Progressive Property & Construction Daily

3 September 2020: SFR, COST, BBOX, BDEV; Help to Buy 'tapering' leaves a big gap to fill

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

Company research

Severfield (SFR, 56p, £173m) *– SFR is a client of PERL*

Britain's leading structural steel group, with sales to Europe and a rapidly growing Indian JV. AGM statement. As previously signalled, Covid disruption "has impacted profitability, particularly in the first quarter of the 2021 financial year". Notwithstanding this, overall activity levels have continued to increase … with activity levels returning to pre-lockdown levels in Q2 21. The Group has continued to operate in a net cash position. UK & Europe orders at 1 September £270m, unchanged on June. "Tendering and pipeline activity remain encouraging despite some client decisions being deferred". The Board is now recommending a final dividend of 1.8p for the FY to March 2020, having deferred any decisions on the pay-out at the 17 June prelims "until there is greater visibility on the impact of Covid-19". This brings the total dividend for FY 2020 to 2.9p (FY 2018, 2.8p + 1.7p special). The decision reflects the Group's "cautiously optimistic" outlook for FY 2021E. Link to Progressive Research report, *Dividend reinstated after 'encouraging' restart*:

> *The UK's largest structural steel construction specialist has reinstated the final dividend for FY 2020 following "encouraging" activity levels since the lockdown was lifted. This morning's AGM statement confirms that the group remains cash-positive and that the order book has remained steady over the*

summer. We continue to believe the Group is likely to benefit from growth in logistics and datacentres, reinforced since Covid-19, as well as the significant opportunities from HS2.

Company news

Costain Group (COST, 53p, £144m)

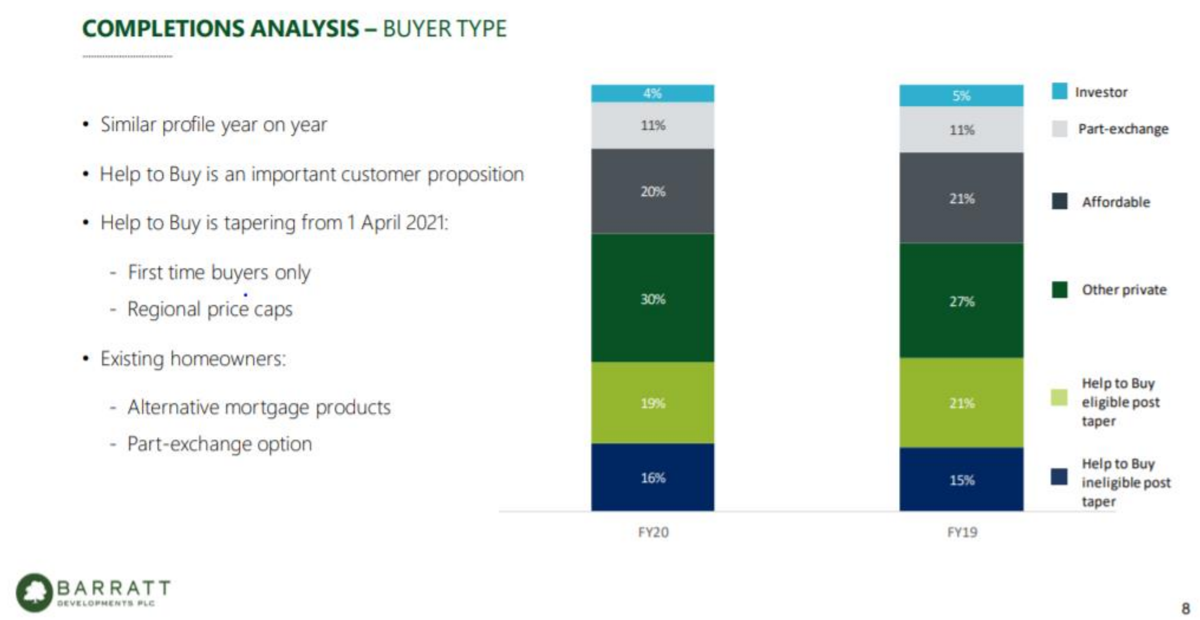
UK construction and infrastructure services group. Update on the A465 contract. As previously announced, the Welsh Government had escalated a specific matter under the dispute resolution mechanism in the Contract relating to the responsibility for design information for a specific retaining wall and whether it qualified as a compensation event. This issue was decided in the Company's favour by way of previous adjudication awards. However, the arbitrator's decision found that responsibility for the design information rests with Costain and, consequently, the additional costs associated with the building of the retaining wall is not a compensation event under the Contract. "Costain is disappointed by the arbitration award which reverses the ruling of previous adjudication awards". The arbitration award, which determines a matter of principle only, and not quantum, is non-appealable. This has implications for the responsibility for design information under the whole contract and therefore Costain's ability to recover these costs. The group is in ongoing discussions with the Welsh Government to reach agreement on a final financial settlement and to seek recovery of costs under the Contract. However, on the basis of the uncertainty of recovery of such costs following yesterday's arbitration award, and subject to reaching a final settlement, the group's half year results for the period to 30 June 2020 will include a charge to the income statement of c. £45m to adjust the revenue recognised based on the level of cash received to date under the Contract. Costain will continue to fulfil the Company's obligations under the Contract, with completion scheduled in 2021. The group will announce its half year results on 14 September 2020, as scheduled.

Tritax Big Box REIT (BBOX, 155p, £2,642m)

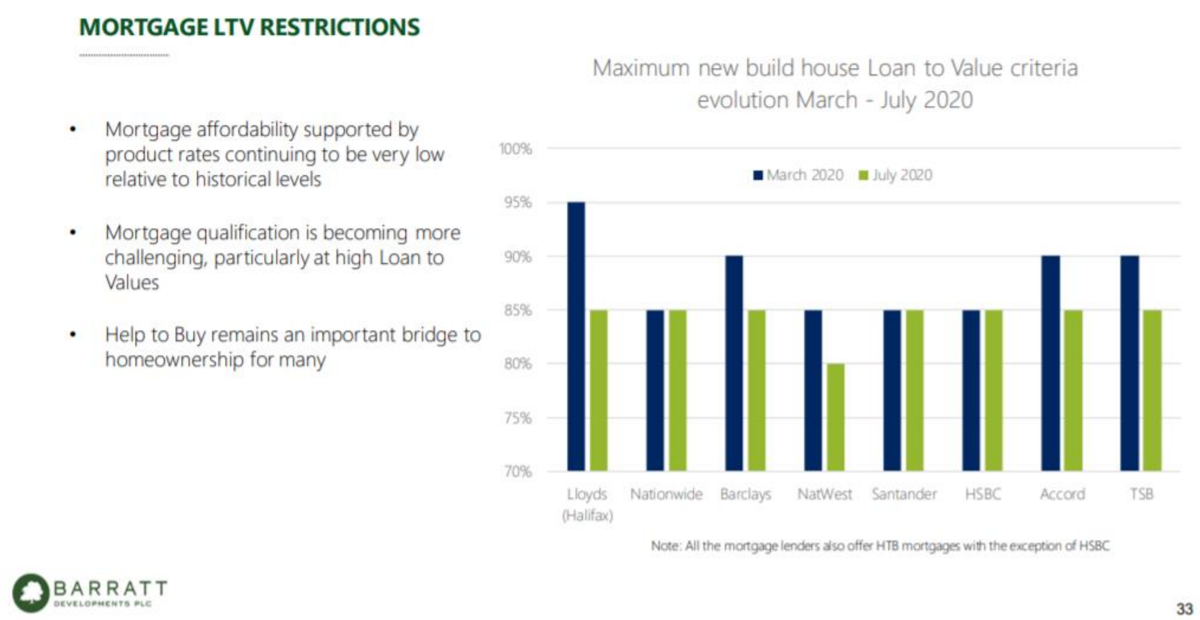
Trust investing in 'big box' logistics properties. Sale of Chesterfield to Warehouse REIT asset for £57.3m. This was acquired in March 2014 when it had 6.2 years of lease remaining to Tesco. In 2018, Tritax agreed an early surrender of the existing lease to Tesco and secured a new 15 year lease to Amazon, "significantly enhancing the value of the asset". The price is a premium to the 30 June 2020 book value and reflects an IRR of 18.5% pa. The proceeds from the disposal will be redeployed into opportunities, including the development pipeline, with a target yield on cost of 6 - 8%.

Food for thought …

Two revealing slides from yesterday's Barratt FY (Jun) results presentation (link), which indicate the dependence on Help to Buy, not only of Barratt Developments (BDEV) but much of its peer group. HTB supported 35% of all completions (in fact 54% of private sales, stripping out investor and part exchange). But of that 35%, 16% would be ruled ineligible when the HTB rules are 'tapered' from 1 April 2021, with new regional price caps and to only be offered to first time buyers. The HTB scheme in total is scheduled to end in 2023. Barratt (which is among the most politically tuned in of the housebuilders) said it does not expect the tapering to be delayed and is basing its business model and land buying on that basis.



Other housebuilders may not be so apparently sanguine. The success of HTB (and it has many critics) is that it allows purchases on up to 95% LTVs. The problem in the next slide is the major lenders now only provide a maximum of 80 - 85% on *newbuild* homes (down from 85 - 95%) and, even then, the qualification hurdles are becoming more demanding. Clearly there's a big circle yet to be squared if the Government is to achieve its aim of getting 300,000 homes a year built.



In other news …

Company insolvencies. Only 16 construction companies fell into administration in August, according to Construction News (link, paywall). Despite previous fears over the short-term impact of the crisis on contractor cashflow, the number of firms falling into administration has remained steady over the last three months. But construction litigation partner Jessice Neuberger warned that the months ahead were likely to highlight more issues. “As we move further away from the height of the pandemic, parties will be continually reassessing projects in terms of long-term liabilities and rights,” she said. “Contractors may determine that projects are no longer financially viable without financial support from employers and consider insolvency. Employers may start enforcing contractual remedies such as liquidated damages, which, for a cash-strapped contractor, could be the final straw.”

Office developments. Developer British Land has unveiled designs for the next major office scheme at its Broadgate development in London, constructionenquirer.com (link). The 2 Finsbury Avenue project consists of a large 12-storey podium supporting a 35-storey East Tower and 20-storey West Tower. It is the most ambitious and at 47 storeys tallest phase to be brought forward in the ongoing redevelopment of the City of London office site. BL aims to submit its scheme for planning in the Autumn. **Viewpoint:** A notable signal of optimism against a pretty gloomy backdrop for city centre office development.

Prices are as at the previous day's close.