Progressive Property & Construction Daily

11 January 2022: GLE, SHI, UTG | Builders challenge £4bn cladding bill

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

NOTE: This marketing communication has been produced by Progressive Equity Research Limited (PERL) and is a Minor Non-monetary Benefit. It does not contain investment recommendations. The views expressed are those of the research department of PERL. To view the Progressive Property & Construction Daily archive click here. For Progressive research on Property & Construction companies click here.

Company news

MJ Gleeson (GLE, 800p, £466m)

Low-cost housebuilder, focused on north of England, and strategic land enabler, focused on south. HY (Dec) trading update. *Guidance:* FY (Jun) 22 results "to be in line with expectations". Gleeson Homes completed 932 homes, 15% more than the pre-Covid half-year to 31 December 2019 and 2.0% fewer than during the half-year to 31 December 2020, which was boosted by the carry-over of delayed completions from the first Covid lockdown at the end of the previous financial year. "Land continues to be available at sensible prices". Gleeson Homes opened eight new build sites during the half-year and anticipates opening a total of 25 sites and re-affirms its target of delivering 2,000 homes in the current FY. Gleeson Land sold three sites during the period, reflecting the continued strong demand for high quality consented land from medium and large housebuilders. HY results, 10 February.

SIG (SHI, 47p, £550m)

Supplier of energy efficiency and specialist building materials to trade customers across Europe. FY (Dec) trading update. *Guidance:* Revenues from underlying operations of £2,292m and an underlying operating profit no less than £40m, "the latter as announced in mid-December". YE net debt c. £364m post IFRS 16; £129m, pre IFRS 16. As previously guided, the Group held higher than normal inventory levels at the year-end "as part of the strategy to optimise customer service, especially so at a time of supply shortages". The Group completed a €300m (£253m) bond issue on 18 November 2021 and at the same time established a new RCF of £50m, which remains undrawn. *Trading:* LFL Y/Y sales growth: FY +24% Y/Y (UK, +37%; EU, +17%). H1 +33%; H2 +17% (equal for Q3 and 4). Accelerating growth trend through the year, driven most notably by UK Interiors. Pass through of product price inflation added to the top line in all geographies, to an increasing degree in H2. The impact on revenue for the full year to be around 6-7%. Profitability continued to improve in H2 compared to the first half, with underlying operating profit approximately doubling in H2 vs H1. "The Return to Growth strategy is delivering significant progress, including improved organic sales performance. The performance, driven by our strategic initiatives, has also been supported by robust demand across all key end markets, partially offset by well documented industry wide supply constraints. Inflationary increases in input costs have been well managed, with the direct pass through of these reflected in the reported sales figures.

The Unite Group (UTG, 1,075p, £m)

Owner, manager and developer of UK student accommodation. Q4 (Dec) trading update and fund valuations. *Trading:* All group properties remain open and operational. Across the group's entire property portfolio, 60% of rooms are now sold for the next academic year (Q4 21, 58%). *Outlook:* "We expect strong student demand for 2022/23 from both domestic and international students but anticipate a slightly later sales cycle for international students than in a typical year due to uncertainty relating to Covid-19. As a result, we have increased our focus on retaining existing direct-let customers, which has led to an increased share of sales to re-bookers. This is supportive of our guidance for full occupancy and rental growth of 3.0-3.5% for the 2022/23 academic year". *Funds:* Unite UK Student Accommodation Fund (USAF) property portfolio independentl Q4 value, £2,867m, a 1.6% LFL increase during the quarter and +4.6% Y/Y. The increase is principally driven by an 8 basis point reduction in property yields. The portfolio comprises 29,523 beds in 75 properties across 20 university towns and cities in the UK. The London Student Accommodation Joint Venture (LSAV) investment portfolio was independently valued at £1,819m, up 3.1% LFL in the quarter and +10.4% Y/Y. The increase is driven by rental growth of 0.5% and a 12 basis point reduction in yields. The portfolio comprises 9,716 beds across 14 properties in London and Aston Student Village in Birmingham. The USAF and LSAV portfolios are now valued at weighted average yields of 5.2% and 4.1% respectively. "Yield compression in the quarter reflects strong investment activity in the sector, particularly for London and prime regional assets". As a result, the group expects the valuations of its wholly owned portfolio at Q4 21 to reflect yield compression in H2 2021 comparable to the USAF portfolio. FY results, 23 February.

In other news …

Cladding. Michael Gove yesterday proposed, as predicted by the BBC, that developers pay the £4bn cost of remediating unsafe cladding on mid-rise tower blocks. The Housing Secretary said the largest housebuilders have until early March to commit to a new fund to cover the cost of safety works on buildings 11 - 18 m in height. This will replace a previously proposed loan scheme for leaseholders to cover the cost of these buildings, Housing Today (link). Gove warned the government is prepared to act if developers don't get on board, including restricting access to government funding, using planning powers and pursuing companies through the courts: "if the industry fails to take responsibility" the government would ultimately look at new legislation to force developers to pay. He said he will bring together 20 of the largest housebuilders and developer trade bodies to discuss the plans. Ministers have yet to decide on exactly which companies will have to contribute. However, it is expected firms with annual profit of £10m or more from housebuilding will be eligible for contributions. Other media sources have indicated his department will set up a unit to investigate development activity undertaken within complex special purpose vehicles. The Home Builders Federation argues that the largest UK-based house builders, which built a minority of the affected buildings, have already spent or committed approaching £1bn to remediate affected buildings and the recently announced Property Developers Tax will raise billions more. It urges that other parties should also have to meet costs, including material manufacturers, "who designed, tested and sold materials that developers purchased in good faith that were later proved to not be fit for purpose". **Viewpoint:** Shares in the largest housebuilders fell by 4.2% yesterday, led by the largest by market cap, Persimmon, which dropped by 5.2%. It was hard to avoid the suspicion listening to Gove's interview yesterday on the Radio 4 Today programme (when he eventually emerged having spent half an hour stuck in a BBC lift) that his department is making up policy on the hoof. The intent - to lift the burden from leaseholders - is laudable. But bandying threats on air for builders to stump up on what looks like an ad hoc basis, without a statutory framework and a proper formula for calculating payments (arguably from suppliers and other involved in the construction process) seems like a panicky attempt to divert attention away from Whitehall parties (a topic that reared its head again last night). Expect this one to drag on …

Carillion aftermath. KPMG misled regulators during inspections of its work on audits including those of failed contractor Carillion, the accounting firm's UK boss has stated, ConstructionEnquirer.com (link). The admission was made on the first day of an industrial tribunal brought by the Financial Reporting Council where the accountancy firm and six of its former auditors are accused of forging documents and misleading its inspectors. KPMG's UK chief executive Jon Holt explained that the firm had discovered the misconduct in its own internal investigations, and immediately reported it to the FRC. In a media statement, he admitted it was clear to him that misconduct had occurred and that the regulator was misled. "The misconduct that this Tribunal will hear about over the coming weeks is disturbing and upsetting for me and for my colleagues," he said.

Prices are as at the previous day's close.

PERL does not hold any positions in the securities mentioned in this email. However, PERL's directors, officers, employees and contractors may have a position in any or related securities mentioned in this email. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this email.

The value of securities mentioned in this communication can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this communication may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this email. Past performance is not necessarily a guide to future performance.