

SPRINGFIELD PROPERTIES

PERSONAL & HOUSEHOLD GOODS

SPR.L

106p

Market Cap: £102.1m

SHARE PRICE (p)



12m high/low

125p/98p

Source: LSE Data

KEY INFORMATION

Enterprise value	£143.8m
Index/market	AIM
Next news	AGM, 23 Oct 2019
Gearing	40.8%
Interest cover	16.1x

SPRINGFIELD PROPERTIES IS A
RESEARCH CLIENT OF PROGRESSIVE

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Great expectations

Scottish housebuilder Springfield Properties increased PBT by 69% in FY 2019, beating our estimate by 3% and undershooting our debt assumptions. We maintain our latest estimates but believe the group is investing in potentially greater mid-term growth, by strengthening management and systems, planning further progress in affordable housing and extending its regional footprint, including into the rapidly growing city of Inverness.

- Results moderately beat estimates.** Adjusted PBT for the 12 months to May rose by 69% to £16.5m, beating our estimate of £16.1m by 2.9%; adj EPS rose 29.1% to 13.9p, 4.2% ahead of our estimate of 13.3p; the dividend was increased by 18.9% to 4.4p, in line with our estimate. The gross margin improved from 15.7% to 18.0%, while margins for most major UK housebuilder have come under pressure. The 'beat' was largely due to a stronger than expected performance by a JV. YE net debt rose from £15.3m to £29.6m, £7.6m below our estimate.
- Forecasts maintained, but scope for further growth.** We are not materially changing headline forecasts for FY 2020E and 2021E, but suspect they may be conservative, since we have again not assumed any contribution from the JV and have assumed that some of the larger Affordable Housing projects feed through later in the forecast period. We have also initiated a FY 2022 estimate, with YoY PBT growth of 9%.
- Growth ambitions.** The group, which sold 952 homes during the year appears to be creating a platform for further significant growth in output over the forecast period: with a new operational structure and regional heads; planning application submitted for its fifth 'village' development; an expanded landbank, including a move into Inverness, which has one of the fastest growing populations in Europe.
- Scottish market remains in rude health.** We continue to believe the outlook for the Scottish housing market is one of the healthiest in the UK, with a relative undersupply of private and affordable housing and faster growing prices than most English regions, according to RICS.
- Valuation.** Springfield's latest PTBV of 1.18x compares with 1.80x for the volume housebuilders and the FY 2020E P/E of 6.8x compares with 8.8x prospective average. The shares yield 4.9%, based on our FY 2020 dividend estimate.

FYE MAY (£M)	2018	2019	2020E	2021E	2022E
Revenue	140.7	190.8	216.0	240.4	255.2
Adj EBITDA	11.7	18.6	21.8	24.4	26.2
Fully Adj PBT	9.8	16.5	18.6	20.8	22.6
Fully Adj EPS (p)	10.7	13.9	15.5	17.4	18.9
EV/Sales (x)	1.0x	0.8x	0.7x	0.6x	0.6x
EV/EBITDA (x)	12.3x	7.7x	6.6x	5.9x	5.5x
PER (x)	9.9x	7.6x	6.8x	6.1x	5.6x

Source: Company Information and Progressive Equity Research estimates

Going for growth

Results for the FY to May 2019 showed strong growth across both Private and Affordable Housing divisions, buoyed by a resilient Scottish housing market and bolstered by the acquisitions of Walker Group and Dawn Homes. We believe the Scottish group is preparing for further significant growth in output, demonstrated in growth in the landbank and active sites and the strengthening of its operational structure.

Results driven by volume and margin growth

Adjusted PBT rose by 69% to £16.5m, beating our estimate of £16.1m by 2.9%; adj EPS rose 29.1% to 13.9p, 4.2% ahead of our estimate of 13.3p; the dividend was increased by 18.9% to 4.4p, in line with our estimate.

The main contributor to the 'beat' against our estimates was a £0.6m share in the net income from associates from a JV project with Dawn Homes, acquired in 2017, which we had not factored into our previous forecast. Otherwise, gross profit from Private and Affordable Housing were £0.2m and £0.1m better respectively than our estimates; 'other' items £0.4m worse and administrative costs £0.2m better.

YE net debt increased from £15.3m to £29.6m, £7.6m lower than our estimate.

The group sold a total of 952 homes during the year, a 24% increase. Private housebuilding volumes rose by 37% to 630 homes, or by 27% before the 45 part-year contribution from Walker Group. Affordable Housing, increased volumes by 3.9% to 322 homes.

Outlook: confident of sustained growth in line with expectations

According to the statement, Springfield now has a presence in almost all of the key regions within Scotland, a total landbank of at least 16 years, an enhanced operational structure and a stronger outlook for house prices than in much of the rest of the UK. The two acquisitions are on track and are realising increasing benefits to the wider group. As a result the group "remains confident of continuing to deliver sustained growth, in line with market expectations, and delivering shareholder value".

Forecasts: no change but looking conservative

We are not changing our estimates for FY 2020E and 2021E, but believe these may be conservative, not least since we have again not assumed any contribution from the JV project which remains on-site for at least another full year. We may have also assumed a cautious growth profile for Affordable Housing, where projects can be 'lumpy' – and we have maintained our gross margin assumptions for the division at 16%, despite it delivering over 17% in both FY 2018 and 2019.

We have also initiated a FY 2022 estimate, with YoY growth in PBT of 9%.

Despite lower than expected net debt for YE 2019, we have not made any material changes to the previous forecast years.

3% 'beat' supported by JV with Dawn Homes

No JV income and conservative growth profile for Affordable Housing assumed

Highlights of year

For more details on the divisional performance see page 5.

- Private Housing: The Group delivers private housing on developments of various size across Central, West and the North of Scotland under its Springfield, Dawn Homes and Walker Group brands, including the standalone Village developments. The number of active private developments grew from 23 to 29, with 14 active developments added during the year while eight developments were completed.
- Affordable Housing: home completions edged up to 322 and the average selling price rose by 10.8% to £133k due to changes in sales mix. At YE 2019, the Group was operating on 14 active affordable housing developments (2018: 18), of which six were affordable-only developments (2018: 13) with the reduction due to the timing of the release of planning consents. The group's strategy differs from many peers in that it provides affordable housing under Section 75 agreements (similar to the English S. 106) with local authorities, in which private developers agree to contribute housing, investment or infrastructure as a condition of planning permission) or on standalone developments that consist entirely of affordable housing
- Dawn Homes, acquired in 2017, made its first FY contribution, and performed "strongly" and in line with expectations, while Walker, acquired this year, provides a strong foothold in the Edinburgh commuter belt
- Villages: There are now five self-contained villages under development or planned, each with up to 3,000 plots and the requisite infrastructure and community amenities.
 - Dykes of Gray near Dundee. 178 homes were occupied at YE 2019 (2018: 108). The group continued to develop community infrastructure, including extensive planting throughout the Village
 - Bertha Park near Perth. The first owners moved in during the year and 34 homes were occupied by YE 2019. Central landscaping and a new major road that connects the Village directly to Perth were completed. The first six business units also reached an advanced stage of construction with occupation expected to begin from October. Post period, during August, Bertha Park Secondary School was opened to its first pupils. The school is the first entirely new secondary school to be established in Scotland for more than 15 years and is the first Microsoft Flagship School in the UK
 - Linkwood, Elgin. Construction has commenced and the first phase will comprise 870 homes and community facilities, including a primary school, under construction, and a sports centre, which opened since the YE.
 - Durieshill, Stirling, a 3,042-home Village development, proposals are at an advanced stage, with planning consent expected towards the end of 2019.
 - Gavieside, Livingston. The group secured approximately 400 acres of zoned land in the Edinburgh commuter belt. Springfield designed the masterplan, which generated an increase in the anticipated number of plots to 2,500 and received planning permission in principle for the development and post period, a planning application was submitted for the first phase of 502 homes, play areas and up to eight business units, which will provide employment and services for local people
- Land. The landbank was increased by 28% to 15,938 plots; 22 new active developments were added while 20 developments were completed
- Inverness. This month the group secured a strategic land acquisition in the rapidly growing city of Inverness, the main centre for the Highlands (see page 10)
- Sustainability. Continued progress in making developments more environmentally sustainable and energy efficient. During the year, Springfield pioneered the use of an eco-friendlier asphalt mix for road surfacing, incorporating plastic waste in a section of road at one of the Group's Elgin developments. This reduces the amount of bitumen used, while increasing the durability and longevity of the road surface.

Reinforced management structure to support growth

New structure to enhance operational efficiency and support future scale

Springfield established a new group operating structure, including a Group Operating Board comprising four managing directors for North Scotland (private housing), Central Scotland (private), Dawn Homes and Partnerships (affordable) respectively. The MD for Central Scotland (private) also became responsible for running Walker Group. This structure was established to enhance operational efficiency across the Group and supported the increase in scale of the business.

The group says it is benefitting from the addition of further strong sales, land and planning, and commercial teams from Dawn Homes and Walker Group, and is leveraging the significant experience and capabilities gained from the combination of the three businesses. Springfield intends to effect group-wide supply chain efficiencies over the coming year, to support margin improvements.

Customer care maintain high satisfaction rates

A potentially important feature is further focus on customer care (bearing in mind the adverse publicity larger UK groups have received for late delivery and poor quality). It has improved its customer surveying processes to increase response times, thereby enabling action to be taken more quickly if required. Over 90% of customers surveyed, who had moved into a Springfield home between December 2018 and May 2019, responded that they would recommend Springfield to a friend or relative.

New non-exec director brings experience and skills in regeneration projects

The board was strengthened this month with the appointment of Colin Rae as a non-executive director. He is a chartered quantity surveyor with nearly 40 years' experience in the construction and housebuilding industries, specialising in project and development management. From 2002 to 2019, Mr Rae held leadership positions at Places for People (PfP), one of the largest housing associations, with a diverse range of development, regeneration, property management and leisure companies in the UK and an asset base of £4.5bn. PfP designs, builds, and manages large-scale regeneration projects.

As Group Executive Development Director at PfP, he managed a UK-wide mixed tenure development programme of c. £200m, delivering core housing assets for affordable and market rent and sale. This included the development of the 376-home Engine Yard site in Edinburgh, the largest single National Housing Trust development in Scotland.

Financials

Revenue and profit projections

Year-end May (£m)	2016	2017	2018	2019	2020E	2021E	2022E
Private Housing							
Completions	399	437	460	630	725	768	791
Change (%)	35.7%	9.5%	5.3%	37.0%	15.0%	6.0%	3.0%
ASP (£000)	195.7	197.6	221.5	227.0	236.1	238.4	243.2
Change (%)	-6.9%	1.0%	12.0%	2.5%	4.0%	1.0%	2.0%
Revenue	78.1	86.4	101.9	143.3	171.0	183.1	192.4
Change (%)	26.3%	10.6%	17.9%	40.6%	19.4%	7.1%	5.1%
Affordable Housing							
Completions	96	183	310	322	338	423	454
Change (%)	-47.8%	90.6%	69.4%	3.9%	5.0%	25.0%	7.5%
ASP (£000)	125.6	127.0	120.2	133.0	133.0	135.7	138.4
Change (%)	11.7%	1.2%	-5.4%	10.6%	0.0%	2.0%	2.0%
Revenue	12.1	23.3	37.3	42.9	45.0	57.3	62.9
Change (%)	-41.7%	92.8%	60.3%	15.1%	4.8%	27.5%	9.7%
Other	0.6	1.0	1.6	4.6	-	-	-
Group revenue	90.8	110.6	140.7	190.8	216.0	240.4	255.2
Change (%)	7.7%	21.8%	27.2%	35.6%	13.2%	11.3%	6.2%
Gross profit	13.8	16.7	22.1	34.3	42.3	45.8	48.5
Margin (%)	15.2%	15.1%	15.7%	18.0%	19.6%	19.0%	19.0%
Admin, other income	(7.7)	(8.9)	(11.5)	(17.3)	(22.0)	(23.0)	(23.9)
Share of associates income	-	-	0.0	0.6	-	-	-
Total operating profit	6.1	7.8	10.7	17.6	20.3	22.8	24.6
Margin (%)	6.7%	7.1%	7.6%	9.2%	9.4%	9.5%	9.6%
Exceptionals	-	-	(0.6)	(0.6)	-	-	-
Net interest	(1.0)	(1.1)	(0.9)	(1.1)	(1.7)	(2.0)	(2.0)
PBT, reported	5.1	6.7	9.2	16.0	18.6	20.8	22.6
PBT, pre-exc & g-will	5.1	6.7	9.8	16.5	18.6	20.8	22.6

Source: Company, Progressive estimates

Pre-exceptional PBT of £16.5m compared with our estimate of £16.1m. While there were a few minor moving parts involved in the 'beat', the main one was the £0.6m share of the results from associates (a project resulting from Dawn Homes), while we had not factored in a contribution from JVs.

We have made no material changes to FY 2020E and 2021E but have continued to assume no further contribution from the JV, due to absence of guidance.

P&L and per share estimates

Year-end May (£m)	2016	2017	2018	2019	2020E	2021E	2022E
PBT, reported	5.1	6.7	9.2	16.0	18.6	20.8	22.6
<i>Underlying tax rate (%)</i>	20.3	19.1	19.0	18.8	19.0	19.0	19.0
Reported tax	(1.0)	(1.3)	(1.9)	(3.1)	(3.5)	(4.0)	(4.3)
Minority interests	-	(0.1)	(0.0)	-	-	-	-
Net attrib. profit	4.1	5.4	7.4	12.9	15.0	16.8	18.3
Year-end shares (million)		na	96.3	96.3	96.3	96.3	96.3
Wtd. ave. shares (million)		58.4	73.4	96.3	96.3	96.3	96.3
Diluted shares (million)		58.4	73.6	96.7	96.7	96.7	96.7
EPS, basic (p)		9.2	10.0	13.3	15.6	17.5	19.0
EPS, dil., pre-exc, g/w (p)		9.2	10.7	13.9	15.5	17.4	18.9
DPS - declared (p)		2.8	3.7	4.4	5.2	5.5	6.0
NAV (p)		na	82.0	91.9	103.0	115.2	128.6
Dividend cover (x)		3.3	2.9	3.2	3.0	3.2	3.2
EBITDA	6.8	8.6	11.7	18.6	21.8	24.4	26.2
FCFPS (p)		1.0	14.8	11.2	5.5	7.2	8.6
TNAV (p)		na	81.4	90.2	101.3	113.5	126.9

Source: Company, Progressive estimates

We have introduced a FY 2022 estimate, which assumes growth in PBT of 9%, driven roughly equally by volume increases and cost efficiencies.

Cash flow and balance sheet

Year-end May (£m)	2016	2017	2018	2019	2020E	2021E	2022E
Adjusted cashflow statement							
Operating profit inc exc.	6.1	7.8	10.6	17.0	20.3	22.8	24.6
Depreciation	0.7	0.8	1.1	1.6	1.6	1.6	1.6
Intangible amortisation	-	-	-	-	-	-	-
Other	(2.6)	(0.1)	(0.4)	(0.2)	-	-	-
Working capital changes	(10.1)	(5.3)	3.1	(2.4)	(15.0)	(10.0)	(10.0)
Operating cash flow	(5.9)	3.2	14.4	16.0	6.8	14.4	16.2
Capex	(0.3)	(0.3)	(0.7)	(1.2)	(1.3)	(1.5)	(1.6)
Interest	(1.0)	(1.1)	(1.1)	(1.2)	(1.7)	(2.0)	(2.0)
Tax	(0.5)	(1.1)	(1.7)	(2.9)	(3.5)	(4.0)	(4.3)
Free cashflow	(7.7)	0.6	10.9	10.7	0.3	6.9	8.3
Acquisitions	-	(0.0)	(15.3)	(20.9)	(8.0)	(2.0)	-
Dividends – paid	(2.1)	(2.3)	(0.8)	(3.8)	(4.3)	(5.1)	(5.4)
Financing	9.7	10.6	8.9	4.9	-	-	-
Change in cash¹	(0.2)	8.8	3.7	(9.0)	(12.0)	(0.1)	2.9
Summary balance sheet							
Intangible fixed assets	-	-	0.6	1.6	1.6	1.6	1.6
Tangible fixed assets	2.2	2.8	4.5	5.0	4.7	4.6	4.6
Investments	0.5	0.5	1.9	2.4	2.4	2.4	2.4
Working capital	57.9	63.2	90.8	125.1	140.1	150.1	160
Provisions, others	(0.8)	(0.9)	(3.5)	(16.0)	(8.0)	(6.0)	(6.0)
Net cash/(debt)	(30.6)	(33.2)	(15.3)	(29.6)	(41.6)	(41.8)	(38.8)
Net assets	29.2	32.4	79.0	88.6	99.3	111.0	123.9

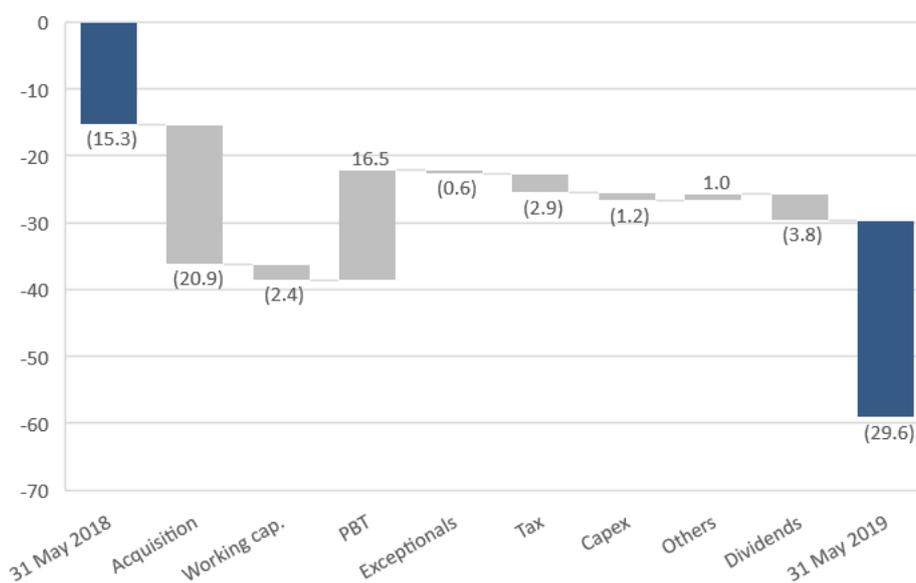
Source: Company, Progressive estimates. ¹ change in net cash in forecast period ² deferred consideration

Net debt contained through tight working capital control

Net debt increases but by less than our previous estimates

Year-end net debt increased from £15.3m to £29.6m, mainly due to the acquisition of Walker Group, but was £6.7m better than our estimate of £36.3m mainly due to an increase in working capital (which mainly reflects land) of £2.4m, versus our assumption of £10m, probably due to tight working capital control. We conservatively assume this benefit could largely unwind, so we continue to assume net debt of around £40m for the forecast period.

Net debt bridge

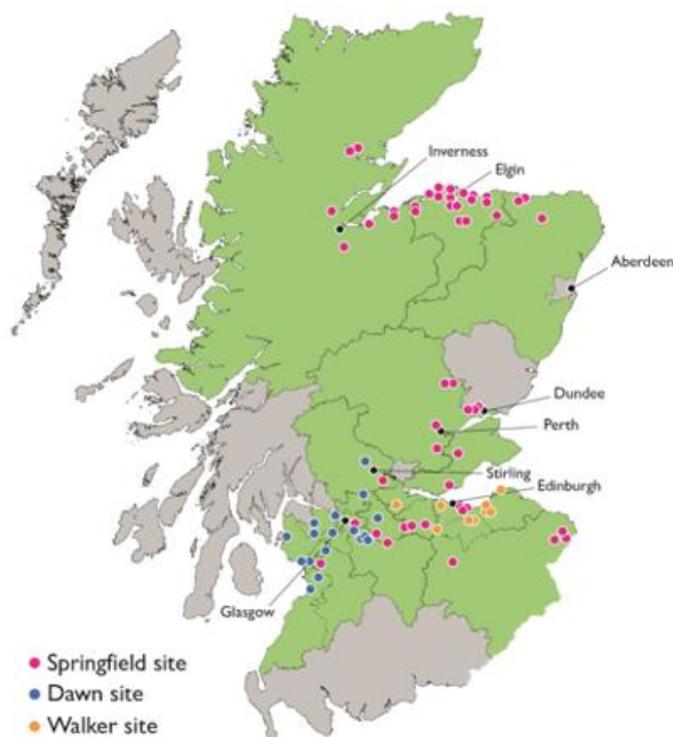


Source: Company presentation

Scottish expansion continues

The group is now operating throughout the Central Belt, encompassing Glasgow, Edinburgh, Perth and Dundee, along with its original home along the Moray coast, and has this month acquired a major site in Inverness, in the Highland Region.

Springfield's regional coverage



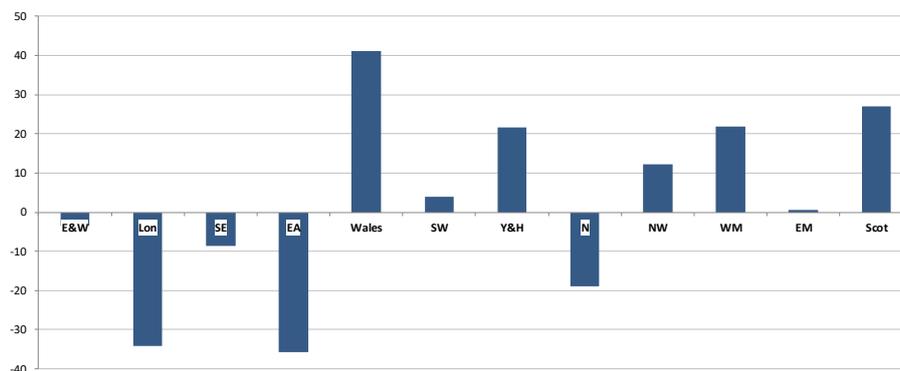
Source: Company presentation

Scottish housing market remains buoyant

Price growth had lagged England but supported by under-supply of properties

As we argued in our initiation note ([link](#)) Scotland's price growth has lagged much of England but has been increasing relative to south of the border for some two years, supported by under-supply of private housing. Scotland (along with Wales) has regularly been among the top regional performers in the monthly RICS Residential Market Survey, including the latest one, for August (see below).

House price changes, last 3 month (index*)



Source: RICS. * % of surveyors reporting rise minus % reporting fall

Inverness move opens up the Highlands

Fast growing population and economy and best Scottish city for quality of life

Although the group originated in Elgin on the Moray coastline, most of its growth has come in Scotland's 'Central Belt', including Glasgow, Edinburgh, Dundee and Perth – augmented by the acquisitions in May 2019 of Dawn Homes, in Glasgow and the West and, in February 2019, Walker Group, operating around Edinburgh.

In September 2019 it expanded its presence in the Highlands with a strategic land acquisition in Inverness. In total, Springfield is considering plans for approximately 3,000 new homes across a number of developments in, and around, Inverness and in Highland towns and villages, including Ardersier, Drumnadrochit, Dornoch and Beauly.

Inverness, which was granted city status in 2000, is the administrative centre for The Highland Council and is regarded as the capital of the Highlands.

It has one of the fastest growing populations of any urban centre in Europe, with the city itself increasing from 40,949 to 46,870 between the 2001 and 2011 Censuses, growth of over 14%. The estimated population of the Greater Inverness area grew by 17% to 63,220 between 2006 and 2016, according to the National Records of Scotland. The World Population Review predicts further steady growth in the future.

Between 1998 and 2008, Inverness and the rest of the central Highlands showed the largest growth of average economic productivity per person in Scotland and the second greatest growth in the United Kingdom as a whole, with an increase of 86%, according to the ONS.

Inverness is also ranked fifth out of 189 British cities for its quality of life, the highest of any Scottish city.

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

PROFIT & LOSS	2018	2019	2020E	2021E	2022E
Revenue	140.7	190.8	216.0	240.4	255.2
Adj EBITDA	11.7	18.6	21.8	24.4	26.2
Adj EBIT	10.6	17.0	20.3	22.8	24.6
Reported PBT	9.2	16.0	18.6	20.8	22.6
Fully Adj PBT	9.8	16.5	18.6	20.8	22.6
NOPAT	8.6	13.8	16.4	18.5	19.9
Reported EPS (p)	10.0	13.3	15.6	17.5	19.0
Fully Adj EPS (p)	10.7	13.9	15.5	17.4	18.9
Dividend per share (p)	3.7	4.4	5.2	5.5	6.0
CASH FLOW & BALANCE SHEET	2018	2019	2020E	2021E	2022E
Operating cash flow	14.4	16.0	6.8	14.4	16.2
Free Cash flow	10.9	10.7	0.3	6.9	8.3
FCF per share (p)	14.8	11.2	0.3	7.2	8.6
Acquisitions	(15.3)	(20.9)	(8.0)	(2.0)	0.0
Disposals	0.1	0.4	0.0	0.0	0.0
Shares issued	42.2	0.0	0.0	0.0	0.0
Net cash flow	3.7	(9.0)	(12.0)	(0.1)	2.9
Overdrafts / borrowings	27.3	32.6	45.1	45.6	45.6
Cash & equivalents	12.0	3.1	3.5	3.9	6.8
Net (Debt)/Cash	(15.3)	(29.6)	(41.6)	(41.8)	(38.8)
NAV AND RETURNS	2018	2019	2020E	2021E	2022E
Net asset value	79.0	88.5	99.2	111.0	123.9
NAV/share (p)	82.0	91.9	103.0	115.2	128.6
Net Tangible Asset Value	78.4	86.9	97.6	109.3	122.2
NTAV/share (p)	81.4	90.2	101.3	113.5	126.9
Average equity	55.7	83.8	93.9	105.1	117.4
Post-tax ROE (%)	13.2%	15.4%	16.0%	16.0%	15.6%
METRICS	2018	2019	2020E	2021E	2022E
Revenue growth	N/A	35.6%	13.2%	11.3%	6.2%
Adj EBITDA growth	N/A	58.8%	17.2%	11.6%	7.5%
Adj EBIT growth	N/A	60.1%	18.8%	12.5%	8.0%
Adj PBT growth	N/A	69.2%	12.2%	12.1%	8.7%
Adj EPS growth	N/A	29.1%	12.0%	12.1%	8.7%
Dividend growth	N/A	18.9%	18.2%	5.8%	9.1%
Adj EBIT margins	7.6%	8.9%	9.4%	9.5%	9.6%
VALUATION	2018	2019	2020E	2021E	2022E
EV/Sales (x)	1.0	0.8	0.7	0.6	0.6
EV/EBITDA (x)	12.3	7.7	6.6	5.9	5.5
EV/NOPAT (x)	16.7	10.4	8.8	7.8	7.2
PER (x)	9.9	7.6	6.8	6.1	5.6
Dividend yield	3.5%	4.2%	4.9%	5.2%	5.7%
FCF yield	14.0%	10.5%	0.3%	6.8%	8.2%

Source: Company information and Progressive Equity Research estimates

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