

Confident H1 update, positive market developments

10th December 2024

Springfield's H1 update reiterates current year expectations and reinforces our confidence in the medium-term outlook. Momentum in private housing reservations was sustained through the first half, whilst affordable housing achieved a significant increase in gross margin driven by contracts won in the prior year. Affordable housing providers have been more hesitant in awarding contracts in recent months but last week's Scottish budget confirmed a material increase in funding for affordable homes delivery in FY25/26, which should stimulate activity into FY26. Springfield continues to engage with stakeholders in the major infrastructure projects planned for the North of Scotland, where it has a significant landholding. We remain confident in the growth outlook and reiterate our 140p Fair Value estimate.

Trading in line with expectations at half year stage

Springfield's first half trading update confirms the Group is on track to meet market expectations as private housing reservation rates have improved and affordable housing margins have returned to double digits, as expected. We make no changes to our model and look forward to a fuller update alongside the interims in mid-February.

Private housing seeing sustained improvement

Springfield confirms a sustained momentum in private housing reservation rates through the first half with resilient selling prices across the Group's brands. This is consistent with the most recent market data, which confirm steady house price inflation in Scotland ahead of the UK average.

Affordable housing to benefit from material increase in funding

In terms of the outlook for affordable housing, the recent Scottish budget was highly encouraging in allocating nearly £800m for investment in new affordable housing in supply in 2025/26, reversing the funding cuts from the prior year. This is excellent news, which will create certainty for affordable housing providers, who had delayed some contract decisions ahead of the budget.

Valuation discount overlooks Springfield's unique offering

Springfield continues to trade at a c.30% discount to peers, which in our view overlooks the Group's unique positioning, the likely tailwind from the increased affordable housing budget and clear potential for major investment in housing delivery in Springfield's stronghold in the North of Scotland.

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	5.9x	8.6x	13.2x	11.3x	9.0x	8.2x
EV/EBITDA	5.9x	7.5x	7.4x	7.2x	6.1x	5.8x
Price/ Book	0.7x	0.7x	0.7x	0.7x	0.6x	0.6x
Dividend yield	6.9%	0.0%	1.1%	1.7%	2.8%	5.0%
FCF yield	14.0%	1.5%	34.2%	7.0%	9.4%	19.3%

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

Company Data

EPIC	SPR.L
Price (last close)	89p
52 weeks Hi/Lo	110p/74p
Market cap	£106m
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.

Springfield has one of the largest owned landbanks in Scotland, with a high proportion having planning in place. The Group continues to consider opportunities for profitable land sales of sites that do not impact the near-term development pipeline.

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Positive H1 Update, trading in line with expectations

Springfield has confirmed **sustained momentum in private housing** reservation rates through the first half, showing year on year growth, with resilient selling prices across the Group's brands.

In **affordable housing**, the Group progressed the contracts secured in the prior year and completed its legacy contracts, supporting **a return to a double-digit gross margin** for this business, as expected. There has been some hesitancy amongst affordable housing providers to commence new projects, given uncertainty ahead of last week's Scottish budget. Some of the projects in Springfield's pipeline will therefore commence slightly later than originally planned but this does not have an impact on Group earnings expectations. More importantly, last week's Scottish budget was highly encouraging in allocating nearly £800m to be invested in new affordable housing in supply in 2025/26, reversing the funding cuts from the prior year. **This is a 38% increase on the current financial year's budget of £556m**, and shows modest growth over the 23/24 budget of £752m.

This investment is expected to deliver 8,000 affordable homes next year and we expect this to stimulate further affordable contract awards from the second half of the current year and into Springfield's FY26. The Scottish Government remains committed to its affordable homes delivery target of 110,000 by 2032.

Springfield has continued to engage with key stakeholders involved in the creation of the Inverness and Cromarty Firth Green Freeport and new powerlines in the North of Scotland. Both of these developments will require a substantial increase in housing delivery in an area where Springfield has significant landholdings.

Net bank debt at 30th November was £63.6m (30th November '23: £93.4m; 31st May '24: £39.9m), a significant improvement year on year reflecting the strategic focus on this area over the past year and careful management of costs. Our year-end expectations for net debt are unchanged at £37.8m. The increase in net debt since the half year follows the normal seasonal working capital pattern.

Attractive market drivers with Scotland outperforming wider UK

The momentum reported by Springfield in private housing is consistent with the most recent market data, which confirm steady house price inflation in Scotland ahead of the UK average.

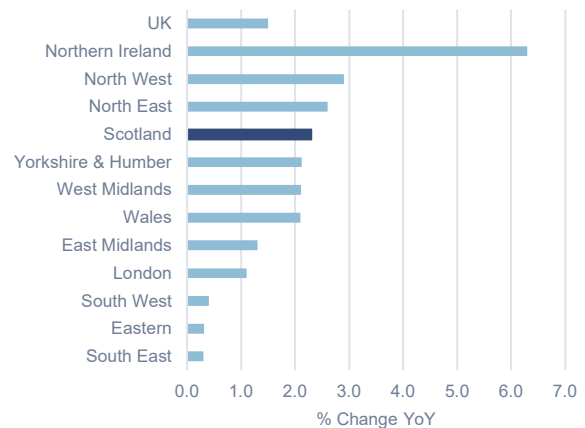
Last week's Scottish budget confirmed a 38% increase in funding for affordable housing in 25/26

Major infrastructure projects in the North of Scotland present significant opportunity

Quarterly House Price Inflation (Nationwide)



October '24 HPI by Region (Zoopla)



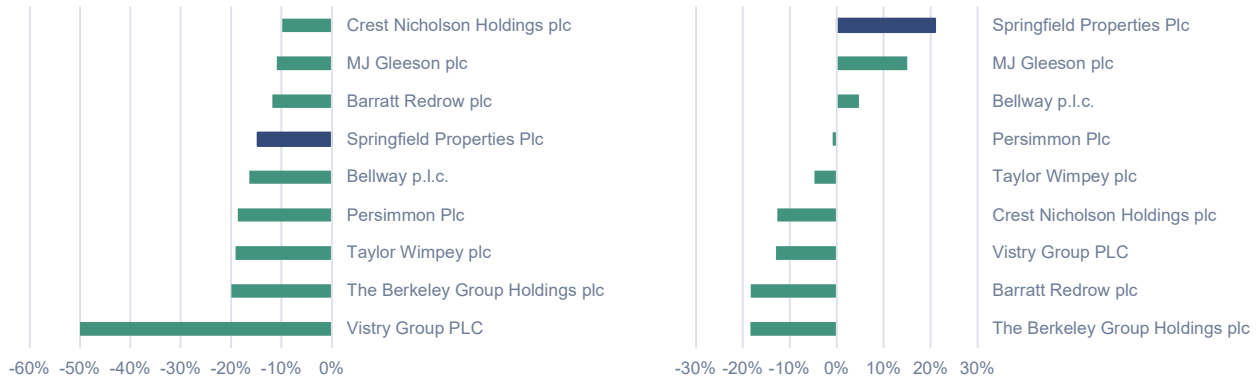
Source: Nationwide, Zoopla

Valuation discount overlooks SPR's unique positioning

The past quarter has been a more subdued period in terms of sector share price performance, with all companies in negative territory. Most sector peers have drifted lower by between 10% and 20% against a backdrop of uncertainty around the UK Autumn Budget, expectations of a more gradual reduction in interest rates and a resultant lack of conviction in the prospects for the housing market. Springfield's share price has not been unaffected, although it remains the best performer over the past year.

Three-month share price performance

One-year share price performance



Source: Koyfin, ED analysis, share prices as of 6th December 2024

Springfield continues to trade at a c.30% discount to peers on Price/ Book and Price/ Earnings metrics. In our view, this overlooks the Group's unique positioning in Scotland, the likely tailwind from the increased affordable housing budget and clear potential for major investment in housing delivery in the North of Scotland, where Springfield has a significant presence and valuable landholdings. Moreover, the Group continues to consider opportunities for profitable land sales of sites that do not impact the near-term development pipeline.

We remain confident in the Group's growth outlook and reiterate our 140p Fair Value estimate, which we consider well underpinned by a strong balance sheet and one of the largest owned landbanks in Scotland.

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 Redrow	4.34	6,268	16.1x	12.1x	9.7x	7.2x	1.4x	3.6%
Bellway	25.36	3,009	15.6x	12.1x	10.3x	8.2x	0.9x	2.6%
Crest Nicholson	1.74	445	26.9x	17.4x	13.9x	10.4x	0.6x	1.9%
MJ Gleeson	5.06	295	14.4x	12.4x	8.0x	6.9x	1.0x	2.3%
Persimmon	12.88	4,117	15.8x	13.1x	9.4x	8.0x	1.3x	4.9%
Springfield	0.90	106	11.3x	9.0x	7.2x	6.1x	0.7x	1.7%
Taylor Wimpey	1.28	4,541	15.3x	12.7x	9.4x	7.8x	1.0x	7.5%
The Berkeley Group	41.18	4,196	11.5x	12.4x	7.5x	8.1x	1.2x	6.0%
Vistry	6.70	2,220	10.3x	7.8x	6.4x	5.4x	1.0x	4.2%
Mean Average			15.2x	12.1x	9.1x	7.6x	1.0x	3.9%
Median Average			15.3x	12.4x	9.4x	7.8x	1.0x	3.6%

Source: Koyfin, ED analysis, share prices as of 6th December 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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