

# Progressive Property & Construction Daily



25 June 2020: NMCN, UTG, SGM, SVS, TPGF, FPG, HWG, NBI, COST, BDEV; Hometrack shows further demand growth

## 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 research

**nmcn** (NMCN, 385p, £40m mkt cap) – *NMCN is a client of PERL*

Construction and engineering services company. AGM and Q1 trading statement. “Good start” in Q1, prior to Covid impact: Q1 rev +3.7% to £97.9m; PBT +5.9% to £1.8m. This period was only moderately affected by the lockdown. Since then the group has maintained workload at over 75% of normal levels but, inevitably, for the balance of the year performance “will continue to be impacted by uncertainties in both order intake and operating efficiency”. [Link](#) to Progressive Equity Research note, *Clearer picture emerging*:

*nmcn “continues to trade profitably” despite Covid-19, reporting a healthy order intake and cash position in today’s AGM statement. The Water segment, in particular, continued to perform strongly and we believe that nmcn’s activities will remain underpinned by the Government’s commitment to infrastructure investment. The Group intends to reinstate guidance, previously withdrawn in line with most peers, as “greater visibility” appears at the HY 2020 results.*

## Company comments

### **The Unite Group** (UTG, 898p, £3,260m)

Owner, manager and developer of UK student accommodation. Equity placing and trading statement. Successful placing yesterday of 34.5 million new shares, 9.5% of previous share capital, at 870p, a 3.1% discount, raising gross proceeds of £300m. Proceeds to be used to grow the development pipeline by targeting three new schemes which are currently under offer for a total development cost of approximately £250m and to capitalise on new University partnership and development opportunities in key cities, reflecting financial and operational constraints on Universities and market dislocation. *Trading to HY (Jun):* Reservations at 80% for the 2020/21 academic year (2019/20: 88%), of which half underpinned by contracted nomination agreements. 94% of rent has been collected under nomination or lease agreements for the summer term of 2019/20, reflecting the strength of Unite's relationships with Universities and the robustness of its nomination agreements. First student accommodation provider to have our Covid Secure status accredited by the British Safety Council. "We remain confident in the outlook for higher education demand and see significant opportunities for growth through University partnerships, new developments and by attracting more of the 850,000 students currently living in houses of multiple occupancy [HMOs]." *Outlook:* Guidance for EPRA EPS of 22-25p for FY2020 (FY 19, 39.1p), "reflecting the impact of rent forgone for the summer term of 2019/20 and 90% target occupancy for 2020/21". *Dividends:* The group anticipate reinstating dividend payments following the start of the 2020/21 academic year in line with its expectations. **Viewpoint:** Equity raises have been broadly successful across the sector, particularly among property-related companies – if there is a good rationale, with identified projects, for the new funds.

### **Sigma Capital Group** (SGM, 89p, £80m)

Private rented sector (PRS) and urban regeneration specialist and investment adviser to **The PRS REIT** (PRSR). AGM statement, refers to recent update from PRSR. *Trading:* Currently, approximately 2,900 units, at varying stages in the delivery process, are under way across the regions for the PRS REIT. This delivery includes Sigma-funded developments that have a combined gross development cost of £58.7m following the acquisition of additional sites in Greater Manchester. Rent collection for the properties managed for the PRS REIT "has remained resilient, with a 97% collection rate in May. Demand is high, and reservations have been rising weekly since the beginning of May and in June average 75 per week". Build-to-rent activities in the newly established London operations are progressing steadily, with two development sites under way with a combined GDC of £43.0m, at Beam Park in Dagenham and Fresh Wharf, Barking, and the group "remains ambitious in its plans to scale activity".

### **Savills** (SVS, 831p, £1,138m)

International real estate services group. AGM statement. *Trading:* Less transactional businesses have continued to perform well but Covid-19 has had a significant impact on global real estate market volumes. Asia Pacific experienced the most significant impact in the early part of the period with lockdowns. As a number of these countries emerged from lockdown through Q2, "we have seen clear signs of recovery in activity", particularly in Korea, Mainland China and Hong Kong, albeit off a low base. UK performance has been "very resilient despite significant reductions in transactional activity" during lock down. Also concluded a number of significant transactions which generally reflected the strength of the pipeline coming into 2020. Since the recent lifting of estate agency restrictions in England, "we have seen substantial increases in all measures of activity in our residential transaction business, although it is too early to determine the relative

effects of the realisation of pent-up demand built over the lock down period and new business through genuinely improved sentiment". In Continental Europe and the Middle East, where Savills is more dependent upon transactional activity, "we have benefited from a strong pipeline in Germany, Spain, the Netherlands and Belgium, which collectively partially mitigated the effect of reduced transaction volumes across the region". In North America, where the group is substantially dependent upon leasing activity by corporate occupiers, "our business performance has been significantly affected by lock downs, particularly in the major metropolis markets of New York, Chicago and San Francisco". In general, occupier decisions around office space are being delayed in favour of shorter term roll over of current arrangements. *Outlook:* Overall group FY performance will be highly dependent upon extent to which regional transactional markets recover in H2. "We are confident in the group's capability to withstand all modelled scenarios for the year and to continue to execute our growth strategies and deliver a profitable performance in 2020. However, given the wide range of potential outcomes at this stage". Guidance remains withdrawn. *Finances:* Net debt at 30 June expected to be significantly lower than at 30 June 2019 (£139m). **Viewpoint:** A revealing globe-trotting view of different Covid strategies on different property markets. The US looks worrying; I wonder what the situation is in Brazil?

### **The Property Franchise Group** (TPFG, 168p, £43m)

Franchised lettings and estate agent group. AGM statement. "Following a strong first quarter in line with expectations, group revenue declined 20% Y/Y. Management service fees (MSF) from lettings management +2% Y/Y; total lettings MSF -14%; "no noticeable impact" on rent arrears. *Finances:* "The business remained cash generative throughout the period". Net cash of £5.3m at 31 May 2020 (2019: £2.5m), after deferring a VAT payment of £0.5m, allowing continued focus on growth by acquisition. *Outlook:* "We see uncertainty persisting as the impact of the COVID-19 pandemic continues to be felt and we are, therefore, unable to provide meaningful guidance at this time. The Board remains confident that the Group is ultimately one of the best placed businesses in the industry to navigate the path ahead. Our strong balance sheet and robust model will enable us to take advantage of strategic opportunities as they arise, including executing on targeted acquisitions".

### **First Property Group** (FPO, 41p, £45m)

Property fund manager and investor with operations in the United Kingdom and Central Europe. FY (Mar) results. PBT -24% proforma, £5.52m (FY 2019 £7.25m), mainly due to performance related fees reducing to £415k from £1.54m. Final dividend maintained at 1.22p. Sale made of Chałubińskiego 8 (C8), the group's largest directly owned property, for €44m. *Finances:* YE net debt cash reserves unch, £57.2m, before sale of C8 in April; gearing ratio at mkt value, 50.9% (50.4%); cash reserves, £23.6m as at 23 June 2020. Group has not drawn on any government support for Covid-19. *Outlook:* "Well positioned to weather the crisis and make judicial investments as the UK emerges from it"; retains No.1 investment performance ranking versus MSCI CEE Benchmark; wtd ave unexpired fund management contract term: 5 years, 0 months (2019: 5 years, 9 months).

### **Harworth Group** (HWG, 104p, £335m)

Land regeneration group, including in former coalfields. Acquisition of Thorns Road Industrial Estate, near Dudley in the West Midlands, from Xandor Automotive Brierley Hill for £10.1m plus acquisition costs. The transaction is in line with Harworth's strategy to grow its recurring income base through the acquisition of high yielding assets with further asset management potential. The 21 acre site comprises three fully let industrial units totalling c. 360,000 sq ft and will generate a passing rent of £1.1m pa, a net initial yield of 10.2% and reversionary yield of 12.8%.

### **Mitie Group** (MTO, 80p, £293m)

UK facilities management group. FY (Mar) results and strategic update; proposed acquisition of Interserve FM business and rights issue. *Results:* rev +4.2%, £2,174m; cont. adj PBT +6.1%, £69.9m; adj EPS +8.8%, 16.0p; div, -67%, 1.33p. Net debt, pre-IFRS 16 £74.9m (2019, £141m); ave net debt £240m (£302m). *Acquisition:* Signed sale & purchase agreement to acquire Interserve Facilities Management for £271m “enhancing Mitie's position as a leading UK FM company”. Implied transaction multiple of 6.3x FY19A EBITDA (excluding synergies) and 3.7x FY19A EBITDA (including recurring annualised pre-tax cost synergies). “Expected to be accretive to earnings per share in the first full year following completion”, which is currently expected to take place in Q4 2020. *Rights issue:* Fully underwritten 11-for-5 rights issue at 25p (69% discount) to raise £201m “to strengthen the balance sheet against an extended negative Covid-19 impact, to secure refinancing and to provide a platform for growth opportunities”. Approximately £80m of the rights issue proceeds will be used to satisfy part of the acquisition consideration; “if this does not proceed, Mitie intends to retain the cash for organic and inorganic opportunities and to further Mitie's strategy for growth”. *Current trading:* Business “is proving to be more resilient to Covid-19 than initially expected”. Rev in April and May -12% Y/Y, £301m, including 3% decline as a result of contract maturities and in year revenue from projects relating to Covid-19 services of c. £30m. **Viewpoint:** An opportunistic move, in more ways than one.

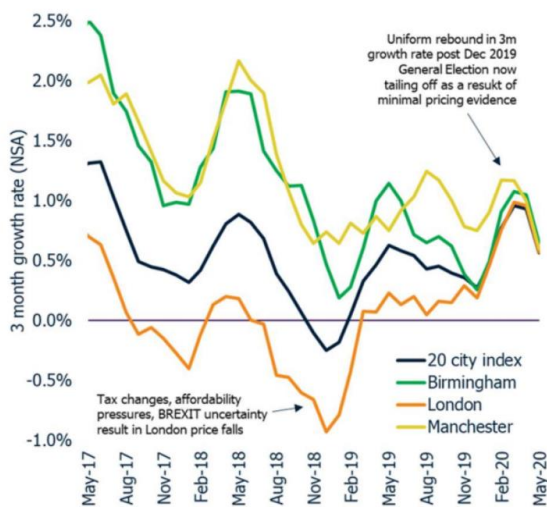
### **Northbridge Industrial Services** (NBI, 82p, £23m) – *PERL provides research services to Shore Capital on this stock*

International electrical testing and oil tools hire and manufacturing group. AGM update. *Trading:* “Good trading” continued from Q4 2019 into Q1 to March 2020. Revenue in April and May – potentially the worst impacted months during the lockdown – was 13% lower YoY. There have been some delays in rental contracts for both divisions but “very few were cancelled”. Improved trading, starting to be detected in Q2 since the easing of lockdowns worldwide, is expected to strengthen further from Q3 2020. *Outlook:* The group anticipates that overall performance for H1 2020, to June, will be similar to H1 2019, but concludes it is still too early to give guidance for the year as a whole. At the end of April 2020 there was a 30% increase to £7.4m in 12-month trailing EBITDA, from £5.7m to April 2019. *Finances:* Net bank debt was £2.4m on 31 March 2020, unchanged from YE 2019. Banking and convertible debt facilities extended by 12 months, to June and July 2022 respectively.

## Economic data

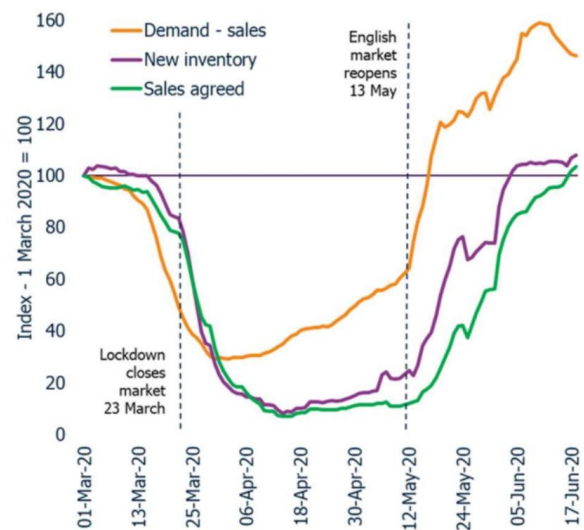
**House prices.** Six weeks on from the English market reopening and sales agreed are 4% higher than pre-Covid levels, according to the latest **Hometrack** House Price Index report ([link](#)). However, the housing data unit, owned by Zoopla, expects the rebound in activity to subside in coming weeks as demand has fallen back 11% – off a high base – in the last two weeks. Elevated levels of demand and lower available supply of homes for sale, which are 15% lower than a year ago, is creating an upward pressure on house prices. The asking price of homes sold in June are up 7%. The reopening of Welsh and Scottish markets will support near term demand. Nottingham (+4.3% Y/Y), Manchester (+3.9%) and Leicester (+3.5%) are the fastest growing cities for house prices, while Aberdeen (-4.2%) continues its long slide.

Fig. 1: 3-month growth slows after spiking upwards



Source: Zoopla House Price Indices, powered by Hometrack. 2019 is 12 month growth to November 2019

Fig. 3: Demand starts to fall back off a high base



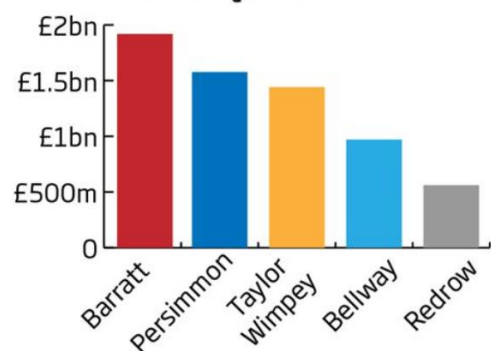
Source: Zoopla Research (7-day rolling average, data to 18 June)

## In other news ...

**Crossrail.** A JV contract between UK construction group **Costain** (COST) and Swedish construction and property group Skanska at Bond Street Station has been ended early, constructionenquirer.com ([link](#)). Crossrail said the mutual decision was made “due to the volume of work remaining and the number of people required on site to complete the station” in a post-Covid world.

**Help to Buy.** **Barratt Developments** (BDEV) has been the biggest beneficiary of the Government’s HTB scheme since it launched in 2013, according to data released by MHCLG under a Freedom of Information request, Property Week ([link](#), [paywall](#)).

### Top Help to Buy loan beneficiaries Q2 2013-2019



Source: MHCLG

**Viewpoint:** Not a huge surprise, given the above chart very closely equates to the relative rankings of the five groups in terms of annual volumes.

*Prices are as at the previous day's close.*