Progressive Property & Construction Daily

26 July 2023: VANL, SFR, COST, MRL, BREE | Economic data – Average mortgage rates still edging up, but banks starting to cut | News – '20 renters for every property', BBC

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

NOTE: This marketing communication has been produced by Progressive Equity Research Limited (PERL) and is a Minor Non-monetary Benefit. It does not contain investment recommendations. The views expressed are those of the research department of PERL. To view the Progressive Property & Construction Daily archive click here.

Apologies, due to an external issue in email distribution, yesterday's and Monday's edition of the 'Daily' were not sent out. They are available on Progressive's Insights platform.

Company news

Van Elle (VANL, 41p, £44m mkt cap)

Specialist ground engineering contractor. FY (Apr) results. Rev +19%, £149m; PBT +50%, £5.4m; EPS +159%, 4.4p; div +20%, 1.2p; net cash, £7.5m. Order book -21%, £30.8m (prior year included several large contracts), which excludes framework agreements and preferred bidder positions, with estimated annual revenues of £30m - 40m subject to timing and allocation of workload. *Trading:* "Revenue driven by increased activity levels across all divisions. Improved operating margins and return on capital following further progress in delivery of the strategic plan. Operating profit driven by higher margins in General Piling, and an increased contribution from ground engineering services, coupled with higher activity levels improving overhead recovery rates. The group's diversity of end markets and its broad range of capabilities has enabled growth despite economic uncertainties and project delays in some market segments. Further progress has been made in enhancing the resilience of the group, with a growing presence in the UK energy transmission and distribution infrastructure market, expansion of Housing sector foundation services, and diversification of Rail capability into Canada". Capital investment of £6.2m including spend on new rigs and the Group's HGV fleet. *Outlook:* "Strong trading momentum from FY2023 has continued into FY2024 with all divisions operating at high activity levels. Strong activity levels in the Housing sector during Q1 FY 24 but a decrease in demand is anticipated from Q2 F2024.

Delays to Highways schemes and the Smart Motorway Programme Alliance experienced in FY2023 are also expected to ease by FY2025. The group has a strong pipeline of opportunities in the energy transmission and distribution sector and is preferred bidder on three of its targeted schemes in FY2024 to date. The Rail sector activities remain buoyant but are expected to soften ahead of Network Rail's Control Period 7. The Canadian rail subsidiary is now established and has developed a strong pipeline of opportunities with the first projects due to commence in August 2023. Inflationary pressures remain and are mitigated as far as possible through contract pricing. The actions taken over the last three years are starting to deliver sustainable results that put us firmly on-track to deliver our medium-term financial objectives".

Severfield (SFR, 75p, £232m) *– SFR is a client of PERL*

Britain's leading structural steel group, with sales to Europe and a rapidly growing Indian JV. Directorate change. Ian Cochrane, COO, will be leaving the company on 30 September to pursue other interests and his role of is not being replaced; COO duties are being re-assigned to other executive directors and the senior leadership team. He has been a member of the Board since 2013 and has been with the group since 2007. Kevin Whiteman, non-executive Chairman, said: "We would like to thank Ian for his contribution to Severfield. Ian has overseen a number of important initiatives and contributed significantly to the profitable growth of the Group in recent years".

Costain Group (COST, 49p, £135m)

UK construction and infrastructure services group. Refinancing of bank and bonding facilities. The group has concluded negotiations with its bank and surety facility providers to refinance a new three-year agreement. The new facilities agreement to September 2026 comprises an £85m sustainability-linked revolving credit facility, and surety and bank bonding facilities totalling £270m, with the reduction in facilities reflecting the group's positive cash generation and cash position. This new agreement replaces the previous one-year 'amend and extend' of its facilities from September 2023 to September 2024, as announced in November 2022. Costain had a positive net cash balance of £124m as of 31 December, comprising cash balances of £67m and cash held by joint operations of £57m. TheRCF was undrawn throughout 2022 and 2023 to date. The sustainability linkage includes three key performance indicators relating to reduction in greenhouse gas emissions, spend with small, local business and charities, and an increase in gender diversity.

Marlowe (MRL, 526p, £510m)

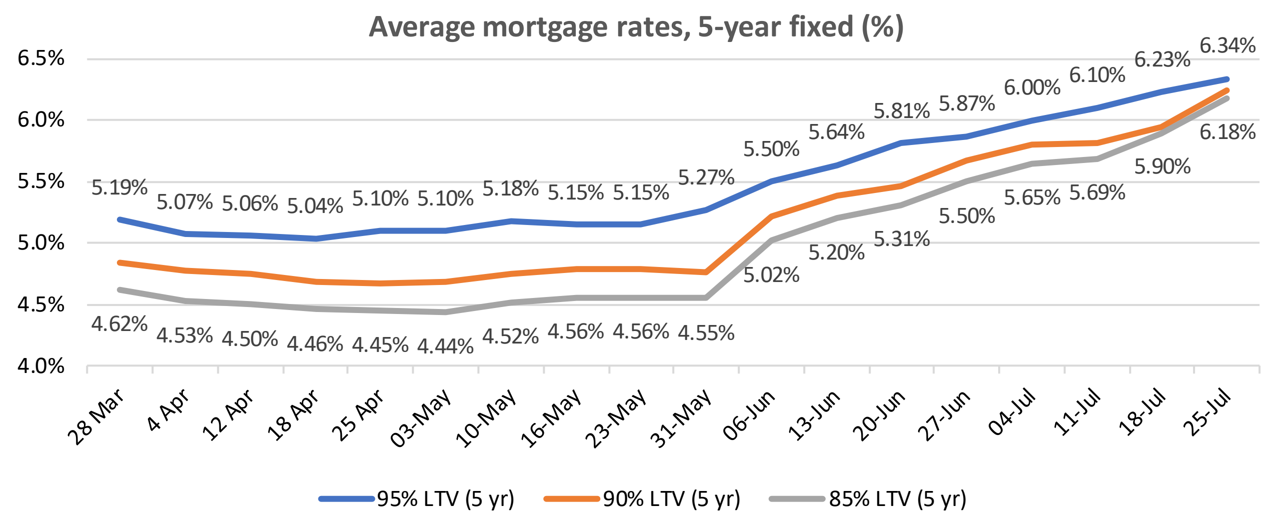
Safety and compliance provider to commercial properties. Acquisition. IMSM Holdings, an ISO certification and quality management provider, acquired for an expected enterprise value of £17.4m. Established in 2004 and headquartered in Wiltshire, IMSM provides ISO auditing and certification services to approximately 5,000 UK and international clients. In the year to 31 December, IMSM generated revenues of £12.2m and EBITDA of £1.9m; at 31 July 2022, it had net assets of £6.7m. The total enterprise value will comprise an upfront cash consideration of £12.9, a further £3.0m payment through the issue of 597,609 ordinary consideration and an estimated £1.5m in performance-related contingent consideration payable after the first year of ownership.

Breedon Group (BREE, 353p, £1,232m)

UK and Ireland aggregates group. HY (Jun) results. Rev +11% (+7% LFL), £743m; adj PBT +7%, £64.9m; stat PBT -5%, £56.5m; adj EPS +2%, 15.3p; interim div +14%, 4.0p; net debt, £220m (HY 22, £257m); adj EBITDA/net debt, 0.7x (1.0x). *Trading:* "Resilient end-markets continued to be supported by long-term structural growth drivers. Dynamic pricing tailwind more than offset expected lower volumes, leading to revenue increase of 11% or 7% on a like-for-like basis. Underlying EBIT growth of 5% [+4% LFL] reflects revenue drop through, partially offset by higher energy costs as hedges moved back into line with market pricing". *Outlook:* "We are well-positioned for the second half; the Group is trading in line with the Board's expectations which remain unchanged. Our end-markets have remained resilient. End-market visibility beyond 2023 remains limited in light of the uncertain economic outlook. In response, we have increased our emphasis across the group on operational excellence and agility to ensure Breedon is as competitive as it has ever been".

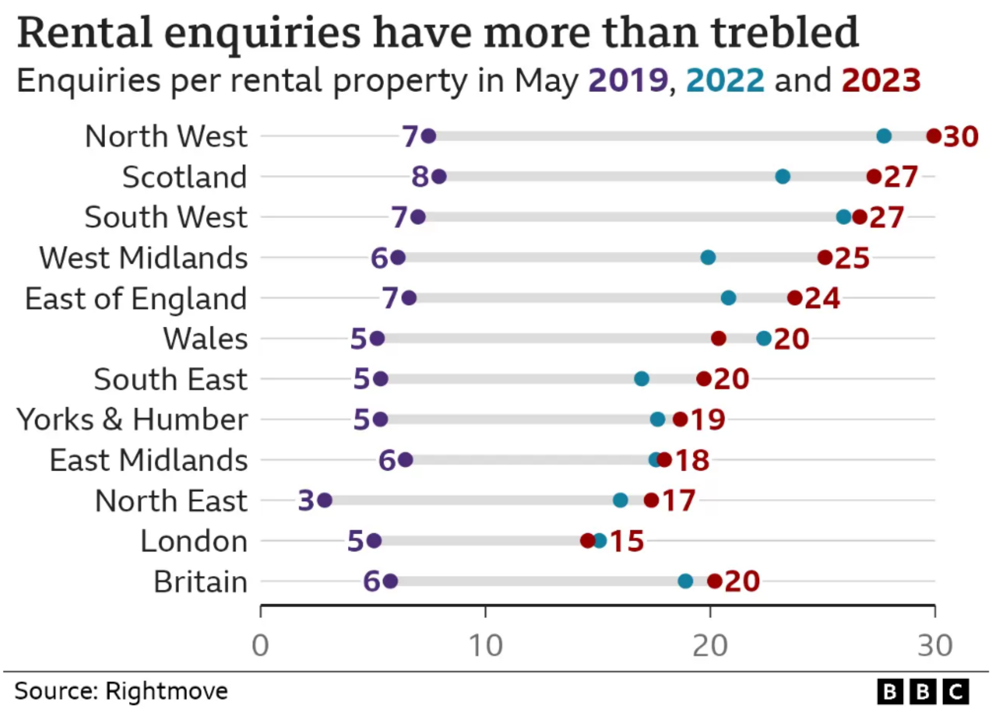
Economic data

Mortgage rates. Average rates for fixed-rate mortgages continued to rise in the past week, despite the latest, lower than expected inflation data and early signs that some lenders were starting to reduce their interest charges, according to the latest Rightmove Weekly Mortgage Tracker. The UK's largest property portal tracks a range of the most popular two- and five-year products. For instance, five-year, 95% LTV loans rose from 6.23% to 6.34%, with a lowest available rate at 5.99%; the averages for 85% and 95% remained close together (see below). The Rightmove view i:s "We may now see some lenders begin to cut rates as soon as the coming days. However, any cuts to rates are likely to be small, at least to begin with, as lenders will be looking to balance their desire to reduce rates with the need to account for any further market surprises as the economy looks to get onto a more stable footing for the long term. It takes some time for lenders to respond to market conditions and feed these through to mortgage rates offered to borrowers". The Times (paywall) has reported that HSBC and Yorkshire Building Society will reduce fixed-rate deals by up to 0.45 percentage points today and Platform, part of the Co-op Bank, will cut by up to 0.29 percentage points tomorrow.



In other news …

Rental market. Competition among renters is so intense that there are 20 requests to view each available property, according to data commissioned by the BBC. The average number of requests to see each home has more than tripled from six in 2019, the figures from property portal Rightmove show. The queue to view is even longer in some regions, reaching 30 in the North West of England.



Green infrastructure. The "world's largest battery energy storage park" has been approved to be built in Greater Manchester, ConstructionEnquirer.com. Energy infrastructure developer Carlton Power has been granted planning consent to build a 1 GW energy storage scheme at the Trafford Low Carbon Energy Park, which was until 1991 the site of the Carrington coal-fired power station. Construction of the £750m facility scheme is expected to begin in the first quarter of next year to enter commercial operation at the end of 2025. It is the second major energy project to be consented for the 12-hectare Trafford Low Carbon Energy Park, eight miles south of Manchester. The other project is Carlton's 200MW Trafford Green Hydrogen scheme. The scheme's first phase (15-20MW) is also set to enter commercial operation end of 2025. Last March, the Department for Energy Security & Net Zero shortlisted this £50m green hydrogen first phase to receive funding from the Government in the first Hydrogen Allocation Round (HAR1).

Prices are as at the previous day's close. Where quoted, net debt is pre-IFRS16 (excluding leases) unless otherwise stated.

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