Housebuilding snapshot

EQUITY Development

Shades of Autumn

23 October 2023

The past week has provided some early insights into demand trends at the start of the autumn selling season. Bellway and Barratt both highlighted continuing softness in reservation rates post the summer holidays, perhaps with some tentative signs of improvement in recent weeks. Vistry, similarly, has not seen the normal seasonal pickup in private sales activity since early September as the business implements a strategic shift towards its partnerships model. Forecast guidance for most of the sector is already prudently pointing to no meaningful near-term increase in activity and companies continue to manage overheads and land investment cautiously. Springfield Properties meanwhile announced a land sale at the start of last week, delivering on its strategy to prioritise cash generation at a time of market uncertainty.

Whilst share prices continue to be driven by macroeconomic considerations, particularly the outlook for inflation and interest rates, we remain confident in the fundamentals of the housing market and see good value in the sector on a medium-term view.

First reports from start of Autumn selling season

At the start of last week, Springfield announced a £5m land sale and the Group remains in discussions with other housebuilders and affordable housing providers about a number of sites, which it hopes to complete in the near term (Click here for note: **Delivering on cash-generation strategy**). Bellway and Barratt meanwhile both provided an update on current trading, describing the current environment as "tough" and "difficult" respectively. More encouragingly, Bellway has seen something of an improvement in its sales rate in very recent weeks and Barratt has reiterated its previous volume guidance (see page 2). Vistry has not seen the normal pickup in private sales activity from early September and has highlighted a £40m margin impact this year as it transitions its private housebuilding business fully towards a partnerships model under the recently announced strategy.

RICS Residential Market Survey (6th October)

These comments from listed housebuilders are in line with the latest RICS residential market survey. RICS highlighted no real change to the challenging market backdrop, with stretched mortgage affordability the dominant factor weighing on buyer demand. While the near-term outlook remains relatively downbeat, twelve-month sales expectations have at least stabilised. Some contributors to the survey suggested that the Bank of England's decision to pause monetary policy tightening last month may have provided some support to market sentiment.

Share prices driven by macro-economic factors and sentiment

Share prices continue to be influenced by macro-economic factors and, over the past week, have been impacted by a stubborn inflation reading, as well as the wider market reaction to the war in Israel and Gaza. Most housebuilder shares fell by a mid-single digit percentage last week. Springfield's shares did initially receive some credit from the land sale news and MJ Gleeson has also been a recent outperformer.

Sector valuations undemanding by historic standards

In our view, sector valuations now reflect prudent forecast guidance from management teams, who are pointing to only a moderate recovery in market conditions (at best) as the current year progresses.

In this context, we see good value emerging across the sector, illustrated by an average 20% discount to tangible book value (TBV). The average P/E rating of 10x-11x is in line with the sector's long run average (see page 6) and, we would suggest, does not therefore factor in the sector's recovery potential over the medium term.

Recent sector newsflow

Springfield land sale: 16th October

Bellway full year results: 17th October

Barratt AGM: 18th October

Vistry Q3 update: 23rd October

Next news

Persimmon update: 7th November

Taylor Wimpey update: 9th November

Redrow AGM: 10th November

MJ Gleeson AGM: 16th November

Crest Nicholson: 17th November (est.)

Berkeley interims: 8th December

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Recent sector newsflow

Springfield Properties land sale – 16th October 2023

Springfield announced a binding agreement for the sale of approximately 9.5 acres of land for £5.2m. The land equates to 92 plots and is fully owned by the Group. Springfield will receive £0.5m in the coming days with the remaining £4.7m paid upon completion, which is expected to occur in March 2024. Following the receipt of the £0.5m, the agreement becomes unconditional in all respects.

This is a profitable land sale, which is in keeping with the Group's focus on debt reduction in an uncertain housing market. This again illustrates the value within the Group's large landbank and discussions are ongoing with other housebuilders and affordable housing providers about a number of sites.

Bellway prelims – 17th October 2023

Bellway's prelims (year to July) were well trailed with completions down slightly year on year (-2%) at 10,945 homes and PBT of £533m, down 18% year on year, with the impact of cost inflation etc. Given market uncertainties, the focus in FY23 was on cash generation. Another tough year is anticipated in FY24, reflecting high mortgage rates, cost of living pressures and the looming general election. In common with other housebuilders, there has been an increased focus on social housing, which is expected to continue into the new year. Meanwhile planning constraints remain an issue but build cost inflation is easing.

In terms of recent trading, in the first 9 weeks since the 1st of August, Bellway achieved a private sales rate of 0.41 per outlet or 0.38 excluding build for rent/ PRS sales. This compares to 0.58 in the same period last year. There was little meaningful change in trading between August and September, which is unusual, but reflects elevated mortgage rates.

Encouragingly, the past week or two have been stronger for private sales (Bellway's week nine), with an improved sales rate of 0.45 per outlet. This may be the result of a recent improvement in mortgage costs and availability, but it is too early to identify a meaningful trend and management is not anticipating a further improvement in the run up to Christmas.

Guidance for FY24 is for 7,500 homes, assuming that the Group can repeat the previous year's private sales rate. The commentary was more optimistic over the FY25 outlook, which may see a more benign environment for inflation and mortgage rates as well as, potentially, the stability of a new administration or government.

Barratt Developments AGM – 18th October 2023

Barratt has continued to trade in line with the expectations set out in September (volume guidance of between 13,250 and 14,250 homes). The trading environment remains difficult, with potential homebuyers still facing mortgage challenges.

In the period from 1st July to 8th October, the net private reservation rate was 0.46 (versus 0.55 in the same period last year).

Management expects to remain highly selective in terms of land investment, given market uncertainties and "the absence of the required adjustment in prevailing land prices".

Overall, the update suggests the backdrop will remain difficult over coming months and management is focused on driving revenue whilst continuing to manage build activity and carefully control the cost base.

Vistry Q3 update – 23rd October 2023

Vistry's scheduled Q3 update highlights progress in the implementation of the new strategy as the business transitions fully from private housebuilding towards its partnerships model. The update highlights continuing demand for mixed tenure affordable homes from Registered Providers, Local Authorities, and the Private Rental Sector.

Vistry is targeting adjusted PBT of £450m for FY23 (December year-end), broadly consistent with previous guidance of "in excess of £450m" from September's interim results update. Profit guidance, though, excludes the impact of transitioning the Housebuilding business to Partnerships, which will create a drag on margins in the region of c.£40m. Including this impact, the Group's targeted FY23 adjusted PBT is therefore £410m. Vistry expects to deliver c.£25m of annualised cost savings from the integration of Partnerships and Housebuilding.

Private sales activity remains subdued, without the normal seasonal pickup since early September, echoing last week's message from Bellway and Barratt. Vistry's open market demand continues to be supported by incentives of c.5%. Productive discussions are underway with supply chain partners to agree cost reductions on existing and future contracts.

Peer group share price performance

Share prices continue to be influenced by macro-economic factors and over the past week have been impacted by a stubborn inflation reading, as well as the wider market reaction to the war in Israel and Gaza.

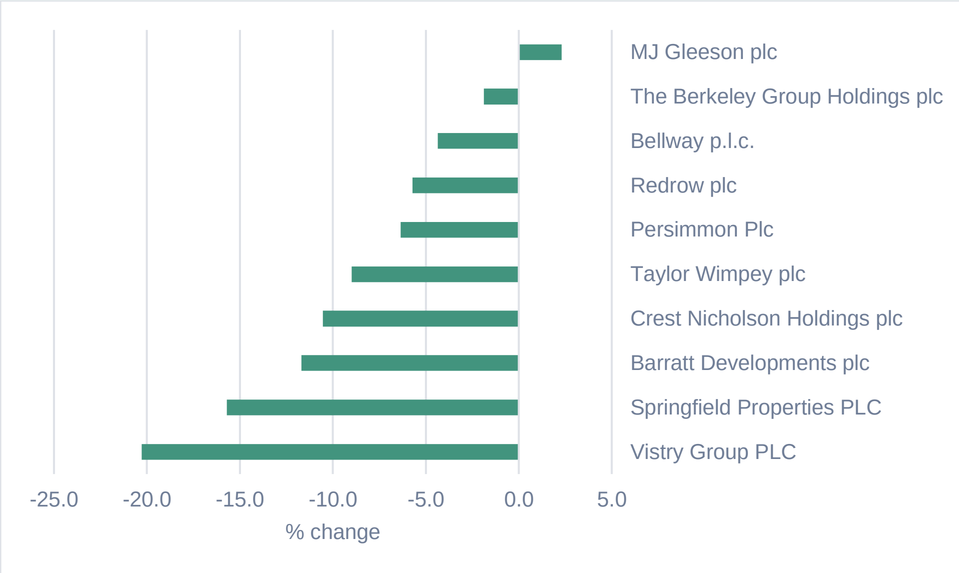
Interestingly, the two weakest performers last week were Bellway and Barratt, the two that provided trading updates, despite Barratt repeating previous volume guidance. This reflects near-term caution in both statements, albeit they are likely to be representative of the wider sector. At the time of writing (23rd October), Vistry's shares have fallen by 5% on today's Q3 update and profit guidance (see previous page).

MJ Gleeson outperformed peers last week, coinciding with a rebrand of its Homes business as it targets a wider demographic. Springfield Properties also fared slightly better than peers, following its positive land sale news, but has underperformed on a >one month view, as shown on the charts below.

One week share price performance

Source: Koyfin 20 October 2023

One month share price performance

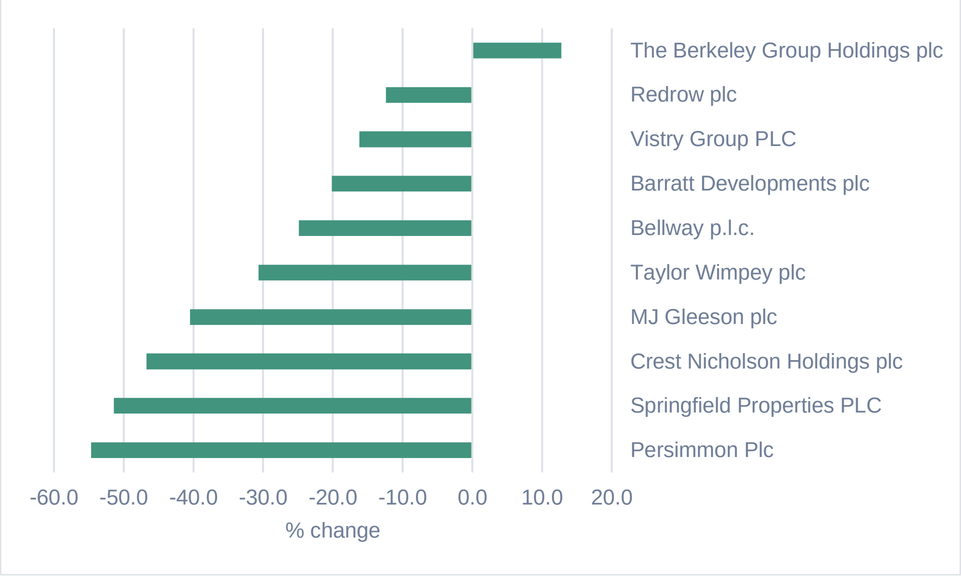


Source: Koyfin 20 October 2023

One year share price performance

Source: Koyfin 20 October 2023

Five years share price performance



Source: Koyfin 20 October 2023

Valuation overview

The table below highlights current sector valuations and is, we believe, based on prudent forecast assumptions, reflecting fairly consistent management guidance of only a moderate recovery in market conditions (at best) as the current year progresses.

In this context, we see good value emerging across the sector, illustrated by an average 20% discount to tangible book value (TBV) in the table below. Similarly, the average P/E rating of 10x-11x is in line with the sector's long run average and therefore does not factor in the sector's recovery potential over the medium term.

Housebuilding sector valuations

Company	Share Price	Market Cap	P/E		EV/EBITDA		P/TBV	Yield
	GBP	£m	FY1E	FY2E	FY1E	FY2E	LTM	NTM
Barratt	3.93	3,806	14.3x	11.1x	6.8x	5.3x	0.8x	3.8%
Bellway	20.66	2,458	15.2x	11.8x	9.0x	7.2x	0.7x	3.9%
Crest Nicholson	1.61	413	10.8x	12.3x	6.1x	6.1x	0.5x	10.5%
MJ Gleeson	4.00	233	9.7x	8.5x	5.8x	5.1x	0.8x	3.5%
Persimmon	9.80	3,129	12.2x	11.2x	7.7x	6.6x	1.0x	6.2%
Redrow	4.65	1,494	11.7x	9.6x	6.4x	5.4x	0.7x	2.9%
Springfield Properties	0.51	60	8.4x		5.8x		0.4x	0.0%
Taylor Wimpey	1.05	3,701	11.3x	11.5x	6.6x	6.4x	0.8x	8.9%
The Berkeley Group	39.80	4,227	11.2x	11.7x	7.7x	7.7x	1.3x	6.3%
Vistry Group	7.33	2,530	7.8x	7.8x	6.0x	6.0x	1.3x	5.8%
Mean Average			**11.3x**	**10.6x**	**6.8x**	**6.2x**	**0.8x**	**5.2%**
Median Average			**11.3x**	**11.2x**	**6.5x**	**6.1x**	**0.8x**	**4.8%**

Source: Koyfin 20 October 2023 / Equity Development

We again highlight Springfield Properties, which trades at a market discount to peers and has one of the largest landbanks in Scotland. The gross development value of its owned landbank is c.£1.9bn, providing firm underpinning for long term shareholder value. We recently initiated coverage (Click: An undervalued, high quality growth story) and continue to see scope for a material re-rating of the shares.

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