

Progressive Property & Construction Daily



5 May 2020: MER, SGM; Site profitability warning has long-term property implications

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

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Company comments

Mears Group (MER, 164p, £181m)

UK housing support services provider. Covid-19 update. *Trading:* In housing maintenance services (normally c. two-thirds of group revenue), which are largely non-discretionary and provide a consistent revenue stream, the group has agreed to defer works and only deliver an emergency service; it has secured interim arrangements with the majority of clients which ensure recovery of direct labour and local overheads. In housing management (c. one quarter), given the large numbers of vulnerable people, the challenge is adhering to the strict rules around how employees can safely interact; the contractual mechanism reduces much of the financial risk. Development activities (c. 5%) have been mothballed and action taken to immediately reduce the fixed cost base. Care activities (balance of revenues) continue to deliver service as normal. *Outlook:* Guidance previously withdrawn, however, the group believes that operating losses during the full lockdown period, where an emergency only service is being provided, will be modest, and a small positive free cash flow should be generated. *Finances:* Average daily net debt in first four months of 2020 at similar levels to £126m in Q4 19. Cash flow in April was positive, reflecting clients' commitment to pay efficiently during the period. The company believes that its existing banking facilities, a total commitment of £170m with maturity out to November 2022, will provide sufficient liquidity. However, it has considered it prudent to secure additional headroom given. An increase in facilities of c. £23m is agreed and paperwork

to enable availability of funds will be completed in the next few weeks. The board remains confident that it will be fully compliant with its banking covenants at the next measurement point on 30 June 2020.

Dividends: As previously announced, the board believes it inappropriate to declare a final dividend for FY 19. However, “it remains the board's intention to return to a progressive dividend policy once it is confident that activity and working practices have returned to normal and that it would be prudent to do so”. (Further to 25 March update.)

Sigma Capital Group (SGM, 86p, £77m)

Private rented sector (PRS) and urban regeneration specialist and investment adviser to **The PRS REIT** (PRSR, 67p, £332m). Ian Sutcliffe appointed non-executive Chairman with immediate effect. Most recently he was Group Chief Executive of Countryside Properties, until his retirement earlier this year, and senior independent director at Ashted Group (AHT). He was also previously UK Chief Executive of Taylor Wimpey (TW.) and Chief Operating Officer of SEGRO (SGRO). Current Chairman David Sigsworth will remain on the Sigma board as senior independent non-executive Director. Countryside has worked in partnership with Sigma for seven years. **Viewpoint:** Ian Sutcliffe had an impressive record at Countryside, helping to evolve its multi-tenure partnership housing approach – which is well aligned with Sigma’s markets, and has significant experience in corporate governance in major groups.

In other news ...

Construction cost consultant Alinea has warned on **site productivity** levels, Building ([link](#), paywall). just over 50% of a sample of 29 of its live projects have continued working since the lockdown and that half of those that did stop have now restarted. Alinea said reductions in workforce had ranged typically from 30 - 85% and the reduced workforce is generally not sufficient to operate effectively and the fall in productivity will exceed hours lost. So far, the firm has observed a collaborative approach among clients, main contractors and trade contractors. **Viewpoint:** even though sites are reopening across most sectors, there can be no doubt that social distancing and stricter protocols will make construction more expensive short- and long-term. On current projects, the challenge will be to avoid costly disputes, probably requiring a degree of ‘pain-sharing’ along the chain. For future projects, either land costs will fall, the price of buildings will rise or margins will be squeezed. Possibly a combination of all three.

High profile private developer **Urban Splash** has re-opened its construction sites and modular factory (a JV with Japanese housebuilding giant Sekisui House) as it relaunches operations across the country following the Covid-19 closures, Property Week ([link](#), paywall). Chairman Tom Bloxom said: “We’ve responded innovatively during this period, enabling our sales colleagues to work effectively from home, speaking with lots of customers each day and taking reservations – albeit at a slower rate than usual”.

Prices are as at the previous day's close.

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