Progressive Property & Construction Daily

2 February 2021: PLP, SUR, CAPC | House prices dip as Stamp Duty deadline looms, but MPs fight rearguard action

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

Sorry, a bit later than usual today …

Company news

Polypipe Group (PLP, 514p, £,1174m)

Provider of water and climate management components. Acquisition and trading update. Acquisition of Nu-Heat (Holdings), a leading supplier of sustainable underfloor heating, air and ground source heat pumps, and other renewable heating systems, for a total consideration of £27m, cash and debt-free. Nu-heat is complementary to the group's portfolio of brands. The deal is consistent with group’s focus on segments “which provide above-average growth rates and benefit from sustainability-linked growth drivers, with a track record of good cash flow generation”. It further expands the group's climate management solutions, with a fast-growing position in packages involving renewable energy sources and strengthening the Group's sustainability credentials. It creates added value via integration with Nuaire Mechanical Heat and Ventilation Recovery systems with potential for revenue and cost synergies. It is expected to be EPS accretive and deliver returns in excess of the cost of capital in the first full financial year of ownership. *Trading:* Further to the update announced on 14 December, the group confirms that trading continued to recover throughout the end of the month, with underlying operating profit for the year ended 31 December slightly ahead of the previous guidance of c. £40m and with this momentum continuing into the new year without any material impact from the third national lockdown. YE 20 net debt c. £30m. FY results, 16 March.

Sureserve Group (SUR, 62p, £99m) *– PERL provides research services to Shore Capital on this stock*

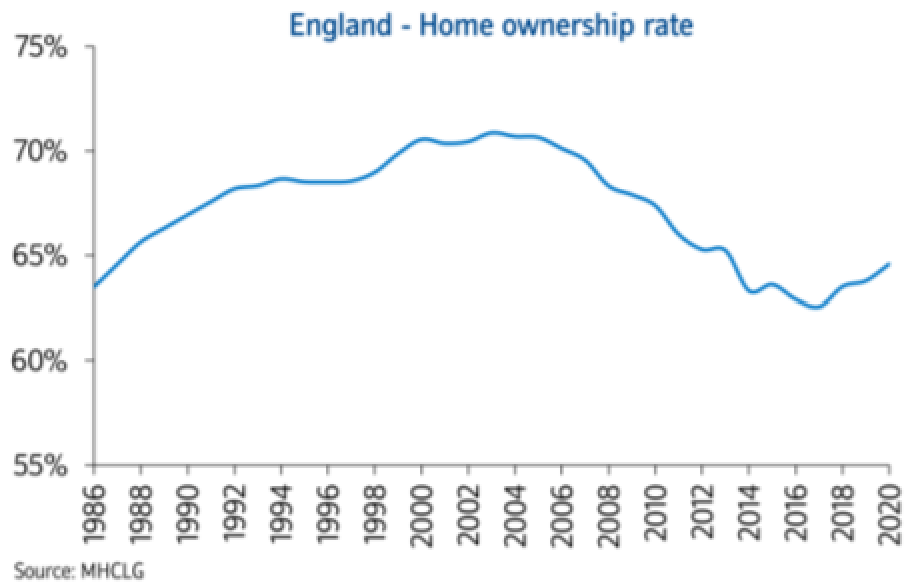
Gas and utilities safety compliance and energy efficiency provider, primarily to social housing. FY (Sep) results. Rev -7.7%, £196m; PBT +13%, £9.4m; adj EPS +11%, 4.9p; div +100%, 1.0p. Net cash £9.8m (YE 19, net debt, £7.4m) boosted by a c. £6m VAT deferral, which will be paid this year. *Trading:* Compliance rev +3.1%, £137m; EBITA +40%, £11.8m, with productivity helped by some aspects of first lockdown. Energy Services rev -27%, £60m, with a near halving in revenue Y/Y during H2 because of the stricter lockdown in Scotland, which led to a loss during the period; FY EBITA -82%, £0.8m. *Outlook:* 77% of FY 21 revenue covered by the order book, £356m (YE 19, 72%; currently 89%). “The Group is well-positioned for further organic growth in a fragmented and regional market and has made a strong start to trading in FY 21, continuing the group's momentum”.

Capital & Counties Properties (CAPC, 136p, £1,156m)

“Capco”, owner of Covent Garden retail property portfolio and Earls Court residential property redevelopment site, now disposed. FY (Dec) trading update. *Valuation:* Independent property valuation for the Covent Garden estate at YE, £1.8bn, -13% vs HY, -27% Y/Y, LFL. The majority of the movement relates to the retail, leisure and food & beverage portfolio, which represents 75% of total property value. The main contributors were a 22% LFL decline in rental values, expansion of 28 basis points to 3.91% in the equivalent yield over the year and other movements including the valuer's assumption on loss of income over the next six to 12 months. *Rent collection:* As at 28 January 2021, 42% December rents have been collected, broadly in line with collection rates at the same point in the previous quarter. Rent collection levels for previous periods have continued to increase, with collections at 50%, 44% and 51% for Q2 to Q4 2020. *Finances:*). YE group net debt, £710m, net debt to gross assets ratio of 28% (30 June, £721m and 26%). The net debt and loan to value ratio of Covent Garden have been reduced significantly to £352m and 19% (30 June, £779m and 36%). “There is substantial headroom against the Covent Garden LTV covenant, with the ability for property values to fall by a further 68%. Waivers have been agreed with the Covent Garden lenders in relation to the interest cover covenant for the six months ending 30 June 2021 and the 12 months ending 31 December 2021. The Group has access to total undrawn facilities and cash of £1bn (30 June, £616m). *Outlook:* “Whilst there are significant near-term challenges to trading and an uncertain economic outlook, we are encouraged by the enduring appeal of Covent Garden for customers as evidenced by recovery in footfall and trade following easing measures in the second half of 2020. Capco is in a strong financial position and we remain confident in the long-term prospects for Covent Garden and the West End”.

Economic data

House prices. Monthly price rises reversed for the first time in seven months, as the Stamp Duty deadline approaches, according to the latest Nationwide index (link). The seasonally adjusted monthly index fell by 0.3% to £229,748 in January, after rising by £13,345 or 6.1% since June. The annualised rate slipped to +6.4%, from a recent record of +7.3% in December. The report highlighted the English Housing Survey published by the Ministry of Housing, Communities & Local Government (MHCLG), which indicated a slight increase in the home ownership rate in 2020, to 64.6%, from 63.8% in 2019. This is the third consecutive year that the rate has increased, though it remains well below its 2003 peak of 70.9%. **Viewpoint:** Economists were reportedly surprised - they were on average predicting +0.3% - but, since prices have risen *on average* by around the *maximum* saving of £15k since Rishi Sunak announced the temporary reprieve in the duty, it would seem clear that some heat would come out of the market as the deadline looms.



In other news …

Stamp Duty debate. An extension or tapering off of the Stamp Duty holiday gained cross party support in a parliamentary debate, yesterday, which was held in response to a 139,000-signature petition, Property Week (link, paywall). Support came from unusual points of the political divide. Kevin Hollinrake, Conservative MP for Thirsk and Malton, agreed an extension should be given to those who have received a mortgage offer by the end of February so sales do not fall through. Labour MP for Hackney and Stoke Newington Diane Abbott argued that an extension should be granted for Hackney residents as the recent cyberattack on the council’s planning department impacted the ability to buy homes. Jesse Norman, Conservative MP for Hereford and South Herefordshire, and financial secretary to the Treasury, countered: “What is clear is that as a policy, it worked. The holiday is not the only aspect of the market that has driven sales, but it undoubtedly helped to incentivise people to move home. Residential Property transactions have increased since the Chancellor announced the measure. It was the time limited aspect of the measure, which drove that increased demand, which is exactly why the end date of March this year was announced”.

Prices are as at the previous day’s close.