Progressive Property & Construction Daily

1 December 2021: SPR, BRCK, MRL, RESI | House price inflation picks up again; Brick stocks edge after 33-year low; Cost rises continue

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

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Company research

Springfield Properties (SPR, 148p, £151m mkt cap) *– SPR is a client of PERL*

Scotland's only quoted housebuilder. Acquisition and proposed placing. Link to Progressive Equity Research note, Earnings-enhancing deal lifts Highlands growth:

> *Scotland's only quoted housebuilder, Springfield Properties, has acquired Highlands developer, Tulloch Homes, for an enterprise value of £56.4m – a premium of only 6% over pro-forma NAV. The group states that it will be earnings enhancing in the current financial year, and significantly so in FY2023E. We have upgraded our estimates accordingly. Tulloch strengthens Springfield's presence in the economically vibrant region around Inverness. The consideration is to be part-funded by a £22m placing [of 15.7 million shares at 140p], with a £13m deferred element effectively funded by Tulloch's strong cashflow.*

Company news

Brickability Group (BRCK, 106p, £315m)

Construction materials distributor. HY (Sep) results. Rev +197%, £224m (+54% LFL); PBT +120%, £11.9m; adj EPS +97%, 4.7p; interim div +10.6%, 0.96p; net cash £2.8m (H1 21, £2.7m net debt). *Guidance:* "Board remains confident of the Group delivering performance at least in line with market expectations for the full year". *Trading:* "Strong start to 2021", with performance ahead of same period in 2019 pre-Covid. Acquisitions of Taylor Maxwell, in June 2021 following an oversubscribed share placing raising equity finance of £55m, and Leadcraft, as announced in August 2021. New product ranges added to Group offering, timber and non-combustible cladding, copper and zinc metal roofing and heritage leadwork. ESG Committee established. *Outlook:* "Strong pipeline of acquisitions and continued organic development. Strong order book for the second half with positive order intake momentum".

Marlowe (MRL, 931p, £769m)

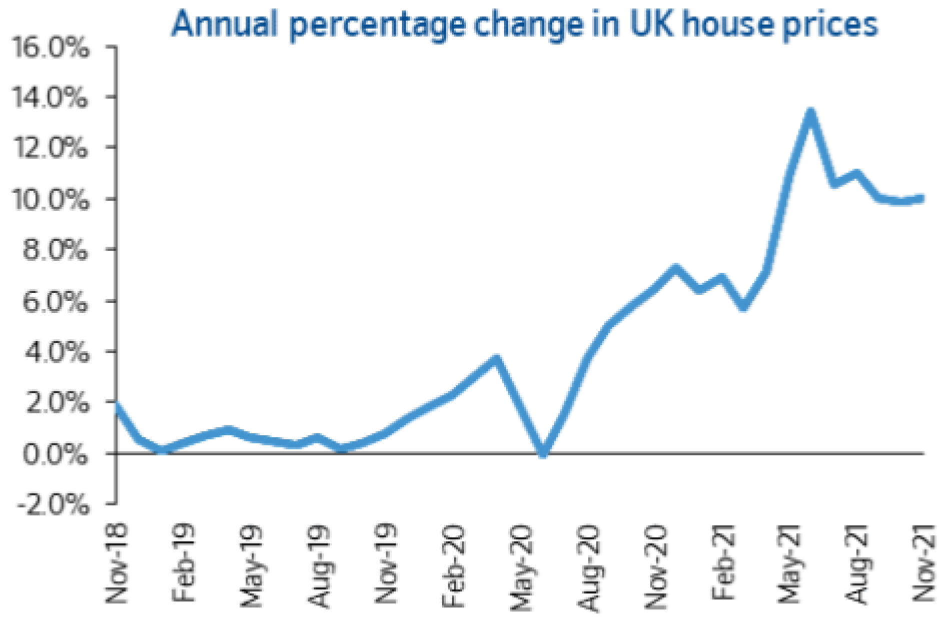
Safety and compliance provider to commercial properties. HY (Sep) results. Rev +61%, £135m (+8% LFL); adj EBITDA +90%, £21.8m; adj PBT +127%, £15.2m; stat PBT +167%, £1.6m; adj EPS +50%, 16.0p; net debt, £42.3m (H1 21, £1.6m). *Trading:* 16 acquisitions completed so far this financial year with twelve completed during H1 FY 22 for an total initial consideration of £76.5m, adding approximately £11.4 million of adj EBITDA. Acquisitions expected to achieve a return on invested capital of at least 15% within 12 months of acquisition. *Outlook:* Guidance for FY (Mar) was raised on 24 November. "Strong start to second half with continued high single digit growth across GRC and TIC divisions. "Strong pipeline of earnings-enhancing acquisitions to add further scale and breadth to our platform for growth across service and software".

Residential Secure Income Fund (RESI, 98p, £168m)

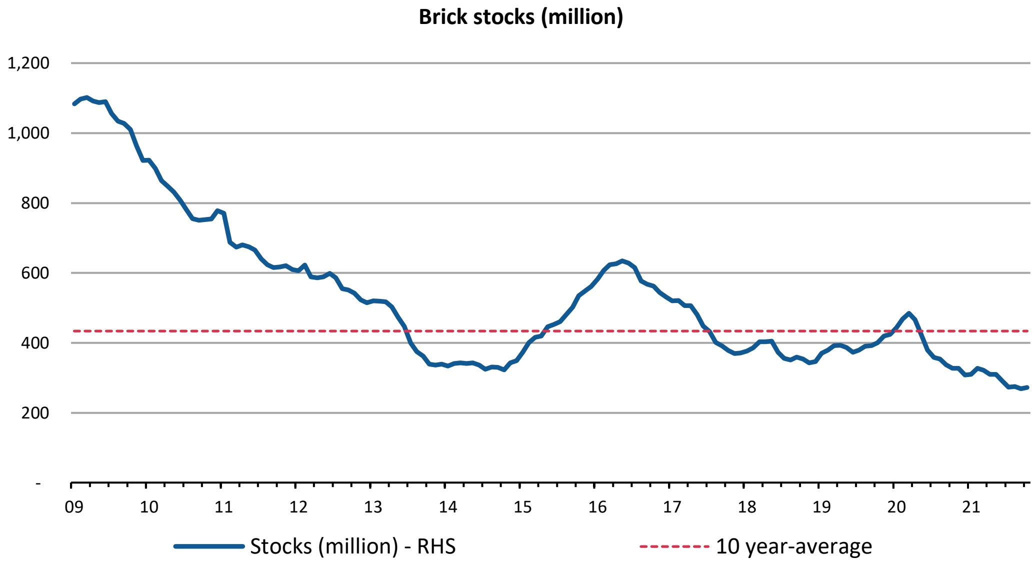
Real estate investment trust (REIT) investing in affordable shared ownership, retirement and local authority housing. FY (Sep) results. Net rental income +16%, £13.2m; EPRA adj earnings +42%, £7.1m; EPRA TNAV +2.7%, 107.9p; investment property valuation +2.5%, £351m, driven by rental growth and shared ownership portfolio full occupancy. FY 21 div paid, 5p; FY 22 dividend target to be increased with September CPI of 3.1% to 5.16p per share. *Outlook:* "Inflation-linked dividend and capital growth supported by stable, resilient cash-generative assets, including shared ownership leases of over 100 years. Strongly positioned for further growth and to meet the housing market's two biggest problems: inability to access home ownership, which is getting worse; and growing elderly population requiring affordable, independent later living".

Economic data

House prices. Another month another record high in the Nationwide House Price Index, which rose by 0.9% to £502.8k in November, following a 0.7% M/M increase in October (link). This pushed the Y/Y rate from 9.9% to 10.0%. The Nationwide view: "There have been some signs of cooling in housing market activity in recent months. The number of housing transactions were down almost 30% year-on-year in October. But this was almost inevitable, given the expiry of the Stamp Duty holiday at the end of September. Underlying activity appears to be holding up well. The number of mortgages approved for house purchases in October was still running above the 2019 monthly average. Early indications also suggest that labour market conditions remain robust, despite the furlough scheme finishing at the end of September. If this is maintained, housing market conditions may remain fairly buoyant in the coming months. Even if economic conditions continue to improve, rising interest rates may exert a cooling influence on the market. Indeed, house price growth has been outpacing income growth by a significant margin and, as a result, housing affordability is already less favourable than was the case before the pandemic struck”.



Building materials. Industry-wide stocks of bricks recovered slightly during October, edging up 1.5% to 273 million from September’s 33-year low and 37% below the 10-year average of 434 million, according to the latest building materials statistics from BEIS (link). Stocks levels lifted thanks to a slight decline in deliveries and the continuing recovery in production, which hit a rolling 12 month total of 1.89 billion to October - up from 1.81 billion to June 2021. Also in the same release, average building material costs rose by 1.0% M/M in October, lower than the 5.7% between July and August, but still taking the Y/Y rate to 24.5% from 23.6% in the year to September. **Viewpoint:** recovering production and a slowing monthly rate of increase suggests construction cost rises are ‘getting worse more slowly’; with indications that demand is adjusting downward, the inflationary spiral could well start to ease in H1 of 2022.



Source: BEIS

Prices are as at the previous day's close.