Progressive Property & Construction Daily

10 January 2024: PSN, GLV, TPFG, BLV, WINK, COST, FERG

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

Persimmon (PSN, 1,392p, £4,445m mkt cap)

UK number three housebuilder by volume, top by market cap. FY (Dec) 23 trading update. *Guidance:* "The group successfully navigated challenging market conditions in 2023 and completed the sale of 9,922 new homes, ahead of previous guidance, with a particularly strong delivery in Q4. As previously indicated, full year operating margins are expected to be in line with those delivered in the first half at c.14%. This reflects the impact of build cost inflation, coupled with the effects of lower volume, one-off costs associated with the remediation of a small number of completed sites and accelerated exit from two sites, along with further investment to position the business for future success". *Trading:* Completions -33%, 9,922; ave price +3%, £256k (private +5%, £286k – "largely mix"); forward sales +2%, £1,060m (private +4%, £499m); net cash, £420m (FY 22, £862m). Sales rate, 0.58 per outlet per week for the year (FY 22, 0.69). "This includes a strong improvement in private net sales rates in the fourth quarter at 0.41 per outlet per week (excluding investor deals) compared with 0.28 in Q4 2022". Ave sales outlets +3%, 266; land plots -5.7%, c. 82,200. *Outlook:* "We enter 2024 with private forward sales ahead of last year driven by the year-on-year improvement in Q4 sales rates. The private average selling price in the forward order book is c.£266k, predominantly reflecting the mix effect of sites and homes sold, along with some targeted investor sales. We anticipate market conditions will remain highly uncertain during 2024, particularly for first-time buyers and with an election likely this year. However, mortgage rates are beginning to ease, and the response to our recent Boxing Day campaign has been positive, generating a substantial number of leads for our sales teams. Encouragingly, build costs continue to moderate which will benefit completions in 2024. The longer-term demand outlook for new homes remains favourable. As a five-star builder, with private average selling prices below the market average, high quality land holdings, and a robust balance sheet, Persimmon is well-positioned for sustainable growth when conditions improve". FY results, 12 March. **Viewpoint:** Persimmon may be hedging its bets in describing the market outlook as "highly uncertain"; tellingly the analyst conference call referred to brick, timber and plasterboard suppliers putting their prices up, with an expected increase in overall build costs of 2 - 3%, it would appear, pointing to an industry-wide anticipation of further improvements in housing activity following a positive closing quarter to 2023.

Glenveagh (GLV, €1.24, £614m)

Irish housebuilder and partnership housing provider. FY (Dec) trading update. Rev -6%, €608m; PBT -13%, €55m; EPS +5%, 8.0 cents; net debt, €51m (YE 22, €14m). Suburban completions -2%, 1,328; group fwd order book +86%, €642m. *Trading:* "We increased suburban revenue and margin, generated revenue from our Partnerships business segment for the first time, and benefitted from strong planning momentum after the planning delays experienced in FY 22. We delivered EPS at the top end of our guided range. Net debt was maintained at prudent levels as we continued to generate efficiencies from our landbank while also investing in our WIP for FY 24, completing our significant investment in our offsite manufacturing business, NUA, and returning approximately €63m to shareholders. We also progressed with our sustainability agenda, launching our Net Zero transition plan, including science-based targets in March. Today we have published our Biodiversity strategy.

Outlook: "The long-term demand outlook for the Irish residential housing market remains very positive, supported by a resilient domestic economy, a fast-growing population and supportive State initiatives. We expect to generate strong revenue and profit growth across each of our Suburban, Urban and Partnerships business segments in FY 24, underpinned by our healthy land portfolio and forward order book, continued planning momentum and strong operational and manufacturing capability. We are comfortable with current consensus EPS expectations for FY 24 of approximately 17 cents. We continue to remain focused on enhancing capital efficiency and cash generation across the business. Once our capital allocation priorities are satisfied, we remain committed to returning any excess cash identified to shareholders". FY results, 28 February.

The Property Franchise Group (TPFG, 344p, £111m)

Franchised lettings and estate agent group, enlarged through 2021 acquisition of Hunters, also operating hybrid web-based EweMove platform.

Belvoir Group (BLV, 257p, £96m)

Franchised lettings agency group.

Recommended all-share merger. Under the terms of the merger, for each Belvoir Share. 0.806377 new TPFG shares. Based on the Exchange Ratio and the closing Price of 344.0 pence per TPFG share the merger values each Belvoir share at approximately 277.4p an equity value of c. £104m and TPFG's entire issued ordinary share capital of c. £111m. Upon completion of the merger, Belvoir shareholders will hold approximately 48.25% and TPFG Shareholders will hold approximately 51.75% of the enlarged issued share capital of TPFG. The Combined Group would have a market capitalisation of approximately £214m. The merger is supported by a Belvoir Shareholder in respect of 6.174 million shares, representing approximately 16.6% of the issued share capital of Belvoir . In addition, certain Belvoir shareholders have provided TPFG with non-binding letters of intent, confirming their intention to vote in favour representing approximately 9.2% of the issued share capital of Belvoir. The Combined Group will benefit from increased scale with more than 930 property franchise locations, managing approximately 152,000 tenanted properties across the UK and will be expected to sell more than 28,000 properties per annum. For the financial year ended 31 December 2022, TPFG and Belvoir generated in excess of £60m million in combined revenue, of which approximately 41%was recurring, with management service fees of approximately £27m and adjusted EBITDA of approximately £22.5m. The Combined Group Board will comprise, among others, Gareth Samples (TPFG CEO), David Raggett (TPFG CFO) and Michelle Brook (Belvoir executive director), with Paul Latham (TPFG Chair) as the Combined Group's Chair. *Outlook:* "The TPFG Board has identified areas of potential synergies for the combined group which would provide a stronger platform for organic growth and further enhancement of TPFG's progressive and resilient dividend policy. These are largely anticipated to be cost synergies in the short-term, from eliminating duplicated operating costs and costs of Belvoir being admitted to trading on AIM. However, in the medium term, synergies are also anticipated to arise from the deployment of expertise gained in revenue generation through strategic initiatives. Most notably, in developing sales within national lettings brands, developing ancillary services that franchisees actively promote such as conveyancing and managing their customers rented properties with a more investment-led focus. The merger will give the TPFG Group access to Belvoir's well-established financial services division".

M Winkworth (WINK, 158p, £20m)

Franchised estate and lettings agency, focused on London and SE. *Guidance:* "Full year pre-tax profits are expected to be in line with the current market forecast of £2.1m (FY 22, £2.47m) and net cash at year end, following increased investment in new offices in 2023, to be at least £4.4m (31 December 2022: £5.25m). Q4 div, 3.0p (Q4 22, 2.9p); FY 11.7p (1.0p). *Trading:* "As we anticipated, the gloomiest forecasts for prices were not met and prices ended the year only some 5% below their peak in the summer of 2022. Hesitancy on behalf of buyers, however, along with legal delays in conveyancing, led to a downturn in transactions. Winkworth's network completed sales for the year fell by some 19%. The shortage of rental property in 2023 and consequent rise in prices translated into an increase in our network revenues of around 5%, offsetting the slower sales completions". *Outlook:* "We enter 2024 feeling more optimistic than this time last year. Winkworth has a well-balanced revenue flow between sales and lettings and improved conditions in the former would counterbalance any slowing in the latter. After opening four new offices in 2023, we are in negotiations for some eight additions in 2024, in line with our long-term target. A substantial number of already agreed and contracted sales will now be reported in 2024 and, with activity in Q4 2023 showing a year-on-year improvement, we have entered the New Year with a stronger pipeline than at the end of 2022. We believe that the rise of accidental landlords, postponing their sales due to price uncertainty and switching to the lettings market, combined with tenants hitting affordability ceilings, will lead to lower growth in 2024 and slowing rent increases. Price increases from previous years, however, will continue to feed through as properties come up for re-letting, underpinning growth in the sector". FY results, on or around 17 April.

Costain Group (COST, 63p, £173m)

UK construction and infrastructure services group. FY (Dec) trading statement and AMP 8 framework win. *Guidance:* "Costain had a positive trading year in 2023 and expects to deliver adjusted operating profit in line with market expectations. As a result, and reflecting an increase in financial income compared to 2022 and strong working capital management, together with the accumulation of £25m of positive working capital timings, Costain ended 2023 with a net cash position of £164m (YE 22, £124m), significantly higher than market expectations of £129m". *Contract:* Appointed by Northumbrian Water Group to Asset Management Period 8 framework with a potential value of up to £670m to Costain during up to a 12-year period. The contract starts immediately and will run for a seven-year initial term with an option for a five-year extension. The work will involve: design, construction and commissioning of new water and wastewater treatment assets, asset renewals, asset modifications, refurbishments and extensions to treatment works. AMP 8 will see the biggest investment in the water industry for decades. In 2023, Costain extended into AMP 8 its Managed Service Provider contract with United Utilities and its consultancy work with Yorkshire Water. Costain has also won funding from Ofwat to support innovation projects. FY results, 12 March.

Ferguson (FERG, 14,600p, £29,976m)

Now entirely North American-focused building materials distributor, formerly Wolseley. Acquisitions. Definitive purchase agreements signed to acquire Yorkwest Plumbing Supply (plumbing, municipal, hydronics, institutional, HVAC and industrial products, Greater Toronto) and Grove Supply (plumbing and HVAC distributor, Philadelphia) and closure of acquisition of Harway Appliances (distributor of high-end kitchen appliances for homeowners, custom home builders and designers, Austin, Texas). The three acquisitions have aggregate annualized revenues of approximately US$220m. Ferguson has completed more than 50 acquisitions in the last five years.

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

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.