

Progressive Property & Construction Daily



30 April 2020: BWY, SGM, INL, HWG, GFRD, CWD, SHI; RICS shows collapse in retail commercial property demand and rents

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.

Company comments

Bellway (BWY, 2,803p, £3,457m)

Top five housebuilder by volume. Covid-19 update. *Trading:* From 1 August to 26 April 2020, sales completions -1.4% Y/Y, 6,506 homes, including 493 on or after 23 March. Orders -5.3%, £1,567m (units -5.7%, 5,976). Although sales centres have been closed since 23 March, a “modest number” of weekly reservations have been achieved via telephone. The cancellation rate, measured as a percentage of the reduced reservation rate over this period, was 27%. Sales activity expected to remain “severely restrained” until sales outlets re-open. *Actions:* Aims to resume some construction work, initially on a phased basis, from Monday 4 May 2020. The initial recommencement of construction works will enable the sales completion of a limited number of new homes over the coming weeks, although the extent to which this is achieved will depend upon customers' ability to complete and the ability of the supply chain. Although group had initiated measures to furlough c. 75% of employees, it has committed to paying full basic salary throughout April and May. The group is eligible to claim a grant for furloughed employees using the Government's Coronavirus Job Retention Scheme ("CJRS"), however, the decision to submit a claim has been deferred until the group is in a better position to assess the financial effect of its planned site reopening programme. *Finances:* Net debt £98m at 26 April 2020 (28 April 19, £229m). As previously reported, the group has committed bank facilities of £545m. Since 23 March, it has extended the maturity dates of tranches totalling £125m, which were otherwise due to expire in this financial year (July YE), to July 2021. *Outlook:* Guidance remains suspended. (Further to 22 April update.)

Sigma Capital Group (SGM, 102p, £99m)

Private rented sector (PRS) and urban regeneration specialist and investment adviser to **The PRS REIT** (PRSR, 68p, £337m). FY (Dec) results. Rev +11%, £13.9m; PBT +7%, £13.0m; EPS -8%, 11.6p; FY div unch, 2.0p. NAV +16%, 67.6p; gross cash £16.8m (YE 18, £14.4m, adj); net debt £2.8m (£19.8m net cash). *Actions:* Construction temporarily suspended by housebuilding partners at the end of March, with little adverse effect on Sigma's liquidity as contractual obligations only provide for payment in respect of completed work. Construction activity is now recommencing with social distancing measures. No plans to furlough staff or to utilise government assistance schemes. *Outlook:* "While the coronavirus crisis is causing unprecedented levels of global uncertainty and it remains difficult to estimate its full impact, we remain confident that Sigma is financially and operationally well-equipped to navigate this challenging period successfully ... Rental demand typically increases during periods of economic uncertainty, reflecting deferral of major purchasing decisions". *Dividends:* The decision to pay a dividend "has not been made lightly in view of the current situation, and it reflects the board's confidence in the group's financial health and growth prospects". *Change of accounting date:* From 31 December to 30 September, which is more compatible with the group's seasonal trading pattern. The new financial period will therefore cover the nine-month period ending 30 September 2020.

Inland Homes (INL, 53.5p, £111m)

Leading brownfield land developer, housebuilding and partnership housing group, focused on South and South East. Trading update and proposed placing and subscription to raise up to £9.9m, representing c. 9.9% of the existing issued share capital, at a price of 47.5%, a discount of c. 11.2% to yesterday's closing price. It will comprise a private subscription by certain directors of the company and members of the senior management team along with others and an offer for subscription, available to retail investors, to be conducted by PrimaryBid, on a 'first come, first served' basis. *Trading:* "Although all our sales centres have now been shut, we are continuing with our sales and marketing activity remotely. There is little evidence that the UK's national quoted house builders are in the market to purchase land at the present time, however we continue to receive approaches from smaller and medium sized housebuilders for the purchase of sites with planning consent". *Outlook:* "The impact and extent of Covid-19 is clearly uncertain at this stage. We are assuming that all planned sales of our homes are delayed by at least two months and that the majority of our land sales will be delayed by between two and six months. This includes the major land sales that were expected to be achieved for the half year ended 31 March 2020. These delays will result in revenues, gross and operating profit in the period being impacted significantly. The Partnership Housing revenues are expected to continue in line with our expectations as work on these sites are continuing at present. (Further to 30 March update.)

Harworth Group (HWG, 97p, £311m)

Land regeneration group, including in former coalfields. Trading update. Since 17 March FY results: Completion of key commercial land sale at Skelton Grange on 16 April, for a total consideration of £13m, ahead of 31 December book value; continuing infrastructure works on six major development sites, to support future agreed sales; income from portfolio continuing to cover operating costs, with March quarter rent received broadly in line with previous quarters; new lettings have further reduced Business Space vacancy rate to 4.8% (FY 2019: 6%). *Outlook:* "the disruption caused by the Covid-19 pandemic will likely have a material influence on the Company's results for FY (Dec) 20. However, given the positive long-term

fundamentals of the company's strategy including its focus on those structurally supported sectors of residential, industrial and logistics within the North of England and the Midlands, the board remains confident that the Company is strongly positioned for the future, continuing to transform land and property into sustainable places". *Finances*: £30m increase RCF agreed with lenders, to £130m, "providing increased operational flexibility and the ability to take advantage of future suitable land and property opportunities". *Dividends*: Final div for FY 19 will no longer be recommended but an additional 2020 interim dividend, in lieu of the FY 2019 final dividend, will be considered in due course.

Galliford Try Holdings (GFRD, 150p, £167m)

UK construction and infrastructure services group, having recently sold its housing businesses to former Bovis Homes Group (BVS). Building division has secured a place on the £1.5bn YORbuild Major Works Contractors Framework Agreement in the north of England, which runs for four years and principally comprises general building works. The framework serves all public sector bodies and third sector organisations in the Yorkshire and Humber region, Sheffield, Lincolnshire, North East England, Nottinghamshire, Derbyshire and areas of Leicestershire, and has an option to extend for a further period of two years. Galliford Try is one of eight contractors to be appointed to Lot 1, comprising building works between £10 - 30m, and one of six contractors on Lot 2 for works above £30m.

Countrywide (CWD, 64p, £21m)

Estate, lettings and property/financial services agents. Trading and Covid-19 update. *Trading*: The sales pipeline through the lockdown period has remained resilient at approximately £50m and remains ahead Y/Y. Exchanged income during the lockdown period is running at an average of 33% per week compared with the average for the first 12 weeks of last year. Total renewals and new lettings together are running at 48%. *Actions*: The Chairman and non-executive directors volunteered to take a 33% reduction in salary, with effect from 1 March, and the executive and leadership team agreed to take a 20% reduction in salary from 1 April, with these reductions for the duration of the period during which the group participates in the Coronavirus Job Retention Scheme, through which the group has 78% of its employees on furlough. *Outlook*: The continued lockdown is anticipated to result in a material slowdown in housing transactions. Guidance suspended. *Finances*: RCF of £125m, which matures in September 2022, meets group's working capital and funding requirements. In April, the group's six lenders agreed to provide an additional £20m facility for an 18 month period, with £10m available from 1 May 2020 and £10m available from April 2021. In view of the uncertainty, they also agreed to waive the debt covenants for the March 2020 covenant tests and to amend the covenants going forward in the short-term to be based on liquidity. On the income side, Countrywide has modelled a 73% reduction in income in Q2, before various mitigating factors. After meeting existing creditor payments of approximately £10m, the results of stress testing show the group still has a sustainable liquidity of around £20-£30m to support the business "through our reasonable worst case scenario". (Further to 11 March update.)

SIG (SHI, 22p, £132m)

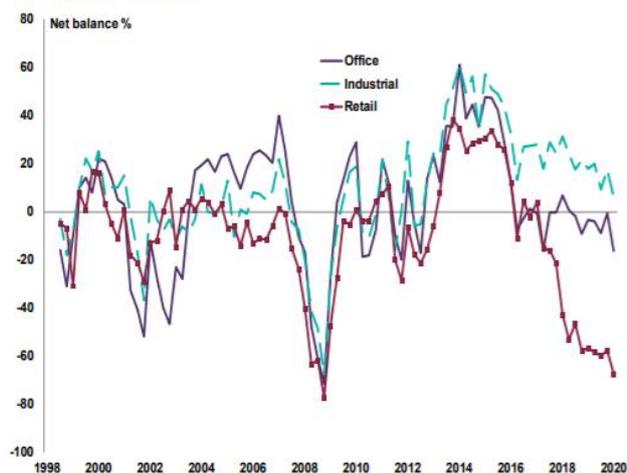
Supplier of energy efficiency and specialist building materials to trade customers across Europe. Operational and financial update. *Actions*: The group has commenced re-opening selected sites in the last week across its Distribution and Roofing businesses; 15 sites are now open across Distribution and 20 across Roofing business. The majority of sites are planned to be open by mid-May. In France, all sites are open and trading has gradually increased during April; trading has continued on a near-to-normal basis in Germany, Holland

and Poland. *Finances*: Cash of £142m at 24 April. The group remains in dialogue with its lending group in order to release additional liquidity as required. In addition, making use of tax relief, as well as accessing other available government measures. Results date: FY (Dec) 19 results due on 28 May; AGM, 30 June 2020. (Further to 30 March update.)

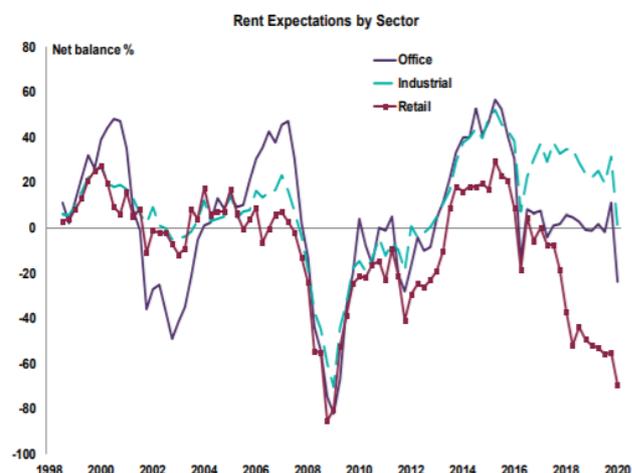
Economic data

The Covid-19 crisis has triggered a sharp deterioration in sentiment in the real estate market, especially in the retail sector, according to the Q1 2020 **UK Commercial Property Survey** from the RICS ([link](#)). A headline net balance of -24% (those reporting a rise minus those seeing a fall) of respondents saw a decline in occupier, down from -12% in Q4 19. Retail property fared worst, falling to -67%; with -16% for offices, but a more resilient +6% for industrials for the quarter as a whole (below, left). But, more starkly, these readings fall to -82%, -44% and -7% respectively when only taking into account submissions received from 1st of April onwards (albeit on an unweighted basis). Rental expectations reflected the decline in demand and availability of space, also highlighted in the report. A balance of -69% of retail owners envisage rents falling, while the figure stands at -24% for offices and a flat outlook for industrials. **Viewpoint**: no doubt the resilient industrial outlook is fuelled by logistics, which in turn is benefiting from the changing retail environment, which should be further fuelled by the pandemic, from physical outlets to online shopping.

Occupier Demand



Rent Expectations



In other news ...

Major contractors now working on 70% of sites, according to trade body Build UK, constructionenquirer.com ([link](#)). Industry-wide innovations include **new social distancing technology** being used by **Interserve** on the

new NHS Nightingale Hospital in Birmingham which sounds an alarm if workers get closer than 2m apart ([link](#)).

Just 12% of applications for Government-supported Covid-19 **business loans scheme** have been approved so far, around 30% of applications have been declined, while 58% of firms are awaiting a decision, according to a survey by the the Construction Leadership Council's Covid-19 Taskforce, [constructionenquirer.com](#) ([link](#)).

Prices are as at the previous day's close.

Copyright 2020 Progressive Equity Research Limited ("PERL"). All rights reserved. PERL provides professional equity research services. All information used in the publication of this communication has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee their accuracy or completeness. Opinions contained in this communication represent those of the research department of PERL at the time of publication. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This communication is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This communication has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

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.