Progressive Property & Construction Daily

19 January 2023: KIE, MSLH, HOME | House prices expected to fall by c. 3% … then rise - RICS

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

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Company news

Kier Group (KIE, 66p, £295m mkt cap)

Hybrid construction, property and services group. H1 (Dec) trading update. *Guidance:* "The half-year results are anticipated to be in line with the Board's expectations. This reflects a strong operational performance in the period despite inflationary pressure which the group remains confident it can continue to mitigate going forward". Orders at 31 December 20222 expected to be c. £10.1bn, an increase of c. 3% from the year-end position and significantly higher than the prior period, £8.0bn. Net debt at 31 December 2022 is expected to be similar to 31 December 2021. "Net debt was impacted by the seasonal working capital unwind in the business. This is typical for the first half and a reversal is expected in the second half. The Group continues to generate positive operating cashflow in FY23 and expects to have a net cash position at the year-end". Ave month-end net debt is expected to be c. £50m higher than the prior period (HY 22, £191m), in line with the Board's expectations. Positive operating cash flow was used to reduce the average month-end supply chain finance facility balance by over £60m, pay adjusting items, pension deficit obligations and the remaining HMRC Covid-19 support of c. £10m. *Outlook:* "The group is well positioned to continue benefiting from UK Government infrastructure spending commitments and focused on the delivery of a sustainable net cash position and a sustainable dividend, in line with our medium term value creation plan". HY results, 9 March.

Marshalls (MSLH, 315p, £796m)

Leading manufacturer and supplier of paving and hard landscaping products. FY trading update. *Guidance:* "The group's performance since the trading update on 7 October 2022 has been as anticipated and the Board expects to deliver adjusted PBT for the full year that is in-line with market expectations". YE net debt, £191m, "reflecting strong working capital management". *Trading:* Marshalls Landscape Products rev -7% Y/Y, £394m. It "experienced tough market conditions due to its exposure to the more discretionary elements of private housing RMI". The rate of contraction in Qr moderated to 12% compared to 16% in Q3, reflecting a more stable inventory profile in the distribution channel. Actions taken to reduce production capacity and costs reduced annual operating costs by approximately £10m. Marshalls Building Products rev +17%, £193m and "traded robustly in 2022, despite experiencing some slowing of activity in the final quarter", with poor weather disrupting construction sites in December, and with "a particularly strong performance from the Bricks and Masonry business". Marley Roofing Products delivered revenue of £132m in the eight months of ownership, Y/Y growth of 6%. The rate of revenue growth moderated during the second half due to "a softer market backdrop and destocking in the distribution channel", with revenue in the final quarter being in-line with 2021. "The integration of Marley into the group continues to progress in-line with plan, and the Board remain confident of extracting value from operational improvements and leveraging best practices within the group". *Outlook:* "Whilst mindful of the uncertain macro-economic environment and its impact on the sector, the Board remains confident of making continued progress towards Marshalls' ambition to become the UK's leading manufacturer of products for the built environment. The Group remains well placed to achieve this goal, supported by its diversified products and end markets, strong market positions, established brands and focused investment plans to drive further operational improvements". FY results, 15 March.

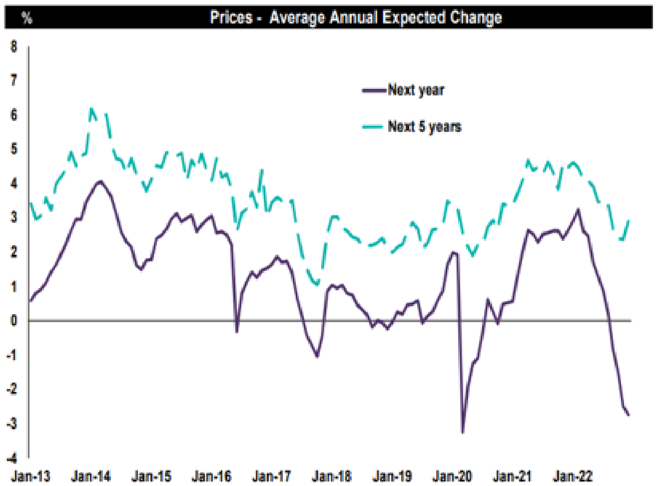
Home REIT (HOME, 38p, £301m)

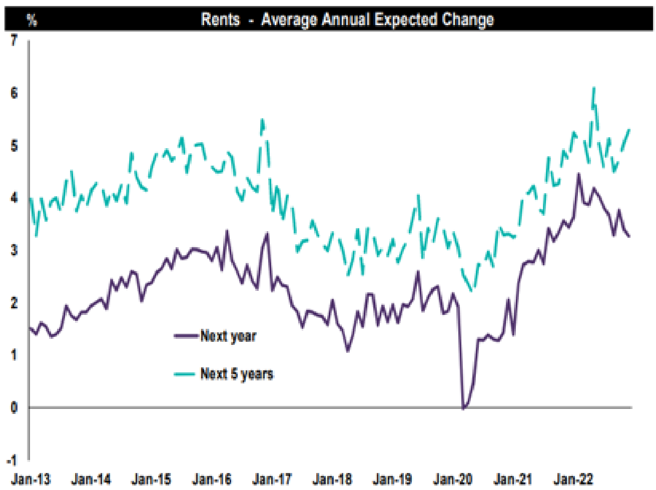
Real estate investment trust funding the acquisition and creation of properties providing accommodation to the homeless. Appointment of external property manager and update on company audit. "Alvarium Home REIT Advisors, the Investment Adviser, has entered into an agreement with Simpact Group, a specialist social housing property manager, to accelerate and further support the Investment Adviser's ongoing asset management and monitoring programme. The cost of this significant investment is borne solely by the Investment Adviser". Simpact will assist the Investment Advisor with: tenant liaison and monitoring, in addition to rent collection and the recovery of rent arrears; a detailed review of the Company's portfolio and improved disclosure; the provision of extensive operational advice to certain tenant partners to improve underlying performance. *Update on audit:* "The Company has previously announced, it is standard practice that, should material allegations be made against a company undergoing an audit, then such company is subjected to an enhanced set of audit procedures which include, but are not limited to, a detailed review of the material allegations made against the Company and its advisors. The Company's key priority is the publication of its audited financial statements for the year to 31 August 2022, and its advisors have continued to work tirelessly with its auditor, BDO, with all parties working over the Christmas break so that this can be accomplished as soon as possible. Whilst a significant amount of work has been undertaken, as part of the scope of the enhanced audit procedures, BDO has requested the provision of substantial data sets across what is a granular portfolio of over 2,400 properties. Whilst the Company expects to be able to provide this additional information, BDO has advised that it will not be able to conclude its work and internal review process in advance of 31 January. The Company will continue to work with BDO so that it is able to publish the results as soon as is practically possible".

Economic data

Housing market. A significantly increased proportion of estate agents reported falling prices in December, yet with the expected decline in actual prices over the next 12 months estimated at less than 3%, according to the latest RICS Residential Market Survey (link). The net balance of surveyors reporting price declines on a rolling three-month basis widened to 42%, from 26% in November. Steep as this looks on a statistical basis, RICS analysis indicates a slowing decline in actual terms to just short of 3% on a 12-month ahead basis (below, left). However, there was an increase in expectations over a five-year time frame, to an annual average of over +3%. Buyer enquiry levels continued to decline, but with the negative balance little changed at -39%, from -38% in November. New vendor instructions fell to -23%, the weakest figure since September 2021 – arguably limiting potential falls in house prices.

In the Lettings survey, tenant demand increased over the month albeit with a net balance of +28% the least elevated reading since February 2021, indicating a slower rate in growth after several years of expansions. New landlord instructions remain on a downward trend, with a net balance of -24% of respondents seeing a decline in December. Near-term expectations continue to point to rents being squeezed higher, with the net balance of respondents anticipating an increase remaining broadly unchanged from last month at +42% - this equates to expectations of actual rents to around 3%, down from the high of 4.5% earlier in 2022 (below, right).





Prices are as at the previous day's close.

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