply network and extensive product range together with MCP’s strong global supply chain and supplier agreements”. It was acquired from two founding shareholders and four members of the management team, who are remaining with the business. It has delivered sales growth of c 20% CAGR in recent years. MCP will continue to trade under its existing brand. For the year ended 30 September 2021, MCP reported revenue of £46.7m, operating profit of £4.4m and gross assets of £23.5m. “The business has continued to perform strongly in the current year, with (unaudited) revenue of £55.5m and adjusted EBITDA of £5.1m for the 12 month period to 31 May 2022. The total potential consideration of £36.5m represents a multiple equivalent to 7.1x LTM adj EBITDA. The fixed consideration of £29.8m represents a multiple equivalent to 5.8x adj EBITDA.

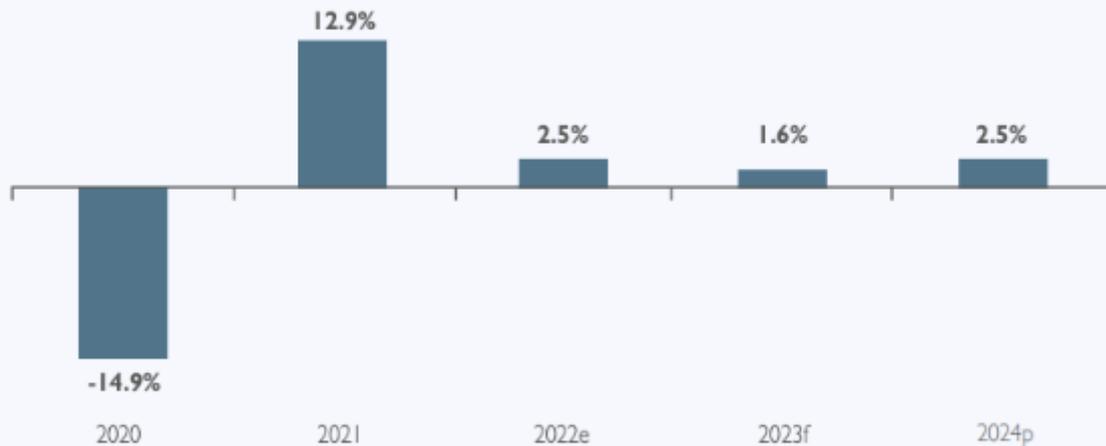
The PRS REIT (PRSR, 109p, £600m)

Real estate investment trust investing in private rental sector (PRS) family homes. Q4 trading update and dividend declaration. Home completions +20% Y/Y, 4,786 (est rental value +27%, £47.8m); number of contracted homes -37%, 693 (ERV -59%, £4.4m); completed and contracted sites +6.2%, 68% (ERV +8.1%, £52.2m); LFL Y/Y rental growth +5.1% (12m to Mar, +4.8%). *Trading:* "These very encouraging performance figures demonstrate the continuing strong market demand for rental homes and the attraction of our high-quality homes, which are well-located, and supported by very high customer service". *Dividend:* Q4, 1.0p.

Economic data

Construction forecasts. Industry output is forecast to rise by 2.5% in 2022 and 1.6% in 2023, according to the latest CPA construction forecasts ([link](#)) as strong growth in warehouses and infrastructure offsets, a slowdown in private housing and a fall in private housing RMI from historic high levels. The latest forecast for 2022 compares to +2.8% three months ago and +4.3% in the CPA's forecast six months ago. Industrial, which covers activity on warehouses and factories, is forecast to rise by 15.0% in 2022 and 9.8% in 2023, driven by online retailing and manufacturers' need for increased stocks given the persistence of supply chain issues over the last two years. Infrastructure, the second largest construction sector, is expected to rise by 8.5% this year and 3.8% in 2023, with pipelines of work in regulated sectors such as roads, rail, water and electricity supplemented by major projects such as HS2, Thames Tideway Tunnel, and Hinkley Point C. However, medium-term, local infrastructure is likely to suffer from councils being financially constrained. Private housing is expected to remain positive but with the UK economy expected to contract in Q4 2022, there remains uncertainty regarding how long housing can remain buoyant. Private housing RMI is the sector most exposed to changes in consumer confidence and real incomes. It is also the sector that is most exposed to materials and products cost inflation, as small contractors are less able to plan and purchase in advance for projects. Overall, output is expected to fall by 3.0% this year and a further 4.0% next year. However, given that activity in the sector reached historic highs in early 2022, the sector has the potential for falling even harder than forecast. This is dependent on the extent to which falling consumer confidence translates into households' reduced investment in their own homes and the risks are to the downside.

Construction Output (% Growth)



Source: ONS, Construction Products Association

Housing. First-time buyer asking prices and equivalent asking rents have risen three times faster compared with pre-pandemic years, according to analysis from the UK's biggest property website Rightmove. Average monthly rental payments are 17% higher (+£128) than they were two years ago, compared to a 5% rise in the two previous years. AveFTB asking prices are at a record of £224,943, 13% higher than two years ago, compared to a 4% rise in the two previous years. The average first-time buyer deposit of 10% has risen by £2,560 over the past two years, compared with a jump of £807 in the two years prior. Ave monthly mortgage payments for new first-time buyers are 22% higher than two years ago. Demand for FTB properties is up by 35% compared to the last more normal market of 2019. According to Rightmove, this is "a sign that despite stretched affordability, many are determined to get on the ladder". Those planning to buy their first home say that rising house prices and soaring energy bills are the biggest challenges they are facing, although 43% hope to be able to have enough saved to buy within the next three years.

In other news ...

Saudi Arabia is planning a \$1trn 75 mile wide skyscraper to house 5 million people, The Telegraph ([link](#), paywall). The mirror-clad megacity is planned to be as high as the Empire State Building could take 50 years to construct, will have its own high-speed railway, a sports stadium and vertical gardens where vegetables are harvested by robots. Leaked architectural designs claim that Mirror Line, an entire city built on stilts, will be the largest structure in the world and have to bend to the curvature of the Earth. But the building – developed at the whim of Saudi Arabia's powerful crown prince – may not see the light of day as Mohammed bin Salman's futuristic Neom megacity being built on the Red Sea coast is beset by hitches as officials scramble to keep up with his wildly ambitious visions.



Fortnight ahead

Construction & property: company and economic news

July

26	OnTheMarket (OTMP)	AGM
27	lbstock (IBST)	HY results
	Breedon Group (BREE)	HY results
	Unite Group (UTG)	HY results
28	Forterra (FORT)	HY results
	Foxtons (FOXT)	HY results
	Segro (SGRO)	HY results
	Hammerson (HMSO)	HY results
	(Est date) Nationwide	House prices
29	Rightmove (RMV)	HY results

August

2	Travis Perkins (TPK)	HY results
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	Keller Group (KLR)	HY results
3	Taylor Wimpey (TW.)	HY results
	Van Elle Holdings (VANL)	HY results
	LSL Property Services	HY results
4	Morgan Sindall (MGNS)	HY results
	Mears Group (MER)	HY results
	Bank of England	Official Rate
	S&P Global	Construction PMI
5	Halifax	House prices

Sources: Companies, Factset, ShareCast.com, Progressive Equity Research

Prices are as at the previous day's close.

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