Progressive Property & Construction Daily

6 September 2022: BKG, INL, MBH, BRCK, LORD

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

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Company news

The Berkeley Group Holdings (BKG, 3,447p, £3,756m mkt cap)

London-focused residential developer and urban regeneration group. AGM. *Guidance:* "Berkeley has continued to trade well during the first four months of the new financial year, with the value of underlying sales ahead of the financial year ended 30 April 2022. The good level of demand continues to support pricing above business plan levels, which is sufficient to cover cost increases on a blended basis across Berkeley's developments. Consequently, Berkeley is on track to meet its profit guidance and deliver a pre-tax profit for the current financial year ending 30 April 2023 of £600m and £625m for the year ended 30 April 2024". The profit for the current financial year is anticipated to be around 55% weighted to the second half, in line with production scheduling. Forward sales, representing cash due under exchanged private sales, are expected to be marginally above the £2.2bn held at 30 April 2022. Net cash is anticipated to be at a similar level to the £269m held at the most recent financial year-end, albeit this is subject to normal trading fluxes and the extent to which further share buy-backs are undertaken. Berkeley is still targeting to be working capital neutral over the course of the current and next financial year, in line with its guidance at the year-end. "The operating environment remains volatile and little changed over the couple of months since the June results announcement, with overall cost inflation continued at the rates therein (5-10% pa across the portfolio). In this context, Berkeley's current strategy focuses on ensuring each site has the most appropriate development solution reflective of prevailing requirements, whilst new land will only be added to the land holdings very selectively".

Inland Homes (INL, 28p, £62m)

Leading brownfield developer, housebuilders and partnership housing group, focused on South and South East. Board changes, strategic review and trading update. *Board changes:* CEO and founder, Stephen Wicks is to retire and will step down from the Board on 30 September then will remain available to the business in an advisory capacity for a 12 month period. CFO Nish Malde will act as interim CEO alongside his role as CFO and the group is in the process of conducting a search for a new CEO. *Trading update:* "The interim statement cautioned that the financial performance for the second half and therefore the financial year, was dependent on the completion of planned land sales and on management's expectations regarding the timing of planning approvals to support the completion of planned land sales. In the Land and Asset Management segments, two major schemes are currently experiencing previously unforeseen planning delays and therefore the expected timing of these land disposals has now also been revised. Planned land sales still to complete were expected to contribute over £75m of revenue and significant profitability, however there is now a question on the legal completion date which will determine the recognition point for the relevant financial year. Some or all of these land disposals will now slip into the next financial year ending 30 September 2023. In addition, the project margins in our contract income division which delivers partnership housing and our housebuilding division which focuses on self-delivery of land with planning consent have not been satisfactory for some time. As a result, the Board commissioned an independent review of all construction projects still to complete. As previously reported, results for the first six months of this financial year were adversely affected by an additional £4.0m of expected costs to completion. Senior management changes to the construction division have been made and further provisions of £15.4m will be made in the second half of the year due to build cost inflation which is persisting at levels beyond that previously forecast in our cost estimates and design changes, making a total in aggregate of £19.4m for the financial year. It is also recognised that in common with the housebuilding industry, there remain inflationary pressures and supply chain issues in the broader marketplace. The Group has also reviewed various receivables and expects to make provisions of £4.7m for expected future credit losses based on current economic circumstances. As a result of delays to legal completions of planned land sales, the provisions in contract income partnership housing contracts and further expected credit loss provisions noted above, the group is expected to make an operating loss of approximately £29.3m for the year ending 30 September 2022 and a loss before taxation of approximately £37.1m. At this level of loss before taxation, the revised forecast position for net assets at 30 September 2022 is approximately £146m which translates to an IFRS Net Asset Value of approximately 65p pence per ordinary share. Net debt is expected to be remain under the £100m core strategic target set for the financial year. With the anticipated losses for the financial year the group is a going concern but it does mean that [it] would breach the interest cover covenant with one of its lenders where borrowings are approximately £19.3m. These borrowings are by one of the group's subsidiaries and have been guaranteed by Inland Homes plc. This represents the only expected breach of financial covenants … and Inland Homes have had positive discussions with the lender concerned to procure a waiver from this potential covenant breach". *Strategic review:* "Inland Homes with its attractive land portfolio and differentiated business model is well positioned to create significant shareholder value over time. The Board is confident that Inland Homes will make good progress in the coming year. The significant and continual deterioration of the planning system has presented Inland Homes with challenges in predicting the timing of planning permissions and thus the realisation of asset values. Demand for consented land within the South East remains very strong despite rising interest rates and inflationary pressures. The Board therefore believes that this is an appropriate time to conduct a strategic review of the business and have appointed Lazard & Co to assist with this process".

Michelmersh Brick Holdings (MBH, 89p, £85m)

UK's fourth largest brick manufacturer by volume; Belgian operation acquired in February 2019. HY (Jun) results. Rev +14%, £34m; gross margin, 37.7% (HY 21, 40.1%); PBT +12%, £5.6m; EPS +13%, 4.6p; interim div +13%, 1.3p; net cash, £9.9m (£4.1m). *Trading:* "Positive start to 2022. Strong order book for the first half, with comparable and well-balanced forward order book for the second half of 2022. Portfolio price increase implemented on 1 July 2022 to mitigate ongoing elevated inflation rates. *Outlook:* "Our well-balanced forward order book, resilient end market demand and anticipated margin improvement in the second half keeps us on track to meet full year expectations".

Lords Group Trading (LORD, 70p, £114m)

Building materials distributor. HY (Jun) results. Rev +20%, £214m; EBITDA margin, 6.6% (H1 21, 6.2%), "on track to reach 7.5% medium term target"; PBT +54%, £6.4m; EPS +4.3%, 3.9p; interim div +6.3%, 0.67p; net debt, £21.1m (£25.6m). *Trading:* "In line with expectations". Merchanting division rev growth +73% (+15% LFL). Four completed acquisitions in the Period. *Outlook:* The group "continues to see positive customer demand across the Group's product offering. Lords is well on track to deliver IPO target of £500m revenue in 2024, as well as 7.5% EBITDA margin in the medium term".

Brickability Group (BRCK, 84p, £252m)

Construction materials distributor. AGM. *Guidance:* "When we issued our preliminary results for the 2022 financial year, it was noted that trading for the first quarter of the 2023 financial year had been very encouraging and that the group was, at the time, tracking slightly ahead of the markets expectations. Trading has since continued strongly through the summer months and the group is in line to meet these updated market expectations for the full year ending 31 March 2023. FY 23 has seen the Group continue to execute on its growth strategy, with the acquisition of Modular Clay Products increasing the Group's presence in the specification sector and bringing new access to a range of European manufacturers, further boosting Brickability's brick import capabilities. Whilst the macro-economic conditions in the UK and Europe of high energy prices and inflation have been well publicised, the UK housebuilding market continues to be in structural deficit and housebuilding activity continues to be resilient. With that in mind the Group looks to the near future with cautious optimism".

Prices are as at the previous day's close.

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