

Progressive Property & Construction Daily



22 April 2020: CRH, UTG, BWY; Government guidance supports site working; property loan defaults to soar

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

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Company comments

CRH (CRH, 2,148p, £16,858m)

Irish-European-US building materials producer and distributor. Trading update, Q1 (Mar). *Trading:* Rev +3% LFL, impact of Covid-19 visible since mid-March. In North America, construction has to-date been deemed an 'essential activity' in most markets. Pennsylvania, New York City and Washington state have been the most impacted to-date, while operations in the Southeast, Central and Western US have been less affected. Operations in Europe have been more impacted to-date, with nationwide shutdowns across a number of Western European markets, including the UK, France and Ireland. With the exception of certain essential activities, operations in these markets have been significantly impacted. In the absence of nationwide restrictions on construction activity, Central and Eastern European businesses have been less impacted to-date. *Actions:* Suspension of all non-essential capex and expenditure; working capital to fall with lower volumes; temporary lay-offs and furlough arrangements in affected areas; 25% salary cut for all leadership teams and board members. *Outlook:* Formal guidance suspended; long-term, expected beneficiaries of any future stimulus measures. *Finances:* over \$6bn of cash and equivalents. *Dividends:* final dividend proposed; subject to shareholder approval at tomorrow's AGM. **Viewpoint:** interesting political divergence of responses within US and European states and regions.

The Unite Group (UTG, 771p, £2,803m)

Owner, manager and developer of UK student accommodation. *Trading:* Based on cancellation requests, company expects to forgo rent on c. 62-65% of all owned and managed beds. For the remainder, 94% of the rent due to date in April has been received. Reservations for the 2020/21 academic year are currently at 80%, compared with 81% at the same time last year. Still seeing enquiries from international students but, as expected, demand has slowed. *Outlook:* A reduction in income of 16-20% is expected for the 2019/20 academic year, an improvement on previous expectations. The group retains previous guidance for a £90 - 125m reduction in cashflow in FY (Dec) 2020. *Actions:* expect £12-15m in P&L cost savings in 2020 (Unite share) in addition to the £5 - 6m of synergies expected from the Liberty Living acquisition in 2020. The board has agreed to a 30% reduction to salaries and pension contributions for exec directors and non-execs' fees, 10-20% cut for senior management, all effective for four months from 1 April. Bonus payments for exec directors will also be suspended for 2020. These savings, together with decision to defer development and non-essential operational capex, will retain an additional £95 – 105m of cash in 2020. Deferred delivery of Middlesex Street, London, and Old BRI, Bristol, sites into 2022, with decision on resumption to be made once there is greater visibility on the 2020/21 academic year. Reviewing the possibility of delivering 2022 completions ahead of the start of the 2022/23 academic year to generate income from short-term lets. Delivery of 2020 completions will also be delayed by temporary site closures, however, work has now re-started across all sites with reduced numbers of operatives, in accordance with recent government advice. *Finances:* As of 17 April, £269m of unrestricted cash reserves; all RCFs now fully drawn; earliest debt maturity is in April 2022. Unite has been confirmed as an eligible issuer for the HM Treasury and Bank of England Covid Corporate Financing Facility, with an initial £50m expected to be accessed shortly.

Bellway (BWY, 2,305p, £2,843m)

Top five housebuilder by volume. Covid-19 Update - board remuneration. The board of directors have agreed to a voluntary, temporary 20% reduction in basic salary and fees effective from 1st April until 31st May 2020, which will be donated to various charities. The company will match-fund the donations with a contribution to its national charity partner, Cancer Research UK, whose important work and fundraising capacity has been adversely impacted by the Covid-19 pandemic.

In other news ...

Building control told to continue with **site inspections**, Building ([link](#), paywall). The government has issued new guidance to building control inspectors that they should continue to carry out site inspections where construction work is continuing, despite the lockdown restrictions brought in to combat the coronavirus pandemic. **Viewpoint:** at first signs a fairly esoteric trade article, but this is further practical evidence of the Government's commitment to keeping the construction industry operating as fully as possible during the lockdown and to accelerate as soon as possible.

The amount of **defaulted property loans** increased Y/Y by 36% in 2019, according to the Cass UK's Commercial Real Estate Lending Report, which predicts loan write-offs and debt losses for real estate of between £8 - 10bn due to Coronavirus, as well as an additional £22bn of development loans affected by construction delays and defaults, Property Week ([link](#), paywall).

Prices are as at the previous day's close.

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