Progressive Property & Construction Daily

6 December 2022: INL, AHT, EBOX, CSH | Economic data – UK construction PMI remains positive (just) while Eurozone continues slide | News – Gove waters down 300,000 homes pa target and challenges housebuilders' competitiveness

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

Company news

Inland Homes (INL, 18p, £40m mkt cap)

Leading brownfield developer, housebuilders and partnership housing group, focused on South and South East. CEO appointment. Donagh 'Don' O'Sullivan will join the Board today as CEO. He was formerly CEO of the privately owned, Galliard Homes from July 2017 until March 2022, having joined in 2001 originally as a contract manager. A civil engineer, he worked on major contracting projects for Balfour Beatty in London before joining Galliard. At the time, its construction division was in its infancy and he was employed to grow and expand this in-house capability within the property development business, enabling the company to take on and deliver some of the largest residential development projects in London.

Ashtead Group (AHT, 5,036p, £22,112m)

US-focused plant hire group. Q2 (Oct) results. Rev +28%, US$2,537m (H2, +26% Y/Y); adj PBT +28%, US$688m; stat PBT +40%, US$658m; adj EPS +31%, 118c; interim div +20%, 15c; pre-IFRS net debt, US$6,212m (HY 22, US$4,677m); net debt/EBITDA, 1.6x (1.5x). *Trading:*

Outlook: "The group's strong performance across all geographies continues. In the period, we invested $1.7bn in capital across existing locations and greenfields and $609m on 27 bolt-on acquisitions, adding a combined 72 locations in North America. This significant investment is enabling us to take advantage of the substantial structural growth opportunities. We are achieving all this while maintaining a strong and flexible balance sheet with leverage near the bottom of our target range". UK, H1 rev -1.9%, £361m; EBITDA -4.6%, £110m; margin, 49.1% (50.2%). Fall in revenue was largely due to demobilisation of free Covid mass testing sites in April 2022; excluding this impact, rental only revenue increased 21%. *Outlook:* "We now expect full year results ahead of our previous expectations and the Board looks to the future with confidence".

Tritax EuroBox (EBOX, 67p, £537m)

Investor and manager of Continental European logistics real estate assets. FY (Sep) results. Rental income +32%, €57.9m; adj EPS -8.0%, 4.24c; div unch, 5.00c; EPRA TNAV +2.2%, €1.38; LTV, 35.2% (FY 21, 13.3%). *Trading:* Portfolio value +38%, €1,766m; LFL rental growth, +4.0% (+2.4%); vacancy rate, 0.3% (3.3%); unexpired lease term, 8.0 years (9.3). Acquired nine high quality, sustainable assets at a net initial yield of 3.7% adding €20m pa to annual rent. Development schemes totalling 31,200 sqm fully let producing €1.4m of annual rental income. *Outlook:* "Economic conditions have changed significantly since June, and our sector will not be immune to subsequent impacts. However, our high-quality portfolio, strong customer base and robust balance sheet mean we are very well positioned to weather the economic headwinds we are facing. The lower cost base and additional revenues generated from operational activity, provide positive momentum to earnings going into 2023 and support a fully covered dividend going forward".

Civitas Social Housing (CSH, 61p, £372m)

Care-based social housing REIT, providing homes for working age adults with long-term care needs. H1 (Sep) results. Net rental income +6.0%, £26.6m; EPRA earnings -8.7%, £13.6m; NAV +5.6%, 115p; EPRA EPS -7.5%, -7.5%, 2.22p; interim div +2.7%, 2.85p; LTV, 33.7% (H1 21, 34.6%). *Trading:* property valuation +5.6%, £1,000m. "Further growth in rents is anticipated in the remainder of 2022 and 2023 supported by significant underlying local authority demand and reduced supply in many care categories. Financing costs have now been fixed for several years forward to provide greater degree of certainty". *Outlook:* "There is encouraging Government support for the provision of services for vulnerable individuals [and] clear demand for delivery of quality, sustainable accommodation at a fair price. Recent years have seen a reduction in the pace of delivery of adapted care-based housing at a time of increased demand for many care conditions across many parts of the UK. The company continues to actively explore opportunities to narrow the discount to NAV and enhance shareholder value".

Economic data

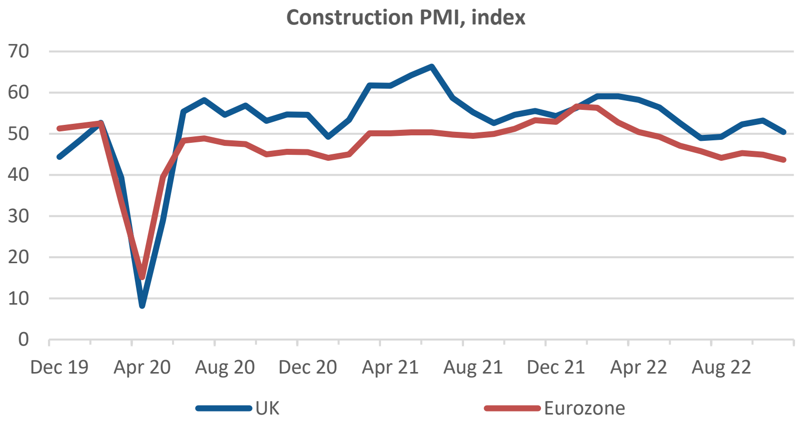
Construction activity, UK/Eurozone. Construction activity in the UK rose marginally in November but at the slowest rate of growth since August, according to the Construction PMI survey from S&P Global (link). The headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index declined to 50.4 from 53.2 in October, for the third consecutive month above the 50 no-change level and below economists' expectations of 52.0. Commercial work was the only segment to register an overall rise in business activity in

November (51.1). House building activity meanwhile stalled (50.0); housebuilders noted higher mortgage rates and falling consumer confidence as factors that had held back residential activity. Civil engineering activity (46.7) declined for the fifth consecutive month. Lower volumes of output were mainly linked to a lack of new work to replace completed projects. November data, however, pointed to modest increase in total new orders, following a slight decline in October. Employment numbers continued to increase in November, but at the slowest rate of increase since February 2021, explained by rising costs and weaker growth leading to more cautious hiring policies. In contrast to the slowdown in staff recruitment, latest data signalled the fastest increase in input buying since July, linked to rising forecast workloads and improved raw material availability, although some survey respondents cited efforts to place orders ahead of supplier prices hikes.

Meanwhile, the Eurozone Total Activity Index fell from 44.9 in October to 43.6 in November, indicating a seventh consecutive monthly contraction (link). The decline was the steepest since May 2020 and marked overall. France (40.7) led the downturn, followed by Germany (41.5) which had recorded the worst trend in the prior two months. By contrast, Italian construction companies registered the first increase in activity levels in five months (52.0).

In other news …

Housing policy. The Government has dropped its mandatory 300,000 homes a year housebuilding target. Meanwhile Levelling-up and Housing Secretary Michael Gove has urged the Competition and Markets Authority to conduct a review of house building. Today's Levelling Up and Regeneration Bill (link) maintains the overall 300,000 homes target but local and regional guidance will be "a starting point with new flexibilities to reflect local circumstances". This follows threats of a Tory MP rebellion over the issue. New penalties are proposed for "slow developers" failing to build already-approved homes. Local authorities will get more power to promote brownfield development. Green Belt protections will be strengthened, with new guidance setting out that local authorities are not required to review Green Belt to deliver homes. In his letter to the competition and markets watchdog, Gove writes: "It is critical that we have a house building sector that operates effectively to deliver the homes that people need. Housing plays a key role in achieving our Levelling Up ambitions. The last house building market study took place 14 years ago and since then, there have been significant changes in both the market and the challenges facing the country as a whole – such as net zero, changes to the structure of the market following the financial crisis and changing demographic trends. Reflecting on the above, and in the context of increasing economic pressures, which are impacting on individual citizens and businesses alike, it feels timely that the CMA should be considering a market study. In the event such a study progressed, the Government would welcome recommendations for measures we, industry and the regulators could take to make sure the housing market is operating effectively". As an independent organisation, the CMA must decide whether to take up the request and said it would formally respond in January.



Source: S&P Global

Prices are as at the previous day's close.

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