Progressive Property & Construction Daily

9 March 2023: FORT, KIE, BILN, BOOT, FAN, HMSO | Housing market, ‘more stable picture’ – RICS

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

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Company news

Forterra (FORT, 219p, £459m mkt cap) *– FORT is a client of PERL*

UK’s second largest brick producer and leading building materials producer. FY (Dec) results. Rev +23, £455m, 1.1% ahead of PERL estimate. Brick & Blocks revenue rose 24.2%, almost entirely due to price increases, with plants operating at full capacity. Adjusted PBT rose 39% to £70.6m, beating our estimate by 2.2%, while EPS and the dividend were 3.7% and 5.5% ahead of our projections. *Guidance:* “Based on our assumption of an underlying fall in demand of 20% relative to 2022, the Board's expectations for 2023 remain unchanged. The underlying decrease in market demand is expected to be mitigated to some extent by substitution of imported bricks, although customer inventory reduction presents an additional short-term headwind, which leads us to believe that full year revenue and profitability performance will be H2 weighted”. In the results meeting management indicated that incoming brick orders had increased in the past three weeks. Full PERL note to be published in due course.

Kier Group (KIE, 74p, £332m)

Hybrid construction, property and services group. HY (Dec) results. Rev nc, £1,537m; adj PBT +7%, £45.8m; stat PBT +100%, £25.4m; adj EPS +9%, 8.5p; div, 0p (0p); net debt, £131m (H1 22, £131m); ave month-end net debt, £243m (£191m). *FY guidance:* "Current trading remains in line with the Board's expectations. The group is well positioned to continue benefiting from UK Government infrastructure spending and focused on the delivery of a sustainable net cash position and a sustainable dividend, in line with our medium-term value creation plan". *Trading:* Order book +26%, £10.1bn. Infrastructure, rev +5%, "primarily due to the continued ramp up of capital works on HS2"; adj margin, 4.1% (4.2%); orders +29% ". Construction, rev +4%; margin 4.6% (3.9%); orders +23%, "reflecting a period of strong bidding activity". Property, rev -86%, op profit -55% "driven by lower transaction activity as a result of market conditions". Capital employed, £158m, targeting average of £170m.

Billington Holdings (BILN, 350p, £45m)

UK structural steel fabrication and construction group. FY (Dec) trading update. *Guidance:* "The company now expects to report profit before tax ahead of market expectations for the year ended 31 December 2022. Trading has continued to be strong, with further good quality orders secured in the current year and a healthy pipeline of opportunities. Consequently, the Group now expects profit before tax for the year ending 31 December 2023 to be ahead of market expectations. As a result of strong cash management during 2022, combined with confidence in future earnings and related cash generation, the Board expects to declare a final dividend for the year ended 31 December 2022 ahead of market expectations". FY results, 18 April.

Henry Boot (BOOT, 231p, £309m)

Land Promotion, property investment & development and construction group. Land sale. The group's land promotion and planning business, Hallam Land Management, has completed on the sale of a 1,855-plot site in Milton Keynes to Taylor Wimpey. HLM had an option agreement in place jointly with William Davis Homes and Taylor Wimpey UK Ltd for the long-term promotion of the land, benefitting from a discount to market value. HLM's interest in the land accounted for 618 plots, with the remainder of the sale held by William Davis Homes. The transaction has resulted in an ungeared internal rate of return for Henry Boot of 14% pa. 30% of the homes will be affordable and the site will feature 6.5 acres of employment land, a primary school, secondary school and a neighbourhood centre including retail and community buildings. Over 130 acres of green infrastructure will be delivered across the site, providing extensive play spaces and sports facilities. According to Henry Boot PLC, commented, "This latest transaction represents a strong start to 2023, while the ongoing demand for new homes presents a significant opportunity for Henry Boot's land promotion business".

Volution Group (FAN, 355p, £703m)

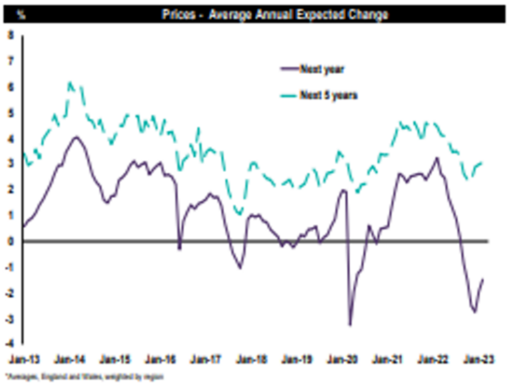
International designer and manufacturer of energy efficient air quality systems. HY (Jan) results. Rev +8.5%, £162m; adj PBT +6.0%, £31.8m; stat PBT +5.6%, £22.6m; adj EPS +6.0%, 12.4p; interim div +8.7%, 2.5p; net debt, £79.2m (H1 22, £104m). *Trading:* "We delivered a strong first half performance across our three regions, driven in particular by strong UK residential RMI demand. We have successfully managed inflationary headwinds and supply chain challenges through pricing discipline and inventory optimisation and in doing so maintained our operating margin at 21%. *Outlook:* The importance of indoor air quality to our health and the need for energy efficient buildings, are moving even further up the global agenda. Although mindful of the cautious sentiment in some of our segments, residential refurbishment demand remains supportive, and inflationary pressures and supply chain challenges are easing. With our excellent levels of customer service, agile manufacturing, a well-developed M&A pipeline and strong balance sheet position, coupled with significant geographic revenue diversity, we are well placed to make further progress".

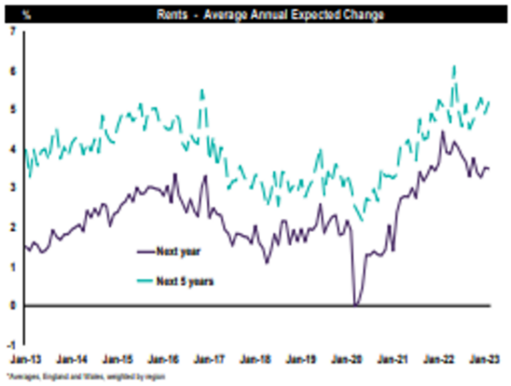
Hammerson (HMSO, 29p, £1,454m)

UK and European retail property group. FY (Dec) results. Ad +62%, 2.1p; stat loss per share of -3.3p (FY 21 - 8.7p); EPRA TNAV -17%, 53p; net debt £1,732m (£1,799m); LTV, 39% (39%), "Ample liquidity of £1bn, including undrawn committed facilities and £0.3bn of cash". *Trading:* Group portfolio value, £5.1bn (5.4bn), down 5% due to revaluation deficit and disposals. *Outlook:* Short-term, "whilst we remain very mindful of the uncertain macroeconomic outlook, we have a strong operational grip on the business and are targeting a further 20% reduction in gross administration costs by the end of 2024, and to complete the £500m disposal programme by the end of the year". Medium term, "Rents and rates have been largely re-based, vacancy is tight, and we have long term certainty in our lease expiry, and attractive yields in our managed portfolio, that offer the potential to deliver attractive total returns. We have a strong platform and over the medium term we see multiple opportunities to continue to unlock deep value".

Economic data

Housing market. House prices continued to fall in February, as did buyer enquiries, albeit at a reducing rate of decline, according to the latest RICS Residential Market Survey (link). The latest net price balance (% of surveyors reporting a rise minus % seeing fall) was -48%, little changed from the previous read of -46%. Data for Scotland and Northern Ireland continues to display a greater degree of resilience than that covering England and Wales, according to the professional body. However, looking at expected actual falls (rather than survey balances), there has been a continuing reduction in expected 12-month price declines and an increase in average annual rises over the next five years (below, left). New buyer enquiries recovered partially to a net balance of -29%, seasonally-adjusted, from -45% in January; this tenth monthly negative reading still signals a decline in demand but is the least negative result since July. RICS view is the survey "demonstrates a more stable picture emerging through the course of 2023". In the lettings market, tenant demand continues to increase, +32%, while landlord instructions continue to decline, -13% - both at lower positive and negative balances respectively – suggesting a settling down in the supply-demand imbalance. Rental expectations remain at a relatively elevated level of +45% - with actual increases predicted for the next five years (below, right).





Prices are as at the previous day's close.

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