Progressive Property & Construction Daily

25 January 2023: FORT, WJG, VANL, INL, EPWN, LORD, BBOX, HOME

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

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Company research

Forterra (FORT, 206p, £437m mkt cap) *– FORT is a client of PERL*

UK's second largest brick producer and leading building materials producer. FY (Dec) trading update. *Guidance:* "Strong performance with FY22 result expected to be slightly ahead of management's expectations and also above pre-pandemic comparators. Continued strong operating cash generation with closing net debt of less than £10m". FY results, 9 March. Link to Progressive Equity Research note, Strong FY22 performance, uncertainty ahead:

> *"Leading UK brick and concrete products group Forterra confirms in today's trading update that FY22 adjusted PBT slightly exceeded management expectations despite the housing slowdown after September's mini-budget. We are slightly ahead of consensus at £69.1m and maintain our estimate, but net debt was significantly better than our forecast. Given the uncertainties in housing, we have not yet issued forecasts for FY23E but believe more clarity may emerge at the final results in March, when we suspect the market may be healthier than many fear."*

Company news

Watkin Jones (WJG, 109p, £280m) – *WJG is a client of PERL*

Residential for rent developer and manager in the build-to-rent (BTR) and student accommodation sectors. FY (Sep) results. Rev -5.4%, £407m; adj PBT -4.5%, £48.8m (in line with PERL estimates); stat PBT -64%, £18.4m (£30.4m Building Safety Act provision); adj EPS -9.8%, 14.8p; div -9.8%, 7.4p; net cash £82.6m (FY 21, £124.6m). *Outlook:* "Interest in forward sales is returning to the market although new forward sales are assumed to be weighted to H2 which will impact H1/H2 revenue and operating profit weighting. The secured development pipeline has been maintained at £2.0bn. Gross margins for PBSA and BTR will continue to be impacted by purchasers' increased borrowing costs and are currently anticipated to be c. 12 - 14% in the short term. However, we expect to recover blended Group gross margin to over 15% in the medium term. Our balance sheet strength will allow us to acquire good quality development pipeline opportunities which will both support long term growth and provide scope to take advantage of opportunities created by the more volatile market environment. We are looking at a range of initiatives to mitigate market volatility and enhance the group's long term growth potential". PERL intends to issue a full note shortly.

Inland Homes (INL, 17.5p, £40m)

Brownfield developer, housebuilders and partnership housing group, focused on South and South East. Sale of strategic land portfolio and trading update. *Portfolio:* The Board has identified a number of non-core assets for disposal over the next few months. A decision was made to dispose of Inland's greenfield strategic land option portfolio, of which 81% are located in the green belt. An unconditional sale of this portfolio has been completed for a consideration of £9.5m resulting in a profit of £3.5m, with no associated debt. *Trading update:* On 6 September the group cautioned that the financial performance for the second half was dependent on the completion of planned land sales and on the timing of planning approvals to support those sales. As a result, the Group reported an anticipated loss before taxation of approximately £37m and a revised forecast for net assets at 30 September 2022 of approximately £146m. "Since then, the future prospects for the industry have taken a turn for the worse. In addition, sentiment in terms of market confidence and property valuations have been adversely affected. The expected loss before tax for the year ending 30 September 2022 is now approximately £91m and the net assets at the balance sheet date approximately £90.0m, which represents an IFRS net asset value of approximately 40p per ordinary share". *Debt:* "The group had previously stated that its key target was to have net debt of less than £100m by the end of last financial year. This objective has been achieved and net debt at 30 September 2022 was £87m (30 September 2021, £118m). Since the year end net debt has increased, due to our normal operating cycle to £100m, including the cash received for the sale of the strategic land portfolio. The group had already secured a waiver from one of its lenders in respect of its revolving credit facility on the interest cover ratio covenant for the three quarters ending 30 June 2023. With the revised provisioning, the anticipated losses for the financial year and net assets at approximately £90m, the Group is a going concern, but it does mean that the Group will have breached the net assets and gearing covenants with one lender and the net asset and quick asset ratio covenants for another lender, where the Group's combined borrowings are currently £49.3m. Inland Homes has already had discussions with the lenders concerned to procure waivers for both the existing and any forecast expected future covenant breaches for the two lenders concerned. Whilst the Board believes that these waivers will be forthcoming, they consider that if required, these borrowings can be refinanced. The audit continues and it is expected that the final results will now be announced at the end of February 2023". *Outlook:* "The Group has experienced an extremely disappointing year. However, we continue to see good interest for our new homes and valuable consented land in the South and South East of the UK".

Van Elle (VANL, 54p, £57m)

Specialist ground engineering contractor. H1 (Oct) results. Rev +34%, £80.8m; PBT +74%, £3.3m; EPS +86%, 2.6p; interim div, 0.4p (0p); net cash £3.5m (£3.5m). *Trading:* "All divisions operated with high activity levels throughout the period. The rail business delivered major electrification programmes under framework agreements, seeing continuation of strong activity levels". *Outlook:* "The Group has continued to trade in line with management's expectations since the period end. The housing sector is expected to deliver lower volumes in the short-term, however, Van Elle's Infrastructure and Construction markets remain healthy and typically deliver an improved margin mix. Secured frameworks provide much improved work visibility through to FY 25. The Board remains confident in achieving market expectations for the full year".

Epwin Group (EPWN, 75p, £108m)

Low maintenance building products manufacturer. FY (Dec) trading update. *Guidance:* "Trading remained robust through to the end of the year, with revenues increasing by 8% to approximately £355m, predominantly driven by pricing actions to recover the significant cost inflation in the sector, as well as bolt-on acquisitions completed in 2022 which contributed revenues of £4m in the year. The group has continued to navigate the well-publicised issues of labour, energy and raw material cost inflation. As a result, the Group expects to report adjusted in line with current market expectations, which is a significant increase over FY 21". FY results, 4 April.

Lords Group Trading (LORD, 77p, £125m)

Building materials distributor. FY (Dec) trading update. *Guidance:* "Trading ahead of current market expectations for FY22, a record performance, demonstrating continued delivery of the group's growth strategy set out at the time of the IPO in 2021. Rev +24%, £450m (of which, Merchanting +69.2% "reflecting increased market share and value added acquisitions"; adj EBITDA +27% to not less than £28.3m. Outlook: "The Board remains confident in Lords' ability to fulfil its objective to be a £500m revenue business by 2024 and to achieve a 7.5% adj EBITDA margin over the medium term".

Tritax Big Box REIT (BBOX, 149p, £2,779m)

Real estate investment trust investing in 'big box' logistics properties. FY (Dec) trading update. *Guidance:* ""We delivered excellent operational performance in FY 22 underpinned by record development lettings and further development starts as we continued to capitalise on a strong occupational market. The macroeconomic backdrop has been challenging leading to a significant weakening of the investment market and material falls in asset values in the second half of the year across the sector. More recently, however, given the attractive long-term fundamentals of UK logistics, we are seeing encouraging early signs of stabilisation in the investment market and greater discernment over asset quality which plays to the quality and strength of our portfolio. With a more uncertain economic backdrop, stakeholders can take comfort from our very strong balance sheet and highly resilient income, underpinned by triple-net, long-term leases let to a diverse range of robust customers which positions us well to weather this uncertainty".

OnTheMarket (OTMP, 73p, £55m)

Agent-backed residential property portal. FY (Jan) trading update. *Guidance:* "The group has continued to deliver strong growth and expects to report revenues of between £34m and £34.5m (FY 22, £30.4m). The group has maintained its operational cost discipline, and expects to report increased operating margins, with adjusted operating profit for the year expected to be between £4m and £4.5m (FY 22: £2.7m). Net cash at 31 December, £10.4m. *Trading:* Continued growth in average revenue per advertiser (ARPA) during H2 "despite the delayed launch of some new technology products and services, and the fact that these were launched into a challenging macroeconomic environment". *Outlook:* "Whilst market conditions remain challenging, we are well placed with the exceptional value we continue to offer agents and housebuilders alongside our growing range of additional products and services and with more to come in 2023".

Home REIT (HOME, 38p, £301m)

Real estate investment trust funding the acquisition and creation of properties providing accommodation to the homeless. Response to media reports. "Home REIT notes recent press coverage regarding delays in the approval of exempt housing benefit applications to one of its tenants, Lotus Sanctuary CIC, and comments around its viability as a going concern. As previously announced, all rent due to 31 August 2022 has been paid, with final payments for the August quarter received in October 2022. The Company confirms that Lotus has not paid any rent for the quarter to 30 November 2022. Historically, rent payments have been made between two weeks to two months post invoice date. Should Lotus not be viable as a going concern and, for example, enter administration or liquidation, the Company will seek to assign leases to alternative providers. In these circumstances, the Company notes its assets are rented at or around Local Housing Allowances levels and it has a successful track record in this regard with the assignment of the Circle Housing leases in November 2022. Alternatively, the Company could grant leases to local authorities or registered housing associations on a short-term basis to ensure continuity for the underlying residents. As noted in the announcement on 12 January 2023, the Company has witnessed a deterioration in its rent collection position, with a significant number of its tenants in arrears in regards to the quarter to 30 November 2022. The Investment Adviser, assisted by Simpact Group, is establishing the reasons behind this deterioration and the Company has issued a number of statutory demands to tenants this month. The Company will provide a further update to the market by mid-February".

Prices are as at the previous day's close.