

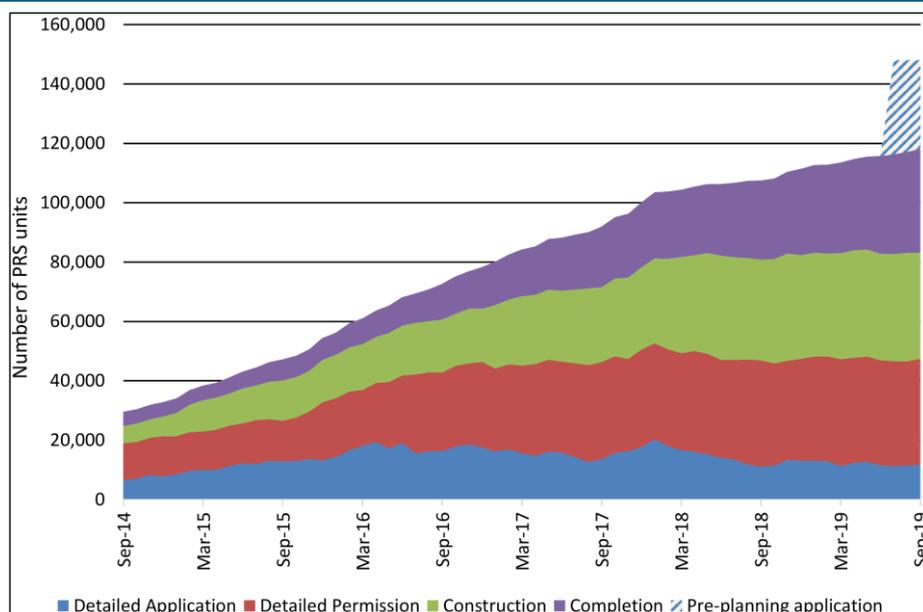
## How to have your cake and eat it

5th November 2019

Often investors are faced with the difficult decision of having to choose between growth and value. Rarely is it possible to get the best of both worlds, but we think Watkin Jones is one such stock. Not only do the shares trade on a FY20 adjusted PER (ex cash) of 12.0x and pay a 3.6% dividend yield. But also the firm is benefiting from long term tailwinds in its 2 key markets of Build to Rent (BtR) & student accommodation (PBSA). In turn, **offering opportunities much larger than we'd previously thought.**

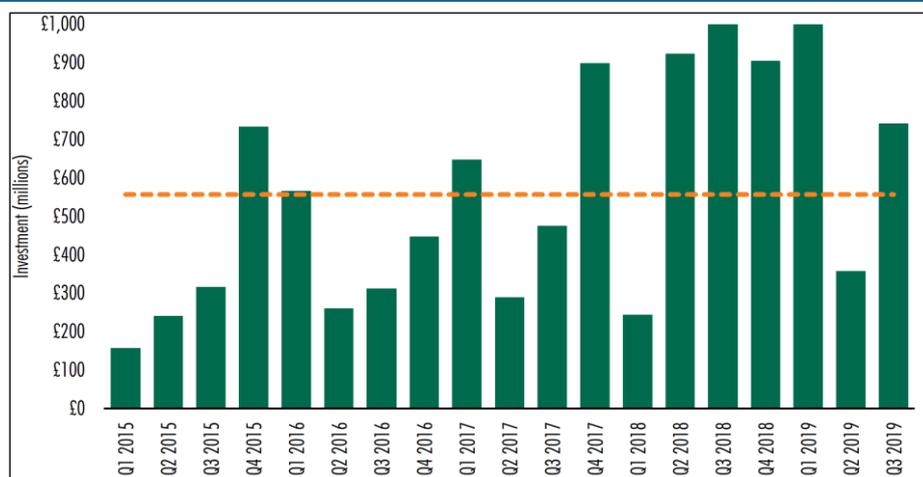
Indeed, there are now 148,046 BtR homes in the UK at varying stages of construction, up 19.8% from LY (source: [British Property Federation](#)) – worth in aggregate around £10.6bn (see below).

### Build to Rent is expanding at 20% per year



Source: Savills, Molior, BPF

### BtR investment



Source: CBRE. Dotted line relates to 5 year average.

### Company Data

EPIC	AIM:WJG
Price (previous close)	236p
52 week Hi/Lo	248p/190p
Market cap	£602m
ED valuation/share	300p
Net cash (est. Sept'19)	£90.4m
Sharecount	255.3m
Daily volume	250k

### 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:** Prelims 14<sup>th</sup> January 2020

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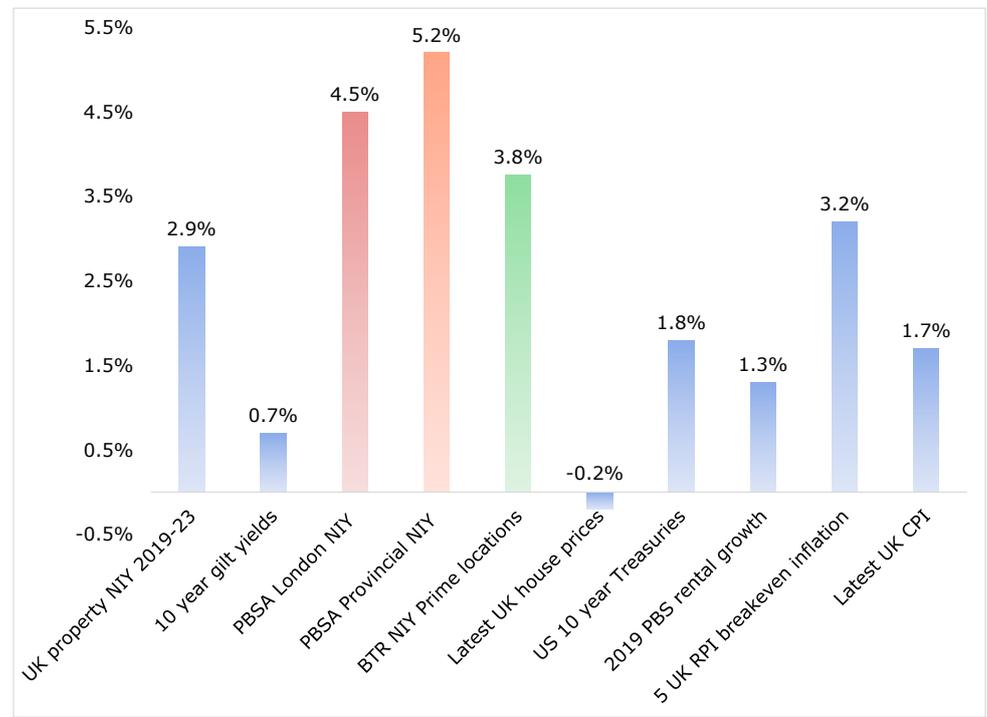
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## “PBSA and BtR fundamentals remain strong”

However this is just scratching the surface. Ultimately [Savills reckon BtR](#) could tip £542bn - corresponding to circa 1.7m houses and approx. 1/3<sup>rd</sup> of the nation’s private rented sector (PRS). The vast majority of which is still owned by individual buy to let (BTL) landlords, who are being squeezed by tax hikes (eg stamp duty), tighter building regulations and stricter government oversight.

Sure the net rental yields on prime BtR locations of 3.25% to 4.25%, might not seem particularly rich. Yet equally, when compared to >\$15 trillion of negative yielding bonds, BtR and PBSA deliver some of the best risk-adjusted returns available to property and income investors alike (see below).

### PBSA and BtR generating positive real-returns



Source: Various

## Buoyant investor demand providing good visibility

No wonder therefore, that pension funds and institutions continue to pour money into each of these asset classes (PBSA below). An attractive backdrop too for Watkin Jones, who is helping to seed this plentiful supply of fresh capital, whilst simultaneously enjoying robust profits, cashflows, ROCEs and visibility.

### PBSA investment

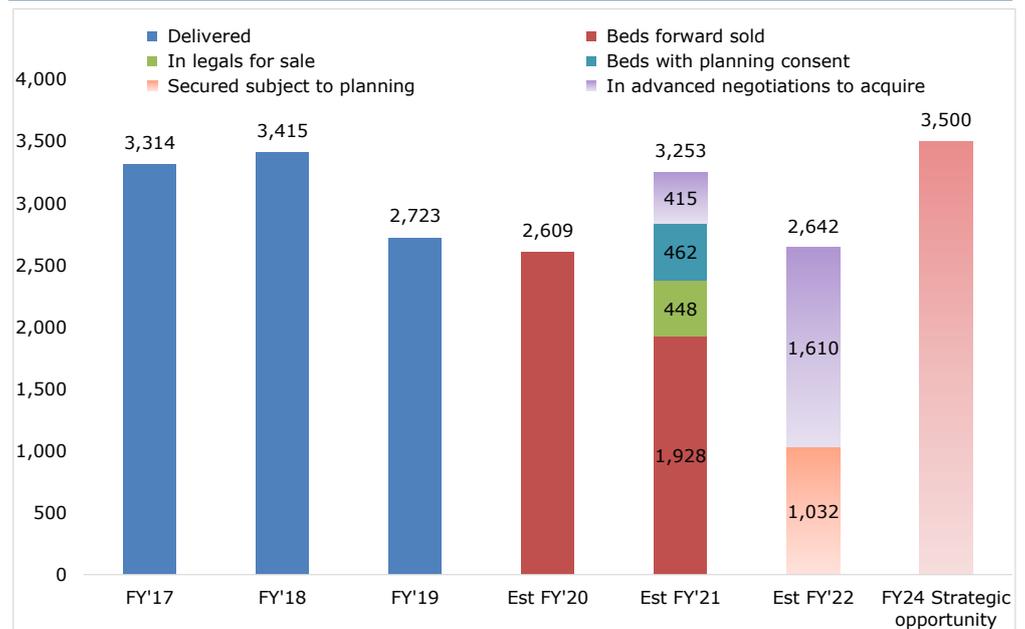


Source: CBRE, company

### Expanding development pipeline

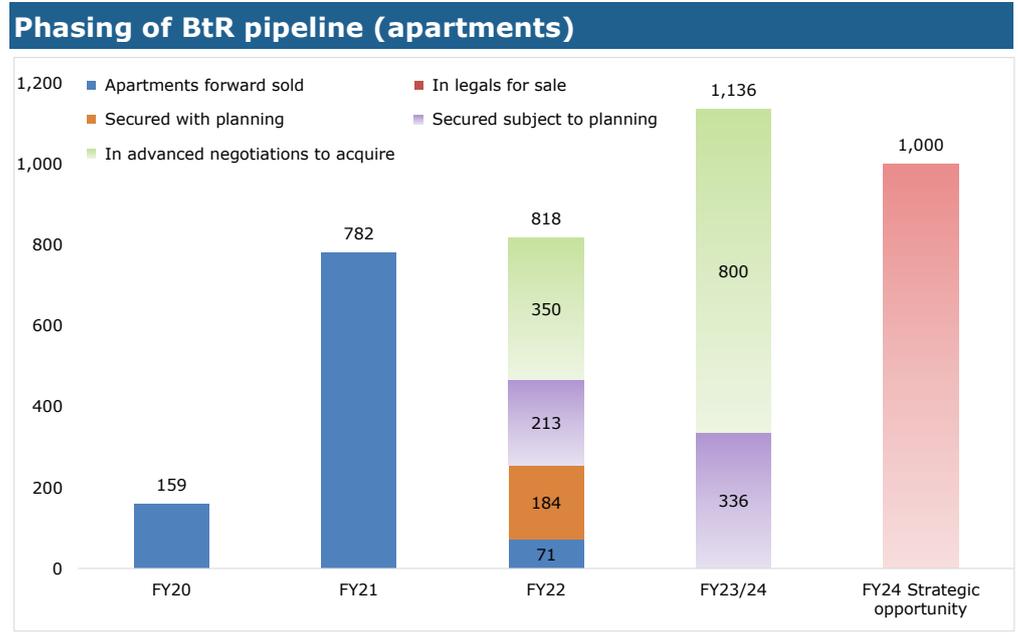
In fact, **the group has already forward sold all its 7 PBSA sites (2,609 beds) slated for FY20**, alongside another 4 in FY21 (1,928). The total 'forward sold & secured' pipeline now comprises 17 developments (6,670 beds), of which 13 (5,447) have planning consent (see below). Elsewhere, there are several other sites in advanced negotiation, which if satisfactorily concluded, would add a further 2025 beds.

### Phasing of PBSA pipeline (beds)



Source: Company

It's no different either within BtR (see below), sporting a secured pipeline of 8 schemes and 1,750 apartments - of which 1,012 units (5 sites) have been forward sold, and another 184 possess planning. Likewise, there are 1,150 more in advanced negotiation.

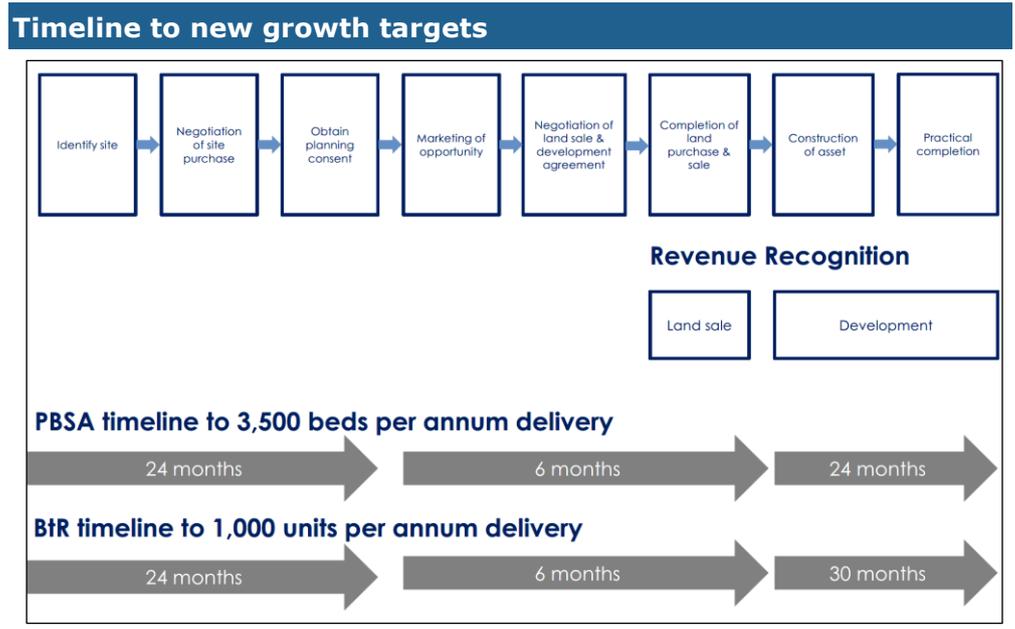


Source: Company

## Opportunity is even bigger than we thought

Sure Watkin Jones is not entirely immune to the broader economy – albeit, **demand for quality UK rental property remains healthy**, reflecting a chronic under supply, low unemployment (3.9%), resilient consumer spend (+2.5%), benign interest rates (0.75%), rising wages (3.8%) and modest inflation (1.7%).

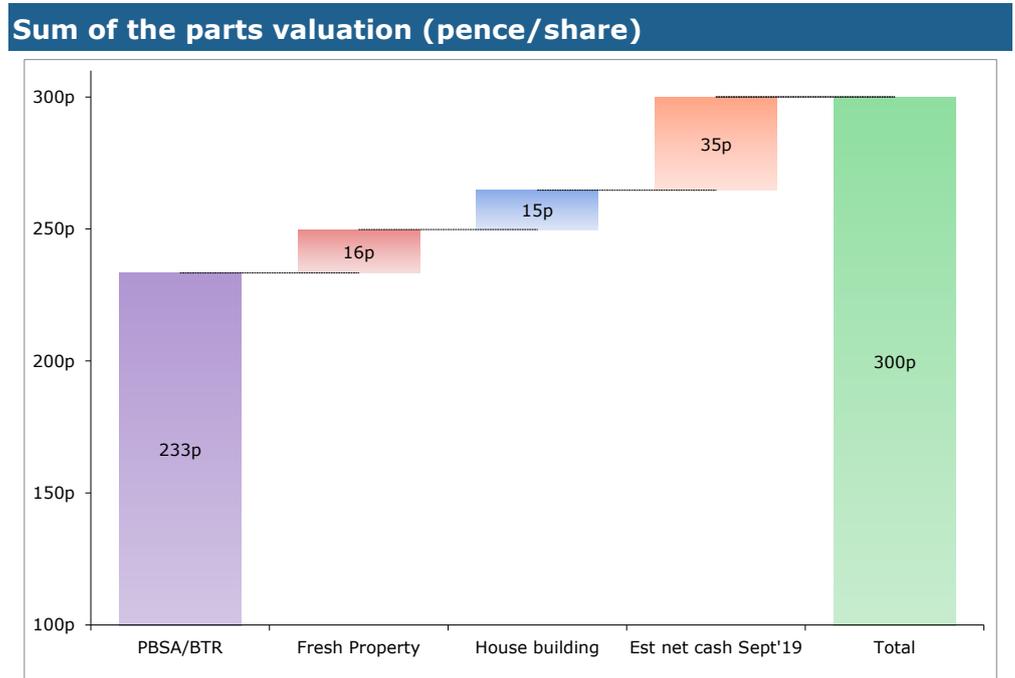
Better still, it appears **the medium term opportunity is actually much larger than we'd previously envisaged**. In fact, **management are now targeting an annual run-rate of 3,500 PBSA beds** (vs 2,723 FY19), **along with 1,000 BtR (0) apartments from FY24 onwards** (see below).



Source: Company

## Valuation upgraded from 250p to 300p/share

Granted, this doesn't change our near term numbers. Yet further out it provides **a material boost to our FY23-24 projections** – lifting the valuation to 300p/share vs 250p before.



Source: Equity Development

## On track to hit consensus expectations

CEO Richard Simpson commenting: **"Trading remained strong through Q4'19, ...[and] the Board expects to report FY19 revenues and earnings in line with expectations, together with a good cash performance."**

The 6 Purpose Built Student Accommodation (PBSA) developments (2,723 beds) scheduled for delivery in the year were successfully completed, whilst good progress was also made in the development of the forward sold PBSA and BtR assets scheduled for FY20 and FY21. A robust performance was also achieved by the Fresh Property Group and Residential businesses."

## 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
<b>Turnover</b>										
Student (PBSA) accommodation	228.2	237.2	256.1	312.7	285.0	295.0	300.0	300.0	325.0	350.0
Build to Rent (BTR)	0.0	0.0	1.2	3.8	60.0	90.0	125.0	170.0	210.0	280.0
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
<b>Total</b>	<b>244.2</b>	<b>267.0</b>	<b>301.9</b>	<b>363.1</b>	<b>390.0</b>	<b>433.1</b>	<b>478.9</b>	<b>529.7</b>	<b>600.7</b>	<b>701.8</b>
<b>Group revenue growth % YoY</b>	<b>73.5%</b>	<b>9.3%</b>	<b>13.1%</b>	<b>20.3%</b>	<b>7.4%</b>	<b>11.0%</b>	<b>10.6%</b>	<b>10.6%</b>	<b>13.4%</b>	<b>16.8%</b>
Student (PBSA) accommodation		3.9%	8.0%	22.1%	-8.9%	3.5%	1.7%	0.0%	8.3%	7.7%
Build to Rent (BTR)				209.5%	1494.0%	50.0%	38.9%	36.0%	23.5%	33.3%
Residential development	-12.6%	65.3%	-31.3%	65.8%	26.8%	5.3%	12.5%	11.1%	10.0%	9.1%
Fresh property management			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	57.0	60.0	65.0	70.0
Build to Rent (BTR)	0.0	0.0	0.7	1.0	7.8	11.7	16.3	23.8	31.5	42.0
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
<b>Group gross profit</b>	<b>44.0</b>	<b>53.8</b>	<b>63.5</b>	<b>72.4</b>	<b>75.2</b>	<b>79.6</b>	<b>87.6</b>	<b>99.6</b>	<b>113.9</b>	<b>131.1</b>
<b>Group % margin</b>	<b>18.0%</b>	<b>20.2%</b>	<b>21.0%</b>	<b>20.0%</b>	<b>19.3%</b>	<b>18.4%</b>	<b>18.3%</b>	<b>18.8%</b>	<b>19.0%</b>	<b>18.7%</b>
Student (PBSA) accommodation	18.2%	20.5%	22.1%	19.4%	19.5%	18.7%	19.0%	20.0%	20.0%	20.0%
Build to Rent (BTR)			56.3%	27.1%	13.0%	13.0%	13.0%	14.0%	15.0%	15.0%
Residential development	16.6%	11.5%	3.8%	14.6%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Fresh property management		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	-29.0	-31.2
Distribution / other	-1.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Adjusted EBIT</b>	<b>32.5</b>	<b>37.9</b>	<b>42.7</b>	<b>49.6</b>	<b>51.7</b>	<b>54.7</b>	<b>61.5</b>	<b>72.3</b>	<b>84.9</b>	<b>99.8</b>
<b>% margin</b>	<b>13.3%</b>	<b>14.2%</b>	<b>14.1%</b>	<b>13.7%</b>	<b>13.3%</b>	<b>12.6%</b>	<b>12.8%</b>	<b>13.6%</b>	<b>14.1%</b>	<b>14.2%</b>
<b>EBITDA (incl JV profits)</b>	<b>33.6</b>	<b>41.5</b>	<b>45.2</b>	<b>50.9</b>	<b>52.9</b>	<b>55.9</b>	<b>62.7</b>	<b>73.6</b>	<b>86.2</b>	<b>101.2</b>
<b>% margin</b>	<b>13.8%</b>	<b>15.6%</b>	<b>15.0%</b>	<b>14.0%</b>	<b>13.6%</b>	<b>12.9%</b>	<b>13.1%</b>	<b>13.9%</b>	<b>14.4%</b>	<b>14.4%</b>
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
<b>Adj profit before Tax</b>	<b>32.9</b>	<b>39.8</b>	<b>43.3</b>	<b>50.1</b>	<b>51.0</b>	<b>54.0</b>	<b>60.7</b>	<b>71.5</b>	<b>84.2</b>	<b>99.1</b>
Effective tax rate	-19.1%	-20.5%	-17.3%	-18.6%	-20.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
<b>Adjusted EPS (pence)</b>	<b>10.4</b>	<b>12.4</b>	<b>14.0</b>	<b>16.0</b>	<b>16.0</b>	<b>17.1</b>	<b>19.2</b>	<b>22.7</b>	<b>26.7</b>	<b>31.4</b>
EPS growth rate	138.5%	19.2%	13.1%	13.8%	0.1%	7.1%	12.5%	17.8%	17.6%	17.7%
Net assets per share (p)	44	40	49	60	68	76	86	97	111	126
Net tangible assets per share (p)	44	34	44	54	62	71	80	92	105	121
<b>Dividend (p)</b>		<b>4.0</b>	<b>6.6</b>	<b>7.6</b>	<b>8.0</b>	<b>8.6</b>	<b>9.6</b>	<b>11.3</b>	<b>13.3</b>	<b>15.7</b>
<b>Valuation benchmarks</b>										
P/E ratio	22.7	19.0	16.8	14.8	14.8	13.8	12.3	10.4	8.9	7.5
P/E ratio (excluding net cash)				12.8	12.8	12.0	10.6	9.0	7.7	6.5
Price/Tangible book	5.3	6.9	5.4	4.3	3.8	3.3	2.9	2.6	2.2	2.0
Price/Book	5.3	5.9	4.8	3.9	3.5	3.1	2.7	2.4	2.1	1.9
EV/EBIT	16.1	13.8	12.2	10.5	10.1	9.5	8.5	7.2	6.2	5.2
Return on Equity (EPS/NA)	23.5%	30.8%	28.4%	26.6%	23.5%	22.4%	22.4%	23.3%	24.1%	24.8%
Dividend yield		1.7%	2.8%	3.2%	3.4%	3.6%	4.1%	4.8%	5.6%	6.6%
<b>Net cash/(debt)</b>	<b>39.1</b>	<b>32.2</b>	<b>41.0</b>	<b>80.2</b>	<b>90.4</b>	<b>101.3</b>	<b>113.6</b>	<b>128.1</b>	<b>145.1</b>	<b>165.2</b>
Net cash / share (p)	15.3	12.6	16.1	31.4	35.4	39.6	44.4	50.1	56.7	64.6
Sharecount (Ks)	255,269	255,269	255,269	255,269	255,369	255,469	255,569	255,669	255,769	255,869
<b>Shareprice</b>	<b>236p</b>									

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.
- Foreign exchange fluctuations could impact demand from international investors, from say Singapore, Hong Kong and China.
- 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. Availability of skilled labour and associated resources at desired cost levels.
- 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.

## Appendices

### Pipeline breakdown by sites

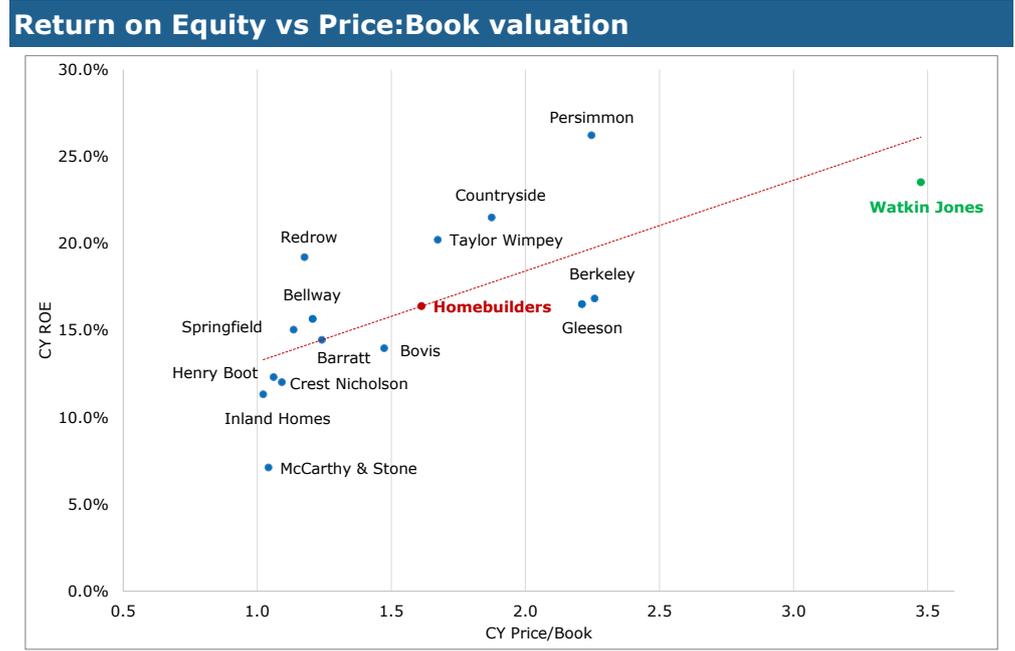
PBSA	Beds	Completion	Planning Status
Little Patrick Street, Belfast	430	2020	Granted
Forest Road, London	353	2020	Granted
Albion Way, London	283	2020	Granted
Whitefriars, Coventry	778	2020	Granted
Swansea	245	2020	Granted
Military Road, Canterbury	197	2020	Granted
Liverpool Road, Chester	323	2020	Granted
Kelaty, Wembley, London	599	2021	Granted
Cathedral Street, Glasgow	422	2021	Granted
Rockingham Street, Sheffield	691	2021	Granted
Dundee Street, Edinburgh	216	2021	Granted
Wilder Street, Bristol	348	2021	Granted
Bath Lane, Leicester	462	2021	Granted
Birmingham	608	2022	Pending
Exeter	154	2022	Pending
Edinburgh	270	2022	Pending
Bath	191	2024	Pending

#### BTR

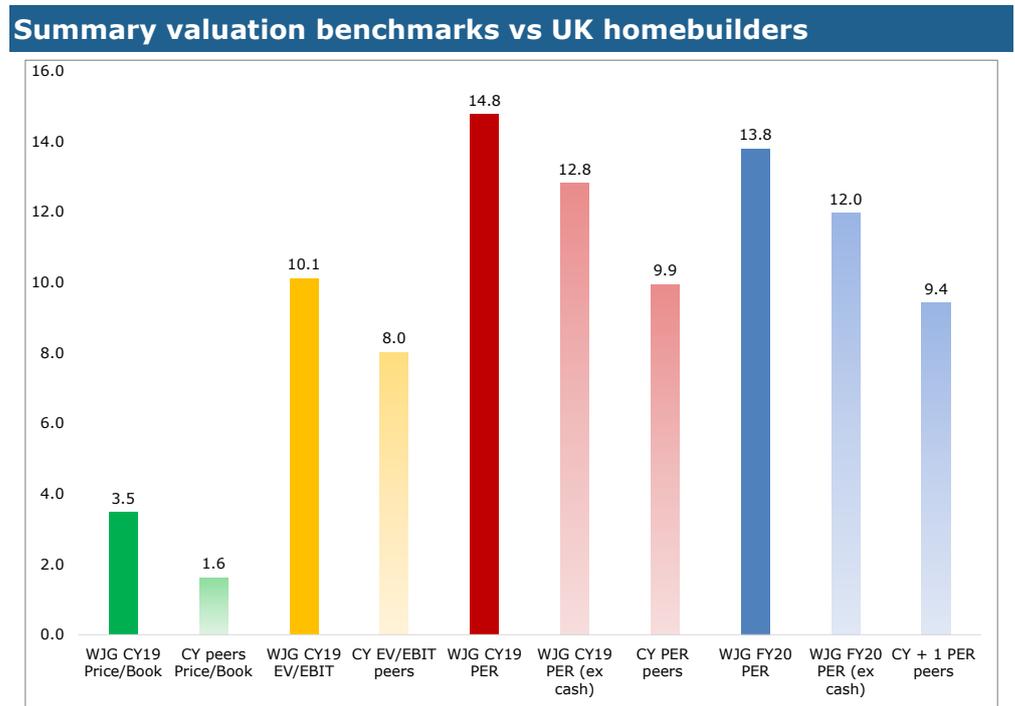
Bournemouth	159	2020	Granted
Reading	315	2021	Granted
Wembley	301	2021	Granted
Sutton	166	2021	Granted
Leicester	184	2021	Granted
Sheffield	71	2022	Granted
Hove	213	2022	Pending
Woking	336	2023	Pending

Source: Company

## Sector valuation metrics and KPIs

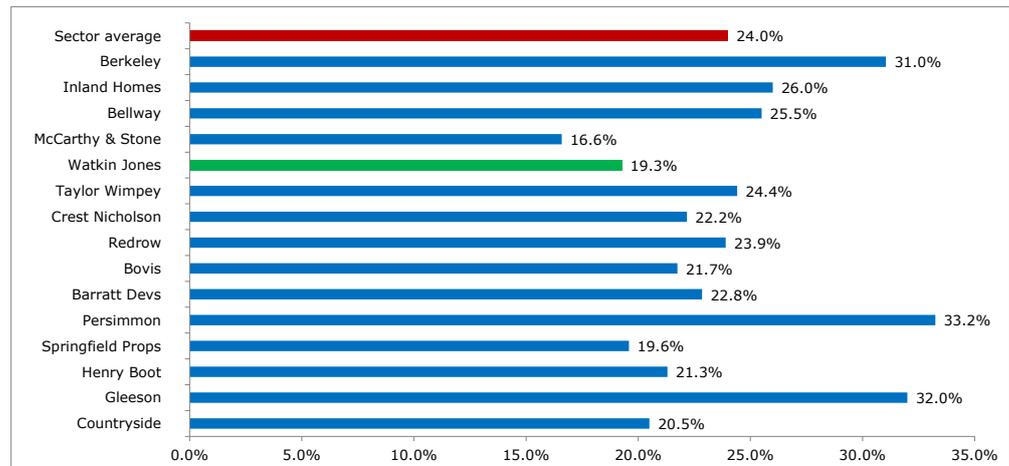


Source: Equity Development.



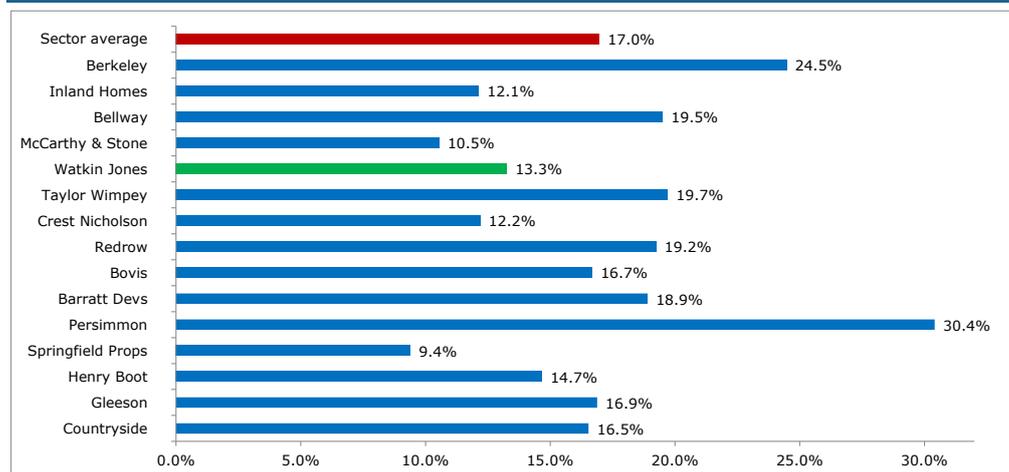
Source: Equity Development

### Current Year gross profit margins



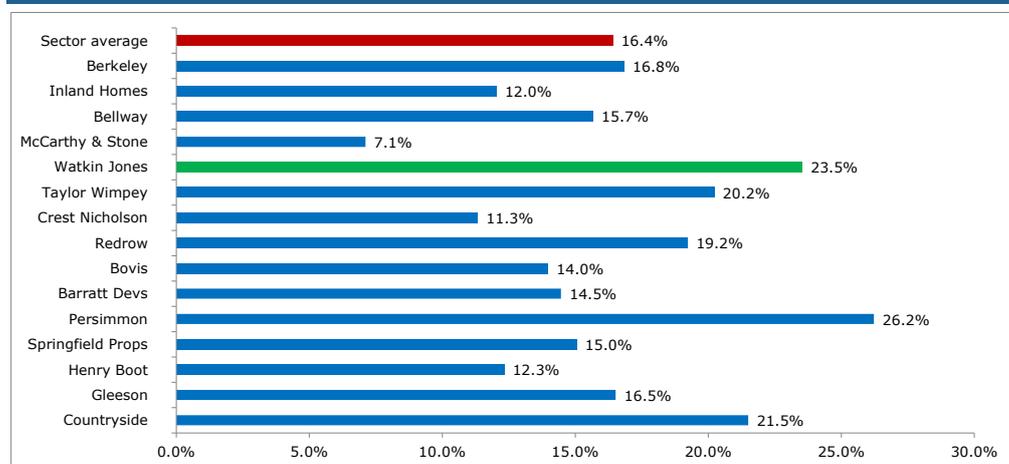
Source: Equity Development : arithmetic average for sector

### CY EBIT margins



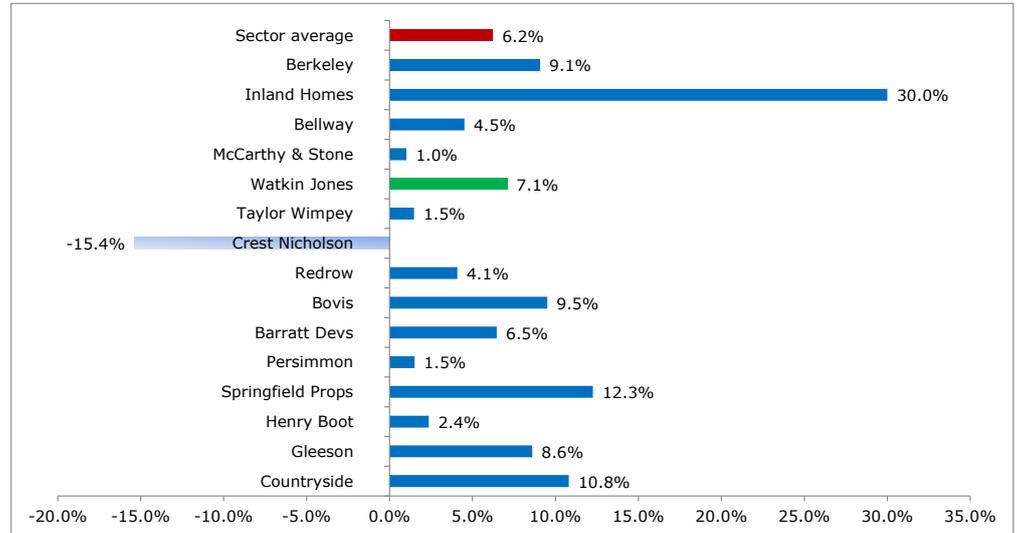
Source: Equity Development, arithmetic average for sector

### CY ROE (from reported B/S)



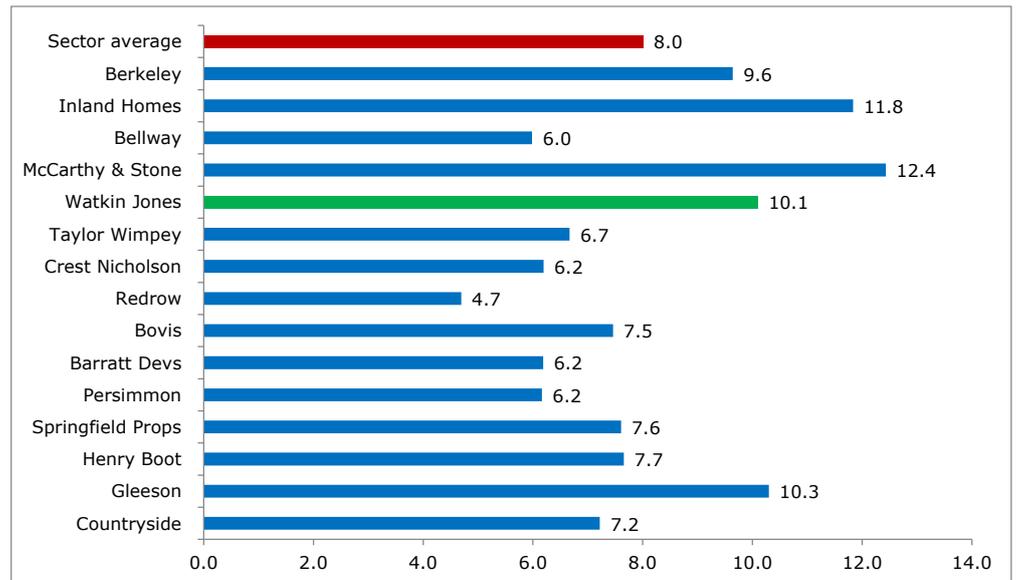
Source: Equity Development, arithmetic average for sector

### CY + 1 EPS growth



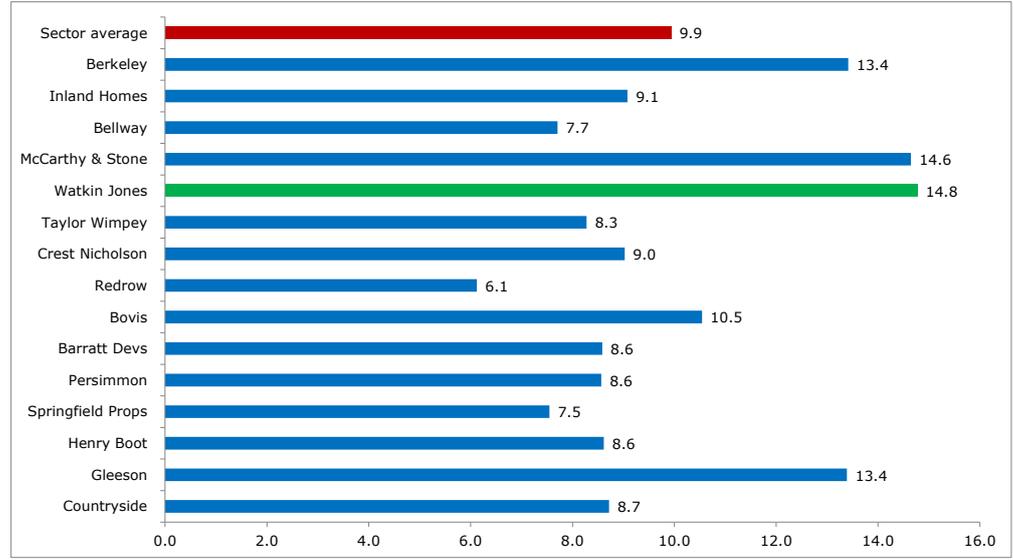
Source: Equity Development, arithmetic average for sector

### CY EV/EBIT multiples vs peers



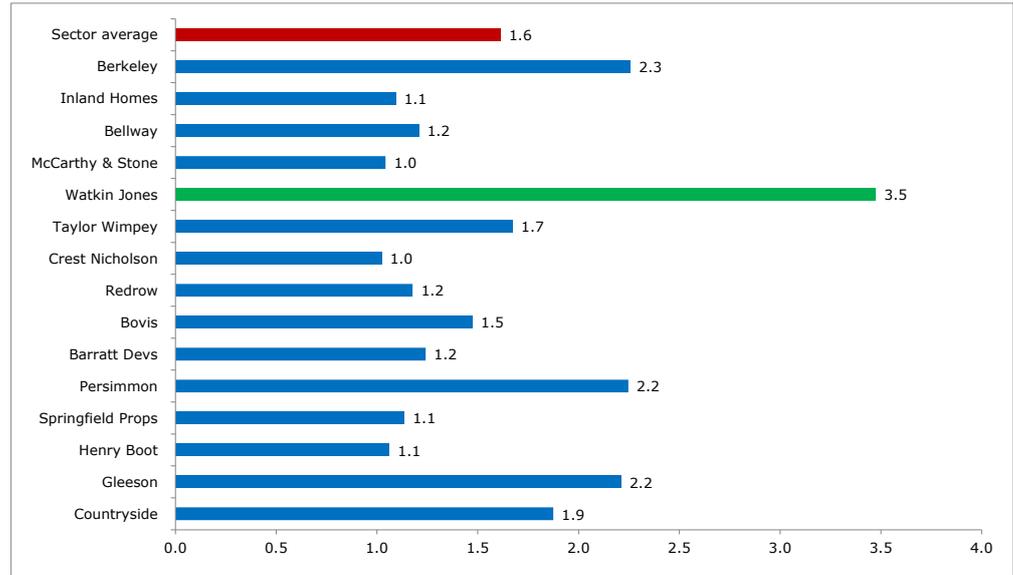
Source: Equity Development : arithmetic average for sector

**CY PER multiples vs peers**



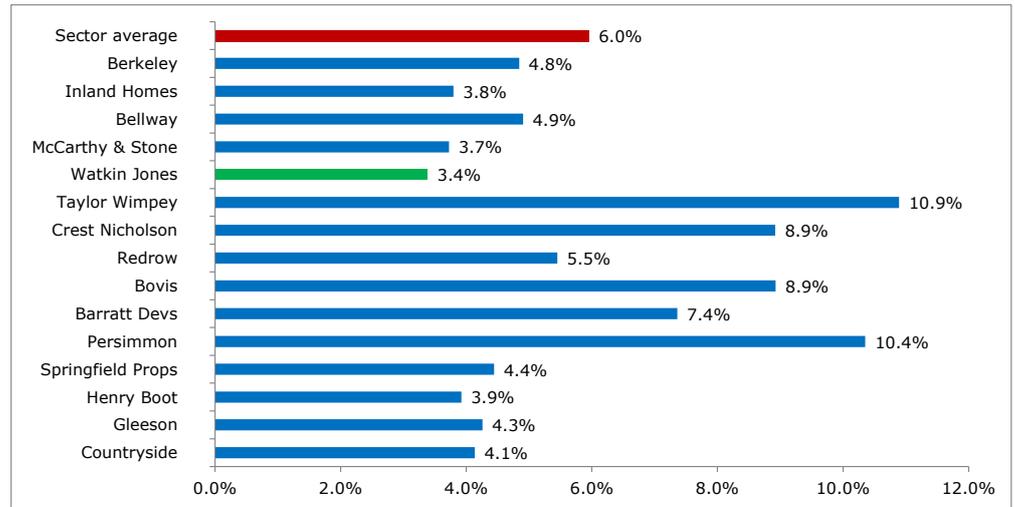
Source: Equity Development : arithmetic average for sector

**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	347p	£1,562	-£128	£1,690
Gleeson	810p	£442	£30	£412
Henry Boot	255p	£340	-£50	£390
Springfield Props	117p	£113	-£42	£154
Persimmon	2,270p	£7,230	£880	£6,350
Barratt Devs	625p	£6,375	£690	£5,685
Bovis	1,165p	£1,580	£155	£1,425
Redrow	600p	£2,124	£124	£2,000
Crest Nicholson	370p	£951	£65	£886
Taylor Wimpey	168p	£5,510	-£92	£5,602
Watkin Jones	236p	£602	£80	£522
McCarthy & Stone	145p	£782	-£60	£842
Bellway	3,160p	£3,912	£172	£3,740
Inland Homes	79p	£164	-£145	£309
Berkeley	4,440p	£5,772	£960	£4,812

Source: Equity Development :



## Investor Access

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