

Barratt collaboration to accelerate Durieshill Village

3rd June 2024

Springfield has entered into a strategic collaboration with Barratt for the development of the Group's Durieshill site. Springfield and Barratt will work together to develop this new, sustainable 3,000 home village within commuting distance of Edinburgh and Glasgow. Barratt has made a cash payment of £10m to Springfield and will, in consideration for half the land at Durieshill, provide and fund the infrastructure development for the entire site over the next five years. This is an innovative arrangement with a first-rate partner that will de-risk and accelerate the development of Durieshill. We expect today's news to be very well received and increase our Fair Value / share to 140p (from 130p), based on sector average multiples.

Scotland's largest detailed planning application for new housing

Spanning nearly 600 acres, Durieshill is one of the largest detailed planning applications for housing development to be approved in Scotland to date, with a Gross Development Value of c. £776m.

Accelerating and de-risking one of Springfield's largest developments

Barratt has made a cash payment of £10m to Springfield for the profitable sale of the initial 34 acres of land, reducing Springfield's bank debt to £41m as of 31st May, well below the stated target of £55m. More significantly, Barratt will, in consideration for half the land at Durieshill, provide and fund the infrastructure development for the entire site over the next five years. This will materially accelerate the development of the site, whilst also eliminating Springfield's requirement to tie up capital for the next five years, minimising development risk and optimising the Group's return on capital.

Market indicators supportive, particularly in Scotland

Zoopla's House Price Index for April was published last week (30th May). On their measurement, house price inflation was -0.1% for the UK, but with regional variations. They highlight **1.4% price growth in Scotland** in contrast with negative inflation in London and the South of England.

Fair Value estimate increases to 140p

Given today's positive news, which de-risks and accelerates the development of Durieshill with an excellent partner, we increase our ED Fair Value to 140p (from 130p). This is based on sector average ratings (FY'24 P/E of 17.5x and P/Book of 1.0x) and looks undemanding to us, despite being 50% higher than the current share price.

Company Data	
EPIC	SPR.L
Price (last close)	94p
52 weeks Hi/Lo	103p/51p
Market cap	£113m
ED Fair Value / share	140p
Proforma net cash/ (debt)	(£46.9m)
Avg. daily volume	145,000

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.

Next news: Year-end update early July 2024 (est)

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Key Financials & Valuation metrics

Year-end May, £m	2020A	2021A	2022A	2023A	2024E	2025E
Sales	144.4	216.7	257.1	332.1	287.2	270.4
EBITDA	14.5	22.0	24.4	23.2	20.4	19.9
Adjusted PBT	10.2	20.7	22.7	16.0	10.1	13.0
FD EPS (p)	8.2	14.1	15.2	10.4	6.4	8.0
DPS (p)	2.0	5.8	6.2	0.0	0.0	1.5
Net Cash/(Debt)*	-70.9	-20.8	-38.1	-67.7	-46.9	-41.7
Net Cash/(Debt)**	-67.5	-18.2	-34.1	-61.8	-41.0	-35.8
P/E	11.4x	6.7x	6.2x	9.0x	14.6x	11.7x
EV/EBITDA	12.7x	6.1x	6.2x	7.8x	7.8x	7.8x
Price/ Book	0.9x	0.8x	0.7x	0.7x	0.7x	0.7x
Dividend yield	2.1%	6.1%	6.6%	0.0%	0.0%	1.6%
FCF yield	-34.9%	55.1%	13.4%	1.5%	30.7%	6.9%

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

Durieshill is one of the largest detailed planning applications for housing development to be approved in Scotland to date

Strategic collaboration with Barratt for Durieshill

Springfield has entered into a strategic collaboration with Barratt for the development of the Group's Durieshill site, creating a new village near Stirling. This represents a significant milestone for this development, which has been a vision of Stirling Council for over 20 years. It is also a highly successful outcome for Springfield, having driven the development through the design and planning phase over several years. In our view, Springfield has identified an excellent partner with shared values in [Barratt Developments PLC](#), one of the UK's leading housebuilders with a five-star reputation.

Spanning nearly 600 acres, Durieshill is one of the largest detailed planning applications for housing development to be approved in Scotland to date, with a Gross Development Value of c.£776m. Having secured planning consent for Durieshill in 2019, Springfield reached a section 75 agreement with Stirling Council during the first half of FY'24, the final consent required to commence work on site.

Durieshill involves the creation of a new standalone sustainable village near Stirling and within commuting distance of Edinburgh and Glasgow. Detailed planning is in place for 3,000 private and affordable homes alongside new schools, local shops and businesses, community woodlands and greenspace. It is one of five villages being developed by Springfield including Bertha Park, Perth (3,000 homes once complete) and Dykes of Gray, Dundee (1,500 homes once complete). Both developments have been recognised by awards for sustainability and placemaking.

Highlights of the arrangement

- Barratt will, in consideration for half the land at Durieshill, provide and fund the infrastructure development for the entire site over the next five years.
- Barratt has also made a cash payment of £10m to Springfield for the profitable sale of the initial 34 acres of land.
- The remaining land will be exchanged for the provision of site infrastructure over the coming years as development milestones are achieved.
- The cash proceeds of £10m from the profitable land sale will contribute to reducing Springfield's debt. The Group now expects to report bank debt of c.£41m as of 31st May '24, ahead of its stated target of £55m. The deal completed and cash was received just before the year end.
- We adjust our forecasts, as detailed in the table below. They now reflect the outperformance on cash for the year to 31st May '24, reducing our bank debt forecast from £55.0m to £41.0m, in line with guidance. We note that – even before the £10m received on the Durieshill deal – cash generation had outperformed expectations. At this stage, we leave our FY'25 forecasts unchanged, assuming this land sale was already built into expectations for FY'25. Our intention is review FY'25 forecasts in more detail in due course, with a year-end trading update due in early July.

Forecast changes						
Year End May	2024(E) Revised	2024(E) Old	2024(E) Change	2025(E) Revised	2025(E) Old	2025(E) Change
Revenue £m	287.2	287.2	0.0%	270.4	270.4	0.0%
PBT (underlying) £m	10.1	10.1	0.0%	13.0	13.0	0.0%
EPS fully diluted p	6.4	6.4	0.0%	8.0	8.0	0.0%
Dividend	0.0	0.0	0.0%	1.5	1.5	0.0%
Net cash/ (debt) £m	-46.9	-60.9	-23.0%	-41.7	-41.7	0.0%
Net cash/ (debt) ex. leases £m	-41.0	-55.0	-25.5%	-35.8	-35.8	0.0%

Source: Equity Development

Market snapshot - prices rising, Scotland outperforming

The latest housing market indicators suggest a broadly positive trajectory for UK house prices, although expectations of interest rate cuts have been pushed back by stubborn inflation data with some impact on near term sentiment.

The regional picture is somewhat varied with Scotland and Northern England recording higher prices in contrast to modest falls in London and the South of England.

The upcoming General Election may have an impact on market activity in the short-term, but there is not a significant policy divide between the two parties. We also note that, with housing policy devolved in Scotland, there will not be any regulatory impact on Springfield's market from a change in UK government.

Latest RICS report highlights a flatter picture over past month

April's RICS UK Residential Survey (published 9th May) reports flat buyer demand with near term sales expectations softening slightly. This is attributed to a slight upward move in mortgage rates over recent weeks.

Respondents still foresee a stronger trend in sales activity coming through on a twelve-month horizon, even if expectations have turned a little more moderate. Feedback around buyer demand is said to be mixed at the regional level, with any loss of impetus mainly concentrated in London and Southern parts of England.

For the full RICS report, [Click here](#).

A more positive picture for House Price Inflation in Scotland

The latest official house price inflation data (reported 22nd May) highlights a continuation of the recent positive trend, with Scotland again outpacing the wider UK and delivering annualised growth of 6.7% in March.

The official HPI data is not as current as the RICS sentiment readings, as HPI data covers **sales registered in the period** (with Land Registry/ Registers of Scotland), whereas the RICS survey is based on *expectations* and is therefore a better forward-looking indicator.

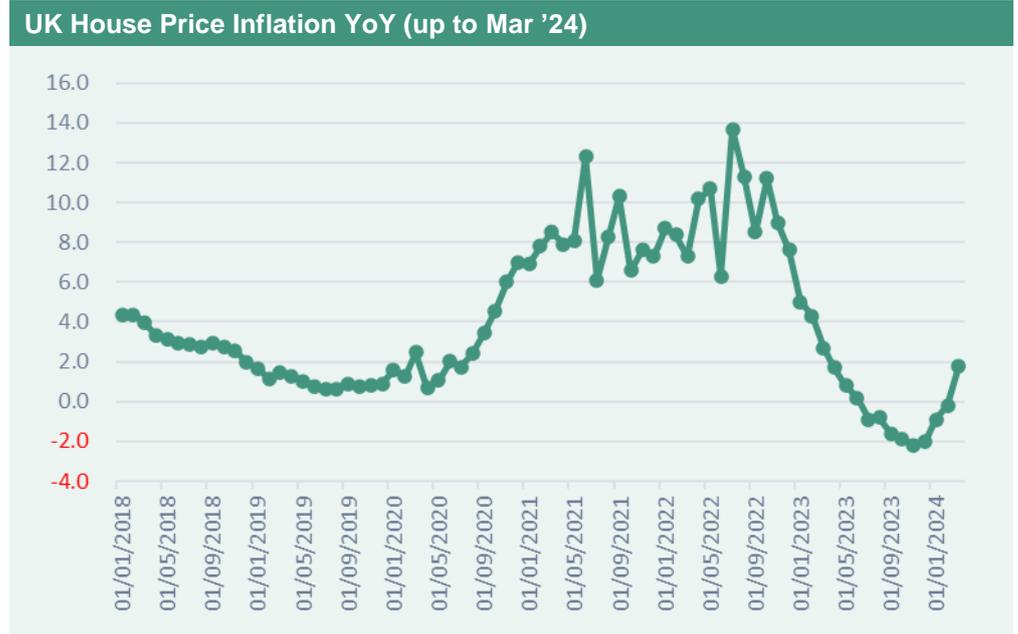
Some softening in near term sentiment, but a stronger picture for sales market activity expected over next twelve months

Scotland House Price Inflation YoY (up to Mar '24)



Source: Registers of Scotland

The latest official figures for the UK as whole (chart below) show an improving trend with HPI in positive territory and rising to +1.8% in March, the first positive reading for the UK since June '23 (+0.2%).



Source: HM Land Registry, Registers of Scotland

Zoopla House Price Index also shows prices in Scotland outpacing wider UK

Zoopla's House Price Index for April was published last week (30th May). On their measurement, house price inflation was -0.1% for the UK as a whole, with some regional variation. Their report ([Click here](#)) highlights 1.4% growth in Scotland in contrast with negative inflation in London and the South of England.

We note inflation of +1.9% in Glasgow, and +0.2% in Edinburgh, both important regions for Springfield, with housing delivery in commuting distance of both. Aberdeen recorded a 1.8% decline, but Springfield has chosen not to build in Aberdeen, given the city's unique supply/demand characteristics.

Zoopla notes that there are more homes for sale than at any point in the past eight years, up 20% year-on-year, which it expects to keep house price inflation in check in H2.

The latest Nationwide house price index (published 31st May – [Click here](#)) also highlights a resilient market and a pick-up in the annual rate of house price growth to 1.3% in April, from 0.6% in March.

Springfield shares remain undervalued relative to peers

Springfield's shares have performed well over the three months since the interims were announced (see next page) but continue to trade at a notable discount to sector peers, as highlighted in the table below.

Springfield's discount to peers has closed somewhat (having been c.40% in February) but remains significant at c.20% on a P/E basis and c.30% on Price/ Book (P/TBV in the table below).

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	4.96	4,803	19.0x	15.6x	11.1x	8.7x	1.1x	3.0%
Berkeley	51.55	5,455	14.1x	15.2x	10.2x	10.4x	1.6x	4.1%
Bellway	26.42	3,135	22.1x	17.0x	13.7x	10.9x	0.9x	1.8%
Crest Nicholson	2.28	585	20.3x	15.3x	10.7x	8.4x	0.7x	2.0%
MJ Gleeson	5.80	338	17.8x	16.5x	10.4x	9.5x	1.2x	1.8%
Persimmon	14.30	4,568	17.5x	13.4x	10.5x	8.1x	1.4x	4.4%
Redrow	7.06	2,266	17.9x	15.6x	11.3x	9.9x	1.1x	1.9%
Springfield	0.94	113	14.6x	11.4x	7.9x	7.8x	0.7x	1.6%
Taylor Wimpey	1.45	5,124	17.3x	13.7x	10.4x	8.2x	1.1x	6.5%
Vistry	12.45	4,211	14.1x	11.8x	8.7x	7.8x	2.0x	3.9%
Mean Average			17.5x	14.6x	10.5x	9.0x	1.2x	3.1%
Median Average			17.7x	15.3x	10.5x	8.6x	1.1x	2.5%

Source: Koyfin, Equity Development analysis, share prices as of 29th May '24

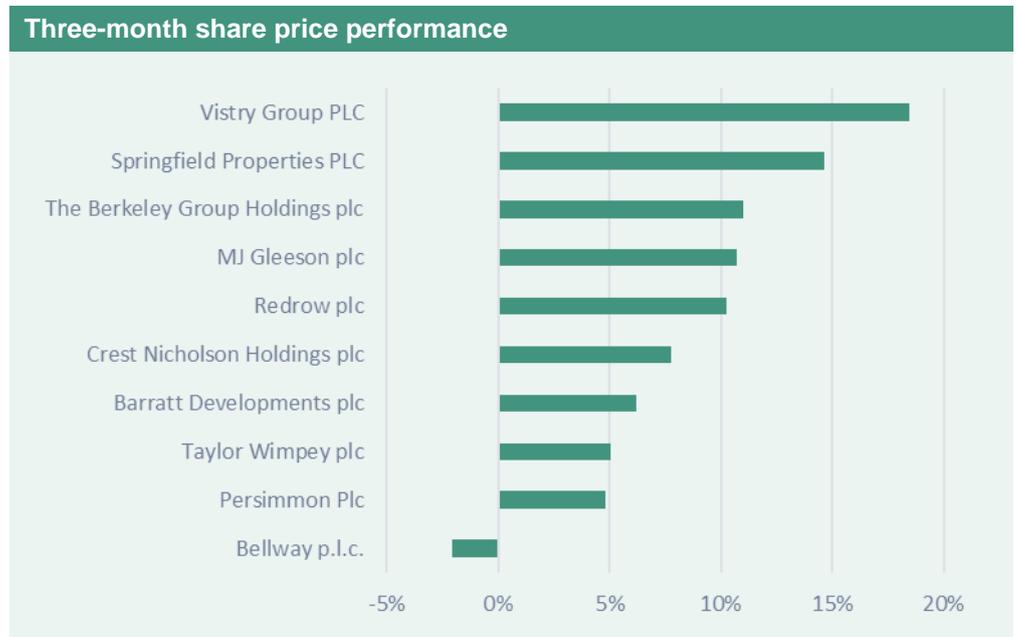
Given today's positive news, which de-risks and accelerates the development of Durieshill with an excellent partner, we increase our ED Fair Value / share to 140p (from 130p).

This is based on sector average ratings (FY'24 P/E of 17.5x and P/Book of 1.0x) and therefore looks undemanding to us, whilst representing a potential c.50% upside to the current share price.

Sector share price trends reflect improving sentiment

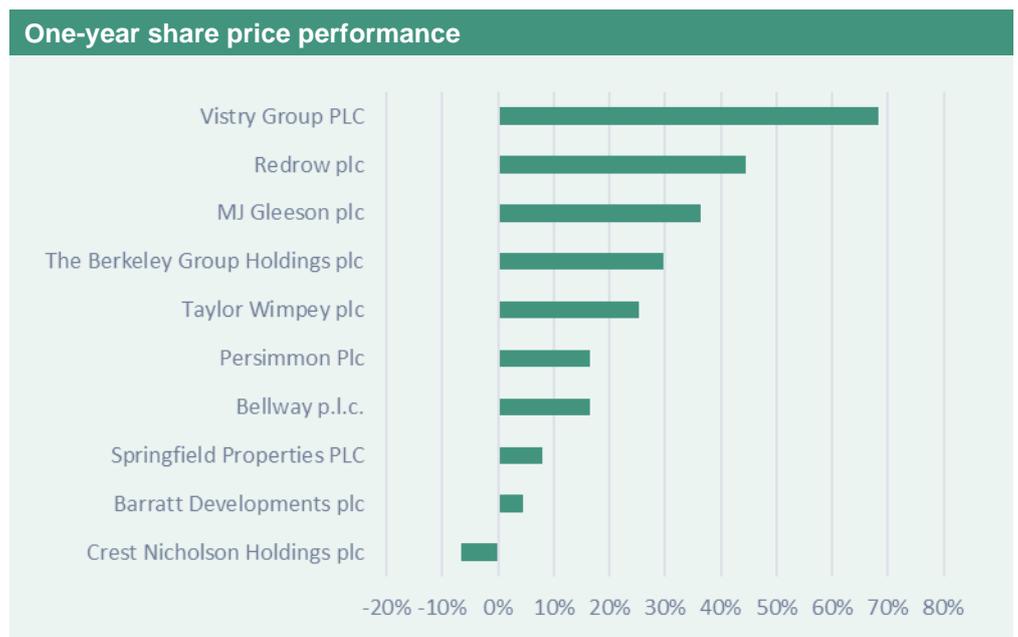
Sector share prices have continued to perform well over recent months, alongside a broader improvement in market sentiment.

Springfield's share price has outperformed most peers over the past three months, as shown in the chart below (share prices as of last Wednesday's close).



Source: Koyfin, Equity Development analysis, share prices to 29th May '24

On a one-year view, Springfield's share price performance is towards the lower end of the pack, but is no longer the outlier that it was at the time the interims were reported in February ([Click here for note from that time](#)).



Source: Koyfin, Equity Development analysis, share prices to 29th May '24

Financials and Forecasts

Income statement						
Year End May, £m	2020(A)	2021(A)	2022(A)	2023(A)	2024(E)	2025(E)
Group revenue	144.4	216.7	257.1	332.1	287.2	270.4
% growth	-24%	50%	19%	29%	-14%	-6%
% 2 Year CAGR	8%	7%	33%	24%	6%	-10%
COGS	-117.1	-177.9	-214.0	-284.2	-243.2	-227.4
% growth	-25%	52%	20%	33%	-14%	-6%
% of revenue	81%	82%	83%	86%	85%	84%
Gross profit	27.4	38.8	43.1	48.0	44.0	43.0
% growth	-20%	42%	11%	11%	-8%	-2%
% margin	19%	18%	17%	14%	15%	16%
Admin expenses	-14.1	-17.2	-19.1	-25.4	-23.6	-23.1
% of revenue	10%	8%	7%	8%	8%	9%
Other operating income	1.3	0.4	0.4	0.7	0.0	0.0
Adj. EBITDA	14.5	22.0	24.4	23.2	20.4	19.9
% growth	-22%	52%	11%	-5%	-12%	-2%
% margin	10%	10%	10%	7%	7%	7%
Depreciation	-2.4	-2.2	-1.7	-2.3	-2.3	-2.2
Amortisation	0.0	-0.1	-0.2	-0.3	-0.3	-0.2
Adj. EBITA	12.1	19.8	22.5	20.7	17.8	17.5
% growth	-29%	63%	14%	-8%	-14%	-2%
% margin	8%	9%	9%	6%	6%	6%
Net interest	-2.0	-1.2	-1.8	-4.7	-7.7	-4.5
Adj. PBT	10.2	18.5	20.8	16.0	10.1	13.0
% growth	-36%	82%	12%	-23%	-37%	29%
% margin	7%	9%	8%	5%	4%	5%
Other/ Exceptional Items	-0.4	-0.6	-1.1	-0.7	-1.0	0.0
Reported PBT	9.7	17.9	19.7	15.3	9.1	13.0
Underlying tax	-2.1	-4.2	-3.7	-3.3	-2.4	-3.3
Underlying tax rate (%)	21%	23%	18%	21%	22%	25%
Adj. PAT	8.1	14.3	17.0	12.7	7.9	9.8
PAT	7.6	13.7	15.9	12.1	7.1	9.8

Source: Company historic data, ED forecasts and analysis

Cash flow						
Year End May, £m	2020(A)	2021(A)	2022(A)	2023(A)	2024(E)	2025(E)
Adj. EBITA	12.1	19.8	22.5	20.7	17.8	17.5
Depreciation	2.4	2.2	1.7	2.3	2.3	2.2
Amortisation	0.0	0.1	0.2	0.3	0.3	0.2
PPE disposal (gain)	0.0	0.0	0.0	-0.3	0.0	0.0
Exceptional items	-0.3	-0.6	-1.1	-0.7	-1.0	0.0
IPO costs	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash	1.4	0.4	0.5	0.7	0.0	0.0
Working Capital	-42.1	35.2	-4.7	-14.5	25.0	-4.0
Operating Cash Flow	-26.6	57.0	19.0	8.4	44.4	15.9
Net Interest	-1.6	-1.3	-1.6	-3.8	-7.7	-4.5
Tax	-3.1	-4.2	-3.5	-2.9	-2.2	-3.2
Net Op. Cash Flow	-31.3	51.5	13.9	1.7	34.5	8.3
Purchase of PPE	-0.6	-0.2	-0.5	-0.5	-0.3	-0.6
Sale of PPE proceeds	0.1	0.2	0.2	0.4	0.1	0.0
Total Net Capex	-0.5	0.0	-0.2	-0.1	-0.2	-0.6
Equity Free Cash Flow	-31.8	51.5	13.7	1.6	34.3	7.7
M&A	-4.0	0.3	-43.9	-22.0	-13.0	-2.5
Dividend	-3.1	-3.3	-6.3	-5.6	0.0	0.0
Share Issue	0.0	2.2	22.0	0.0	0.0	0.0
Lease additions	-3.3	-0.7	-2.8	-4.0	-0.5	0.0
FX/Other	0.8	0.0	0.0	0.5	0.0	0.0
Net Change in Net Debt	-41.3	50.1	-17.3	-29.5	20.8	5.2
Net Debt - BOP	-29.6	-70.9	-20.8	-38.1	-67.7	-46.9
Net Debt - EOP	-70.9	-20.8	-38.1	-67.7	-46.9	-41.7
Net Bank Debt (ex. leases)	-67.5	-18.2	-34.1	-61.8	-41.0	-35.8

Source: Company historic data, ED forecasts and analysis

Balance sheet						
Year End May, £m	2020(A)	2021(A)	2022(A)	2023(A)	2024(E)	2025(E)
Non-Current assets						
PPE	6.3	4.5	5.8	7.8	5.8	4.2
Intangible assets	1.6	1.6	5.8	6.0	5.4	5.2
Investments	0.2	0.0	0.5	0.0	0.0	0.0
Accounts receivable	4.9	5.4	5.6	5.0	5.4	5.4
Other	0.2	0.5	2.1	1.8	0.5	0.5
Sub-total NCAs	13.3	12.1	19.9	20.6	17.1	15.3
Current Assets						
Inventories and WIP	174.4	156.8	230.1	277.6	227.6	231.6
Trade/other receivables	9.0	23.7	21.4	22.6	30.6	30.6
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Cash/cash equivalents	1.5	15.8	16.4	8.9	8.9	8.9
Sub-total CAs	184.9	196.3	267.8	309.1	267.1	271.1
Net working capital	162.6	128.8	182.9	243.3	218.3	222.3
Total Assets	198.2	208.4	287.7	329.7	284.2	286.4
Current Liabilities						
Trade and other payables	-20.8	-51.6	-68.5	-57.0	-40.0	-40.0
Land creditor	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	-0.8	-1.3	-1.3	-1.3
Corporation tax	-0.8	-0.9	-0.3	-0.4	-0.4	-0.4
Leases	-1.2	-0.8	-1.3	-1.9	-1.9	-1.9
Borrowings	-18.0	-34.0	0.0	0.0	0.0	0.0
Deferred consideration	-2.1	0.0	-6.1	-11.8	-8.0	-5.5
Sub-total CLs	-42.9	-87.3	-77.0	-72.3	-51.5	-49.0
Non-current liabilities						
Borrowings	-51.0	0.0	-50.5	-70.7	-49.9	-44.7
Leases	-2.3	-1.9	-2.7	-4.0	-4.0	-4.0
Provisions	-3.8	-1.2	-1.8	-2.1	-2.1	-2.1
Deferred taxation	-2.4	-2.9	-3.7	-3.6	-3.6	-3.6
Deferred consideration	0.0	-3.9	-8.5	-26.3	-16.0	-16.0
Sub-total NCLs	-59.5	-9.9	-67.2	-106.7	-75.6	-70.4
Total Liabilities	-102.3	-97.2	-144.2	-179.0	-127.1	-119.4
Net Assets	95.9	111.2	143.5	150.6	157.1	167.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	95.9	111.2	143.5	150.6	157.1	167.0

Source: Company historic data, ED forecasts and analysis



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