Springfield Properties

Increasing confidence, debt reduction on track

13th December 2023

Springfield's half year trading update (six months to Nov '23) confirms an in-line performance for H1 and reiterates full year expectations. After a challenging period for the sector, it is a reassuring update, pointing to subdued but stable conditions in Private housing, increasing activity within Affordable housing and clear progress with the Board's debt reduction strategy.

Recent indicators suggest that the market may be stabilising (notably mortgage approvals ticking up in October as interest rates appear to have peaked) giving us confidence to introduce FY25 forecasts within this note.

Springfield's shares have recovered somewhat over recent weeks, alongside sector peers, but still trade on just 9x P/E and 0.5x P/Book for FY25. With increasing visibility of profit recovery and cash generation, we increase our ED Fair Value to 130p (from 110p) based on a sector average Price/ Book multiple of 1.0x.

Good progress on debt reduction strategy

Net bank debt at the end of November was c.£94m (from £62m on 31st May). We expect this to be the peak with a period of rapid deleveraging over the remainder of the forecast period. Net bank debt is expected to fall to £55m by the year-end, in line with previous guidance. This is being driven by careful working capital management and profitable land sales (two agreed in H1 with total consideration of £9.3m, >90% of which will be collected in H2).

More stable market backdrop – introducing FY25 forecasts

Given the more stable market backdrop, we introduce FY25 forecasts within this note. We assume good progress in Affordable housing, reflecting current activity levels, but for now assume no meaningful recovery in the Private reservation rate. We expect PBT to increase by 30% in FY25 to £13m, as Private margins benefit from reduced build cost inflation and Affordable margins recover (weighed down in the current year by unprofitable legacy contracts). We assume another £20m reduction in net debt taking net bank debt to £35m by May '25.

Ultimately, Springfield remains very well positioned to benefit from an improvement in market demand, supported by one of the largest landbanks in Scotland.

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	20.9	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	6.2	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	-60.0	-40.8
Net Cash/(Debt)**	-67.5	-18.2	-34.1	-61.8	-54.1	-34.9
Net Debt*/EBITDA	4.9x	0.9x	1.6x	2.9x	2.9x	2.0x
P/E	9.0x	5.2x	4.9x	7.1x	11.9x	9.2x
EV/EBITDA	10.8x	4.9x	5.1x	6.6x	7.0x	6.4x
Price/ Book	0.7x	0.7x	0.6x	0.6x	0.6x	0.5x
Dividend yield	2.7%	7.8%	8.4%	0.0%	0.0%	2.0%
FCF yield	-44.3%	70.0%	17.0%	1.8%	23.5%	24.6%

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

Company Data

EPIC	SPR.L
Price (last close)	74p
52 weeks Hi/Lo	102p/51p
Market cap	£88m
ED Fair Value / share	130p
Proforma net cash/ (debt)	(£60.0m)
Avg. daily volume	40,000

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. It has multiple awards for the quality of its homes and innovation.

Next news: Interim results in February 2024

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Trading in line with expectations

Springfield's trading update (six months to Nov '23) confirms an in-line performance and reiterates full year expectations for profit and cash generation. It is a reassuring update, pointing to subdued but stable conditions in Private housing, increasing activity within Affordable and clear progress on debt reduction.

Given prevailing market conditions, H1 results will show a decline year on year, with a customary H2 weighting, which will be bolstered this year by a significant contribution from land sales.

The outlook statement confirms that the Board remains confident in the Group's prospects and in its ability to generate shareholder value.

Focus on debt reduction

As reported at the full year results in September, Springfield is very focused on debt reduction, given the uncertain market backdrop. Good progress was made during H1 with two profitable land sales agreed (total consideration £9.3m) and additional profitable land sales are expected during H2.

Net bank debt at the end of November was c.£94m (from £62m as of May '23). The increase reflected £11m of scheduled deferred payments on the Tulloch Homes and Mactaggart & Mickel acquisitions as well as £6m of contracted payments for land. As a reminder, Springfield has total debt facilities of £118m including the additional £18m term loan secured in September 2023, which has not been utilised.

Net bank debt is expected to fall to £55m by the year-end, in line with previous guidance. H2 will benefit from the remaining £8.8m of outstanding proceeds from the H1 land sales, as well as other land sales in the pipeline and the Group's normal seasonality (weighting of completions to H2).

Divisional overview

Private Housing

In Private housing, Springfield's experience is consistent with broader market trends with subdued but stable reservation rates. Demand has been impacted by high interest rates and mortgage affordability constraints. Selling prices have remained stable. As discussed at the full year results, the Group is managing working capital carefully, only commencing to build private homes once they have been reserved. The unique Scottish "missives" system also provides a greater degree of visibility and certainty to buyers and sellers, guaranteeing a sale around 6 months ahead of completion. For more on this and wider background on Springfield and the Scottish housing market, **click here for our initiation note**.

Build cost inflation has moderated and is running at c.4% (having been as high as 30% at peak) with greater availability of materials and labour. More proactively, costs are being controlled tightly and margins should benefit from a number of initiatives, including a streamlining of available house types.

The business is extremely well positioned to benefit from an improvement in market demand, supported by one of the largest landbanks in Scotland. This comprises 6,500 owned plots (85% with planning) and strategic options over a further 3,255 acres, equating to 33,000 plots (as of 30th Nov '23).

Affordable Housing

Springfield has an excellent reputation in Affordable housing delivery, and it is seeing good levels of demand from its partners. As previously announced, the Group has signed affordable housing contracts with a value of c.£24m for delivery in H2 and beyond. It is in advanced negotiations regarding further contracts to be awarded in H2 2024. The Group has adopted a risk-averse approach and is only pursuing affordable housing contracts with a 12-to-18-month delivery timeframe (i.e. avoiding longer term contracts with potential pricing/ margin risk as experienced in FY23).

Introducing FY25 forecasts

We make some minor changes to the make-up of our FY24 forecasts, assuming higher revenue but at a slightly lower margin to give the same forecast profit outturn. This reflects an increase in Affordable activity, with margins expected to strengthen from FY25 following the conclusion of certain loss-making legacy contracts (as discussed in the September full year results statement).

Our new FY25 forecasts are summarised in the table below. Notably, we assume another year of significant debt reduction (£20m). We tentatively assume that this will pave the way for a return to dividend payments and forecast a well-covered 1.5p final dividend for FY25 (5x covered by our FY25 EPS forecast). In previous years, dividend cover has ranged from 2.5x to 4x and, as earnings recover, we therefore see scope for meaningful dividend growth over the medium term.

Summary forecast changes

Year End May	2024(E) Revised	2024(E) Old	Change	2025(E) New
Revenue £m	287.2	279.7	2.7%	270.4
PBT (underlying) £m	10.1	10.1	0.0%	13.0
EPS fully diluted p	6.2	6.2	0.0%	8.0
Dividend Per Share p	0.0	0.0	0.0%	1.5
Net cash/ (debt) £m	-60.0	-60.0	0.0%	-40.9
Net cash/ (debt) ex. leases £m	-54.1	-54.1	0.0%	-35.0

Source: ED estimates

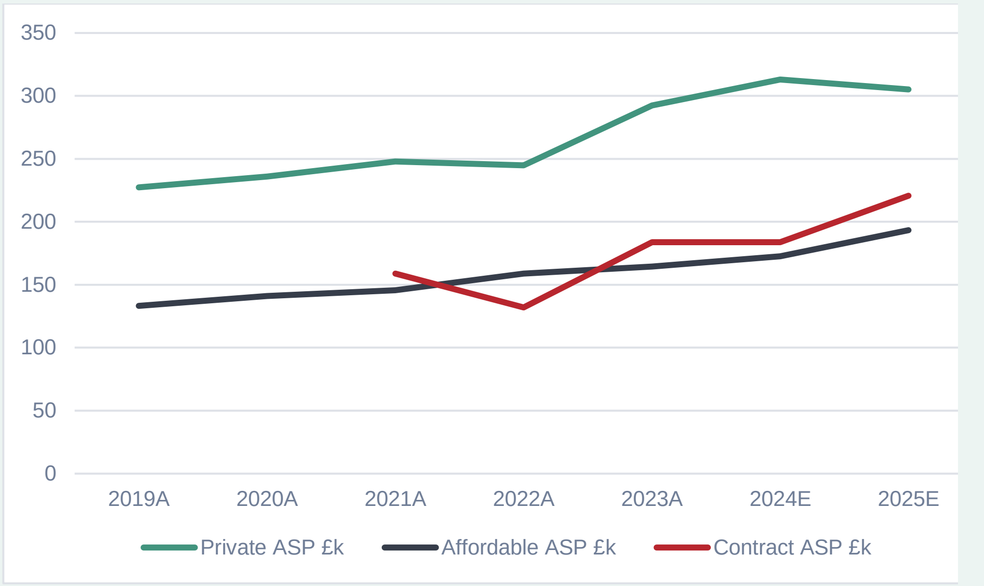
We believe FY25 forecasts are prudently positioned, assuming a 4% decline in housing completions versus FY24 (see below). We expect Affordable housing completions to increase given that the Springfield is now actively engaging with providers. We allow for a decline in Private completions, given that the current year started reasonably brightly before market conditions deteriorated in the summer.

Number of home completions by division to FY25E

Source: Company historic data, ED forecasts and analysis

We assume a stable pricing environment looking into FY25 with a slight decline in the average selling price within Private offset by improvements in average selling price within the Affordable and Contract housing businesses. The Affordable ASP should benefit from improving housing mix as well as the recent increase in the Scottish Government's Affordable Housing Investment Benchmarks.

Average selling price by division to FY25E



Source: Company historic data, ED forecasts and analysis

We assume a small tick up in Group gross margin in FY25 to just under 16% but see potential for good recovery over the medium term, noting that gross margin was c.18% between FY19 and FY21 before an acceleration in build cost inflation post pandemic.

Sales and gross margin trend to FY25E

Source: Company historic data, ED forecasts and analysis

Valuation – significant discount to sector peers

Having introduced FY25 forecasts for Springfield, we summarise the peer group valuation metrics in the table below. This shows that Springfield continues to trade a marked discount to the sector.

Peer Group Valuation Metrics

Company	Share Price p	Market Cap £m	P/E (FY1)	P/E (FY2)	EV/EBITDA (FY1)	EV/EBITDA (FY2)	P/TBV (LTM)	Div Yield (NTM)
Barratt	537	5,203	20.0x	15.6x	10.5x	8.1x	1.1x	3%
Berkeley	4740	5,024	13.2x	14.1x	9.2x	9.4x	1.5x	5%
Bellway	2440	2,906	19.6x	14.6x	12.0x	9.1x	0.8x	2%
Crest Nicholson	206	528	14.9x	16.7x	8.8x	8.8x	0.6x	8%
MJ Gleeson	434	253	10.5x	9.2x	6.3x	5.5x	0.9x	3%
Persimmon	1310	4,182	16.2x	15.4x	10.5x	9.5x	1.3x	5%
Redrow	565	1,814	14.1x	11.8x	8.2x	7.0x	0.9x	2%
Springfield Properties	**74**	**88**	**11.9x**	**9.2x**	**7.0x**	**6.4x**	**0.6x**	**0%**
Taylor Wimpey	138	4,851	14.7x	15.2x	8.9x	9.0x	1.1x	7%
Vistry	775	2,673	8.9x	8.7x	6.5x	6.5x	1.4x	5%
Mean Average			**14.4x**	**13.1x**	**8.8x**	**7.9x**	**1.0x**	**4.1%**
Median Average			**14.4x**	**14.4x**	**8.9x**	**8.5x**	**1.0x**	**3.9%**

Source: Koyfin, Equity Development analysis, share prices as of 11th December '23

Whilst the valuation discount may be influenced by Springfield's current net debt position, we expect the next two years to be a period of significant cash generation, as discussed elsewhere in this note. We are forecasting a return to dividend payments from FY25 (not shown within the table above), beginning with a 2% yield at the current share price with scope for meaningful growth over the medium term.

Since IPO in 2017, Springfield's long term average Price/ Book multiple has been 1.2x and its long-term average P/E rating has been 9.6x. These are in line with typical housebuilding sector ratings through the period, although individual company ratings will vary to reflect business models/ market focus etc.

Fair value raised

Springfield's shares have recovered somewhat over recent weeks, alongside sector peers, but still trade on just 9x P/E and 0.5x P/Book on, we believe, prudent forecasts for FY25.

With increasing visibility of profit recovery and cash generation, we increase our ED Fair Value per share to 130p (from 110p) based on a sector average Price/ Book multiple of 1.0x.

Sector share prices showing signs of recovery

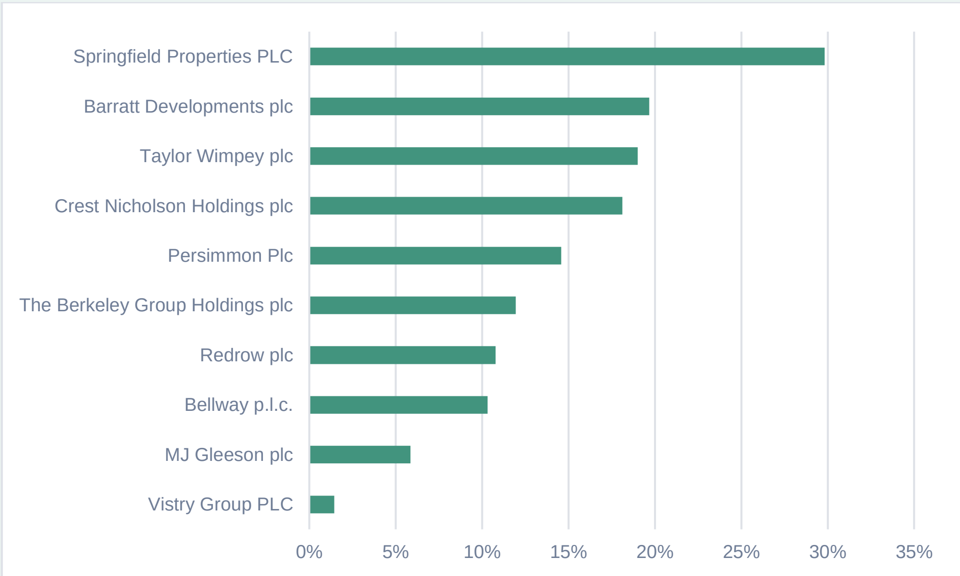
Sector share prices have shown signs of recovery over recent weeks, with interest rates potentially peaking, inflation easing and mortgage approvals ticking up. All of this has been positive for sentiment, alongside a broader recovery in UK focused stocks.

Springfield shares recovering from low base

Springfield has outperformed peers over this period after a sustained period of underperformance. The charts below show Springfield at the top of the peer group on a one-month and three-month view.

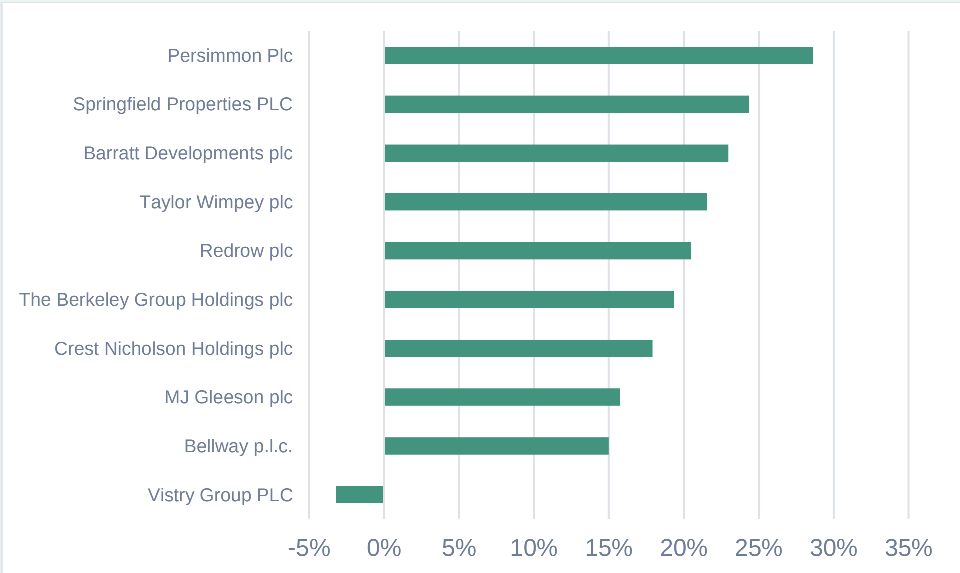
Despite this, the shares continue to trade at a marked discount to the peer group, as discussed on the previous page.

One-month share price performance



Source: Koyfin, Equity Development analysis, share prices to 11th December '23

Three-month share price performance



Source: Koyfin, Equity Development analysis, share prices to 11th December '23

On a one-year view, Springfield continues to lag the share price performance of peers quite significantly, although this is less pronounced that it was at the time of the full year results in September.

One-year share price performance

Source: Koyfin, Equity Development analysis, share prices to 11th December '23

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	-241.8	-227.4
% growth	-25%	52%	20%	33%	-15%	-6%
% of revenue	81%	82%	83%	86%	84%	84%
Gross profit	**27.4**	**38.8**	**43.1**	**48.0**	**45.3**	**43.0**
% growth	-20%	42%	11%	11%	-5%	-5%
% margin	19%	18%	17%	14%	16%	16%
Admin expenses	-14.1	-17.2	-19.1	-25.4	-24.4	-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**	**20.9**	**19.9**
% growth	-22%	52%	11%	-5%	-10%	-5%
% 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**	**18.3**	**17.5**
% growth	-29%	63%	14%	-8%	-11%	-4%
% margin	8%	9%	9%	6%	6%	6%
Net interest	-2.0	-1.2	-1.8	-4.7	-8.2	-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	0.0	0.0
Reported PBT	**9.7**	**17.9**	**19.7**	**15.3**	**10.1**	**13.0**
Underlying tax	-2.1	-4.2	-3.7	-3.3	-2.5	-3.3
Underlying tax rate (%)	21%	23%	18%	21%	25%	25%
Adj. PAT	**8.1**	**14.3**	**17.0**	**12.7**	**7.6**	**9.8**
PAT	7.6	13.7	15.9	12.1	7.6	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	18.3	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	0.0	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	11.0	10.0
Operating Cash Flow	**-26.6**	**57.0**	**19.0**	**8.4**	**31.9**	**29.9**
Net Interest	-1.6	-1.3	-1.6	-3.8	-8.2	-4.5
Tax	-3.1	-4.2	-3.5	-2.9	-2.5	-3.3
Net Op. Cash Flow	**-31.3**	**51.5**	**13.9**	**1.7**	**21.2**	**22.2**
Purchase of PPE	-0.6	-0.2	-0.5	-0.5	-0.5	-0.6
Sale of PPE proceeds	0.1	0.2	0.2	0.4	0.0	0.0
Total Net Capex	-0.5	0.0	-0.2	-0.1	-0.5	-0.6
Equity Free Cash Flow	**-31.8**	**51.5**	**13.7**	**1.6**	**20.7**	**21.6**
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	0.0	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**	**7.7**	**19.1**
Net Debt - BOP	-29.6	-70.9	-20.8	-38.1	-67.7	-60.0
Net Debt - EOP	**-70.9**	**-20.8**	**-38.1**	**-67.7**	**-60.0**	**-40.9**
Net Bank Debt (ex. leases)	**-67.5**	**-18.2**	**-34.1**	**-61.8**	**-54.1**	**-35.0**

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	6.0	4.4
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**	**17.3**	**15.5**
Current Assets						
Inventories and WIP	174.4	156.8	230.1	277.6	241.6	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**	**281.1**	**271.1**
Net working capital	**162.6**	**128.8**	**182.9**	**243.3**	**232.3**	**222.3**
Total Assets	**198.2**	**208.4**	**287.7**	**329.7**	**298.4**	**286.6**
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	-63.0	-43.9
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**	**-88.7**	**-69.6**
Total Liabilities	**-102.3**	**-97.2**	**-144.2**	**-179.0**	**-140.2**	**-118.6**
Net Assets	**95.9**	**111.2**	**143.5**	**150.6**	**158.2**	**168.0**
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	**95.9**	**111.2**	**143.5**	**150.6**	**158.2**	**168.0**

Source: Company historic data, ED forecasts and analysis

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