Progressive Property & Construction Daily

3 June 2020: FORT, IBST, HWG (RDW), TOWN; Brick inventories nudge down

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

Forterra (FORT, 219p, £418m mkt cap) *– FORT is a client of PERL*

UK's second largest brick producer and leading building materials producer. Trading update. Since its last update, on 28 April 2020, the UK's second largest brick manufacturer has been "encouraged by a gradual increase" in despatches as its customers, predominantly housebuilders, reopened their operations. Daily despatches of brick and block products have now recovered to approximately 50% of corresponding 2019 levels. Group revenue declined by 39% for the five months to 31 May 2020 compared with the corresponding period in 2019, with a year-on-year decline of 86% in April, recovering to 62% in May.

> *Leading brick and concrete products manufacturer Forterra has issued a relatively positive update on trading, reporting a recovering trend in deliveries, albeit from low levels, as housebuilders and other construction groups have returned to site and "remains confident" that it can take advantage of the "long-term fundamentals" in its end markets. Link to Progressive Equity Research note.*

Ibstock (IBST, 201p, £822m)

UK's largest brickmaker. Trading update. *Trading:* During April, volumes in the Clay division fell by around 90% Y/Y, while exposure to infrastructure and RMI markets meant that volumes in the Concrete division remained more resilient during that period. As the construction and housebuilding sectors have begun to return to work over recent weeks, trading conditions have started to improve. There has been a “modest recovery” in clay brick sales although volumes currently remain around 70% below the comparative period. Concrete volumes are now at around 50% of those from the same period in 2019. Group revenues for the three months to 31 March were down by approximately 10% compared to the comparative period, with a decline of around 75% in April and May. Restructuring and c. 15% job cuts planned. *Outlook:* “Current trading conditions remain difficult but the combination of the cost reductions, restructuring measures and improved liquidity have strengthened the group’s ability to meet current challenges and benefit from the eventual recovery in its core markets”. Formal guidance remains withdrawn. *Finances:* Net debt at 31 May c. £105m, primarily reflecting seasonal working capital movements early in the year, with significant liquidity headroom within its £215m RCF, which expires in March 2022. To maintain financial flexibility, the group has secured agreement from its lending banks for a number of amendments to covenant tests under the RCF. The group has been confirmed as eligible in principle to access funding under the Covid Corporate Financing Facility.

A busy day on the bricks front; see latest brick statistics, below.

Harworth Group (HWG, 92p, £297m)

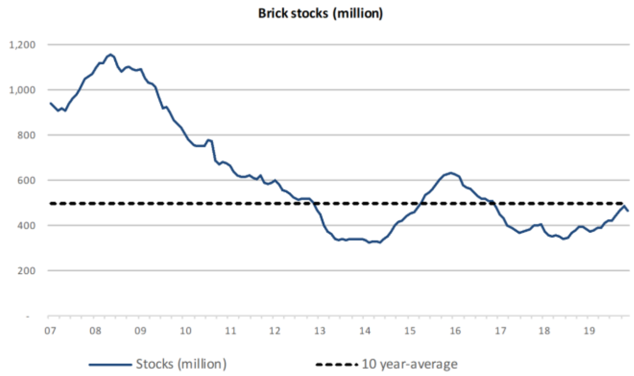
Land regeneration group, including in former coalfields. Sale of the first parcel of engineered land, totalling 16 acres at its Hugglescote Grange development in Coalville, Leicestershire, to **Redrow Homes**, representing its first transaction with the national housebuilder. The sales is in line with its YE 2019 book value. Redrow intends to deliver 204 new family homes. The total 250 acre site, close to Junction 22 of the M1, has an outline consent in place for 2,016 new homes, alongside supporting uses including a primary school, local community centre and new public realm. **Viewpoint:** A housebuilder buying new land would appear to be a relatively positive sign for overall activity in the sector and for building materials demand.

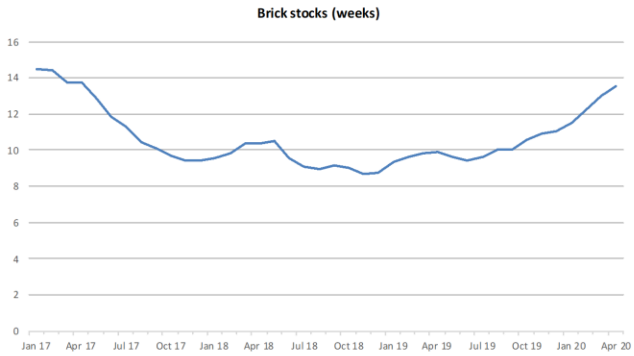
Town Centre Securities (TOWN, 108p, £57m)

Property investment and car parking operator based in Leeds, Manchester, Glasgow and London. Covid-19 update. *Trading:* Of the cumulative rent payments and service charges that have fallen due since the outbreak of Covid-19, 75% has been collected with a further 11% of payments) that the company has agreed to defer. As previously disclosed, the CitiPark car parking business has been hardest hit so far, experiencing a material reduction in income. Despite detailed cost cutting measures including the temporary closure of seven branches, the impact of fixed costs such as rents and rates will result in a significant reduction in profitability. Significant uncertainty remains around the level of rent receipts for the next quarter, payable at the end of June. *Outlook:* guidance remains withdrawn. *Dividends:* The board has decided, based on a review of cashflow forecasts and various operating scenarios, to continue with its payment of the previously announced 3.25p interim dividend; The decision regarding payment of any final dividend, which, if paid, is expected to be substantially lower than in the prior years due to the effect of the crisis.

Economic data

Brick inventory levels fell marginally in April, for the first time in 10 months, to 466 million bricks, from 485 million in March (below, left), according to the latest Building materials and components statistics from the Department for Business, Energy & Industrial Strategy (link). This was after a virtual halt nationally in production, to 4 million from 176 million in April 2019. However, deliveries also fell sharply, to 23 million, from 175 million a year earlier. This has pushed up further the level brick stocks expressed as a number of weeks of deliveries, to 13.6 weeks from 13.0 in March, based on the trailing 12 month average. **Viewpoint:** these numbers are based on hugely distorted production and delivery volumes. The biggest two out of the industry's three dominant manufacturers (above) state there is to be a managed increase in production; the level of stocks will depend whether or not housebuilders will start buying bricks again faster than the increases in production.





Prices are as at the previous day's close.

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.