

# Progressive Property & Construction Daily



11 September 2023: VTY, MER | Economy – building material prices start falling

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

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## Company news

**Vistry Group** (VTY, 800p, £2,766m mkt cap)

Formed from the mergers of Bovis Homes and housebuilding and partnerships divisions of **Galliford Try** (GFRD) and **Countryside Partnerships**. HY (Jun) results and strategy update. Completions +32%, 7,143; rev +31%, £1,777m; adj op margin, 11.6% (HY 22, 14.7%); adj PBT -8.4%, £174m; stat PBT +2.6%, £114m; adj EPS -3%, 38.3p; net debt, £329m (net cash, £115m); TNAV, £1787m (£1467m). *Trading:* “The integration of Countryside has progressed well, firmly establishing Vistry as the leading provider of affordable mixed tenure housing. The group delivered a robust half year performance despite the challenging macro-economic conditions with Partnerships continuing to see good demand, demonstrating its market resilience”. Partnerships – completions +189%, 3,203 (+5.7% LFL); adj op margin, 11.5% (10.2%); op profit, £109m (£44m). Housebuilding – completions -12%, 2,847; private sales rate, 0.70 per site per week, 0.41 exc bulk sales (0.69 and 0.67); adj op margin, 14.3% (18.4%); op profit, £118m (£170m). *Strategy and capital allocation:* “There is an acute shortage of housing in the UK with the greatest need being for affordable mixed tenure homes. The group intends to focus its operations on its high return, capital light, resilient partnerships model by fully merging its Housebuilding operations with its Partnerships business before the end of FY23”. This will involve a greater degree of pre-selling homes, under a range of tenures and funding mechanisms to institutions, housing associations and local authorities. This will reduce capital employed and risk, will boost volumes and synergies, albeit at lower, but less cyclical margins. The Board intends to pursue a 2x adjusted earnings ordinary distribution cover in respect of a full financial year, with distributions made through either dividends or share buybacks;

targeting returning £1bn to shareholders over next three years from ordinary and special distributions, alongside the elimination of net debt; intention to launch an initial share buyback programme of up to £55m in November. *Outlook:* Guidance reiterated for in excess of £450m adjusted profit before tax for FY23. “We continue to see good demand for mixed tenure affordable housing from local authorities, housing associations and PRS. Open market private sales have slowed further since June, in part reflecting the traditional quieter summer period but also further increases in mortgage costs. Demand has been strong from first time buyers for shared ownership. We continue to expect to fully offset cost increases for the full year after the benefit of synergies”. In the medium term, the group will be targeting a return on capital employed of 40%, revenue growth of 5 to 8% p.a., operating profit of £800m with a 12%+ operating margin”. **Viewpoint:** A bold but astute move, which looks to have been supported by Homes England, offering the potential for long-term growth in volumes and higher returns for shareholders. It is effectively putting into strategy what Vistry and peers had been doing in the current downturn: selling ahead against a backdrop of subdued private activity (but it was a result of this, according to the company). Shares so far today are up 16%; with smaller gains for peers. Could some be considering it? I wouldn't bet on a rush, but maybe one or, perhaps, two might be ...

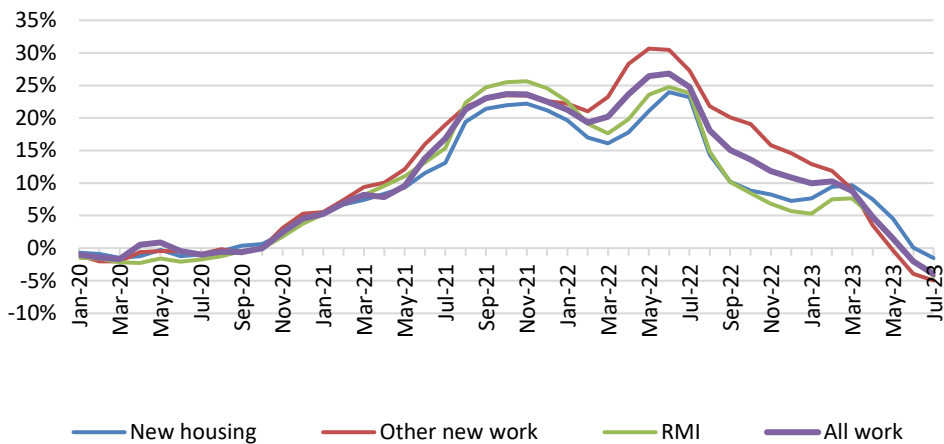
### **Mears Group** (MER, 274p, £284m)

UK housing support services provider. Board Changes. Jim Clarke has been appointed as permanent Chairman, having been delivering the role on an interim basis since 28 June. He has spent the last 30 years serving on a number of PLC Boards across a variety of sectors in both an Executive and Non-Executive capacity and joined the Board in 2019, serving most recently as Chair of Audit & Compliance Committee. The Board has commenced a process for the recruitment of an additional Non-Executive Director possessing the requisite financial experience and skills to Chair the A&CC. In the interim period, Mr Clarke will continue as a member of that Committee. In line with good practice, Dame Julia Unwin, Senior Independent Director, has been appointed as Interim Chair of the A&CC.

## Economic data

**Building materials statistics - Correction.** Apologies, the data on my Excel database refreshed in Friday's 'Daily' but the percentage changes didn't (many thanks to the Construction Products Association for almost simultaneously pointing out the error). According to the monthly [Building materials and components statistics](#), from the Department of Business and Trade, total construction materials price inflation did in fact turn further negative in July, -4.0% Y/Y, from -2.0% in June and the second consecutive month of Y/Y and M/M decline. New housing fell 1.5% Y/Y; Other new work, -5.0%; and RMI -4.3%.

Building materials price indices, Y/Y change (%)



Source: BEIS

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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