Progressive Property & Construction Daily

15 March 2023: SFR, BBY, MSLH, SRC, INL, PURP | Budget – green energy and economic boost | News – Gove 'coming after' cladding refuseniks

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

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Company news

Severfield (SFR, 61p, £189m mkt cap) *– SFR is a client of PERL*

Britain's leading structural steel group, with sales to Europe and a rapidly growing Indian JV. Acquisition of 100% of the share capital of Voortman Steel Construction Holding, a European steel construction group, for a net consideration of €24m payable in cash on completion. The business headquartered in Rijssen, in the Netherlands, is innovative, profitable and cash generative, according to Severfield, and will provide it with a manufacturing base in Europe to complement its existing European sales [from its UK manufacturing base] greater access to a growing European market and will open up attractive opportunities including access to the high growth electricity distribution sector and capabilities in design and build (turnkey) solutions for simpler structures. "Combining the businesses will enhance Severfield's position as one of Europe's most diverse structural steel services groups". VSCH primarily operates in the Dutch market with an addressable value of c.€1.3bn pa, which is expected to grow. It mainly serves the industrial, commercial and residential subsectors. VSCH has a leading position in the Dutch market with a c. 5% market share with no single competitor having more than a c. 10% market share. "VSCH has the capacity and resources to compete for larger, more complex, higher value projects, and its scale and market position presents opportunities for further growth in the Netherlands and into neighbouring EU countries". *Financial impact:* The acquisition is anticipated to be earnings enhancing in the year-ending 31 March 2024. For the twelve months to 31 December 2021, VSCH recorded unaudited consolidated revenues of €73.5m and a normalised EBITDA of €4.5m. The business has achieved a normalised EBITDA of between €4.5m and €5.5m over the past four years. The acquisition consideration will be funded by a combination of a new amortising term loan (c €21m) and cash reserves (c €3m). *PERL note on acquisition to be published in due course.*

Balfour Beatty (BBY, 341p, £1,958m)

UK, US and Hong Kong construction and infrastructure group. FY (Dec) results. Rev +8.1%, £8,931m; adj PBT +56%, £291m; stat PBT, £287m (FY 21, £87m); adj EPS +60%, 47.5p; div +17%, 10.5p; net cash – recourse, £815m (£790m); average net cash – recourse, £804m (£671m). *Trading:* Orders +8.1%, £17.4bn; directors' valuation of investment portfolio, £1.3bn (£1.1bn). *Outlook:* "2023 profit from operations from earnings-based businesses expected to be broadly in line with 2022. The diversified portfolio, both geographically in the UK, US and Hong Kong, and operationally across Construction Services, Support Services and Infrastructure Investments, plus the strength of our balance sheet and cash management, have provided the resilience for the Group to deliver ahead of expectations and grow our order book. The Board's confidence in both the short and longer term is reflected in its commitment to a multi-year programme of strong shareholder cash returns. We believe that Balfour Beatty's unique capabilities and the positive outlook in its chosen markets will enable it to deliver ongoing profitable managed growth".

Marshalls (MSLH, 299p, £757m)

Leading manufacturer and supplier of paving and hard landscaping products. FY (Dec) results. Rev +22%, £719m; adj PBT +23%, £90.4m; stat PBT -46%, £37.2m; adj EPS +7%, 31.3p; div +9%, 15.6p; pre-IFRS16 net debt, £191m (£0m). *Trading:* Eight months contribution from the acquisition of Marley Group; growth 1%, LFL. Reduced volumes and profitability in Landscape Products resulted in decisive action to reduce capacity and the annual cost base by £10m. Ongoing investment in leading edge technology undertaken to enhance capabilities and efficiency; £24m dual block plant at St Ives expected to be operational in H1 23. *Outlook:* "The Board remains confident that the group is well placed to deliver profitable long-term growth when market conditions improve and continues to focus on its key strategic initiatives. In the shorter-term, whilst the macro-economic climate is expected to remain challenging and assuming a progressive improvement in our end markets during the year, the Board remains confident of delivering a result that is in-line with its expectations".

SigmaRoc (SRC, 55p, £380m)

Heavy construction materials group active in the UK, Channel Islands and Benelux. Successful claim in Nordkalk dispute with the Swedish state. "SigmaRoc announces that it has been successful in its claim to seek compensation from the Swedish state in respect of land use restrictions. On 1 April 2020, Nordkalk AB filed a claim for compensation for economic loss due to land use restrictions as a result of the Swedish government's designation of a piece of land as environmentally protected pursuant to a Natura 2000 decision. The Group acquired Nordkalk in August 2021 and details of the claim were disclosed in the group's related Admission Document of 16 July 2021. The verdict, pronounced on 14 March 2023, made an award to Nordkalk in compensation for this economic loss, of which a sum of c. SEK 188m (c £17m) that is to be adjusted for inflation and interest until payment is made, is receivable by the Group as its share. The verdict is capable of being appealed by the Swedish State until 4 April 2023 and receipt of funds remains subject to the outcome of any appeal, if lodged. The Group will keep the markets informed of any further developments. We intend to use the damages awarded, if confirmed, to secure further reserves of our business in Sweden and to fast track the decarbonation of our operations".

Inland Homes (INL, 9p, £19m)

Leading brownfield developer, housebuilders and partnership housing group, focused on South and South East. Appointment of new Chairman. Matthew Robinson appointed as an independent non-executive director and Chairman with immediate effect. He has spent much of his career working with and advising listed and growth companies and was formerly non-executive Chairman of AIM quoted Goldplat and is a current non-executive director of AIM quoted Anpario. "This appointment comes following despatch to shareholders of the company's notice of Annual General Meeting, at which appointments to fill casual vacancies are required to be approved by shareholders. Accordingly, as this cannot occur in this instance, the board has resolved to re-appoint Matthew Robinson immediately following the Annual General Meeting and will propose a resolution to approve his appointment at a further General Meeting which will be called to approve the Company's accounts when they are ready. It is intended that there will be additional appointments to the board, initially to the non-executive role, and discussions in this regard are progressing". With the appointment, the resignation of Simon Bennett as a non-executive director, announced on 1 March, takes effect".

Purplebricks Group (PURP, 6.9p, £21m)

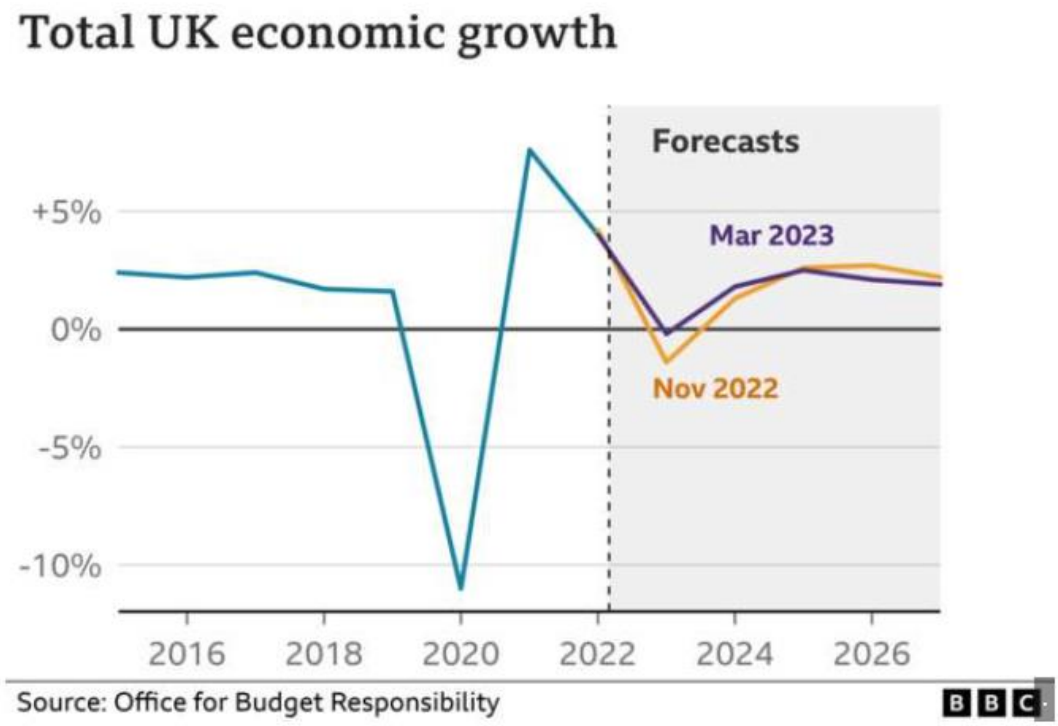
Hybrid on-line estate agent, supported by local property agents (LPAs). Announcement regarding possible offer. "Purplebricks notes the recent press speculation regarding a possible offer for the company by Strike Limited. Purplebricks confirms that it has been in discussions with Strike regarding their potential participation in the Formal Sale Process [FSP] announced on 1 March. At the current time Strike is not participating in the FSP. As noted in the announcement, all participants are being required to enter into a non-disclosure agreement on terms satisfactory to Purplebricks. There can be no certainty as to whether Strike will make an offer for Purplebricks, nor the terms of any such offer".

The Budget: viewpoints

As ever, much of today's Budget was leaked in advance and, as ever, 'new' investment pledges in particular need to be taken with a sizeable pinch of salt. Caveats aside, there was a handful of relevant themes for the construction and property industries: the most specific one (affecting mainly infrastructure companies) appeared to be the further commitments to nuclear and green investment; the most powerful, however, were the relative strength of the economic rebound and renewed focus on 'growth'. A few preliminary snatched thoughts:

- **Energy, green investment.** These include: up to £20bn of support for for the early development of carbon, capture, usage and storage (CCUS), starting with projects from our East Coast to Merseyside to North Wales; nuclear power will be classed as "environmentally sustainable" which will give it access to the same investment incentives as renewable energy, and the launch of Great British Nuclear, aimed at bringing down the costs of producing nuclear power, and a competition and potential co-funding for for small modular reactors (SMRs).

- **Regeneration.** 12 new Investment Zones across the four home nations; £200m in local regeneration projects around England; a further £161m for mayoral combined authorities and Greater London and £400m for new 'levelling up partnerships'. Main beneficiaries could include partnership housing, local infrastructure and logistics.
- **General economy.** Both economic growth and inflation appear to be in a better place than many observers – most notably the Office for Budget Responsibility – had expected in the aftermath of the 'mini-budget'. The OBR now concedes the downturn will be "shorter and shallower"; it now expects a 0.2% contraction in GDP, versus it's previous -1.7%. It's reduced its growth expectations for 2026 and 2027 (see below). [But which forecaster – myself included – hasn't, when reversing a wrong positive or negative view tried to compensate by pushing one's view 'out to the right'?] As importantly, inflation is now expected to fall to 2.9% by the end of 2023. Ten-year Gilt yields went down and most housebuilders' shares went up on the assumption there will be less pressure on the Bank of England to raise rates further. Looking longer-term, there was a range of initiatives to boost the sexier ends of the economy, from life sciences and quantum computing to film and TV production. A rising economic tide and falling yields is assumed to 'lift all boats', but private residential and commercial particularly.
- **Costs and labour availability.** A major issue, not least for housebuilders. Freezing fuel duty and getting more people back into the workplace may ease pressures against a backdrop of low unemployment and high construction job vacancies, seen in yesterday's official labour market statistics.
- **Defence.** Another £11bn to be added to the defence budget, over the next five years taking it to nearly 2.25% of GDP by 2025. Presumably most of this will be on 'kit' but, no doubt, specialist defence contractors and housing providers may see more building and services work.



In other news …

Cladding remediation. Eleven house builders have failed to meet the Government deadline to sign contracts committing them to remediate buildings in need of fire safety improvements and were named yesterday by Levelling-up Secretary, Michael Gove, who threatened to 'ban' them, ConstructionEnquirer.com (link). Around 49 firms, including all major quoted developers in recent days, signed a pledge last year to remediate fire-safety defects in buildings over 11 metres that they developed or refurbished over the last 30 years in England. Gove warned: "To those developers that have failed to sign the contract without good reason, let me be very clear – we are coming after you. If you do not sign, you will not be able to operate freely in the housing market. Your investors will see that your business model is broken – only responsible developers are welcome here". The remediation contract requires developers to fix buildings and reimburse taxpayers, with an estimated £2bn expected to be committed to fund repairs. Legislation will be brought forward this spring introducing powers to prevent developers from operating freely in the housing market if they fail to sign and comply with the remediation contract.

Prices are as at the previous day's close.

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