

Progressive Property & Construction Daily



23 October 2023: VTY, KLR | News – Construction forecasts downgrade; Chancellor mulling first time buyers support | Fortnight ahead

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](#).

Company news

Vistry Group (VTY, 725p, £2,507m mkt cap)

Formed from the mergers of Bovis Homes and housebuilding and partnerships divisions of **Galliford Try** (GFRD) and **Countryside Partnerships**. Trading update, 1 Jul to date. *Guidance:* “The group is targeting adjusted profit before tax of £450m for FY [Dec] 23, excluding the impact of transitioning the Housebuilding business to Partnerships, as previously advised. As previously described, this impact is created by the re-evaluation of the full life margin of the group’s Housebuilding sites to reflect the increased pre-sale elements and the associated discount in price. We estimate the FY 23 impact of the reduction in full year site margins to be in the region of £40m and as a result, the group’s targeted FY23 adjusted profit before tax, including this impact, is £410m. Reflecting the timing profile of completions, average net debt for the full year is expected to be higher than previously expected at c. £450m. We continue to expect net debt to reduce to c. £100m as at 31 December 2023”. *Trading:* “As previously reported, we saw a slowdown in open market private sales during the summer months. This trend has continued and we have not seen the seasonal increase in private sales since September that we had expected. Open market demand continues to be supported by incentives of c. 5%”. Average weekly sales rate since 1 July, 0.60 (22, 0.64) and 0.76 (0.77) YTD. Forward order book unch, £4.3bn (Housebuilding, £1.3bn; Partnerships, £3.0bn). “We have had productive discussions in recent weeks with our key supply chain partners to agree cost reductions for all our existing and future contracts. With a high level of visibility on forward sales, build programmes and revenues in the Partnerships model, we can

offer greater continuity of work to our suppliers. The group expects to deliver c. £25m of annualised cost savings from the integration of Partnerships and Housebuilding, in addition to the £60m of synergies from the Countryside acquisition". *Outlook*: "The ongoing acute need for affordable mixed tenure housing continues to drive demand and we have received positive endorsement of our strategy from a wide range of our partners. Increasing the supply of affordable and sustainable homes through our Partnerships model is at the core of Vistry's purpose and gives us confidence in delivering on our medium-term targets".

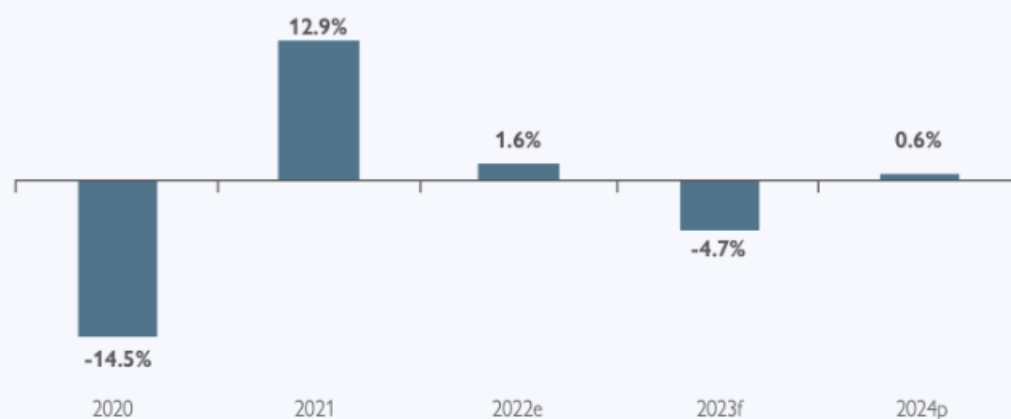
Keller Group (KLR, 673p, £490m)

World's largest ground engineering group, with 60% exposure to North America. Trading update. *Guidance*: "Overall, positive trading momentum in the third quarter [to Sep] has been maintained following exceptionally strong first half performance. Given our trading performance to date and the continued momentum in the business, we now expect full year underlying operating profit to be materially ahead of current market expectations. Cash generation for the year to date is considerably ahead of the prior year and better than our expectations. We therefore expect the year-end net debt/EBITDA leverage ratio to be below 1.0x, well within our target range of 0.5x - 1.5x (22, 1.2x)". *Trading*: North America – "More resilient pricing than expected in Suncoast and sustained operational improvements in the foundations business have resulted in a strong performance, with a more progressive recovery in the operating margin than expected. The pricing benefit at Suncoast is expected to moderate into 2024 with the margin returning to more normalised levels". Europe – "The macro-economic environment remains a challenge, resulting in weak demand in the residential and commercial sectors across the region. Profitability continues to be impacted by the competitive pricing environment and the impact of some challenging projects, whilst the effect of several large successful projects in the prior year, provides a tough comparator for the period. Accordingly, the anticipated profitability improvement in the second half will be less than expected and as a result we are taking appropriate corrective actions". AMEA – "Keller Australia is performing strongly, particularly in the infrastructure sector, and Austral has returned to profit in the third quarter as expected. At NEOM [planned new city in Saudi Arabia], we remain in discussions with the client in respect of the award of future works orders, however, due to the evolution of the design, the piling work on The Line has been delayed and we are taking steps to redeploy resources in the short term".

In other news ...

Construction Forecasts. The Construction Products Association has downgraded estimates for industry output in 2023 from -3.9% to -5.0%, reported in [ConstructionEnquirer.com](https://www.constructionenquirer.com). This follows an earlier reduction from -0.4% in summer 2022. Falls in private housing new build and housing RMI are expected to be partially offset by continued growth in infrastructure, the second largest sector, which is already at historic high levels of activity. Sector forecasts include: Industrial, +2.3% in 2023, -4.6% in 2024; Infrastructure +2.4%, +2.5%; Private new housing, -11.0%, -1.0% in 2024; Private housing RMI -9.0%, +1.0%.

Construction Output (% Growth)



Source: ONS, Construction Products Association

Politics. Chancellor Jeremy Hunt is drawing up a package of support to help first-time buyers get on to the property ladder ahead of the autumn statement next month, [The Times](#) (paywall). Options being considered include extending the Government's mortgage guarantee scheme and creating a new type of individual savings account (ISA) targeted at people looking to build up a deposit to buy their first home. As part of the package, it is understood the Chancellor is planning to extend the Government's 95 per cent mortgage guarantee scheme, which enables prospective homeowners to buy a property worth up to £600,000 with only a 5 per cent deposit. The scheme was first introduced in March 2021 by Rishi Sunak, then Chancellor, as a means of stimulating the housing market during the pandemic. The scheme had been due to end in December but Hunt is now expected to announce a 12-month extension in the autumn statement on November 22. The Treasury is also looking at options for a new type of ISA to incentivise people to save to buy their first home. The tax-free wrappers enable people to hold savings and investments without paying tax on interest or capital gains. These include cash Isas and stocks and shares Isas. However, sources said the Treasury had ruled out a revival of the Help to Buy scheme because it could prove inflationary.

Off-site homes. Loss-making modular construction firm Ilke Homes has formally entered liquidation with debts of more than £319m set to go unpaid, [Building](#) (paywall). A notice of a court order ending administration was filed to Companies House yesterday (19 October), almost four months after it fell into administration at the end of June. The majority of Ilke's 1,150 employees were made redundant with immediate effect.

Fortnight ahead

Construction & property: company and economic news

October

25 Springfield Properties plc (SPR)

AGM

26	Alumasc Group (ALU)	AGM
24	ONS	Employment data
25	Springfield Properties plc (SPR)	AGM
26	Alumasc Group (ALU)	AGM
	Foxtons Group (FOXT)	Q3 trading update
30	Bank of England	Mortgage approvals (09:30)
31	Nationwide	House prices (TBC)

November

1	Department for Business and Trade	Building materials stats
2	Howden Joinery Group (HWDN)	Trading update
	Derwent London (DLN)	Trading update
	Bank of England	Official Bank Rate (12:00)

Sources: Public announcements, Factset, ShareCast.com, Progressive Equity Research. Most are released at 07:00 unless otherwise stated.

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

Copyright 2023 Progressive Equity Research Limited ("PERL"). All rights reserved. PERL provides professional equity research services. All information used in the publication of this communication has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee their accuracy or completeness. Opinions contained in this communication represent those of the research department of PERL at the time of publication. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This communication is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This communication has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this email. However, PERL's directors, officers, employees and contractors may have a position in any or related securities mentioned in this email. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this email.

The value of securities mentioned in this communication can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this communication may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this email. Past performance is not necessarily a guide to future performance.