

Full house of property deals

4th October 2019

For professional investors, volatility begets opportunity. In fact 2 days ago, the FTSE100 tumbled 3.2% on the back of indiscriminate selling from algos and programmatic traders, with only 2 companies closing in the green.

So how do you take advantage of these wild swings? One approach is to keep a shopping list of premium, dividend paying stocks to 'buy & hold' for the long term. Take Watkin Jones, who yesterday announced a clutch of new property deals and pipeline updates, involving 2,532 PBSA beds, 431 BtR units and 88 residential appts (see below).

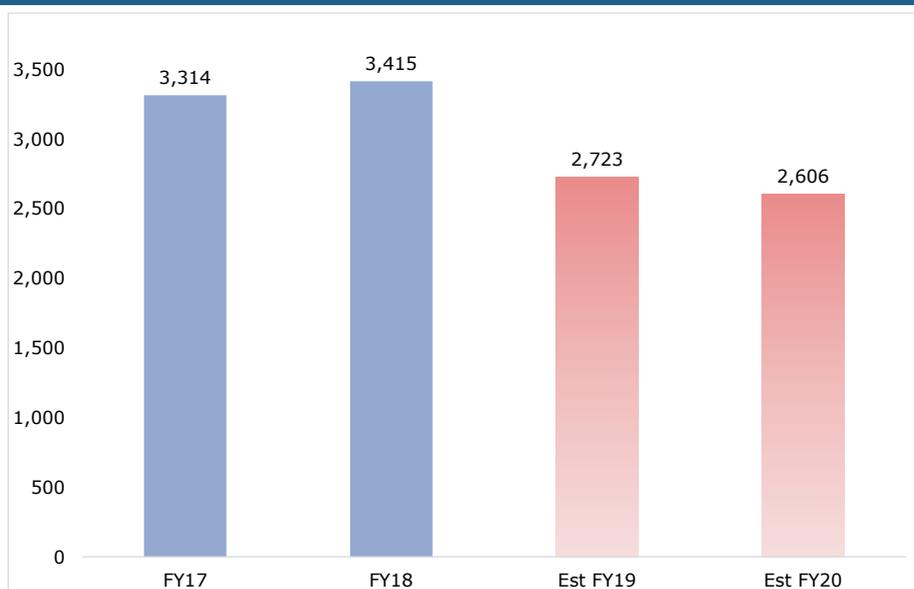
Good forward visibility underpinned by strong cashflows

Transaction type	PBSA (beds)	BtR (units)	Appts for sale	Value £ks	£ks/unit or bed	Location	Investor
Forward funded	691	71		61,000	80.1	Sheffield	AIG Global
Property disposal (2 sites)	400			30,000	75.0	Chester	Arlington Investors
Secured development agreement	422					Glasgow	CA Ventures
Secured development agreement	216			50,000	78.4	Edinburgh	CA Ventures
Land acqn subject to planning	270		88			Edinburgh	
Land acqn subject to planning	185					Bath	
Secured full planning consent	348					Bristol	KKR & Round Hill
Forward funded		166				Sutton	M&G Real Estate
Forward funded		159		90,000	276.9	Bournemouth	M&G Real Estate
Forward sold		35		5,200	148.6	Chester	Hearthstone Inv Mgt
Total	2,532	431	88	236,200			

Source: Equity Development. Note: Forward funded is the same as forward sold

Here we reckon WJG's total PBSA pipeline (see below) now comprises circa 22 sites, from which >9,100 beds are anticipated to be delivered between FY19-22. And secondly that the 2,606 slated for FY20 have all been forward funded, with the Fresh lettings division contracted to manage the 2 sites sold to Arlington in Chester.

ED estimated PBSA delivery pipeline (beds)



Source: Equity Development. NB: sales/profits track 'cost to complete' contract accounting not just deliveries. Secure = Beds forward sold and/or with planning permission.

Company Data

EPIC	AIM:WJG
Price (previous close)	221p
52 week Hi/Lo	233p/192p
Market cap	£564m
ED valuation/share	250p
Net cash (est. Sept'19)	£90.4m
Sharecount	255.3m
Daily volume	500k

Share Price (p)



Source: Share Cast

Company Description

Watkin Jones is a tier 1 developer & manager of large scale, multi occupancy accommodation, focusing on purpose built student accommodation (PBSA) and residential build to rent (BtR).

Both areas are expanding, supported by strong fundamentals – enabling the firm to leverage its reputation & industry expertise, along with operating a forward sale, low risk, cashflow positive and capital light model.

Residential property & agency lettings businesses are also set to become growth engines.

Next news: Trading update 5th November

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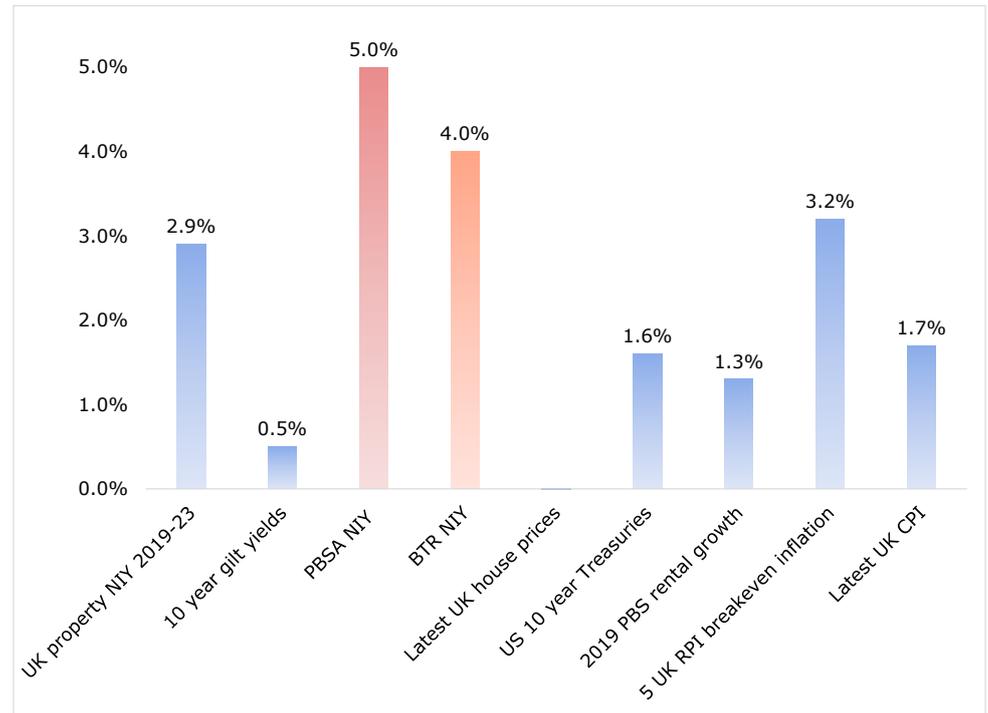
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Strong investor and end-user demand

It's no different either for BtR, sporting a secured pipeline estimated (ED) to cover 8 schemes and approx. 1,750 apartments between FY20-23. Plus, there is further upside from other locations that are presently under negotiation.

Sure WJG is not entirely immune to the broader economy – yet equally, demand for quality UK rental property remains in good shape, reflecting a chronic under supply, high employment, increasing real wages and elevated house prices.

PBSA and BtR generating positive real-returns



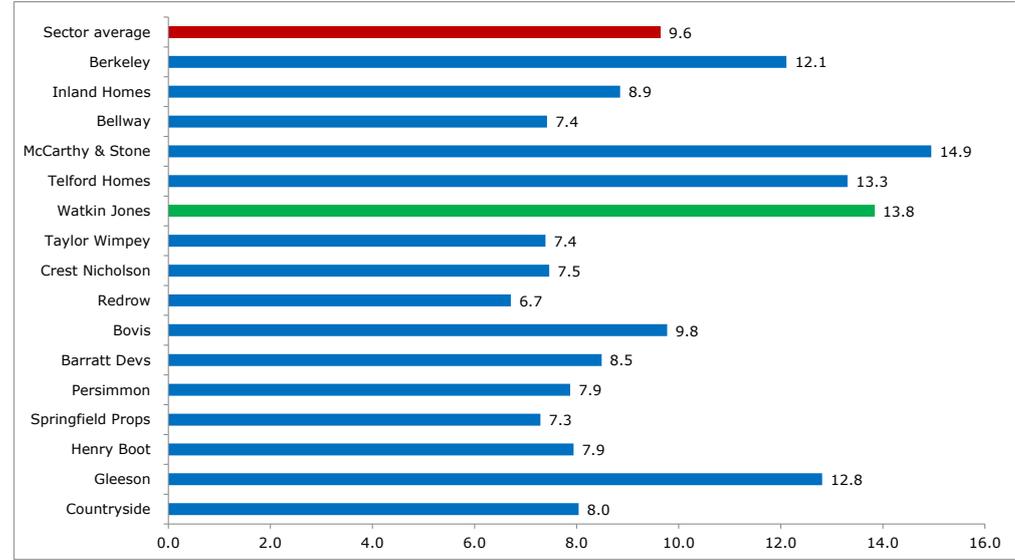
Source: Bank of England, CBRE and JLL. NIY = Net initial yield (post running costs)

What's more, institutional capital continues to flood into the £9.6bn BtR and £51.2bn PBSA sectors, despite wider macro and Brexit concerns. Attracted by the sustainable, inflation beating returns (see above), particularly when compared to the >\$15 trillion of negative yielding sovereign / investment grade debt.

Attractive price for quality dividend paying stock

Elsewhere at 221p, the stock trades at a modest 13.8x PER (or 11.9x ex cash, see below), whilst paying a healthy 3.6% dividend yield.

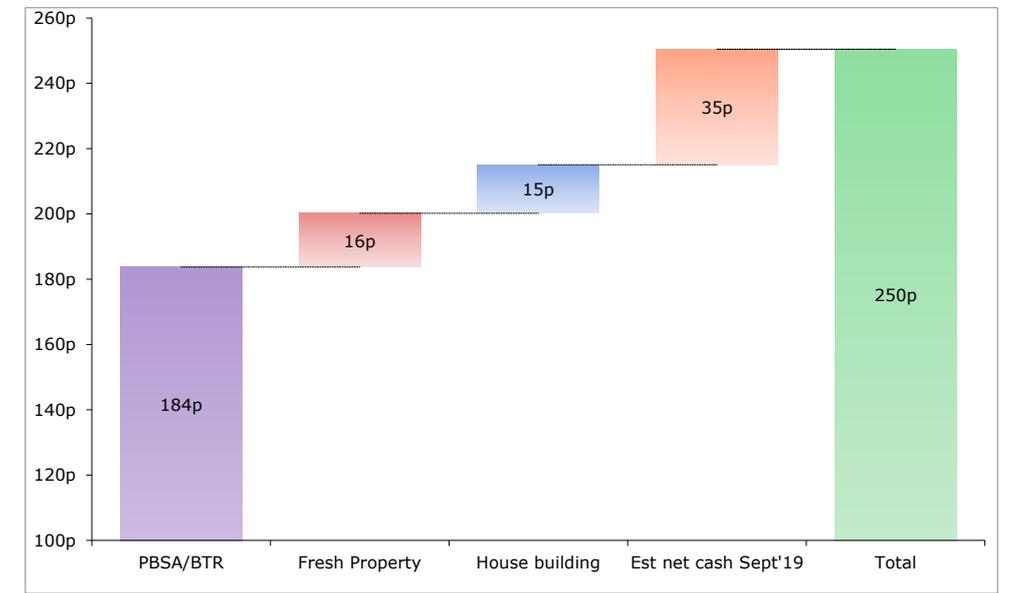
Current year PER vs UK housebuilders



Source: Equity Development : arithmetic average for sector

Moreover, **the firm is on track to hit our adjusted FY19 PBT and EPS estimates of £51.0m and 16p respectively on revenues of £390m**, closing Sept'19 with net cash of £90.4m (worth 35.4p/share). Likewise we make no change to the **250p/share SOTP valuation** (see below).

Sum of the parts valuation (pence/share)



Source: Equity Development

CEO Richard Simpson concluding: "I would like to congratulate the teams involved in concluding these various transactions as planned, underlining the resilience and strength of the Group's business model, as well as that of the sectors in which we operate. We highly value our institutional clients and partners and it is pleasing to see a number of our key relationships strengthened further at this time."

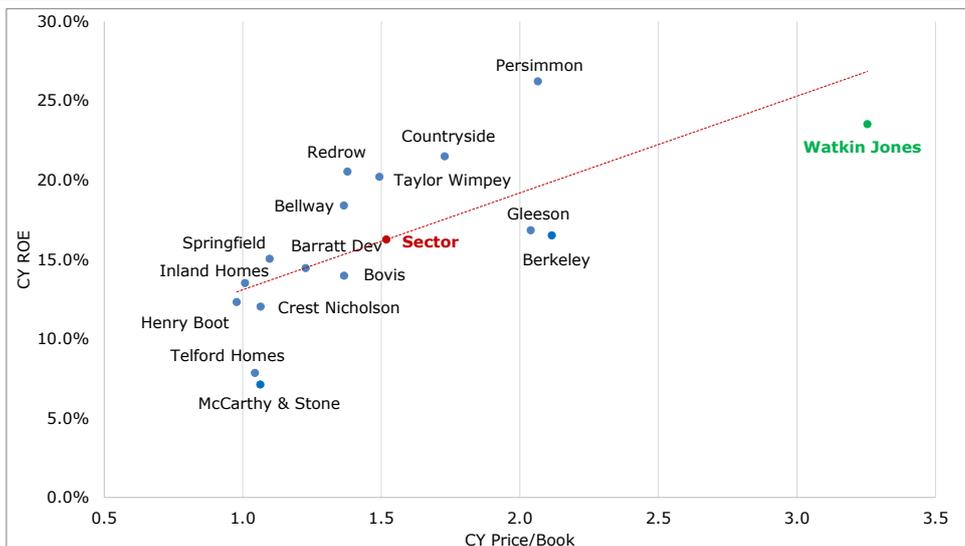
Summary financial projections

Watkin Jones (continuing) (Sept yearend)	2015 Act £'ms	2016 Act £'ms	2017 Act £'ms	2018 Act £'ms	2019 Est £'ms	2020 Est £'ms	2021 Est £'ms	2022 Est £'ms	2023 Est £'ms	2024 Est £'ms
Turnover										
Student (PBSA) accommodation	228.2	237.2	256.1	312.7	285.0	295.0	300.0	300.0	300.0	300.0
Build to Rent (BTR)	0.0	0.0	1.2	3.8	60.0	90.0	125.0	170.0	210.0	250.0
Residential development	15.9	26.3	18.1	30.0	38.0	40.0	45.0	50.0	55.0	60.0
Fresh property management		2.8	6.1	7.3	7.0	8.1	8.9	9.7	10.7	11.8
Other / construction	0.2	0.7	20.4	9.3	0.0	0.0	0.0	0.0	0.0	0.0
Total	244.2	267.0	301.9	363.1	390.0	433.1	478.9	529.7	575.7	621.8
Group revenue growth % YoY	73.5%	9.3%	13.1%	20.3%	7.4%	11.0%	10.6%	10.6%	8.7%	8.0%
<i>Student (PBSA) accommodation</i>		3.9%	8.0%	22.1%	-8.9%	3.5%	1.7%	0.0%	0.0%	0.0%
<i>Build to Rent (BTR)</i>				209.5%	1494.0%	50.0%	38.9%	36.0%	23.5%	19.0%
<i>Residential development</i>	-12.6%	65.3%	-31.3%	65.8%	26.8%	5.3%	12.5%	11.1%	10.0%	9.1%
<i>Fresh property management</i>			116.6%	19.2%	-4.1%	15.0%	10.0%	10.0%	10.0%	10.0%
Student (PBSA) accommodation	41.5	48.6	56.6	60.7	55.6	55.1	54.0	54.0	54.0	54.0
Build to Rent (BTR)	0.0	0.0	0.7	1.0	7.8	11.7	16.3	22.1	27.3	32.5
Residential development	2.7	3.0	3.0	4.4	7.6	8.0	9.0	10.0	11.0	12.0
Fresh property management	0.0	1.7	3.8	4.5	4.2	4.8	5.3	5.8	6.4	7.1
Other	-0.1	0.5	-0.5	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Group gross profit	44.0	53.8	63.5	72.4	75.2	79.6	84.6	91.9	98.7	105.6
Group % margin	18.0%	20.2%	21.0%	20.0%	19.3%	18.4%	17.7%	17.4%	17.1%	17.0%
<i>Student (PBSA) accommodation</i>	18.2%	20.5%	22.1%	19.4%	19.5%	18.7%	18.0%	18.0%	18.0%	18.0%
<i>Build to Rent (BTR)</i>			56.3%	27.1%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
<i>Residential development</i>	16.6%	11.5%	3.8%	14.6%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
<i>Fresh property management</i>		58.9%	49.4%	61.8%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Admin	-10.6	-14.6	-20.8	-22.8	-23.5	-24.9	-26.1	-27.4	-28.4	-29.5
Distribution / other	-1.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted EBIT	32.5	37.9	42.7	49.6	51.7	54.7	58.5	64.6	70.3	76.1
% margin	13.3%	14.2%	14.1%	13.7%	13.3%	12.6%	12.2%	12.2%	12.2%	12.2%
EBITDA (incl JV profits)	33.6	41.5	45.2	50.9	52.9	55.9	59.7	65.9	71.6	77.4
% margin	13.8%	15.6%	15.0%	14.0%	13.6%	12.9%	12.5%	12.4%	12.4%	12.5%
Profit from JVs	1.2	3.0	1.4	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	-0.7	-1.0	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Adj profit before Tax	32.9	39.8	43.3	50.1	51.0	54.0	57.7	63.8	69.6	75.4
<i>Effective tax rate</i>	-19.1%	-20.5%	-17.3%	-18.6%	-20.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
Adjusted EPS (pence)	10.4	12.4	14.0	16.0	16.0	17.1	18.3	20.2	22.0	23.9
<i>EPS growth rate</i>	138.5%	19.2%	13.1%	13.8%	0.1%	7.1%	6.9%	10.6%	8.9%	8.3%
<i>Net assets per share (p)</i>	44	40	49	60	68	76	86	96	107	119
<i>Net tangible assets per share (p)</i>	44	34	44	54	62	71	80	90	101	113
Dividend (p)		4.0	6.6	7.6	8.0	8.6	9.1	10.1	11.0	11.9
Valuation benchmarks										
<i>P/E ratio</i>	21.3	17.8	15.8	13.8	13.8	12.9	12.1	10.9	10.0	9.3
<i>P/E ratio (excluding net cash)</i>				11.9	11.9	11.1	10.4	9.4	8.6	7.9
<i>Price/Tangible book</i>	5.0	6.5	5.1	4.1	3.5	3.1	2.8	2.5	2.2	2.0
<i>Price/Book</i>	5.0	5.5	4.5	3.7	3.3	2.9	2.6	2.3	2.1	1.9
<i>EV/EBIT</i>	14.9	12.8	11.3	9.8	9.4	8.8	8.3	7.5	6.9	6.4
<i>Return on Equity (EPS/NA)</i>	23.5%	30.8%	28.4%	26.6%	23.5%	22.4%	21.4%	21.2%	20.7%	20.1%
<i>Dividend yield</i>		1.8%	3.0%	3.4%	3.6%	3.9%	4.1%	4.6%	5.0%	5.4%
Net cash/(debt)	39.1	32.2	41.0	80.2	90.4	101.3	113.0	125.9	140.0	155.3
<i>Net cash / share (p)</i>	15.3	12.6	16.1	31.4	35.4	39.6	44.2	49.2	54.7	60.7
Sharecount (Ks)	255,269	255,269	255,269	255,269	255,369	255,469	255,569	255,669	255,769	255,869
Shareprice	221									

Source: Equity Development

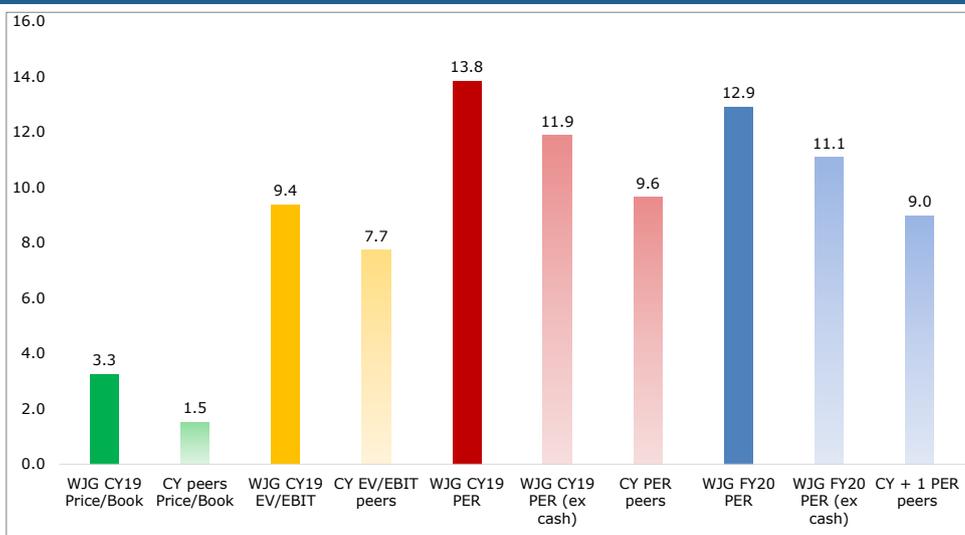
Appendices - sector valuation metrics and KPIs

Return on Equity vs Price:Book valuation



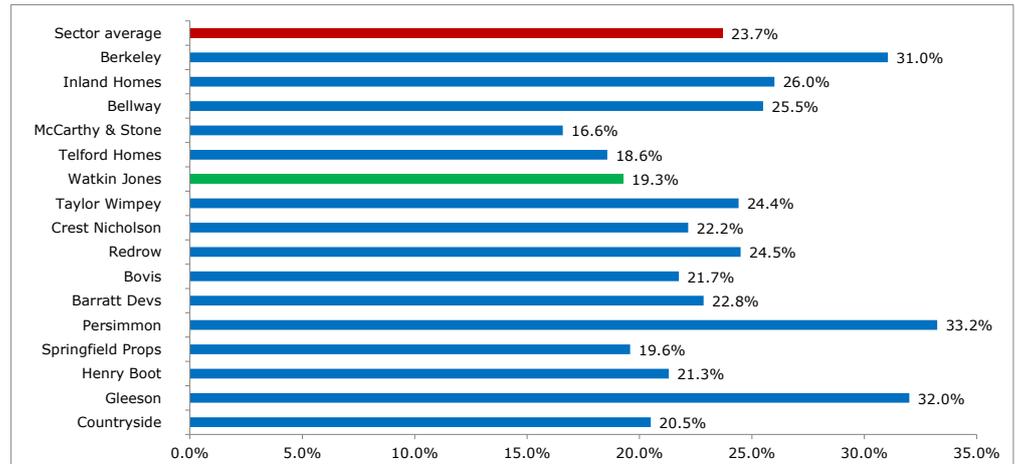
Source: Equity Development. $Ungear\ ROE = (EBIT - tax - minorities) / (net\ assets +/- net\ debt/cash)$

Summary valuation benchmarks vs UK homebuilders



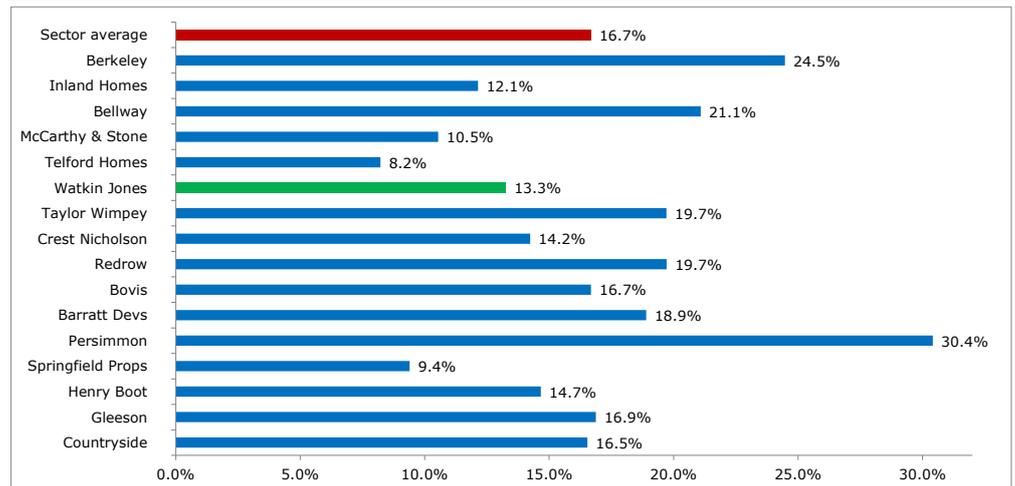
Source: Equity Development

Current Year gross profit margins



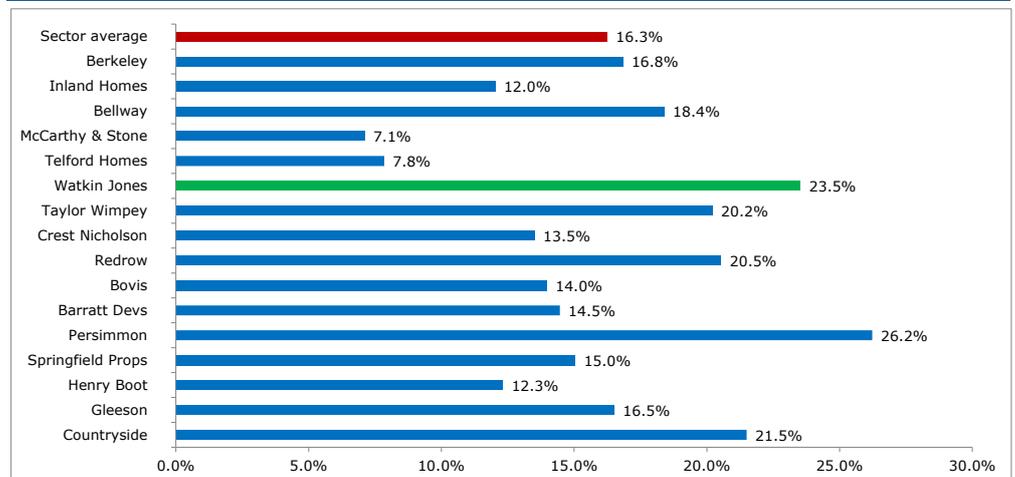
Source: Equity Development : arithmetic average for sector

CY EBIT margins



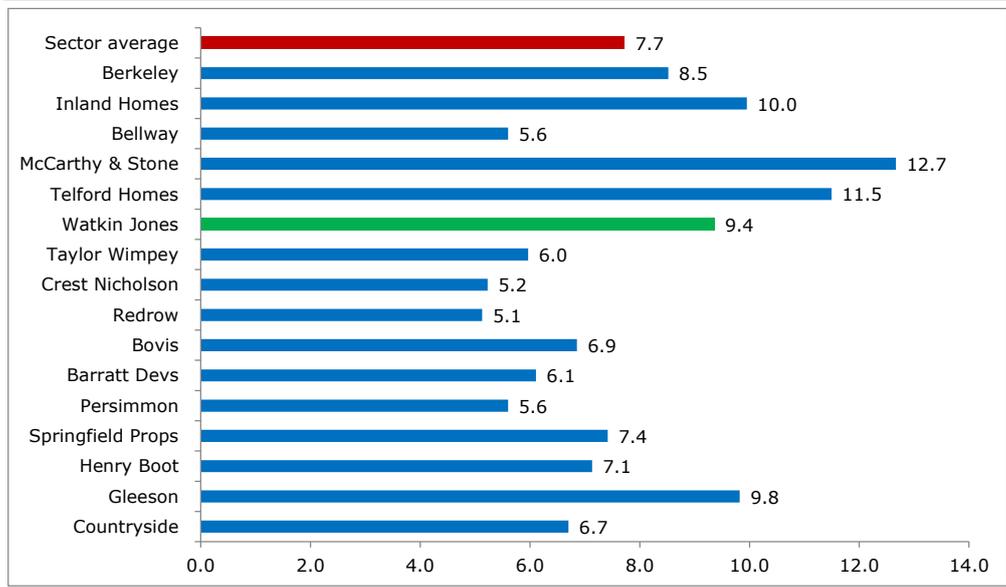
Source: Equity Development, arithmetic average for sector

CY ROE (reported)



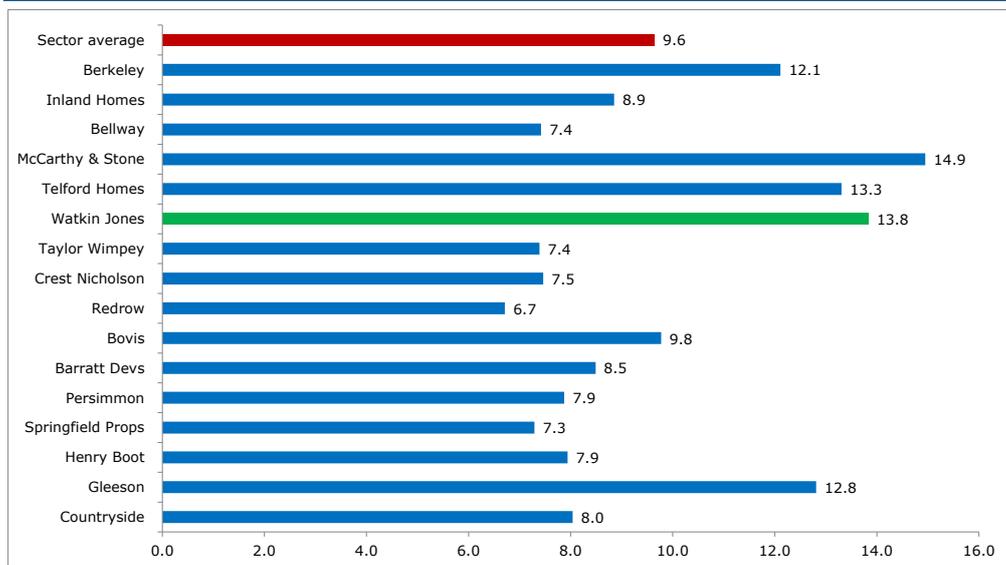
Source: Equity Development, arithmetic average for sector

CY EV/EBIT multiples vs peers



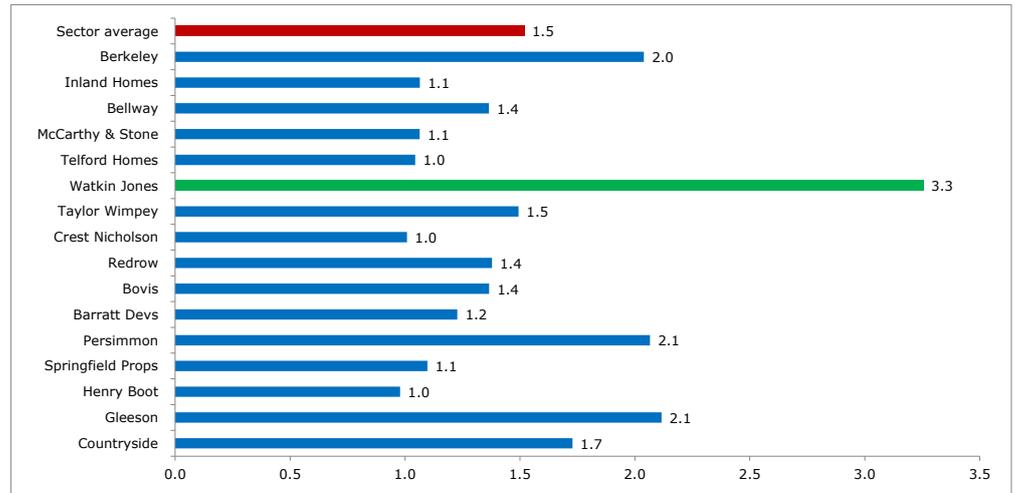
Source: Equity Development : arithmetic average for sector

CY PER multiples vs peers



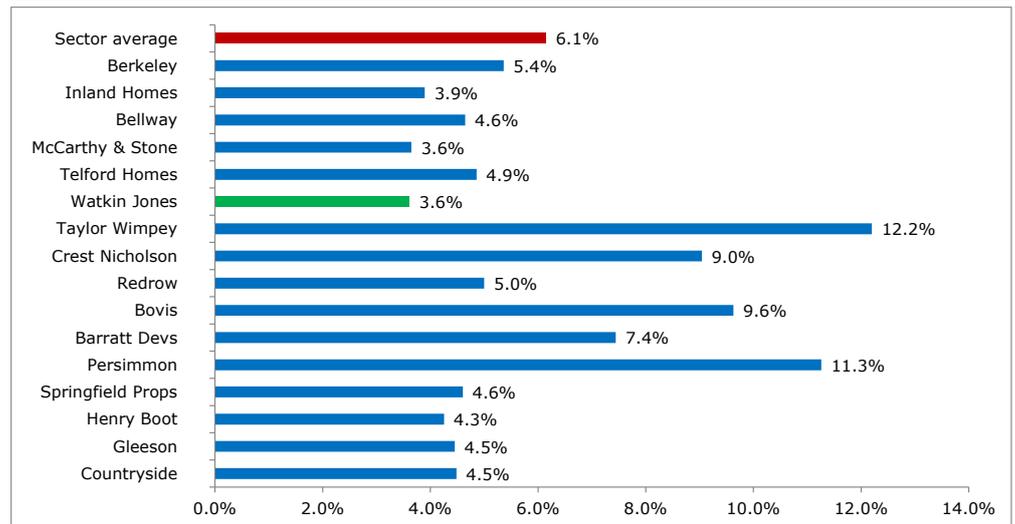
Source: Equity Development : arithmetic average for sector

CY Price : Book



Source: Equity Development, arithmetic average for sector

CY dividend yield vs peers



Source: Equity Development : arithmetic average for sector

Market Capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Countryside	320p	£1,440	-£128	£1,568
Gleeson	775p	£423	£30	£393
Henry Boot	235p	£313	-£50	£363
Springfield Props	113p	£109	-£42	£151
Persimmon	2,087p	£6,647	£880	£5,767
Barratt Devs	618p	£6,304	£690	£5,614
Bovis	1,080p	£1,464	£155	£1,309
Redrow	600p	£2,178	£101	£2,077
Crest Nicholson	365p	£938	£65	£873
Taylor Wimpey	150p	£4,919	-£92	£5,011
Watkin Jones	221p	£564	£80	£484
Telford Homes	350p	£266	-£90	£356
McCarthy & Stone	148p	£798	-£60	£858
Bellway	3,228p	£3,980	£200	£3,780
Inland Homes	77p	£160	-£100	£260
Berkeley	4,009p	£5,212	£960	£4,252

Source: Equity Development :

Key risks

- Impact of a substantial jump in UK interest rates and/or a recession. This seems unlikely though, given that even the most pessimistic economic forecasts are for >1.5% GDP growth through to 2022.
- Protracted delays in obtaining planning consent, which traditionally has plagued the whole sector.
- Availability of skilled labour and associated resources at desired cost levels.
- Foreign exchange fluctuations could impact demand from international investors, from say Singapore, Hong Kong and China.
- Being relatively small in BTR, Watkin Jones could get squeezed by larger rivals, partners and customers.
- Future access to funding at commercial rates, perhaps in the unlikely event of another banking crisis.
- Generic risks of retention/recruitment of key staff, etc.
- Acquiring land at affordable rates.
- Withdrawal of government support for house-building (eg H2B, FTBs, stamp duty, etc).
- Brexit, and other possible legislative changes, say concerning building regulations, affordable housing, ground rents, etc
- Less demand from institutional money, if for example bond/gilt yields were to rise materially.



Investor Access

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