Progressive Property & Construction Daily

7 December 2023: BBY, SMS | Economics – House prices increase for second month after 'better than expected year', Halifax

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

Company news

Balfour Beatty (BBY, 338p, £1,846m)

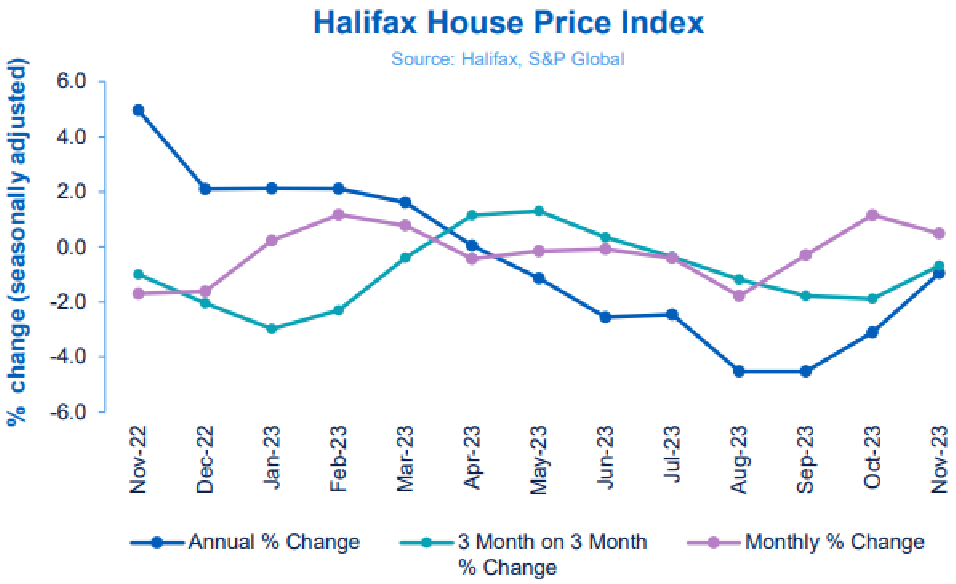
UK, US and Hong Kong construction and infrastructure group. Trading update. *Guidance:* "Underlying profit from operations from earnings-based businesses [for FY (Dec) 23] expected to be broadly in line with the prior year (FY 22, £232m)". Revenue expected to be about 5% ahead of prior year (£8.9bn) driven by higher HS2 volumes in the UK and increased major airport project activity in Hong Kong. Gain on Infrastructure Investment disposals of £26m, in line with prior £15 - 30m guidance. Average monthly net cash continues to be expected in a range of £650 - £700m. *Trading:* Order book at year end expected to be marginally higher than £16.4bn reported at half year. Construction Services – US Construction had a stronger order intake in the second half of the year than the first, reflecting two commercial real estate projects in Texas and additional Federal work in Washington DC. In UK, the HS2 works at Area North and Old Oak Common continue to progress well. The order book was unaffected by the decision to cancel HS2 Phase 2, which had yet to be contracted. In Hong Kong, operational performance at Gammon remains strong in a period of volume growth, driven by work at the major airport projects. Support Services – Further success in the local roads business; the rail business was awarded a £43m contract to deliver essential upgrade works on the London Underground's Piccadilly line. In August, the Group's power transmission and distribution team was selected as one of ten preferred bidders on SSEN Transmission's c. £10bn Accelerated Strategic Transmission Investment framework. From 2024, Balfour Beatty are expecting orders in the power business to expand, as the industry positions itself to deliver the infrastructure upgrades required to facilitate the UK Government's Net Zero ambitions. Infrastructure Investments –two assets disposed in the second half in excess of the directors' valuation. 2023 investment in new and existing projects is expected to be around £45m. *Outlook:* "We are pleased to confirm our fourth successive year of share buybacks in 2024, as our large order book, unique capabilities and balance sheet, provide a strong platform for continuing future shareholder returns".

Smart Metering Systems (SMS, 680p, £907m)

Installs and manages smart meters and carbon reduction assets. Recommended cash offer. Agreed all cash acquisition of SMS by Sienna Bidco (a newly formed company wholly-owned by funds advised by Kohlberg Kravis Roberts & Co), by means of a scheme of arrangement. Each SMS shareholder will be entitled to receive 955p, a premium of 40% to yesterday's closing price and 51% to the three-month volume weighted average of 634p. Shareholders will be entitled to receive the second FY 23 dividend Instalment of 8.3p. The acquisition values the entire issued and to be issued ordinary share capital of SMS at approximately £1.3bn on a fully diluted basis and an enterprise value of approximately £1.4bn, valuing it at a trailing EV/EBITDA multiple of 20.0x.

Economic data

House prices rose for the second consecutive month in November, by 0.5% M/M following +1.2% in October, bringing the annual change down to -1.0%, after -4.5% in September and -3.1% in October, according to the latest Halifax House Price Index. November's price was £284k, and the latest two rises follow six successive seasonally-adjusted declines, reaching -1.8% in August. The UK's largest mortgage lender stated: "Over the last year, despite the wider economic headwinds, property prices have held up better than expected, falling by a relatively modest -1.0% on an annual basis, and still some £40,000 above pre-pandemic levels. The resilience during 2023 continues to be underpinned by a shortage of properties available, rather than any significant strengthening of buyer demand. That said, recent figures for mortgage approvals suggest a slight uptick in activity levels, which is likely as a result of an improving picture on affordability. With mortgage rates starting to ease slightly, this may be leading to increased buyer confidence, seeing people more inclined to push ahead with their home purchases. However, the economic conditions remain uncertain, making it hard to assess the extent to which market activity will be maintained. Other pressures – like inflation, cost of living, employment rates and affordability – mean we expect to see downward pressure on house prices into next year".



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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