Progressive Property & Construction Daily

3 October 2023: NEXS, SFE, MER | News – Rental rent REIT launched

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

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Company news

Nexus Infrastructure (NEXS, 110p, £10m mkt cap)

Provider of civil engineering infrastructure services to UK housebuilders through its operational business, Tamdown (having sold its TriConnex and eSmart Services infrastructure and utilities services businesses). FY (Sep) trading update. *Guidance:* "The group is currently operating in challenging market conditions, and whilst there were signs of encouragement at the half-year from a number of housebuilders, housebuilding activity has slowed in the second half of the year as developers continue to navigate high inflation and increased interest rates. On an underlying basis, Nexus expects to report FY23 revenue of approximately £85m and an operating loss in the range of £6 - £7m, lower than the Board's previous expectations and a result of ilke Homes [in administration, previously reported], lack of new order activity due to difficult market conditions, up-front costs in relation to rightsizing the group's resources and a prudent approach on aged customer debt where a significant portion has been written off". Mitigating actions include: reducing overheads by £0.8m to a run rate of £1.7m pa; reducing more expensive hired plant in favour of predominantly owned machinery; reducing agency staffing; and an ongoing consultation with Tamdown's site-based workforce for a c. 25% reduction in headcount. *Outlook:* "As at 30 September, Tamdown's order book had reduced to £46m which reflects the lack of new order intake and extended procurement cycles across the housebuilding industry. In the coming months, we expect the order book to significantly increase based on a number of live conversations with customers. Nexus has a robust balance sheet with cash and cash equivalents of £14.6m at the FY23 period end and the Board expects to pay a final dividend. Whilst we face challenging market conditions, we have taken decisive action to respond and rightsize the business. The strength and quality of our offering and strong financial footing mean we are well-placed to return to a growth trajectory when the housebuilding market improves".

Safestyle UK (SFE, 4p, £6m)

UK manufacturer, recycler and distributor of window, door and roofline PVC products. Stakeholder engagement update. "As reported in our recent Interim Results, the group has been engaging with its stakeholders to discuss ways to strengthen the balance sheet in order to support its recovery and help facilitate future growth. As part of these discussions, the group has also engaged with a number of third parties who have expressed interest in investing in the group. These discussions with both existing shareholders and other third parties have been productive and remain ongoing. In order to achieve a working capital injection, which will not be in the form of an equity placing, an alternative financing structure that realises the aims stated above is currently being sought. As previously updated, the group expects year-end net debt to be between £5.5m and £6.5m. At this point and into early January 2024, the full revolving credit facility with the group's bank will be required to support the working capital and liquidity requirements of the business. At this time, the group remains compliant with the covenants of its £7.5m borrowing facility. However, if the losses forecast for the remainder of the year materialise, this would generate a material shortfall versus the existing covenants of the RCF in November. Therefore, under the current facility terms, access to the RCF at that time could be fully restricted. Alongside the discussions with existing shareholders and other third parties described above, the Board has had good discussions with the group's bank, who have remained supportive, regarding renegotiating terms of the RCF in the form of a covenant waiver. This is yet to be formally agreed and is expected to be inter-conditional with the working capital injection referred to above. The Board remains confident that it will secure the ongoing support required to enable the group to navigate the near-term challenges". *Outlook:* "Looking further ahead, the Board maintains that growth recovery prospects are strong and data of an ageing housing stock in need of repair underpins this".

Mears Group (MER, 273p, £284m)

UK housing support services provider. Launch of share buyback programme. "Since the half year results on 3 August, the group has continued to experience positive momentum and accordingly the Board has approved an additional return of surplus capital of up to £15m through a new share buyback programme". The maximum number of shares to be bought back is 11.1 million. All shares repurchased will be cancelled. It is expected that the programme may take around six months to complete. A previous £20m buyback programme, completed on 5 August, resulted in the purchase and cancellation of 7.3 million shares at an average price of 273.9p, representing c. 6.58% of the group's issued share capital.

In other news …

Private rental REIT. Moorfield Group has launched a UK REIT that plans to invest £500m in the residential rental sector, Property Week (paywall). The investment vehicle, called MREIT, will initially target existing and newly-built homes in the single-family homes (SFH) and student houses of multiple occupation (HMO) sectors.

MREIT has raised £100m so far and is aimed at institutional investors. The fund aims to take advantage of the opportunity presented by buy-to-let investors exiting the rental market due to increased taxation, mortgage costs and regulation. Nearly 500,000 landlords are expected to sell their rental homes in the next five years, according to property consultant Hamptons International, with 140,000 leaving the market last year. MREIT will also target opportunities offered by volume housebuilders looking to reduce their stock through bulk sales and focusing on delivering rental units, in the face of falling demand from first-time buyers and existing homeowners.

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