Progressive Property & Construction Daily

4 August MGNS, MER, TPFG, BBOX | Construction activity in first decline in 19 months | News – Insolvencies a greater threat than inflation; PM candidates fight it out on the Home front | Fortnight ahead

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.

Off on a summer break. Normal service will resume in about two weeks …

Company news

Morgan Sindall Group (MGNS, 1,982p, £935m)

Construction, regeneration and fit-out group. HY (Jun) results. Rev +9%, £1,968m; adj PBT +3%, £54.6m; stat PBT +2%, £53.7m; adj EPS +3%, 95.8p; interim div +10%, 33.0p; ave net cash, £264m (H1 21, £294m). Orders +2%, £8.5m. *Trading:* Construction & Infrastructure – op margin, 3.2% (2.9%); op profit +7%, £24.1m. Fit Out – op margin, 4.6% (5.1%); op profit +10%, £21.2m. Property Services – op +4%, £2.5m. Partnership Housing – op margin 4.9% (4.5%); op profit +15%, £13.9m (HY 2021: £12.1m). Urban Regeneration op profit -16%, £7.3m. “Across the group, inflationary pressures and supply issues have remained a significant headwind. This is expected to continue through the second half and beyond. Where projects are active and underway, the additional costs arising have generally been offset by contractual protection, operational efficiencies, flexible sourcing and (in the case of Partnership Housing) by house sales price inflation. On projects where it has not been possible to mitigate all such additional costs in full, the resulting impact on margins has been unavoidable. Where projects are being priced for future delivery, the inflationary environment has continued to place some project budgets under pressure particularly in Construction & Infrastructure, which in turn has led to some delays. In Urban Regeneration, construction cost inflation has also provided additional challenges to the returns on some of its active developments and on the viability of some of its schemes being evaluated prior to commencement. *Building Safety:* 'Developers' Pledge' extended in July to Urban Regeneration. Costs in H1 not material in Partnership Housing and £7m in Urban Regeneration, taken through op costs. Contingent liability, with initial assessment of potential charge estimated at £40 - 50m in H2, to be shown as exceptional cost, with possible exceptional profits in future years for cost recoveries. *Outlook:* Full year performance expected to be slightly above previous expectations. With the more challenging economic backdrop, our strong balance sheet is critical to operating efficiently and effectively. It allows us to continue making the right decisions and to best position us in our markets, giving us competitive advantage for continued sustainable long-term growth. **Viewpoint:** MGNS is always a good barometer of industry trends. The outlook is circumspect, especially regarding inflation, but clear about the importance of financial strength to clients and in assessing its own supply chain. Interestingly, on Fit-out, the long-term trend to flexible working (accelerated by Covid) is increasing spend per sq ft: there is move to more flexible office space, which costs more to fit-out than a floor filled with rows of desks.

Mears Group (MER, 199p, £221m)

UK housing support services provider. HY (Jun) results. Rev +9.3%, £485m; adj PBT +63%, £18.1m; stat PBT, £17.9m (H1 21, £5.6m); adj EPS +59%, 12.7p; interim div +30%, 3.25p; ave net cash, £28.4m (ave net debt, £8.1m). *Trading:* "Mears benefits from the increasing regulatory drivers and operational complexity in clients' housing needs. Contractual indexation mechanisms and a collaborative approach with clients has helped to mitigate the supply chain, inflationary and labour market challenges during the period. Positive momentum in pipeline conversion underpins organic growth strategy. Strong win-rate of tenders of 40% has contributed £165m to the current order book of £2.3bn, reflecting successful contract retentions and extensions". *Outlook:* "The trading momentum experienced in the first half has continued into H2. The Board is confident in its outlook for the second half, and is upwardly revising its expectations for the full year. Revenues for the full year are now expected to be materially ahead of current market consensus, being in excess of £910m, with adjusted profit before tax to be at least £32m, representing 25% growth versus the prior year".

The Property Franchise Group (TPFG, 275p, £88m)

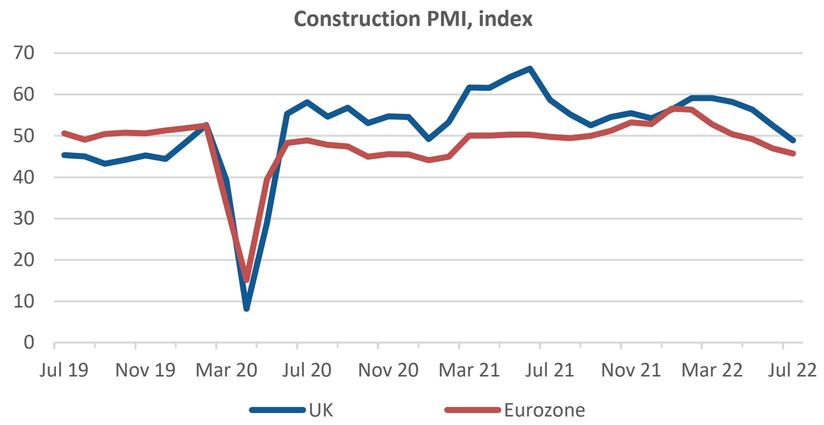
Franchised lettings and estate agent group, enlarged through 2021 acquisition of Hunters, also operating hybrid web-based EweMove platform. HY (Jun) trading update. *Guidance:* "The Board are confident that trading remains in line with market expectations for the full year". *Trading*: Group rev +18%, £13.1m; Management Service Fees +1%, £7.4m, "with the growth in lettings MSF of 12% offsetting the reduction in sales MSF as the residential sales market normalises". Net debt, £2.6m (YE 21, £5.0m). Sales agreed pipeline +15%, £33.8m. ; managing 74,000 rental properties (H1 21, 73,000). EweMove sold 19 new territories (H1 21, 37). HY results, 13 September.

Tritax Big Box REIT (BBOX, 194p, £3,627m)

Real estate investment trust investing in 'big box' logistics properties. HY (Jun) results. Net rental income +16%, £102m; op profit +5.6%, £88.8m; adj EPS -7.4%, 3.73p; interim div +4.7%, 3.35p. Portfolio value +10%, £6.0bn; EPRA TNAV per share +9.1%, 243p; net debt £1,429m (YE 21, £1,356m); LTV 24% (24%). *Trading:* Op profit growth came from strategic delivery of development completions, asset management and LFL rental growth. Decline in adj EPS reflected reduced development management income partially offset by development completions and rental growth. 10.5% growth in contracted annual rent primarily through development letting activity "supporting future accretive earnings growth". *Outlook:* "We have made a very good start to the year with excellent progress across all aspects of our business. We remain confident in our future performance supported by positive and enduring structural drivers in the occupier market, the quality and flexibility of our portfolio and our strong balance sheet. While noting the increasingly uncertain economic outlook, we continue to see strong occupier demand from a more diverse range of customers which is driving rents and supporting our ability to mitigate the effects of higher inflation".

Economic data

Construction activity. UK construction activity dipped into decline for the first time since the recovery from Covid lockdowns as fears mounted about inflation and the economic outlook, according to the latest S&P Global / CIPS UK Construction PMI release (link). The headline seasonally adjusted index fell to 48.9 from 52.6 in June and below the 50 no-change threshold for the first time since January 2021. Lower volumes of residential work and civil engineering activity more than offset a sustained expansion in the commercial segment. A strong rate of jobs growth nonetheless continued as construction companies sought to boost capacity and meet increased order intakes. Meanwhile, improvements in the availability of some materials meant that supplier delays were the least widespread since February 2020. Meanwhile, the **Eurozone** index slid deeper into negative territory, from 47.0 to 45.7 (link). This was driven by a faster drop in commercial construction activity; as fractionally softer, but still marked, falls in activity were signalled for residential and civil engineering.



Source: S&P Global

In other news …

Construction insolvencies. Supply chain insolvencies could rival inflation as a threat to project delivery, according to construction consultancy, Turner & Townsend, Building (link, paywall). Insolvencies rose 72.1% year-on-year in the second quarter of 2022 with SMEs at the greatest risk of failure, according to T&T's latest UK Market Intelligence Report.

Comment. Do they know what they're talking about? My latest Property Week column on the housing policy pirouettes of the two leadership candidates for PM (link, paywall):

> *FFS! What are the Tories up to? Not my abbreviation, but the riposte from Tory MP Angela Richardson after Nadine Dorries criticised Rishi Sunak for modelling Prada shoes while rival Liz Truss scrapes by with £4.50 earrings. You couldn't make it up. Well, both leadership candidates seem to be doing just that when it comes to housing policy (and many others).*

Fortnight ahead

Construction & property: company and economic news

August

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

Prices are as at the previous day's close.