Progressive Property & Construction Daily

4 June 2020: VANL, TPFG, HLCL; Construction PMI less deeply negative in May

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

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Company comments

Van Elle (VANL, 36p, £38m mkt cap)

Specialist ground engineering contractor. FY (Apr) trading update and appointment of Chairman designate. *Trading:* Market conditions during April were "consistent with the board's revised planning assumptions" and reflected the closure of many customer sites, particularly across the housing and regional construction sectors, together with considerable supply chain and logistical disruption. As a result, trading in April was "within the range of scenarios" outlined at the announcement of 9 April, with revenues at c. 20% of pre Covid-19 forecast levels. Group revenues for the year were down c. 4% compared to FY 2019 at approximately £85m, but the significant, adverse impact of the Covid-19 outbreak on the final six weeks of the year impacted FY 2020 profitability such that, subject to audit, the board expects to report an underlying pre-tax loss for the year. *Outlook:* "Whilst the Board does not yet believe it is appropriate to reinstate financial guidance for the year to April 2021, it is pleased to report that, following Government guidance regarding a return to work across the wider construction sector, customer activity levels within the Group are beginning to increase". As at 1 June 2020, approximately 30 - 40% of projects had resumed across the Housing and General Piling divisions, while the Specialist Piling, Rail and Geotechnical divisions are operating at approximately 60-70% of pre Covid-19 levels due to greater exposure to infrastructure sector activity. YE order book of £32m unchanged from October HY stage. Preferred bidder status announced for group's first contract on HS2 and it has recently been appointed to two of the three regions on Highways England's new four-year ground investigation framework, both of which are expected to commence during the first half of the financial year. *Finances:* Cash performance has been “ahead of the board's expectations” at the time of the April update. At 31 May cash balances of approximately £12m, following the equity raise, announced on 9 April, which raised gross proceeds of £6.7m. The cash balance is enhanced by the deferral of some £1.4m of PAYE payments to HMRC. The Group is progressing discussions with existing and potential lenders to put in place additional debt facilities as part of its long-term capital structure strategy and expects this process to be concluded in August 2020. *Board change:* Frank Nelson appointed as Non-executive Director and Chair designate from 1 July. Currently the Senior Independent Director for three quoted companies: McCarthy & Stone, HICL Infrastructure and Eurocell, and the chair of PE-backed contractor and developer DSM SFG Group Holdings. He was previously a Non-executive Director at Telford Homes and formerly Chief Financial Officer of Galliford Try. **Viewpoint:** Interesting ‘almost but not quite’ approach to re-establishing financial guidance, which might be adopted to varying degrees by other companies as market recovers, especially in infrastructure.

The Property Franchise Group (TPFG, 188p, £48m)

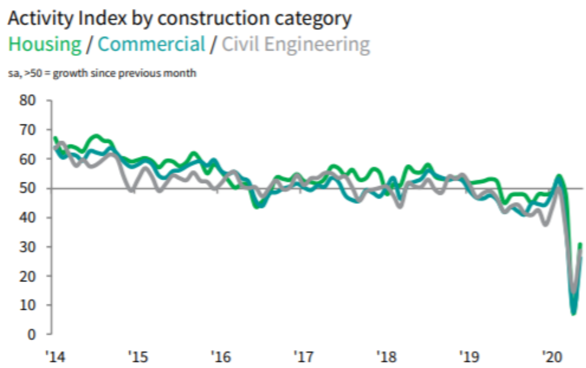
Franchised lettings and estate agent group. Launch of new financial services division. Operational update. *Trading:* Following the 13 May re-opening of the housing market, group franchisees have successfully resumed all sales and lettings activity, working within the Government guidelines. The group's property management activity, which accounts for c.49% of all management service fees revenue, has continued throughout the last three months with some new lettings activity being completed utilising virtual viewings. *Outlook:* The earlier than expected easing of restrictions in the UK housing market, allowing renters and buyers to transact more freely, was very welcome. The group will provide an update on trading for the first five months of the year as part of the 25 June AGM statement.

Helical (HLCL, 390p, £468m)

Commercial real estate investor, focused on London and Manchester offices. FY (Mar) results. Share of net rental income +13.1%, £28.5m; IFRS PBT £43.0m (2019: £43.5m); IFRS EPS -9.8%, 32.3p; EPRA EPS 7.6p (loss, 8.4p); final dividend proposed -20%, 6.0p; total dividend -13.9%, 8.7p. EPRA triple net asset value +3.2%, 480p. IFRS property portfolio value +5.2%, £819.6m. See-through net borrowings £299m (£269m). *Development:* At the outbreak of Covid-19, work at only major scheme, at 33 Charterhouse Street, London halted temporarily while safe working on construction sites was considered. Demolition of the structures on site has now resumed in full compliance with the latest guidance. *Outlook:* “It is our view that a large majority of businesses will continue to seek space for their employees to gather in a centralised working environment and that the draw of London, as a pre-eminent global city, will remain. We anticipate there will be a growing divergence in the office sector between Grade A buildings and the rest. The response from both occupiers and investors following Covid-19 is likely to accelerate this process. Going forward, Helical has £279m of cash and undrawn bank facilities available to pursue its strategy of growing the business when the opportunities arise.”

Economic data

The severe downturn in **construction activity** continued into May, but at a slower rate of decline as the first signs of the reopening of sites emerged, according to today's IHS Markit UK Construction PMI (link). The purchasing managers' total activity index moved to 28.9 from 8.2 in April, but was still the second-lowest since February 2009. Any figure below 50 indicates an overall decline in output during the month. Around 64% of the survey panel reported a drop in construction activity during May, while only 21% signalled an expansion. Residential work was the most resilient category (30.9), followed by civil engineering (28.6), while Commercial building was the worst performing sector (26.2). There was also a rapid drop in new orders although some respondents noted that the reopening of sites had helped to alleviate the scale of the downturn in order books. Mirroring the trend for workloads, latest data indicated that cuts to staffing numbers moderated since April. Supply chain disruptions were frequently reported by survey respondents in May, with lead times for construction products and materials continuing to lengthen at a rapid pace. A number of firms commented that a lack of capacity for deliveries and ongoing business closures had resulted in the need to source alternative suppliers, which had also pushed up costs.



Prices are as at the previous day's close.

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