Progressive Property & Construction Daily

4 February 2021: BDEV, MRL, SRC, AIRE | UK construction output dips back January while Eurozone continues to slide

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

Company news

Barratt Developments (BDEV, 673p, £6,857m mkt cap)

UK's biggest housebuilder by volume. HY (Dec) results. Completions +9.2%, 9,077 (private, +9.6%; affordable, +5.7%; JV, +20%); prices +1.3%, £283.5k; rev +10%, £2,495m; adj op margin, 20.3% (HY 20, 19.4%); PBT +1.7%, £430m; EPS +1.5%, 34.3p; interim div, 7.5p. Net cash, £1,107m (£434m); NTAV, + 9.0%. Adjusted items: £56.3m (2019: £17.8m) in costs and a credit of £5.3m for JVs relating to legacy properties; following decision in July to repay all furlough funds, £26.0m recognised. *Guidance:* FY 21"in line with the board's expectations with wholly-owned completions expected to be between 15,250 and 15,750 homes with around 650 further joint venture home completions". *Current trading:* "Solid start to the second half"; over 95% forward sold for FY 21. Net private reservations per outlet per week for January, 0.77, 7.2% below the equivalent period in 2020 (0.83) but 4.1% ahead of the equivalent reservation rate in 2019 of 0.74. Total forward sales as at 31 January +9.6%, 14,289 homes, +13%, £3,426m, with 11,588 secured for completion beyond 31 March (deadline for end of Stamp Duty holiday and new restrictions on Help to Buy). *Market:* "Housing market fundamentals remain attractive … Whilst the lending environment is broadly positive, with some signs of increased competition since the start of December, there remains an absence of mortgage lending at higher LTV levels from many of the mainstream lenders, particularly for home buyers unable to access HTB. There has also been an increase in mortgage interest rates outside those attached to Help to Buy home purchases, although they still remain attractive in a longer term context. Absent an increase in LTV levels, Help to Buy is likely to become the only way into home ownership for many first time buyers".

Marlowe (MRL, 573p, £346m)

Safety and compliance provider to commercial properties. Acquisition of Hadrian Technology Limited for an expected enterprise value of £3.8m. HTL, founded in 1999, is a leading provider of CCTV and loss prevention technology solutions across the UK and Ireland, primarily to the supermarket sector. For the year to 31 July 2019, HTL generated revenues of £4.0m and had net assets of £3.3m, with profit margins expected to be in line with the group's fire safety & security activities. The consideration will comprise an upfront cash payment of £2.0m and contingent consideration which is expected to be approximately £1.8m over four years dependent on the achievement of profit targets. The acquisition will be funded from Marlowe's existing cash resources.

SigmaRoc (SRC, 65p, £180m)

Heavy construction materials group active in the UK, Channel Islands and Benelux. FY (Dec) trading update. *Guidance:* "The strong trading performance set out in its update of 9 December 2020, continued through the end of financial year. As a result, SigmaRoc expects to report final results ahead of current market expectations", with rev +77%, c. £124m, and EBITDA +64% c. £23.8m million. YE cash position, £27.4m, benefitting from the c. £12m net proceeds from the equity raise in December. *Strategy:* "Good progress is being made in assessing development and acquisition projects to expand the group's footprint at three of its four platforms and [we] expect to provide further updates on these activities before the end of the Q1 2021". *Outlook:* "The strong cash generation, together with the proceeds of the equity raise and the new £125m credit facilities entered into in December, mean the group is well positioned to accelerate its strategic development in 2021, as opportunities present themselves".

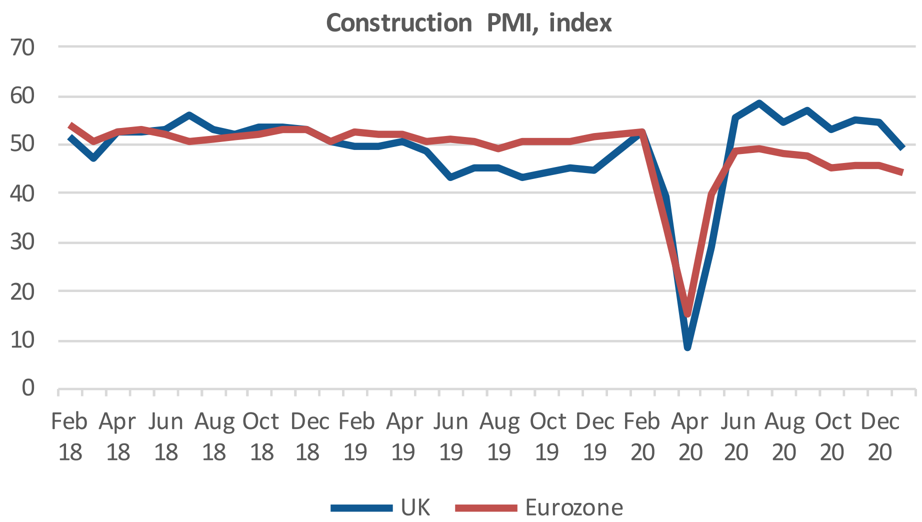
Alternative Income REIT (AIRE, 61p, £49m)

UK commercial real estate investment trust (REIT). Update, Q2 (Dec). EPRA EPS for the quarter ended 31 December, 1.32p, representing dividend cover of 132% (Q1 to Sep, 2.12p; 170% cover). As at 31 December 2020, the independent fair valuation undertaken by Knight Frank of the Company's property portfolio was £109m (£102m). The net initial yield on the portfolio was 5.53% (5.76%). NAV, £68.2, 84.7p (£67.5m, 83.9p). Q2 div, 1.0p. *Portfolio:* Following the acquisition of the Droitwich Spa Retail Park in early December, the group is now fully invested, holding a diversified portfolio of UK commercial property assets that are currently fully let, with a weighted average unexpired lease term of 18.3 years (19.2 years) to the earlier of break and expiry and 20.3 years (21.4 years) to expiry. The Droitwich acquisition reinvested the proceeds from the sale of Wet 'n' Wild water park, at a yield of 7.95%, materially higher than both the 6.0% exit yield on Wet 'n' Wild and the Group's latest portfolio valuation yield of 5.53%. 87% of the portfolio's income stream is reviewed periodically, on an upward only basis, in line with inflation; with 65% and 22% of the portfolio indexed (subject to floors and caps) to RPI and CPI, respectively.

Economic data

UK/Eurozone construction output. UK Construction activity shrank slightly in January, following seven consecutive months of expansion, according to the latest Purchasing Managers' Index from IHS Markit/CIPS (link). The seasonally-adjusted total activity index declined from 54.6 in December to 49.2, below the 50.0 threshold for no change. The third national lockdown had led to "greater hesitancy among clients, especially for new commercial projects" while housebuilding, although still in positive territory, lost some momentum as the 31 March deadlines for Stamp Duty and Help to Buy restrictions approached. The indices for housebuilding, commercial and civil engineering fell to 57.1, 46.2 and 45.0 respectively. However, business expectations for the year ahead remained positive in January, albeit with the degree of confidence at a three-month low. Purchase price inflation reached its highest level since June 2018, driven by rising prices for plaster, steel and timber.

Meanwhile, the Eurozone registered its 11th consecutive decline, with a continuation of the accelerating trend seen since July (link). The index shrank from 45.5 in December to 44.1 in January. France posted the steepest rate of contraction, particularly in housebuilding, followed by Germany, with both countries seeing rates of contraction quicken since December. Italy meanwhile recorded a drop in construction activity for the third time in the past four months, albeit only modest.



Source: Markit Economics

Prices are as at the previous day's close.

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