Progressive Property & Construction Daily

22 February 2024: MGNS, GFRD, MRL

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

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Company news

Morgan Sindall Group (MGNS, 2,215p, £1,049m)

Construction, regeneration and fit-out group. FY (Dec) results. Rev +14%, £4,118m; op margin, 3.4% (3.9%); adj PBT +6%, £145m; stat PBT +69%, £144m; adj EPS +4%, 248p; div +13%, 114p; YE net cash, £461m (FY 22, £355m); ave net cash, £282m (£256m). *Trading:* Construction rev +18%, £967m; op margin, 2.7% (2.8%); op profit +15%, £25.9m. "Good performance was driven by the continued focus on consistent, high-quality operational delivery and prudent risk management. For FY24, the division is expected to meet both its revenue and margin targets". Infrastructure – rev +15%, £887m; op margin, 4.3% (3.8%); op profit +31%, £38.5m. "A strong year of profit and margin growth, driven by the timing and nature of projects delivered through its frameworks, and by high-quality operational delivery. [FY24], the division is expected to make significant progress towards its revenue target, with its margin expected at around the top end of its target range". Fit Out – rev +14%, £1,105m; op margin, 6.5% (5.4%); op profit +38%, £71.8m. "Another excellent, market-leading performance, underpinned again [by] a continued focus on consistent operational delivery an, supported by a high-quality workload. Based on the the current visibility the division has of future workload, Fit Out is expected to have another strong year in 2024, with profit towards the top end of this revised target range". Property Services – rev 13%, £185m; op loss, £16.8m (op prof, £4.3m). "A difficult and disappointing year The division has experienced a significant number of operational and contract issues in the year, including additional costs being required to support the start-up phases of more recently mobilised contracts, ongoing inflationary pressures and contract pricing mechanisms, and high levels of subcontract labour providing contract delivery challenges. A remediation programme was initiated in the middle of the year, with the focus addressing client service and operational performance. As part of this programme, a number of key roles in the senior management team have been changed. Further progress with the remediation programme in 2024 is expected which will stabilise and enhance the operational performance. A further loss is expected in 2024 at around half of that reported in 2023, however the remediation programme is expected to leave the business positioned to return to profit in 2025 and beyond". Partnership Housing – rev +20%, £838m; op margin, 3.6% (5.4%), op profit -18%, £30.5m. "Throughout the year, demand for contracting remained strong and cushioned the full impact of lower open market sales within the mixed-tenure activities. At the same time, the division was able to accelerate construction of the contracted affordable homes on mixed-tenure sites to maintain activity. Looking ahead to 2024, no significant improvement in market conditions is expected although with a potentially more positive backdrop for the housing market, modest growth in profit is expected in the year. Urban Regeneration – rev -24%, £185m; op profit -22%, £14.8m; cap emp, £98.6m (£96.5m); ROCE, 15% (20%). "Generally satisfactory progress with its long-term regeneration developments in the year, operating profit lower due to the scale, nature and timing of scheme completions. Medium-term target is to increase rolling three-year average ROCE up towards 20%. The phasing of schemes expected in 2024 reflects a hiatus between projects having reached completion and new projects not starting until later years. As a result, profit and ROCE in 2024 is expected to be much lower than in 2023, with the average capital employed expected to be c. £80 - £90m". *Outlook:* Orders +5%, £8.9bn. "The group is well-positioned for the future and on track to deliver a result for 2024 which is in line with its current expectations". Divisional mid-term targets unchanged from August update. *Capital allocation policy:* "Overarching principle is a commitment to maintain a strong balance sheet and to hold significant net cash balances at all times". Lowest daily cash in FY 23 of £195m (of which £42m restricted) as the initial reference point from which it then considers its application of its capital allocation hierarchy": a/ maintain strong balance sheet; b/ maximise investment in the current Regeneration activities; c/ dividend cover, 2.0 - 2.5x; d/ acquisition to accelerate sustainable growth ("Any acquisition activity will likely be targeted towards the regeneration activities, primarily Partnership Housing, focused on acquiring pre-existing development schemes, land options, positions in existing schemes from third parties or businesses which can complement or reinforce the division's position in the partnerships sector. Other potential acquisition opportunities across construction activities would only be considered where they would accelerate growth through the existing divisional structure and capabilities."); e/ special returns to shareholders. **Viewpoint:** Another strong performance across most of the diverse businesses and yet again in cash. The challenges in Property Services should be put into context: in recent years the group has, unusually until then, been firing on every cylinder – this year the spark plug in one needs replacing. It's not the first time the group has 'gone with the pack' and issued a capital allocation statement – but note the first use of the word 'acquisition' (but only as priority d) and the obligatory mention of special returns (but right at the bottom). Cash and risk remain kings. A closing remark at the results meeting from John Morgan sums up the long-term group ethos: "The most important thing across all our businesses is risk. It's about avoiding the duffers".

Galliford Try Holdings (GFRD, 238p, £244m)

UK construction and infrastructure services group. Contracts. Three new infrastructure contracts signed totalling £98m: a new £33m pipeline in South London, in Thames Water;s Riverside Flow Monitoring Zone; a £31m contract to install a new 9km clean water pipeline connecting the Netley Water Treatment Works in the east of Guildford, Surrey with the main reservoir network to the west (both in the Environment business); and, in the Highways business, a £34m contract to redevelop the A629 route into central Halifax, including pedestrianising key access areas and re-routing access to the town's railway station.

Marlowe (MRL, 425p, £411m)

Safety and compliance provider to commercial properties. Divestment and Board changes. Following the strategic review announced in November, the company announces the divestment of a select number of its Governance, Risk & Compliance (GRC) software and service assets to Inflexion Private Equity for an enterprise value of £430m, representing a multiple of 16.2x proforma adjusted cash EBITDA in the year ended 31 March 2023. Marlowe's continuing operations comprise the Testing, Inspection and Certification (TIC) and Occupational Health (OH) businesses. The group intends to use the proceeds of the Divestment to retire in full its current debt facility and return in excess of £150m of surplus cash to shareholders. Alex Dacre will transfer with the Divestment and resign as Chief Executive of Marlowe on completion and Kevin Quinn will take up the position of Executive Chair on an interim basis. The Board has begun a search for a new Chief Executive, which will include both internal and external candidates. **Viewpoint:** The shares had fallen from an all-time high of 1,025p in 2021 on the back of an aggressive and multi-pronged M&A drive to a low of 314p in July. Notwithstanding the 25% recovery this morning on news of the return, a reminder, perhaps, that Icarian 'buy and build' strategies can end in meltdown?

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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