Progressive Property & Construction Daily

5 March 2024: FOXT, KLR, TPK, SHI, AHT

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

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Company news

Foxtons Group (FOXT, 60p, £180m)

High profile London estate and lettings agent. FY (Dec) results. Rev +5%, £147m; adj PBT +2.9%, £12.4m; stat PBT -34%, £7.9m; adj EPS, -3%, 3.0p; div unch, 0.9p; net debt, £6.8m (FY 22, net cash, £12.0m). *Trading:* Lettings – rev +16%, £101m "as organic and acquisitive growth strategies are delivered. Two acquisitions completed in 2023, adding over 2,800 tenancies". Sales – rev -14%, £37m "as challenging market conditions were partially mitigated by market share driven outperformance of the wider London market". Financial Services – rev -14%, £8.8m "as weaker new purchase mortgage volumes were partially offset by non-cyclical and recurring refinance volumes". Operational upgrades identified in March 2023 were "delivered at pace and ahead of expectations: rebuilding fee earner levels, rebuilding core technology and data capabilities, and reenergising Foxtons' culture". *Outlook:* "Trading in January and February in line with expectations. Lettings is expected to remain resilient with market supply and demand dynamics normalised. As expected, year-on-year rental growth has moderated with rental prices remaining at elevated levels. In Sales, continued market outperformance, alongside some recovery in buyer demand levels as mortgage rates have begun to reduce, has resulted in a 31% year-on-year increase in the value of the under offer pipeline at the end of February. The growth in the value of the under-offer pipeline is expected to deliver good year-on-year revenue growth in the first half of the year, with further growth expected in the second half if mortgage rates continue to stabilise and pent-up demand is released. In Financial Services, improved new buyer demand, alongside good levels of non-cyclical refinance activity, has supported 16% growth in the value of the Financial Services pipeline. By leveraging the operational capabilities of the Foxtons Operating Platform, alongside increased levels of contribution as fee earners hired in 2023 mature, the group is on track to deliver another year of growth in 2024 and to deliver against our £25 - 30m adjusted operating profit target over the medium-term".

Keller Group (KLR, 875p, £637m)

World's largest ground engineering group, with 60% exposure to North America. FY (Dec) results. Rev +1%, £2,966m; u-lying PBT +64%, £153m; stat PBT +123%, £126m; adj EPS +53%, 154p; div +20%, 45.2p "rebasing of the dividend, in recognition of the excellent performance in the year and the group's future prospects"; net debt, £146m (FY 22, £219m); net debt/EBITDA, 0.6x (1.2x). *Trading (constant currency):* North America – rev -6% "largely as a result of the completion of a large LNG project at the start of the period, and a slow-down in residential housing, impacting volume at Suncoast where revenues were down by c. 14%. Our foundations business increased revenues by c. 6%, notwithstanding an increase in our bidding discipline. Underlying operating profit more than doubled to £170m, driven primarily by a material and sustainable improvement in operational performance in the foundations business. Europe – rev +4.2% reflecting "a very mixed backdrop with widespread weak demand in the residential and commercial sectors offset by larger projects in infrastructure. Underlying operating profit reduced significantly, down 94%, primarily as a result of poor project performance and cost management in the Nordic region and also an increasingly competitive environment across Europe in a declining market. The adverse mix of contracts in the UK and the increasingly competitive market conditions particularly in North East Europe, also contributed to the underlying operating margin reducing to 0.3% (4.5%). The adverse project performance in the Nordics is not expected to continue into 2024 and management actions have been taken to drive improvement there and the region more generally". AMEA – rev +34% "driven by record volumes in Keller Australia as a result of a strong infrastructure market; delivery of the first works order at the NEOM project in Saudi Arabia and robust trading in India. Underlying operating profit increased significantly to £22.6m driven primarily by the increased volume and much improved operational execution and profitability in Keller Australia. The Middle East, including NEOM, showed a modest uplift compared with prior year. While Austral returned to a sustainable profit in the second half of the year, this was insufficient to offset the significant loss on legacy contracts experienced in the first half of the year. The overall operating margin for the division increased to 4.4% (1.7%)". *Outlook:* "The strong momentum of the business is encouraging, our diverse revenues and improved operational delivery underpin our expectation that 2024 will be another year of underlying progress. The significant improvement in business performance and continued disciplined execution of our strategy, will provide both resilience in the short term and drive growth in the long term, through both organic and targeted M&A opportunities".

Travis Perkins (TPK, 745p, £1,584m)

Leading UK builders' merchant and owner of Toolstation. FY (Dec) results. Rev -2.7%, £4,862m; adj op profit -39%, £180m; adj PBT -45%, £141m; stat PBT -71%, £70m (after charges including £60m of FY 23 restructuring and impairments; FY 22, zero); adj EPS -52% 45.7p; div -54%, 18.0p; net debt, £314m (FY 22, £279m); net debt/adjusted EBITDA, 2.6x (1.8x). *Trading:* "Ongoing economic challenges have significantly impacted our trading performance, driven by weakness in the new build housing and domestic RMI sectors, and compounded by deflationary pressures on commodity products. Faced with these challenges, we have invested to protect and build our leading market positions". Around £64m of the profit decline resulted from lower sales volumes whilst c. £24m was attributable to lower gross margins, with deflation on timber products in the second half a significant factor. *Outlook:* "A recovery in UK construction is unlikely to gather any momentum before the general election with the group's customers inevitably waiting to see if there is a post-election government stimulus package for the sector and also seeking clarity on the future direction of interest rates. Management is planning for another year of weak demand, with overhead and cash management actions. Pricing benefit is expected to be minimal in 2024 with lower timber pricing rolling over into H1 and limited manufacturer increases. Whilst it is still early in the trading year, the group has seen a continuation of the weak trading environment experienced in the second half of 2023. Accordingly, management's best estimate at this stage is that FY 24 adjusted operating profit will be in the range of £160 - 180m, inclusive of around £10m of property profits and around £20m of losses in Toolstation France. With uncertainty remaining as to the timing and speed of recovery in key end markets, management has commenced further significant actions. The first phase, completed in the fourth quarter, will deliver further cost savings of around £35m in 2024, primarily from a reduction in central and regional headcount and the closure of the Toolstation Bridgwater distribution centre. The next phase commenced in February 2024 with 39 standalone Benchmarx branches closed as part of a review of the strategy of the business. The focus is now on optimising the profitability of the remaining standalone branches and growing the network through integrated solutions in new General Merchant branches which provide a lower cost model with a convenient customer journey. In March 2024 the group announced the proposed closure of the Toolstation Daventry distribution centre which represents the next stage of supply chain consolidation within Toolstation UK".

SIG (SHI, 30p, £355m)

Supplier of energy efficiency and specialist building materials to trade customers across Europe. FY (Dec) results. Rev +0.6%, ££2,761m; u-lying PBT -66%, £17.4m; stat loss before tax, £31.9m (FY 22, PBT £27.5m); u-lying EPS -88%, 0.4p; div, 0p (0p) "The Board reiterates its commitment to return to paying a dividend, appropriately covered by underlying earnings, when it is prudent to do so"; net debt, £128m (£136m). *Trading:* "FY 23 results reflect continued strong execution, against a challenging market backdrop. Benefits of a diversified pan-European portfolio. UK Exteriors delivered positive LFL sales growth, with good market momentum. Germany benefited from strengthening execution to maintain operating margin gains of recent years, despite weaker volumes and difficult local market conditions. Poland achieved 5% growth in H2 with local market conditions stabilising. *Outlook:* "Looking ahead, the group expects continued softness in market conditions in 2024. However, we will continue to strengthen our execution and organisation such that we deliver higher margin growth and performance for the medium-term. We remain confident in our ability to manage through this current phase of the cycle and to ensure that we are more than ready to take advantage of the significant long-term opportunities f as markets recover. Restructuring executed during H2 2023 will deliver approximately £10m of annualised cost savings, the majority of which will benefit FY24. The Board is confident that the group's leading market positions will continue to strengthen further when conditions improve across our markets. We remain financially and commercially well placed and are taking proactive steps to drive meaningful shareholder value in the medium and long-term".

Ashtead Group (AHT, 5,728p, £25,004m)

US-focused plant hire group. Q3 (Jan) results. Rev +14% Y/Y, US$8.2bn (Q3 +9% Y/Y); adj PBT unch, US$1.8bn (Q3 -11%); adj EPS +1%, 307p (Q3 -11%); net debt/EBITDA, 1.9x (Q3 23, 1.6x). *Trading:* "As outlined previously, our third quarter rental revenue growth in North America was affected by the lower level of emergency response activity related to natural disasters and the longer than anticipated actors and writers strikes". *Outlook:* "Taking into account Q3 performance, we now expect rental revenue growth for the full year to be at the low end of our 11 - 13% range and full year results broadly in line with expectations. Our end markets in

North America remain robust with healthy demand, supported in the US by the increasing number of mega projects and recent legislative acts. We are in a position of strength, with the operational flexibility and financial capacity to capitalise on the opportunities arising from these market conditions and ongoing structural changes".

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