Progressive Property & Construction Daily

28 July 2022: FORT, FOXT, EPWN, SGRO, LAND, HMSO | New reversal in Retail weighs on commercial property outlook - RICS

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

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Company research

Forterra (FORT, 290p, £634m mkt cap) *– FORT is a client of PERL*

UK's second largest brick producer and leading building materials producer. HY (Jun) results. Link to Progressive Equity Research note, Estimates nudged up after strong interims:

> *"We have nudged up our FY22E adj PBT by 3.1% from £67.0m to £69.1m following "strong trading throughout" the first half in this morning's interim results, which saw a 38% increase in adj PBT to £37.3m and a 45% EPS rise. Both housebuilding and RMI (repair and maintenance) remained strong, the latter boosting demand for the high-margin London Brick range. Capacity was constrained but prices rose by c.30% in six months, supporting margins."*

Company news

Foxtons Group (FOXT, 42p, £131m)

High profile London estate and lettings agent. HY (Jun) results. Rev +3%, £65.1m; adj op prof +13%, £6.2m; PBT +21%, £4.3m; adj EPS unch, 1.1p; interim div +11%, 0.2p. Net cash, £11.6m at 30 June 2022 (31 Dec, £19.4m), after £8.5m of net cash outflow relating to lettings acquisitions, £0.9m of share buybacks and dividends paid of £0.9m. *Trading:* Lettings – Revenue +20%, £6.5m reflecting organic growth of £4.0m, £2.0m incremental revenue from D&G and £0.5m of revenue from the May 2022 acquisitions. “Organic growth was driven by a 23% increase in average rental prices compared to the prior year, longer tenancies, and growth in Build to Rent and short lets. In the second half, supply of lettings properties is expected to remain restricted but strong tenant demand will likely underpin rents over the remainder of 2022”. Sales – “Traded in line with expectations”; rev -17%, as the first half of 2021 “benefited from transaction volumes pulled forward to take advantage of stamp duty relief ahead of the 30 June 2021 deadline, creating a tougher comparative period. We expect a stronger third quarter in sales compared to the prior year with an under offer commission pipeline of £19m at 30 June 2022, significantly higher than both the prior year and 2019. Under offer to exchange conversion continues to be slower than normal due to continuing industry-wide capacity issues in conveyancing and surveying; This means, while we saw good levels of buyer demand and agreed sales, the time for these transactions to exchange contracts has extended which can increase the risk of transaction fall through”. The time for a property to convert from 'under offer' to 'exchange' was approximately 96 days, 23% higher than pre-pandemic norms, “a trend we expect to continue through the second half”. *Outlook:* “We expect adjusted earnings growth in the second half compared to H2 2021, including some additional benefit from the recent lettings portfolio acquisitions. We anticipate adjusted earnings for the full year to be at least in line with market expectations”.

Epwin Group (EPWN, 77p, £112m)

Low maintenance building products manufacturer. HY (Jun) trading update. *Guidance:* “Whilst trading conditions have moderated slightly in June and July, and although also mindful of the wider macro-economic conditions, the Board remains confident of achieving expectations in 2022”. *Trading:* “Conditions remained robust during the first half with revenues 13% ahead of a strong 2021 comparative period at £178.0 million, predominantly driven by pricing to recover input costs. Raw material costs continued to increase in the first half, with PVC resin hitting an all-time high in April, although this has subsequently plateaued. Despite disruption to the supply chains in the wider market, the group has been able to secure sufficient raw materials to meet demand and expects to be able to continue to do so. The group continues to work with its customers to pass-on heightened costs in an equitable manner through price increases and surcharges”. Covenant net debt at 30 June 2022 has reduced to £7.3m (Dec 21, £9.4m), 0.3x adj EBITDA, providing over £65m. HY results, 14 September.

Segro (SGRO, 1,035p, £12,514m)

UK’s leading owner and developer of warehouses and industrial space, also active in Europe. HY (Jun) results. Gross rental income +23%, £239m; adj PBT +29%, £216m; stat PBT -2.7%, £1,375m; adj EPS +22.5%, 16.9p; interim div +9.5%, 8.1p; net debt, £4,764m (HY 21, £4,201m); LTV, 23% (23%), portfolio valuation, £20,480m (£18,377m). *Outlook:* “Occupier demand for warehouse space is strong and continues to be driven by long-term structural tailwinds particularly in those urban markets where our space is used to provide a wide range of often essential goods and services to consumers and businesses. Our sizeable, mostly pre-let, current development programme and well-located land bank provide us with both significant potential to grow our rent roll, and optionality due to the short construction periods of our assets. We will continue to take a disciplined approach to allocating capital to development and investment activity, ensuring that our portfolio should continue to outperform, and expect to invest at least £700m on development capex in 2022.

Land Securities Group (LAND, 719p, £5,344m)

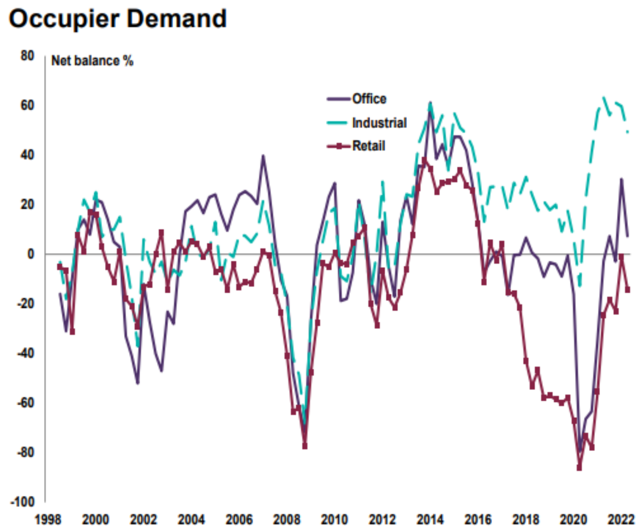
Leading UK commercial property investment, development and management group. Director change. Cressida Hogg intends to retire as Chairman in 2023, having been appointed as a Non-executive Director in January 2014 and Chairman in July 2018. The Nomination Committee, led by the Senior Independent Director, Edward Bonham Carter, has commenced the process to identify and appoint her successor, supported by external consultants. We are heading into the second half with confidence in the outlook".

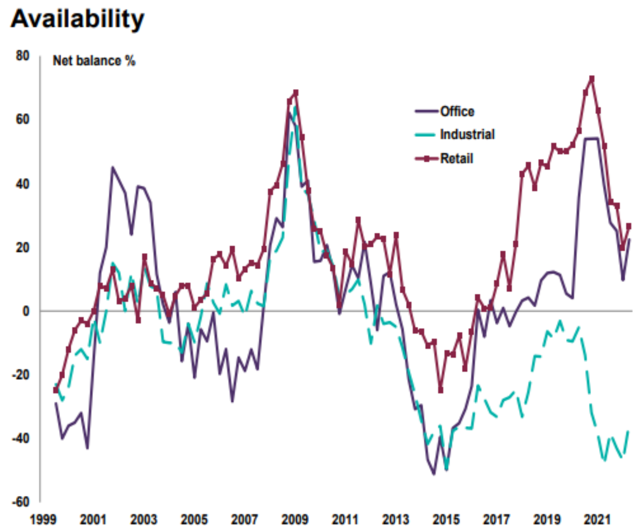
Hammerson (HMSO, 22p, £996m)

UK and European retail property group. HY (Jun) results. Adj net rental income -1%, £86.5m; adj earnings +154%, £51.1m; adj EPS +175%, 1.1p; interim div unch 0.2p; net assets,£ £2,801m (HY 21, £2,746m); net debt, £1,704m; adj LTV 45% (47%). *Trading:* Footfall strengthening to end Q2 at 90% of 2019 levels. Flagship occupancy for managed portfolio stable at 95%, up 2% pts Y/Y. FY21 rent collection, 94% (H1 22, 92%; Q3 22 84%). £10.5m leasing deals concluded in H1 22, with headline leasing 31% above previous passing, net effective rent +1% vs ERV. *Outlook:* "The recovery in footfall, sales, collections, and leasing at our destinations has strengthened year-on-year. We have a strong operational grip on the business. As a result of the actions we have taken since the start of 2021, Hammerson today is a better, more resilient, and financially secure business. Whilst mindful of the wider economic volatility, we have a good pipeline of opportunities ahead and look forward with more confidence".

Economic data

Commercial property. Occupier demand in the commercial real estate sector continued to rise in Q2, albeit at a lower rate of growth with further declines in Retail, according to the RICS UK Commercial Property Survey (link). An aggregate net balance of +17% of respondents reported an increase in tenant demand during Q2, down from +32% in the previous quarter, with the sector breakdown showing occupier enquiries fell for retail space and only grew modestly for offices. However, tenant demand growth in the industrial sector, even if the latest net balance of +49% is the least elevated figure since Q4 20. According to the RICS, the latest survey signals a more cautious tone now coming through in the feedback from respondents, with a weakening outlook across the broader economy anticipated to weigh on the market going forward. Furthermore, following the series of interest rate hikes sanctioned by the Bank of England in recent months, a net balance of -42% of respondents cited a deterioration in credit conditions in Q2. This appears to have dampened momentum behind investor activity in particular, with headline capital value projections turning flat.





Prices are as at the previous day's close.