Progressive Property & Construction Daily

24 November 2022: SPR, CTO, MBH, KGF, SFE, PCA | Economic data - Merchants report product sales rises but availability improving

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

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Company research

Springfield Properties (SPR, 91p, £108m mkt cap) *– SPR is a client of PERL*

Scotland's only quoted housebuilder. ESG strategy. Progressive Equity Research has issued a note highlighting Springfield's sustainability strategy, ESG credentials spotlighted in industry awards:

> *"Springfield's longstanding focus on sustainability, which it detailed along with social and governance commitments in its September ESG strategy report, was recognised last week in top housebuilding awards for two of its 'Village' developments – in our view, one of the multi-tenure developer's key differentiators. Scotland's only quoted housebuilder has, on these and other locations, provided a range of green energy, social initiatives and innovative approaches to construction."*

Company news

TClarke (CTO, 125p, £55m)

Specialist electrical and building services contractor. Trading update. *Guidance:* FY (Dec) 22 “revenues are expected to be in the region of £410m; with some £40m previously expected to be delivered in 2022 now being reprogrammed into 2023. Operating margins are anticipated to be circa 2.8%. As a result of this strong performance, EPS is expected to rise by approximately 27% in 2022 when compared to the prior year. The Group remains on track to deliver £500m revenues in 2023”. *Trading:* “Since the half year results on 14 July, trading across the group has been strong. Our high-quality secured order book continues to provide good forward visibility, despite a challenging market backdrop”. Orders £545m (YE 21, £534m), with £384m secured for 2023. Ave YTD month-end net cash, £2m. “Many of our clients demand performance bonds to be in place. Due to the strength of its balance sheet TClarke has £65m of bonding capacity, one of the largest of our peer group”.

Michelmersh Brick Holdings (MBH, 79p, £75m)

UK’s fourth largest brick manufacturer by volume; Belgian operation acquired in February 2019. YE (Dec) trading update and acquisition. *Guidance:* “. As a result of the ongoing robust trading and careful management of the, the Board expects [FY 22] revenue and profit to be ahead of market expectations”. *Trading:* “Following the half year results on 6 September, the trading performance of the Group has continued to be positive into the final quarter of the financial year and we continue to see robust demand in our end markets. Despite continuing to operate in a more challenging environment, the group is managing its supply chain and energy costs in line with management expectations. The group continues to have a strong and well-balanced forward order book, a strong balance sheet with cash reserves post acquisition of Fabspeed Holdings as announced today of £8.5m, giving management confidence as we look into 2023”. Share buyback programme of up to £3m launched today. *Acquisition:* Fabspeed Holdings, a brick fabricator and manufacturer of off-site pre-built brick products, acquired for an initial cash consideration of £6.2m million, representing 5.3x historic EBITDA, plus 24-month earn out of up to £2m. It is expected to be earnings accretive in first full financial year following completion before synergies. The acquisition “enablES us to create a leading business in both clay and pre-fabricated products”. FY results, 29 March.

Kingfisher (KGF, 254p, £4,956m)

Owner of home improvement stores across France and Europe, including B&Q in UK. Q3 (Oct) trading update. Total rev +0.6%, £3,263m (+0.2% LFL constant currency). UK & Ireland, +0.1%, £1,545m (-2.3% LFL; B&Q -3.5%, Screwfix -0.5%). *UK trading:* Store closures during late Queen’s funeral impacted UK & Ireland LFL sales in Q3 by -0.6%. B&Q “sales in line with expectations across all categories. In particular, building & joinery continues to see strong momentum, with a positive LFL supported by demand from trade customers and from high demand of insulation. Showroom sales performed well in the quarter, with resilient demand in the bathroom & storage category”. Screwfix, “Demand from trade customers supported a strong YoY performance in the building & joinery and bathroom & storage categories. Resilient sales from its tools & hardware and EPHC (electricals, plumbing, heating & cooling) categories. YTD, 48 new stores opened , on track to open 80 new stores during this financial year. *Outlook:* we remain confident in both the resilience of our industry and in continuing to grow ahead of our markets. FY (Jan) results, 21 March.

Safestore Holdings (SAFE, 924p, £1,958m)

UK-focused self-storage group, with stores in Paris, Barcelona and Netherlands. Q4 (Oct) trading update. Rev +10.8%, £56.8m, LFL +5.1% (YTD +14.3%, £213m, LFL+ 10.7%); UK LFL rev +5.8%, £41.9m (YTD +12.2%,

£160m). *Trading:* Occupancy, 82.1% (Q4, 84.5%); UK, 82.6% (85.4%). "The strong performance for the year is especially pleasing as it follows a record 2021. The result was driven by strong revenue growth in the UK, good performances in our Parisian and Spanish businesses, and seven months' contribution from our Benelux business". *Outlook:* "Early trading in the new financial year shows solid enquiry and new let growth compared to last year with rates paid by new customers continuing to grow. Our most significant upside opportunity is from filling our existing unlet space. As guided at our third quarter results, the Board anticipates that the business will deliver adj EPRA EPS for FY 22 of at least 47p".

Palace Capital (PCA, 220p, £97m)

Diversified UK regional commercial property REIT. H1 (Sep) results. Adj PBT -12%, £3.5m; IFRS loss before tax, £12.4m (H1 21, +£8.0m); adj EPS -9.2%, 7.9p; interim div +27%, 7.0p; EPRA TNAV 356p (390p); net debt, £75.8m (YE 22, £73.6m); LTV, 32% (HY 21, 28%). *Trading:* Occupancy 89% (89%). "At an operational level, the company continues to make steady progress with its asset management activities, as well as reducing its level of gross debt and its cost base. In our October trading update we announced that we have decided to pause the timing of material property disposals for the time being due to significant volatility and uncertainty and this remains the case. However, we are continuing to successfully sell small, individual assets which lend themselves better to private buyers and special purchasers". *Outlook:* "Although we are hopeful of stability returning, the commercial property market continues to be adversely affected both in terms of investment activity and in the downward re-pricing of assets. Our priority remains to actively manage the portfolio and further reduce gross debt through selective sales of smaller properties. Our relatively low gearing gives the company flexibility to determine when the appropriate time is to resume significant disposals … remaining mindful of consolidation in the real estate sector".

Economic data

Builders merchants. Sales volumes by merchants fell 9.0% Y/Y in Q3 but price inflation of 14.6% pushed revenue up by 4.3%, according to the according to the latest Builders Merchants Federation survey (link). Renewables & Water Saving products showed the greatest growth,+38.4%, of the 12 sectors covered; Landscaping (-1.3%) and Timber & Joinery Products (-11.1%) were the only ones to fall. However, the report indicated that overall availability of building materials and products is now returning to pre-pandemic levels. Inflationary pressures rather than availability now present the main challenges for energy-intensive products such as glass, concrete, cement, plasterboard and bricks. Pinch points are still being felt from the restricted supply of semi-conductors, affecting electro-technical products and gas boilers. With current demand in the UK still outstripping supply, coupled with ongoing capacity and logistics issues in Asia, extended delivery times are likely to remain until the middle of 2023 and inflationary pressures will persist for these products.

Prices are as at the previous day's close.

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