Progressive Property & Construction Daily

14 September 2023: GLE, KIE, GFTU, GLV | Economy – Sales market continues to decline, while lettings strengthens, RICS

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

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Company news

MJ Gleeson (GLE, 394p, £230m mkt cap)

Low-cost housebuilder, focused on north of England, and strategic land enabler, focused on south. FY (Jun) results. Rev -12%, £328m; adj PBT -43%, £31.5m; stat PBT -29%, £30.5m; adj EPS -45% 42.9p; div -22%, 14.0p; net cash, £5.1m (£33.8m); NAV, £286m (FY 22, £272m). *Trading:* Gleeson Homes – rev -4.1%, £321m; op profit -32%, £35.0m; completions -14%, 1,723; prices +11%; £186k (underlying, +7.6%). Gleeson Land – three land sales completed during the year (six); six sites with planning or resolution to grant (three); portfolio, 70 sites (71) with the potential to deliver 17,831 plots (20,241). *Outlook:* Gleeson Homes net reservation rate for the nine weeks to 1 September, 0.43 per site per week (0.54). “However, with a steadying mortgage market and the implementation of a range of sales and marketing initiatives, including the introduction of a shared ownership package, we anticipate an increase in our net reservation rates during the Autumn selling season. We also continue to receive interest in multi-unit transactions, which would further strengthen sales.

Gleeson Land started the financial year in a stronger position with six consented sites and has already completed the sale of one significant site. Demand for consented sites remains strong and further site sales are anticipated throughout the year. We therefore view the current year with confidence. As market conditions improve, we look forward to returning to significant growth".

Kier Group (KIE, 87p, £388m)

Hybrid construction, property and services group. FY (Jun) results. Rev +4.6%, £3,405m; adj op margin, 3.9% (FY 22, 3.7%); adj PBT +11%, £105m; stat PBT, £51.9m (£15.9m); adj EPS +14%, 19.2p; div, 0p (0p); YE net cash, £64.1m (£2.9m); ave month-end net debt, £232m (£216m); orders +3.1%, £10.1m. *Trading:* Revenue increase "reflects growth in both the Infrastructure Services [+2.7%, £1,712m] and Construction [+14.7%, £1,653m] segments, offset by the anticipated reduction in the Property business [-74%, £38m] driven by market conditions". Adj op profit: Infrastructure, £79.8m (£70.0m); Construction, £69.5m (£60.8m); Property, £12.8m, mainly due revaluation gain on two investment property transactions (£17.6m). Property is reviewing the upper end of its capital investment range, currently £170m. *Outlook:* "The new financial year has started well, and we are trading in line with our expectations. The group is well positioned to continue benefiting from UK Government infrastructure spending commitments and we are confident in sustaining the strong cash generation evidenced this year. This, combined with our focus on operational delivery, gives the Group a clear line-of-sight to significantly de-lever. As a result, the Group intends to resume dividend payments during FY24, with the first dividend to be declared alongside our interim results". Management indicated at the results meeting that it intends reduce average net debt by c. £100m during FY 24 and then further during FY 25; move to medium-term 3x dividend cover would be achieved "over time".

Grafton Group (GFTU, 900p, £1,889m)

UK, Irish, Dutch builders' merchant and products group. Acquisition of Rooneys Homevalue, a distributor of building materials and DIY products from a single location in Kells, County Meath. Rooneys primarily supports trade customers operating in the residential repair, maintenance and improvement and new build markets. It also has a retail proposition serving a local market. FY (Feb) rev, €11.0 million (£9.4m).

Glenveagh (GLV, €0.98, £487m)

Irish housebuilder. HY (Jun) results. Rev -14%, €172m (Suburban +23%, €110m; Urban -44%, €62m); PBT -89%, €1.m; EPS -84%, €0.84; net debt, €182m (HY 22, €98m), after €63m of share buybacks, ending on 2 Aug; net assets, €182m (€707m). *Trading:* "The group performed to expectation in H1 23 and increased the suburban margin, secured approvals for both of its Partnerships sites, and benefitted from strong planning momentum. Profitability was impacted primarily by lower urban revenues, reflecting a higher H1 22 comparative that included approximately €63m from the disposal of the East Road site, along with increased financing costs". *Outlook:* "We reiterate our FY 23 guidance, anticipating an EPS outturn of 7.5-8.0 cents. We continue to see a very positive long-term demand outlook for the Irish residential housing market. Strong private demand is underpinned by a robust economic environment, a fast-growing population and supportive demand-side initiatives from the Government. New opportunities are emerging to partner with multiple State agencies as part of the Government's recent supply-side housing initiatives. Once our capital allocation priorities are satisfied, we will continue to return any excess cash identified to shareholders. This will underpin the delivery

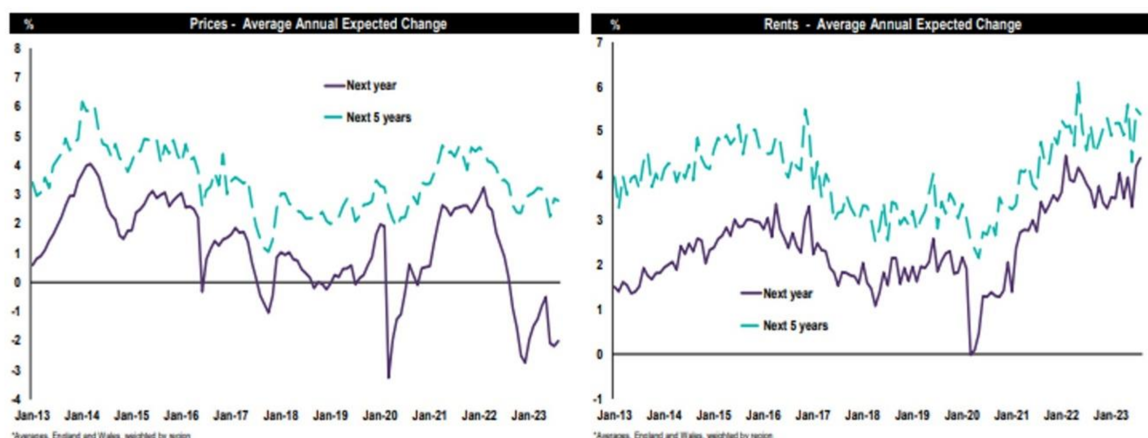
of long-term operational growth and optimal returns for shareholders, with our RoE target of 15% in 2024 our key capital metric".

Economic data

Housing market. Buyer demand, sales activity and prices continued to fall in August, according to the latest monthly Residential Market Survey from the RICS. Buyer enquiries produced a headline net balance of -47% (% of survey respondents reporting a rise minus those recording a decline) in enquiries over the month, albeit in line with the index over the previous two months. All regions registered reductions. The newly agreed sales net balance also came in at -47%. Near-term sales expectations remain subdued, albeit the headline net balance did turn marginally less negative, at -38%, compared to last month's reading of -45%. On a twelve-month view, the trend in home sales volumes is anticipated to flatten out, with the net balance moving from -25% in July to -5% in August. Meanwhile, the flow of new instructions being listed onto the sales market deteriorated sharply over the month, with a net balance of -26% (-17% in July).

The survey's headline price growth gauge posted a net balance of -68% in August (from -55% in July), the most negative reading since February 2009. Near-term price expectations are signalling further falls to come over the next few months, with the net balance slipping a little deeper into negative territory at -67% compared to 60% last time around. However, the 12-month expected decline, calculated as an actual percentage (rather than the balance used in most of the survey) reduced slightly to around -2%, while the five-year average outlook remains firmly positive (below, left).

Conversely, the lettings market continues to show strength. Tenant demand continues to rise firmly according to a net balance of +47% of survey participants (part of the non-seasonally adjusted monthly lettings dataset).All regions have seen a sustained uplift in the demand for rented accommodation in recent months. Set against this, new landlord instructions continue to fall (net balance -20% in August), with anecdotal comments often highlighting that landlords are leaving the sector. Given this enduring mismatch between demand and supply, a net balance of +60% of contributors foresee rental prices being driven higher over the coming three months, with the actual percentage outlook shown below, right.



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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