Progressive Property & Construction Daily

8 September 2022: SFR, VTY, SDY, SHI, SAFE | House prices still rising but volumes fading – RICS | Viewpoint – Rent controls, 'the road to housing hell'?

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

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Company research

Severfield (SFR, 56p, £173m mkt cap) *– SFR is a client of PERL*

Britain's leading structural steel group, with sales to Europe and a rapidly growing Indian JV. AGM statement. *Guidance:* "Performance in the first five months of the 2023 financial year has been strong and trading is in line with management's expectations, with several ongoing contracts expected to deliver significant profits in H2". The UK and Europe order book has risen by 28% Y/Y to £483m at 1 September. The 50:50 Indian JV, JSSL, has continued to ramp up its Bellary facility towards its maximum capacity of c.100,000 tonnes in 2023. The order book is up 13% Y/Y to £152m and, together with an improving pipeline of potential orders, "reflects a continuing strong underlying demand for structural steel in India". Link to Progressive Equity Research note, Trading in-line, with booming order book:

> *Severfield, the UK's top steel construction specialist, confirms in today's AGM statement that performance in the first five months of FY23E has been strong and that trading is in line with management's expectations. We are not changing our estimates but highlight what we believe to be major growth prospects in response to rapidly changing geopolitical and climate change priorities in the group's markets in the UK, Europe and India.*

Company news

Vistry Group (VTY, 802p, £1,749m)

Formed from the merger of Bovis Homes and housebuilding and partnerships divisions of **Galliford Try** (GFRD). Has commenced a recommended shares and cash offer for **Countryside Partnerships** (CSP). HY (Jun) results. Completions +5.0%, 5,409; adj rev +5.5%, £1,328m; adj PBT +14%, £190m; stat PBT -29%, £111m [an additional provision of £71m has been taken in the period to meet additional liabilities covered by the Fire Safety Pledge]; adj EPS +14%, 67.4p; interim div +15%, 23p; net cash, £115m (H1 21, £32m). *Trading:* "Excellent H1 performance, ahead of our expectations at the start of the year [guidance raised in July trading update] and significantly ahead of a strong performance in H1 21, supported by positive market trends. We have seen positive demand across all business areas". Ave weekly private sales rate per site +11%, 0.84. "Housebuilding is making excellent progress towards achieving its targets of 25% gross margin and 25% ROCE by 2025"; adj gross margin in H1, 23.0% (21.8%)". Partnerships adj op. margin, 10.2% (9.1%) driven by an increased proportion of higher margin mixed tenure revenues, now 52% (42%) of total Partnerships revenues. Total costs +6% in H1, reflecting increasing energy prices; cost inflation now running at c. 8%. Price increases have offset cost increases in the year to date. *Outlook:* "Demand in the second half is reflecting the more typical seasonal trends seen prior to 2020. We continue to see a good level of prospects and pricing remains firm. Partnerships is extremely well positioned to meet the very high level of counter-cyclical demand across all tenures. In the land market, we are seeing some early signs of settling, after a more heightened period of demand. We remain positive on our outlook and continue to expect adjusted profit before tax for FY 22 to be c. £417m". Comment from CEO Greg Fitzgerald in results meeting (ongoing), "The market has come off a bit".

Speedy Hire (SDY, 40p, £195m)

UK and Ireland tool, equipment and plant hire services provider. AGM. *Guidance:* "Trading overall is in line with the Board's expectations for the full year. Our business is resilient and well positioned to manage any resulting changes in market conditions due to our diverse end market exposure, broad customer base and strong balance sheet". *Trading:* In the five months to August hire revenue c. +6% Y/Y. "We have secured new contract wins from major customers effective from October which are expected to offset some recent weakening in market conditions. Price increases implemented in April have not had a material impact on volumes. We are controlling costs through initiatives to improve operational efficiency and the effective management of our supply chain, mitigating the effect of inflationary pressures". A significant national marketing campaign is underway to promote hire to consumers via B&Q and diy.com. The Kazakhstan JV is continuing to perform well and ahead of expectations following new work secured in FY2022. Net debt c. £95m and cash and unutilised facilities of are c. £85m. The Group has invested c.£28m in the hire fleet in response to demand and to mitigate the impact of supply chain lead times and price inflation. HY results, 15 November.

SIG (SHI, 31p, £370m)

Supplier of energy efficiency and specialist building materials to trade customers across Europe. Board changes. Steve Francis will step down as CEO early next year, following the group's turnaround and return to profitability after three years in his role, to be succeeded by Gavin Slark, formerly CEO of Grafton Group for 11 years. As previously announced by Grafton, he will step down on 31 December 2022.

Safestore Holdings (SAFE, 1,031p, £2,174m)

UK-focused self-storage group, with stores in Paris, Barcelona and Netherlands. Q3 trading update. *Guidance:* "The first three quarters' trading performance has provided us with a strong base for the rest of the financial year and we anticipate that the business will deliver FY 22 adj dil EPRA EP, in line with the previous guidance of at least 47p". *Trading:* Q3 group rev +15.1%, +9.5% LFL (UK, +10.7%; Paris, +4.8%; Spain, +8.3%). LFL occupancy, 85.7% (Q3 21, 87.0%). UK, 85.8% (87.5%); Paris, 84.8% (84.7%); Spain 91.6% (90.4%). *Outlook:* "Our new store pipeline represents c. 14% of our existing portfolio's maximum lettable area, which we anticipate will continue to grow over the coming months. Our strong and flexible balance sheet has significant funding capacity, allowing us to continue to consider strategic, value-accretive investments as and when they arise.

Economic data

Housing market. New buyer enquiries continued to fall in August but a parallel decline in new sellers maintained price growth, according to the RICS Residential Market Survey (link). Homebuyer enquiries reached a net index (agents reporting a rise minus those predicting a fall) of -39% in August (Jul, -26%), the fourth consecutive negative reading the steepest decline since the early stages of the pandemic. New vendor instructions registered -15% (Jul, -6%). However, the squeeze on supply supported a still strong balance of +53% reporting increasing house prices, albeit down from +62% in July's survey. The 12-month outlook for prices has fallen to +3% from +78% in February. Agreed sales continued to fall in August, to -22% from a figure of -13%, a fifth consecutive months. Sales predictions for the three months ahead slipped further into negative territory and, for 12 months ahead, was the most negative since the series began in 2012, -45% from July's -36%.

In other news …

Rent controls. My take, in my latest column for Property Week, on government proposals to peg social housing rents to +5% (and the even more extreme attempt North of the Border to freeze those *and* private rents), *Will rent cap prove anti-social?* (link, paywall):

> *"The road to housing hell is paved with government good intentions. The latest example is the thoroughly laudable aim of sheltering social housing tenants from double-digit rental inflation. The problem is that might stop development of affordable housing in its tracks."*

Prices are as at the previous day's close.

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