Springfield Properties

Attractive growth outlook and 30% discount to peers

17th September 2024

Springfield is emerging strongly from a challenging year for the housebuilding sector, with debt substantially reduced, private reservations and affordable order book improving and an increasingly confident medium-term outlook. FY24 results are in line with expectations and ahead of the original targets for the year. The dividend has been reinstated (1.0p final) earlier than forecast, in a sign of confidence. The partnership with Barratt at Durieshill is a reminder of the long-term value in the landbank, which also underpins genuine excitement in the prospects for the North of Scotland, a region that will benefit from a sustained and significant increase in investment over the coming years. Whilst the shares have performed well over the past year, in our view the valuation (30% discount to peers) fails to reflect Springfield's growth prospects and unique positioning. We reiterate our Fair Value estimate of 140p per share.

FY24 outturn in line with expectations, cash generation the highlight

The results are in line with our expectations, following the year-end trading update in July. Group revenue reduced to £266.5m (FY23: £332.1m) but gross margin increased from 14.4% to 16.3%, supported by profitable land sales. Admin expenses reduced from £28.0m to £26.5m and the operating margin increased from 6.2% to 6.7%. reflecting excellent pricing and cost discipline across the Group. **Management's principal objective at the beginning of the year was to reduce bank debt to <£60m and this was comfortably achieved (£39.9m reported).**

Positioned for return to growth in FY25, markets supportive

Springfield enters FY25 in good shape and well positioned to capitalise on improving market trends in Private and Affordable Housing. The reservation rate in Private Housing is ahead of the corresponding period last year and the Affordable Housing order book of >£50m provides excellent visibility for the year ahead. The Group is on track to report FY25 results in line with expectations.

Exciting growth opportunities emerging across North Scotland

Springfield is uniquely positioned to capitalise on an expected sharp increase in demand for housing in the North of Scotland. The Inverness and Cromarty Firth Green Freeport will trigger £3bn of investment into the Highlands and create 10,000 new direct jobs in the region, whilst the UK government has committed to major upgrades to energy infrastructure over the next few years, including new power lines across the North of Scotland. Both of these developments will require a substantial increase in housing delivery in an area where Springfield has significant landholdings.

Key Financials & Valuation metrics

Year-end May, £m	2022A	2023A	2024A	2025E	2026E	2027E
Sales	257.1	332.1	266.5	270.0	290.1	293.8
EBITDA	24.4	23.2	20.5	20.8	24.5	25.8
Adjusted PBT	22.7	16.0	10.6	13.0	16.5	18.0
FD EPS (p)	15.2	10.4	6.8	8.0	10.0	10.9
DPS (p)	6.2	0.0	1.0	1.5	2.5	4.5
Net Cash/(Debt)*	-38.1	-67.7	-45.4	-43.3	-41.4	-41.7
Net Cash/(Debt)**	-34.1	-61.8	-39.9	-37.8	-35.9	-36.2
P/E	6.9x	10.1x	15.5x	13.2x	10.5x	9.7x
EV/EBITDA	6.7x	8.3x	8.3x	8.1x	6.8x	6.5x
Price/ Book	0.8x	0.9x	0.8x	0.8x	0.8x	0.7x
Dividend yield	5.9%	0.0%	1.0%	1.4%	2.4%	4.3%
FCF yield	12.0%	1.3%	29.1%	5.9%	8.0%	16.5%

*Source: ED analysis, all numbers IFRS 16 basis * including leases ** excluding leases*

Company Data

EPIC	SPR.L
Price (last close)	105p
52 weeks Hi/Lo	106p/51p
Market cap	£125m
ED Fair Value / share	140p
Proforma net cash/ (debt)	(£37.8m)
Avg. daily volume	148,000

Share Price, p

Source: ADVFN

Description

Springfield Properties is one of Scotland's leading housebuilders. It has an enviable track record of growth and profitability and a reputation for building high quality homes in attractive locations.

The Group has won multiple awards for the quality of its homes and innovation.

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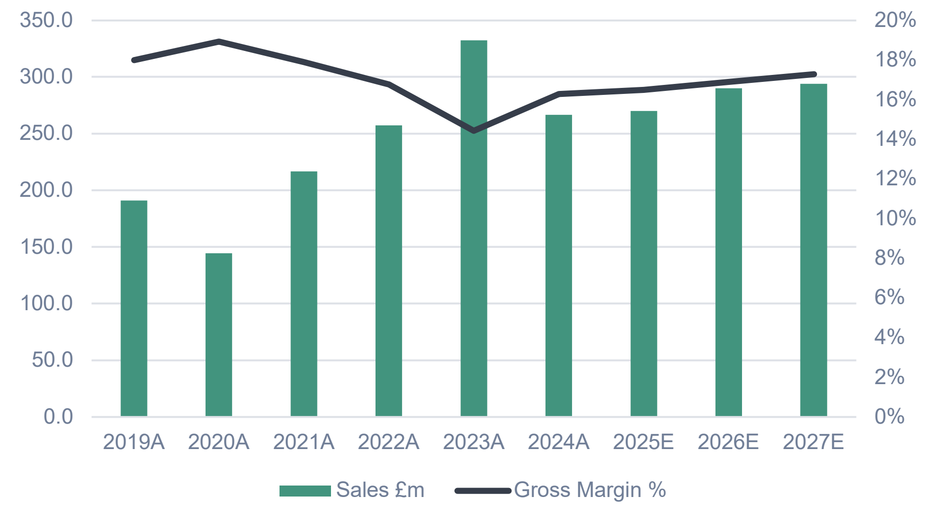
Final Results highlights

Springfield entered FY24 at a time of heightened market uncertainty, as high interest rates impacted buyer confidence in Private Housing and high inflation undermined profitability in Affordable Housing. Springfield's response was to curtail speculative private housing development and pause engagement with affordable housing providers. The focus was on maintaining quality, protecting profitability and generating cash.

Group revenue reduced to £266.5m (FY23: £332.1m) but gross margin increased from 14.4% to 16.3%, supported by profitable land sales. Admin expenses reduced from £28.0m to £26.5m and the operating margin increased from 6.2% to 6.7%. reflecting excellent pricing and cost discipline across the Group.

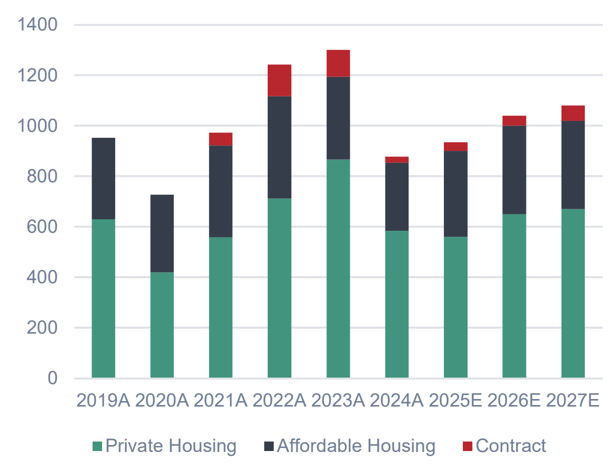
FY24 outturn in line with expectations, outlook improving



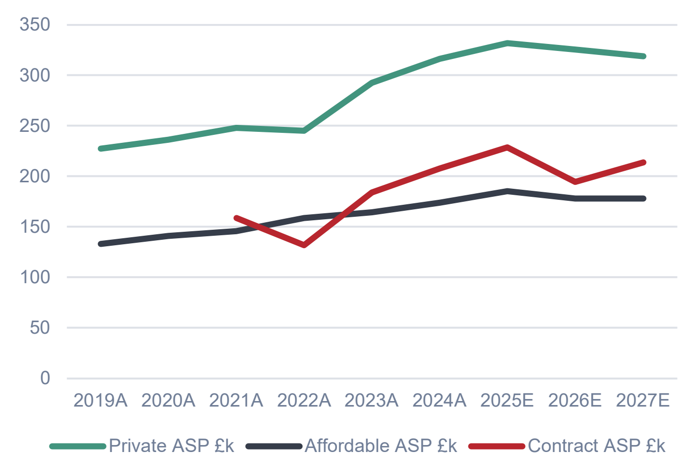
Source: Company, ED analysis

As previously announced, the number of completions dropped by 33% year on year to 878 but the Average Selling Price (ASP) increased. Springfield's Private Housing ASP increased by c.8% to £316k, reflecting changes in housing mix, whilst the Affordable Housing ASP increased by c.6% to £174k, as new contracts reflected the increase in the Scottish Government's affordable housing investment benchmarks.

Number of completions by division



Average selling price by division



Source: Company, ED analysis

Results in line with expectations

The results are in line with our expectations, following a comprehensive trading update at the year end, and are ahead of the expectations set out at the beginning of the year.

There is one welcome surprise, with the reinstatement of the dividend earlier than forecast (1.0p final declared). This is a clear mark of confidence in Group prospects, which we also reflect in the introduction of new forecasts for FY26 and FY27 (our FY25 forecasts are essentially unchanged). We expect debt to continue to reduce over the forecast period despite the payment of £23m deferred consideration over the next three years (relating to the 2022 Mactaggart & Mickel acquisition), and we also expect meaningful increases in the dividend.

Forecast overview – FY24 in line, FY25-FY27 show strong profit growth

Year End May, £m	2024(A) Actual	2024(E) Forecast	Variance	2025(E) Revised	2025(E) Old	Change	2026(E) New	2027(E) New
Revenue £m	266.5	266.0	0.2%	270.0	268.7	0.5%	290.1	293.8
PBT (underlying) £m	10.6	10.4	1.4%	13.0	13.0	0.0%	16.5	18.0
EPS fully diluted p	6.8	6.6	2.2%	8.0	8.0	0.0%	10.0	10.9
Dividend	1.0	0.0	N/A	1.5	1.5	0.0%	2.5	4.5
Net cash/ (debt) £m	-45.4	-46.1	-1.5%	-43.3	-41.4	4.5%	-41.4	-41.7
Net cash/ (debt) ex. leases £m	-39.9	-40.2	-0.8%	-37.8	-35.5	6.3%	-35.9	-36.2

Source: Equity Development estimates

Cash generation well ahead of original target

Management's principal objective at the beginning of the year was to reduce bank debt to <£60m and this was comfortably achieved (bank debt of £39.9m at the year-end) as targeted land sales once more illustrated the significant value in the landbank without impacting near term plans (profitable land sales of £28.1m during the period).

Cash generation driven by strong working capital (land sales)

Source: Company, ED analysis

Strategic and operational progress – Durieshill partnership

Towards the end of the year, the Group announced a transformational partnership with Barratt Developments to create a new village at the Group's Durieshill site, near Stirling. The development has planning in place, having received the section 75 agreement this year, for 3,000 private and affordable homes alongside new schools, local shops and other business opportunities, community woodlands and greenspace. Springfield completed a land sale to Barratt for an initial 34 acres of land for £10m and, over the coming years, Barratt will receive land at the site in exchange for providing and funding the major infrastructure development for the entire site. See our note from the time – **click here**.

Encouraging signs in Private and Affordable housing

Springfield's recent experience points to improving demand in Private Housing, which is supportive of our forecasts. The private reservation rate at the beginning of FY25 is ahead of the same period last year. This is supported by a recent improvement in broader market sentiment, which we discuss from page 6 of this note.

At the same time, the combination of lower inflation (build cost inflation currently broadly flat) and the increase in the Scottish Government's affordable housing investment benchmarks created the conditions for Springfield to recommence actively engaging with Affordable Housing providers. >£50m of affordable contracts were signed in the year, meaning that 2/3 of our forecast Affordable Housing revenue is contracted and the balance is under negotiation.

Private Rental Sector – potential for reforms to unlock investment

As we have discussed before, Private Rental Sector (PRS) investment in Scotland was impacted by the temporary introduction of rent caps by the Scottish Parliament under "The Cost of Living (Tenant Protection) Act" in October 2022. These tenant protections were extended to March 2024, followed by the introduction of the Housing Bill in March 2024, which includes provision for long term rent controls.

The recently launched Programme for Government (4th September) addresses the desire to balance tenant protections with the need to encourage investment to increase the supply of good quality, energy efficient new build homes for the private rental sector.

The details are yet to be ironed out, but there does appear to be a recent positive change in sentiment, which may help to unlock PRS investment after the recent hiatus. Springfield is very well placed to address this segment of the market, having delivered Scotland's first suburban new build PRS homes on its Bertha Park development.

Exciting growth opportunities across North Scotland

Springfield is uniquely positioned to capitalise on an expected sharp increase in demand for housing in the North of Scotland over the next five years and beyond.

The Inverness and Cromarty Firth Green Freeport will trigger £3bn of investment into the Highlands and create 10,000 new direct jobs in the region. This will require a substantial increase in housing delivery in an area where Springfield has a significant landholding with planning already in place.

For further information, **click here for the Freeport website**.

At the same time, the UK government has committed to major upgrades to energy infrastructure over the next few years. To support this, Scottish and Southern Energy Networks (SSEN) is developing new power lines across the North of Scotland, with a stated requirement for housing for 6,000 workers over the next five years and a commitment to leave a housing legacy for future generations.

The North of Scotland has always been one of Springfield's strongholds. The Group currently has 2,009 owned plots (80% with planning) and 2,886 contracted plots (35% with planning) in the North, as well as c.2,000 strategic plots, which may benefit from the Scottish Government's efforts to streamline the planning process to support economic development (e.g. through Masterplan Consent Areas).

These significant infrastructure projects are poised to accelerate the development of this important region and should ultimately drive further investment across the country. We should note that any resulting increase in housing demand is not yet factored into our forecasts and we therefore look forward to further details around the fulfilment of these plans.

Significant long-term value in one of the largest landbanks in Scotland

Whilst profitable land sales were a key feature of the FY24 results, it is important to note that Springfield still has one of the largest land banks in Scotland, with a strong presence in key sites, including the Central Belt as well as the North of Scotland.

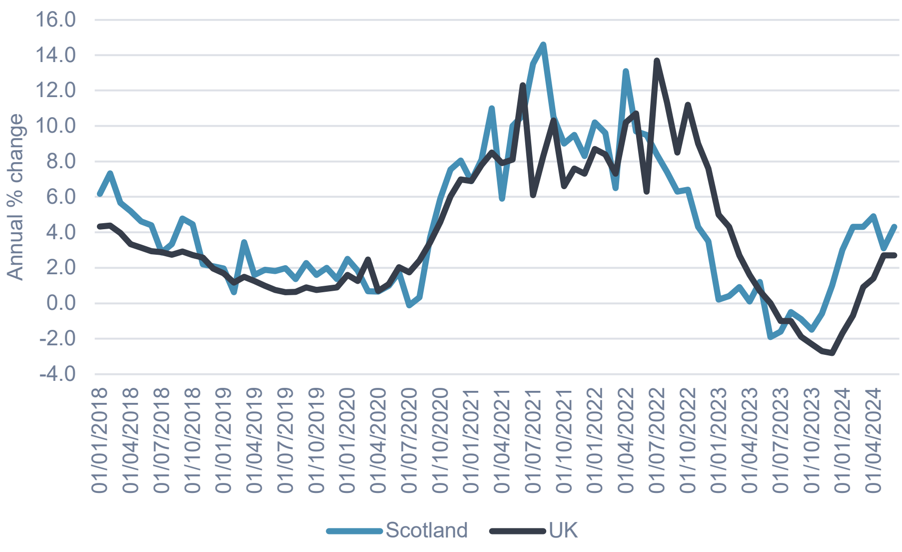
The Group added 17 active sites and completed 25 sites during the year and was active on 42 sites at the year end. As at 31st May '24, Springfield had 5,593 owned plots (88% with planning), representing six years of activity with a GDV of £1.5bn. In addition, the Group has 6,866 contracted plots (57% with planning), representing 8 years of activity with a GDV of £1.6bn and 24,605 plots under option, representing 28 years of activity.

Market sentiment and activity on the up

Since the year end, Springfield has noted initial signs of recovery, with private reservation rates ahead of the same period last year. This is consistent with recent updates on some of the key market indicators, in terms of improving house price trends and activity levels.

House prices in Scotland have outpaced the wider UK over recent months, as illustrated by the chart below (data to June '24).

House prices increasing, Scotland trending above UK average



Source: Registers of Scotland, ED analysis

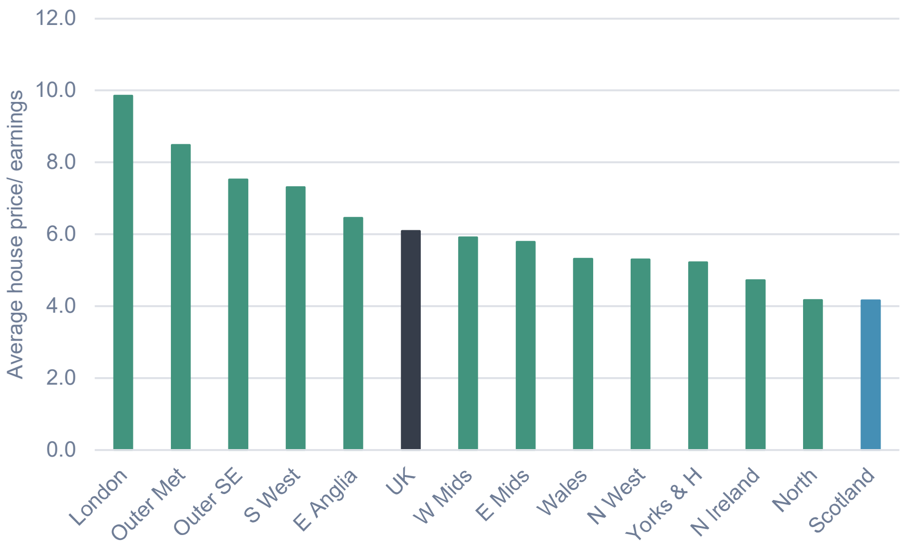
The positive trends in Scotland are welcome and it is also encouraging to see improving sentiment at a UK-wide level. Confidence appears to be returning to the housing market as inflation has fallen and Central Bank base rate cuts have begun to filter through into a softening of mortgage interest rates.

Monthly data shows further strengthening across the summer

Source: Nationwide, ED analysis

It is also worth noting that Scotland remains the most affordable region based on house price/ earnings multiples, which, in our view, should support a sustainable increase in activity.

Scotland the most affordable region on House Price/ Earnings Metrics



Source: Nationwide, ED analysis

Latest RICS Report bodes well for Autumn season

The closely watched RICS UK Residential Market Survey is one of the most up to date measures of market sentiment and this too offers encouragement for the UK and for Scotland in particular. The August survey published on 9th September (**Click here**) shows an improvement in sales market activity over the month and respondents see the market gradually gaining further impetus moving forward.

Survey contributors anticipate the recent uptick in demand will translate into a more meaningful increase in sales volumes over the coming three months and a further strengthening over the next twelve months.

Most parts of the UK now show either a flat or modestly positive picture for house prices with firm increases being seen in Northern Ireland and Scotland in particular. A typical comment from a contributor in Scotland suggested that ***"Optimism seems to be the tone of the market"***.

Valuation: >30% discount to peers

Whilst Springfield's share price has outperformed most peers over the past twelve months, the shares continue to trade at a marked discount to peers.

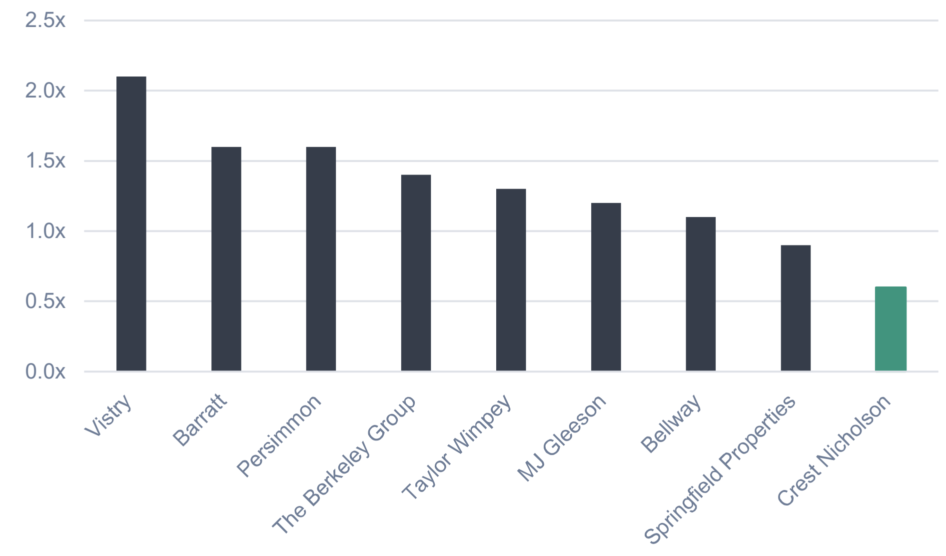
Peer Group Valuation Metrics

Company	Share Price £	Market Cap £m	P/E (FY1)	P/E (FY2)	EV/EBITDA (FY1)	EV/EBITDA (FY2)	P/TBV (LTM)	Div Yield (NTM)
Barratt	4.97	7,164	18.4x	13.7x	11.2x	7.9x	1.6x	3.3%
Berkeley	48.90	4,983	13.7x	14.4x	9.0x	9.5x	1.4x	5.3%
Bellway	31.00	3,678	24.1x	19.6x	15.5x	12.8x	1.1x	1.6%
Crest Nicholson	1.95	501	28.3x	17.0x	15.1x	10.1x	0.6x	1.9%
MJ Gleeson	5.68	331	18.1x	16.2x	10.9x	9.8x	1.2x	1.9%
Persimmon	15.89	5,078	19.3x	15.5x	11.8x	9.7x	1.6x	4.0%
Springfield	**1.05**	**125**	**13.2x**	**10.5x**	**8.1x**	**6.8x**	**0.8x**	**1.4%**
Taylor Wimpey	1.60	5,677	19.1x	15.5x	12.0x	9.7x	1.3x	5.9%
Vistry	13.43	4,476	15.1x	12.5x	9.5x	8.5x	2.1x	3.6%
Mean Average			18.8x	15.0x	11.5x	9.4x	1.3x	3.2%
Median Average			18.4x	15.5x	11.2x	9.7x	1.3x	3.3%

Source: Koyfin, ED analysis, share prices at 11th September 2024

The discount is particularly marked on a Price/ Book basis, where Springfield trades on the lowest multiple in the sector (with the exception of Crest Nicholson) and at a 34% discount to peers. On a P/E basis, the discount is 30%.

Springfield trades at 34% discount to peers on Price/ Book multiples

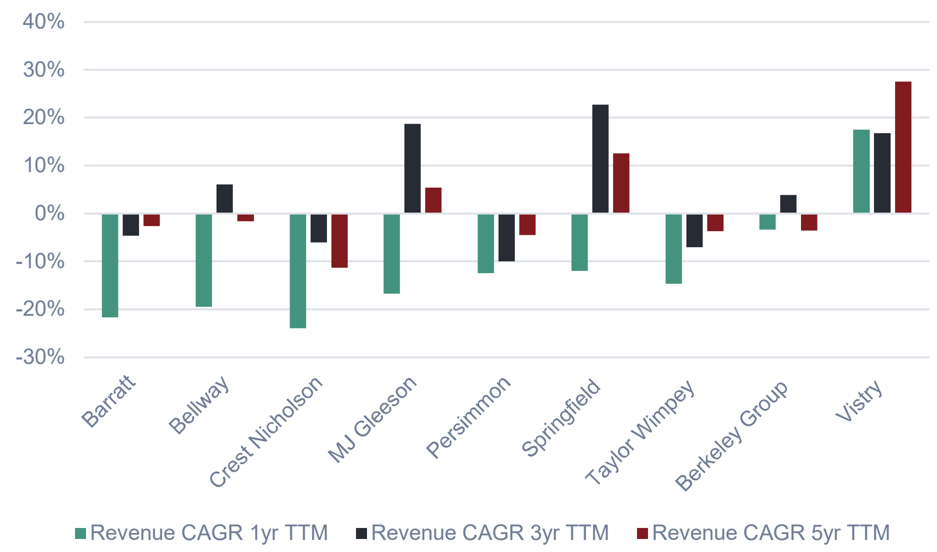


Source: Koyfin, ED analysis, share prices at 11th September 2024

We also note that Springfield has, since IPO, proven to be one of the fastest growing housebuilders, through a combination of organic development and strategic acquisitions. The market uncertainties of the past two years have affected all companies in the sector but Springfield stands out in terms of revenue progression, alongside Vistry, which has made its own strategic acquisition of Countryside plc and benefited from robust demand for its partnerships model.

The chart below shows the trailing twelve months compound annual growth rates for housebuilders' revenues over a one-, three- and five-year period. Whilst this has been supported by acquisitions, we expect organic growth to drive a continued strong performance for Springfield over the forecast period and beyond.

Driving revenues through challenging market conditions



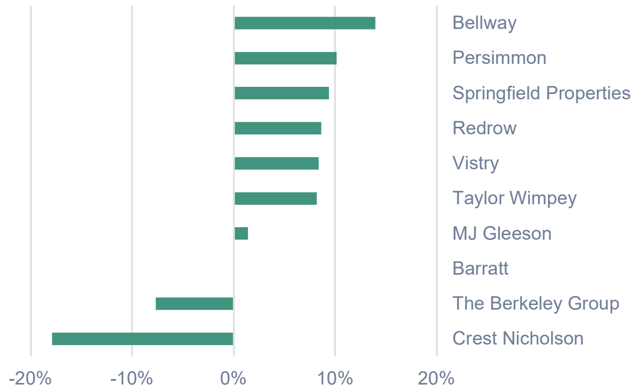
Source: Koyfin, ED analysis

Given the confident tone of today's outlook statement, the Group's low valuation relative to peers and the exciting opportunity emerging in North Scotland, which is not yet reflected in forecasts, we reiterate our Fair Value / share estimate of 140p, which equates to a FY25 P/E rating of 17.5x and P/Book of 1.0x.

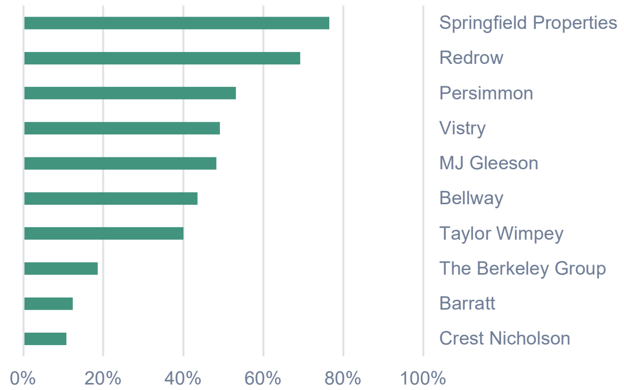
Recent share price performance

Springfield's shares have recovered strongly over the past year, outperforming all peers as shown in the charts below. We believe the Group's excellent performance on debt reduction via profitable land sales has been a key driver of this outperformance. NB Redrow features in these charts of share price performance up to de-listing at the end of August following its takeover by Barratt.

Three-month share price performance



One-year share price performance



Source: Koyfin, ED analysis, share prices at 11th September 2024

The chart below shows the gap between the 52-week high and 52 weeks low across the housebuilding sector. On this basis, Springfield is again the strongest performer in the sector, trading close to its 52-week high and more than double its 52 weeks low. This encapsulates the improvement in sentiment towards the sector in general, and Springfield in particular over the past year.

Share price versus 52-week high and 52-week low

Source: Koyfin, ED analysis, share prices at 11th September 2024

Financials and Forecasts

Income statement						
Year End May, £m	**2022(A)**	**2023(A)**	**2024(A)**	**2025(E)**	**2026(E)**	**2027(E)**
Group revenue	257.1	332.1	266.5	270.0	290.1	293.8
% growth	19%	29%	-20%	1%	7%	1%
% 2 Year CAGR	33%	24%	2%	-10%	4%	4%
COGS	-214.0	-284.2	-223.1	-225.5	-241.1	-243.0
% growth	20%	33%	-21%	1%	7%	1%
% of revenue	83%	86%	84%	84%	83%	83%
Gross profit	**43.1**	**48.0**	**43.4**	**44.5**	**49.0**	**50.8**
% growth	11%	11%	-9%	3%	10%	4%
% margin	17%	14%	16%	16%	17%	17%
Admin expenses	-19.1	-25.4	-23.9	-23.7	-24.5	-25.0
% of revenue	7%	8%	9%	9%	8%	9%
Other operating income	0.4	0.7	1.0	0.0	0.0	0.0
Adj. EBITDA	**24.4**	**23.2**	**20.5**	**20.8**	**24.5**	**25.8**
% growth	11%	-5%	-12%	1%	18%	5%
% margin	10%	7%	8%	8%	8%	9%
Depreciation	-1.7	-2.3	-2.3	-2.3	-2.3	-2.3
Amortisation	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Adj. EBITA	**22.5**	**20.7**	**17.9**	**18.2**	**21.9**	**23.2**
% growth	14%	-8%	-13%	1%	20%	6%
% margin	9%	6%	7%	7%	8%	8%
Net interest	-1.8	-4.7	-7.3	-5.2	-5.4	-5.2
Adj. PBT	**20.8**	**16.0**	**10.6**	**13.0**	**16.5**	**18.0**
% growth	12%	-23%	-34%	23%	27%	9%
% margin	8%	5%	4%	5%	6%	6%
Other/ Exceptional Items	-1.1	-0.7	-0.9	0.0	-0.5	0.0
Reported PBT	**19.7**	**15.3**	**9.7**	**13.0**	**16.0**	**18.0**
Underlying tax	-3.7	-3.3	-2.2	-3.2	-4.1	-4.5
Underlying tax rate (%)	18%	21%	21%	25%	25%	25%
Adj. PAT	**17.0**	**12.7**	**8.4**	**9.8**	**12.4**	**13.5**
PAT	15.9	12.1	7.5	9.8	12.0	13.5

Source: Company historic data, ED forecasts and analysis

Cash flow

Year End May, £m	2022(A)	2023(A)	2024(A)	2025(E)	2026(E)	2027(E)
Adj. EBITA	22.5	20.7	17.9	18.2	21.9	23.2
Depreciation	1.7	2.3	2.3	2.3	2.3	2.3
Amortisation	0.2	0.3	0.3	0.3	0.3	0.3
PPE disposal (gain)	0.0	-0.3	0.0	0.0	0.0	0.0
Exceptional items	-1.1	-0.7	-0.9	0.0	-0.5	0.0
Other non-cash	0.5	0.7	-0.2	0.0	0.0	0.0
Working Capital	-4.7	-14.5	25.1	-4.5	-4.0	5.0
Operating Cash Flow	**19.0**	**8.4**	**44.5**	**16.3**	**20.0**	**30.8**
Net Interest	-1.6	-3.8	-6.5	-5.2	-5.4	-5.2
Tax	-3.5	-2.9	-1.8	-3.2	-4.1	-4.5
Net Op. Cash Flow	**13.9**	**1.7**	**36.2**	**7.9**	**10.5**	**21.1**
Purchase of PPE	-0.5	-0.5	-0.2	-0.5	-0.5	-0.5
Sale of PPE proceeds	0.2	0.4	0.3	0.0	0.0	0.0
Total Net Capex	-0.2	-0.1	0.1	-0.5	-0.5	-0.5
Equity Free Cash Flow	**13.7**	**1.6**	**36.3**	**7.4**	**10.0**	**20.6**
M&A	-43.9	-22.0	-12.1	-3.5	-6.0	-17.0
Dividend	-6.3	-5.6	0.0	-1.8	-2.1	-3.9
Share Issue	22.0	0.0	0.0	0.0	0.0	0.0
Lease additions	-2.8	-4.0	-1.9	0.0	0.0	0.0
FX/Other	0.0	0.5	0.0	0.0	0.0	0.0
Net Change in Net Debt	**-17.3**	**-29.5**	**22.2**	**2.1**	**1.9**	**-0.3**
Net Debt - BOP	-20.8	-38.1	-67.7	-45.4	-43.3	-41.4
Net Debt - EOP	**-38.1**	**-67.7**	**-45.4**	**-43.3**	**-41.4**	**-41.7**
Net Bank Debt (ex. leases)	**-34.1**	**-61.8**	**-39.9**	**-37.8**	**-35.9**	**-36.2**

Source: Company historic data, ED forecasts and analysis

Balance sheet						
Year End May, £m	**2022(A)**	**2023(A)**	**2024(A)**	**2025(E)**	**2026(E)**	**2027(E)**
Non-Current assets						
PPE	5.8	7.8	7.2	5.4	5.1	4.8
Intangible assets	5.8	6.0	5.7	5.4	5.1	4.8
Investments	0.5	0.0	0.0	0.0	0.0	0.0
Accounts receivable	5.6	5.0	5.0	5.0	5.0	5.0
Other	2.1	1.8	1.8	1.8	1.8	1.8
Sub-total NCAs	**19.9**	**20.6**	**19.7**	**17.6**	**17.0**	**16.4**
Current Assets						
Inventories and WIP	230.1	277.6	244.3	248.8	252.8	248.8
Trade/other receivables	21.4	22.6	26.4	28.4	30.4	29.4
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Cash/cash equivalents	16.4	8.9	14.9	17.1	18.9	18.7
Sub-total CAs	**267.8**	**309.1**	**285.6**	**294.2**	**302.1**	**296.8**
Net working capital	**182.9**	**243.3**	**221.0**	**225.5**	**229.5**	**224.5**
Total Assets	**287.7**	**329.7**	**305.3**	**311.8**	**319.1**	**313.2**
Current Liabilities						
Trade and other payables	-68.5	-57.0	-49.6	-51.6	-53.6	-53.6
Provisions	-0.8	-1.3	-2.0	-2.0	-1.5	-1.0
Corporation tax	-0.3	-0.4	-1.3	-1.3	-1.3	-1.3
Leases	-1.3	-1.9	-1.6	-1.6	-1.6	-1.6
Borrowings	0.0	0.0	-54.8	0.0	0.0	0.0
Deferred consideration	-6.1	-11.8	-7.3	-6.0	-17.0	0.0
Sub-total CLs	**-77.0**	**-72.3**	**-116.7**	**-62.6**	**-75.0**	**-57.5**
Non-current liabilities						
Borrowings	-50.5	-70.7	0.0	-54.8	-54.8	-54.8
Leases	-2.7	-4.0	-4.0	-4.0	-4.0	-4.0
Provisions	-1.8	-2.1	-4.3	-4.2	-4.0	-3.0
Deferred taxation	-3.7	-3.6	-3.0	-3.0	-3.0	-3.0
Deferred consideration	-8.5	-26.3	-19.1	-17.0	0.0	0.0
Sub-total NCLs	**-67.2**	**-106.7**	**-30.3**	**-83.0**	**-65.8**	**-64.8**
Total Liabilities	**-144.2**	**-179.0**	**-147.0**	**-145.5**	**-140.8**	**-122.3**
Net Assets	**143.5**	**150.6**	**158.2**	**166.3**	**178.3**	**190.9**
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	**143.5**	**150.6**	**158.2**	**166.3**	**178.3**	**190.9**

Source: Company historic data, ED forecasts and analysis

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