

Progressive Property & Construction Daily



13 May 2021: KIE, BBY, ECEL, GRI, SVS, OTMP, IHR, PRSR | RICS reports continued housing market growth

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

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Company news

Kier Group (KIE, 102p, £166m mkt cap)

Hybrid construction, property and services group. Proposed capital raise. Gross funds of c. £241m to be raised, equally split between a firm placing and placing & open offer at 85p per share, a 17% discount to yesterday's close. The capital raise has been fully underwritten by Numis Securities and Peel Hunt. The bookbuild is expected to close no later than 12 pm today and is conditional on the approval of Kier shareholders at a general meeting on 16 June and the completion of the Kier Living disposal. The open offer shares will be offered on a 7-for-8 basis. Shareholders not subject to the firm placing that do not take up their open offer entitlements will be diluted by 64%; those that take them up in full will be diluted by 32%. The group intends to use the net proceeds and the proceeds of £110m (gross) from the Kier Living disposal to reduce net debt (31 Dec 20, £353m; H1 (Dec) monthly average, £436m). Following the completion of the capital raise, Kier's lenders have agreed to extend the Group's debt facilities to January 2025, providing the group with additional balance sheet strength as it pursues its target of a net cash position within 2-3 years and facilitate prudent investment in the business to drive sustainable, profitable organic growth. In a trading update, Kier confirmed it has continued to trade in line with the Board's expectations since this statement was made.

Balfour Beatty (BBY, 311p, £2,075m)

UK, US and Hong Kong construction and infrastructure group. AGM statement. The Board continues to expect that the earnings-based businesses, Construction Services and Support Services, will deliver underlying profit from operations for 2021 in line with 2019 (£172m). The asset-based business, Infrastructure Investments, has re-commenced the process of selling assets, reflecting high demand in the secondary market. Average monthly net cash balance for the first four months of the year, c. £600m (FY 2020 ave, £527m; Dec 20 net cash, £581m). Orders at March £15.7bn (Dec 20, £16.4bn). Construction Services continue to recover from the pandemic. The most impacted geography in the first quarter remained UK Construction where “strong performance on infrastructure projects for public sector customers continues to be offset by the private sector market”. Support Services has “maintained its strong 2020 performance into the new year”. The power, road and rail maintenance business units continue to deliver for their customers and in line with the withdrawal from the gas and water sector, the last significant utilities contract completed in March 2021. Infrastructure Investments has won two new projects in the year and it has re-commenced the process of selling assets, with the first disposal expected to be completed in the first half of the year. *Outlook:* “Balfour Beatty remains positive about the strong medium term outlook in its core infrastructure markets, where the group is well positioned and will continue its profitable managed growth strategy through selective bidding”. Share buyback programme: This has accelerated in recent weeks; in the first four month over £58m spent and group expects the full £150m to be completed by YE (Dec) 21. *Chairman succession:* Lord Allen of Kensington joins today as a Non-Executive Director and, following a transition period, will take over as Chair from 20 July 2021 when he will succeed Philip Aiken, Chair since 2015.

Eurocell (ECEL, 288p, £321m)

UK retailer and manufacturer, recycler of PVC windows and doors. AGM statement. *Guidance:* “As a result of stronger than anticipated sales for March and April, and an improved outlook for the first half, we now expect FY 21 PBT will be ahead of current market expectations”. *Trading:* Revenue for first four months +75% vs 2020 and +23% vs 2019 (LFL: +26%, 2020; +20%, 2019), underpinned by strong demand in the RMI market and continuing market share gains. “Strong demand in our markets has put sector supply chains under pressure. We are experiencing tighter supply and an increasingly inflationary environment, with prices of certain raw materials, particularly PVC resin, rising significantly in 2021”. To date the group has secured the required raw materials and mitigating cost inflation with selling price increases, and for resin, a surcharge adjusted monthly in response to price changes. Higher resin costs are also partially offset by the group’s recycling plants, which supplied 25% of raw material consumption in 2020. HY (Jun) results, 3 September.

Grainger (GRI, 295p, £1,988m)

UK’s largest listed residential landlord. HY (Mar) results. Net rental income -6%, £34.7m; adj earnings +11%, £34.7m; PBT +1%, £50.3m; EPS -6%, 6.0p; div unch., 1.83p; net debt +6% £1,098m; LTV 34.5% (HY 20, 33.4m); reversionary surplus, -5%, £286m. Rental growth, 1.7%; occupancy stable, 89%; rent collection 98%. Sales profit +30%, £29.6m, from regulated tenancy portfolio; H2 vacant sales expected to be stronger than H1 based on current sales pipeline. Pipeline of 4,293 new homes includes 1,021 to be delivered this year, totalling c.£12m of targeted net rental income once stabilised, and new acquisitions and planning contents secured, totalling 1,108. *Outlook:* “A high level of assurance that we are ready to capitalise on the UK's reopening over the coming months, and pursue our longer term growth plans”.

Savills (SVS, 1,147p, £1,641m)

International real estate services group. AGM statement, from yesterday. Guidance: "Subject to the impact of further waves of Covid infections, the Board is confident in its expectations for the full year. For the year to date, the group has traded better than anticipated and comfortably ahead of the prior equivalent period". Residential markets, particularly in the UK and China have continued strongly; the Commercial Transaction business has benefited both from improving sentiment in many markets and from the completion of transactions which were postponed or delayed during the lockdowns of Q4 2020. Less Transactional businesses have continued to perform well with progressive recovery in a number of transactional markets becoming evident. UK performance "has been very strong, driven primarily by the continued high levels of activity in the residential markets, both private and institutional, our strength in less transactional service lines and signs of recovery in development markets. We have also benefited from a number of transactions which were delayed during lock down". HY (Jun) results, 5 August.

OnTheMarket (OTMP, 85p, £62m)

Agent-backed residential property portal. Exclusive commercial partnership signed with property data specialist Sprift Technologies. This will enable OnTheMarket to provide its agent customers with free market appraisal guides which are powered by the Sprift platform via OTM Expert. These can be customised by agents to address the needs of each valuation and will contain an extensive range of property data, which aim to help them to secure more valuations and win more instructions. There are over 28 million UK residential properties stored on the Sprift platform and, since its launch in 2016, the company has produced reports on over 1.3 million properties for its clients, using data from official and trusted sources including Ordnance Survey, Royal Mail, Google, Land Registry and Ofsted, augmented by Sprift's proprietary data sets.

Impact Healthcare REIT (IHR, 112p, £391m)

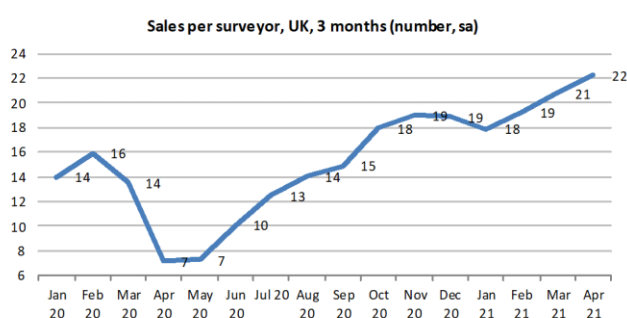
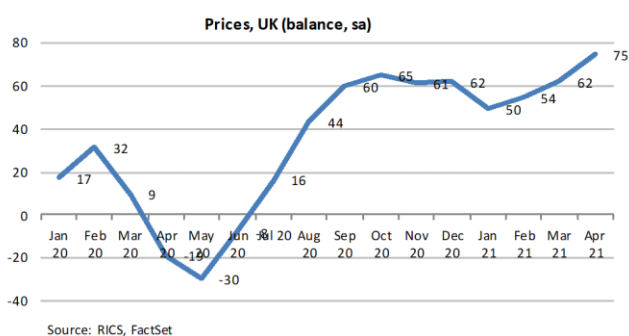
Real estate investment trust with a diversified portfolio of UK healthcare real estate assets, led by care homes. Update. NAV at 31 March, £352m, 110p per share (31 December, £350m, 110p). Q1 21 div 1.60p, in line with the annual dividend target of 6.41p for FY (Dec), a 1.9% Y/Y increase. The property portfolio was independently valued at £427m at 31 March (Dec, £419m). LTV, 21.3%. Rent collection, 100%. Outlook: "The Board remains confident that, despite the short-term uncertainty produced by the pandemic, the fundamental drivers of the Group's market and business remain strong and sustainable. The net proceeds of the equity raise announced on 30 April 2021 enable the Group to continue to capitalise on its attractive, near-term and growing pipeline of potential acquisitions that are expected to deliver further attractive returns to our shareholders".

The PRS REIT (PRSR, 98p, £485m)

Real estate investment trust (REIT) investing in private rental sector (PRS) housing provided by **Sigma Capital Group** (SGM). Dividend declaration. Q3 (Mar) interim dividend, 1.0p, of which 0.5p is a Property Income Distribution.

Economic data

Housing market. Price and activity levels and expectations continued broadly to rise during April according to the latest RICS residential market survey ([link](#)). The headline balance (% of respondents reporting rise minus those seeing falls) for price moves during the previous three months rose to +75 in April, from +62 in March. The average rolling number of sales per agents' offices over the previous three months, seasonally-adjusted, reached 22.3, the highest since July 2014 in the run up to Stamp Duty changes. Buyer enquiries nudged up from a balance of +43 to +44, having been in negative territory in January, when it looked like the new Stamp Duty holiday was nearing an end two months later; but vendor instructions have dipped again, fuelling increased expectations of near-term price rises, +47, from +43. Across the regions, the North West generally performed best among the various sales market indicators.



In lettings, tenant demand improved sharply, to +60, from +14 in January, supported by the easing of lockdowns. But tight supply of rental properties in much of the country led to rent expectations of +55 - equating to growth in rents of 3%. The one exception continued to be London, where short-term expectations remain negative. However, the 12 month view in the capital edged into positive territory for the first time since early 2020.

In other news ...

Holiday homes. The news that Portugal is on the 'green list' of countries for travel from 17 May has led to a jump of 93% in the number of home-hunters contacting estate agents about properties for sale in the country, according to Rightmove. The most popular resorts are in the Algarve, with the top destination being Albufeira where the average asking price of a family villa on Rightmove is €462,880. The second most enquired about destination was Carvoeiro where a family villa is on average €677,222, followed by the more expensive resort of Vale do Lobo where an average family villa is €1,499,444.

Sustainability. Heriot-Watt University spin-out firm Kenoteq has secured funding to commercialise production of its revolutionary brick made of recycled construction waste, ConstructionEnquirer.com ([link](#)). The £1m

funding from Zero Waste Scotland will allow more than two million K-Briqs to be produced annually. The K-Briq is made from over 90% recycled demolition and construction waste materials. It produces a tenth of the CO2 emissions of a traditional fired brick and requires less than a tenth of the energy in its manufacture.

Opinion. My latest Property Week column looks at build cost inflation, which has been increasingly exercising investors; what has been less in the spotlight is soaring demand and prices for land ([link](#), payroll):

“Things couldn’t get rosier for the housebuilders, it would seem. Sales volumes and prices are up, irrespective of dwindling government support. No problem on the ‘demand side’ – but the ‘supply side’ is another matter. It’s all down to timing.”

Prices are as at the previous day’s close.

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