9th April 2018

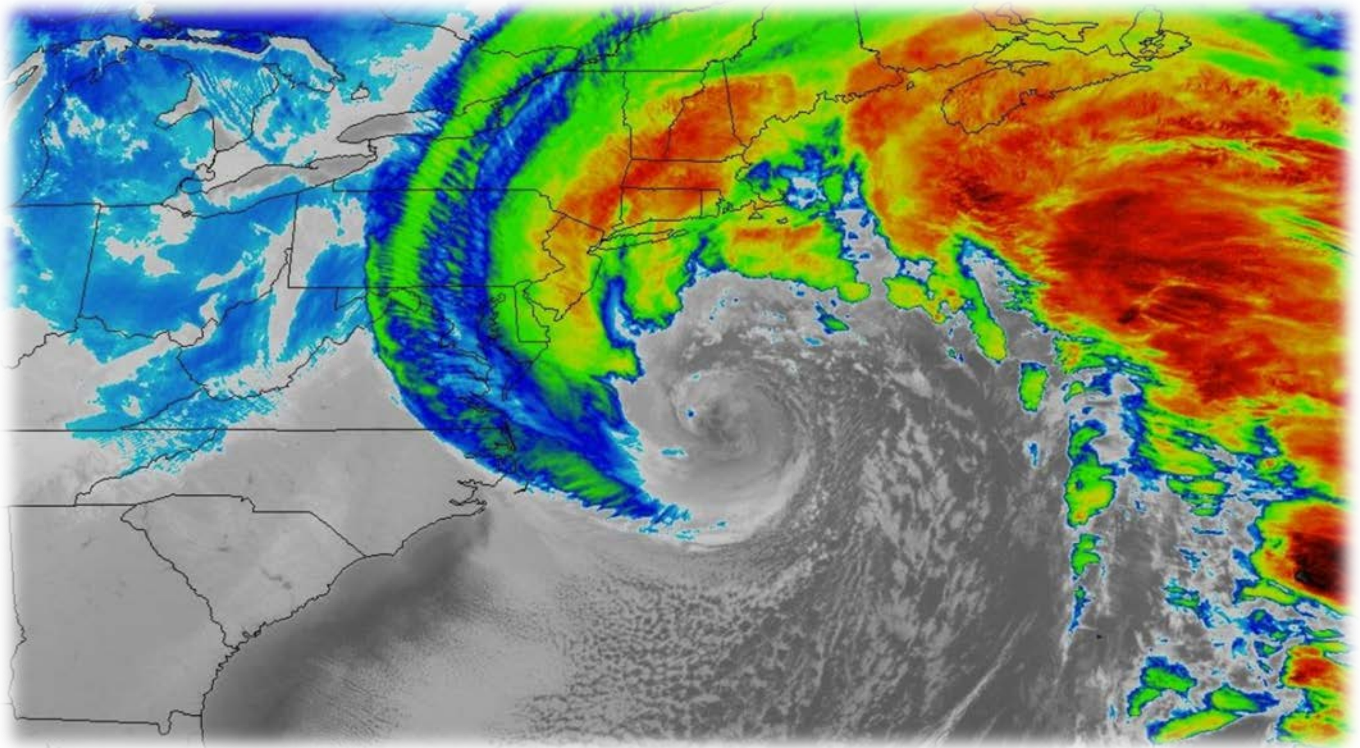
hardman&co

# UK Housebuilding Sector:

# 1Q 2018; and the weather forecast

## Spring 2018

## 'Bombogenesis: happening now?'



*Source: Creative Commons*


**Analyst**

Tony Williams 020 7194 7622

tw@hardmanandco.com



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# The Bombogenesis Issue

*Source: Shutterstock*

This ominous-sounding term originated from the work of famed Swedish meteorologist, Tor Bergeron (1897-1977), but it only entered popular vernacular this year – and there have been ample opportunities in 2018 to use it.

The word actually comes from combining 'bomb' and 'cyclogenesis', i.e. meteorology speak for storm formation.

Technically, a storm undergoes bombogenesis when its central low pressure drops at least 24 millibars in 24 hours; for example, a strong, cold jet stream high in the atmosphere interacting with an existing system near a warm ocean current (like the Gulf Stream).

In turn, this causes already low pressure at the surface to deepen and, as the air converges, the storm spins faster and faster, like a twirling ice skater who pulls in his or her arms; and this leads to higher and higher wind speeds in incredibly short order.

If a storm is strong enough or deepens rapidly (aka there is a sudden drop in pressure), its winds can reach hurricane force, i.e. 119 kilometres per hour – or higher – together with astringent snow and rain.

And, the closer you are to the centre of the storm, the stronger the winds.

In 1Q 2018, the UK Housebuilding Sector has had to contend with a stiff breeze of uncertainty in a Brexit Winter-now-Spring – but no tempest – i.e. it has lost 11% in value but not more.

A rational meteorologist, however, would advise to prepare for worse; and the zephyr change can be faster than a speeding bullet.

## Share prices in 1Q 2018

In the first quarter of 2018, the stock market value of the UK Housebuilding Sector deflated 11% to close at £38.1bn (which compares with +16% in 1Q 2017).

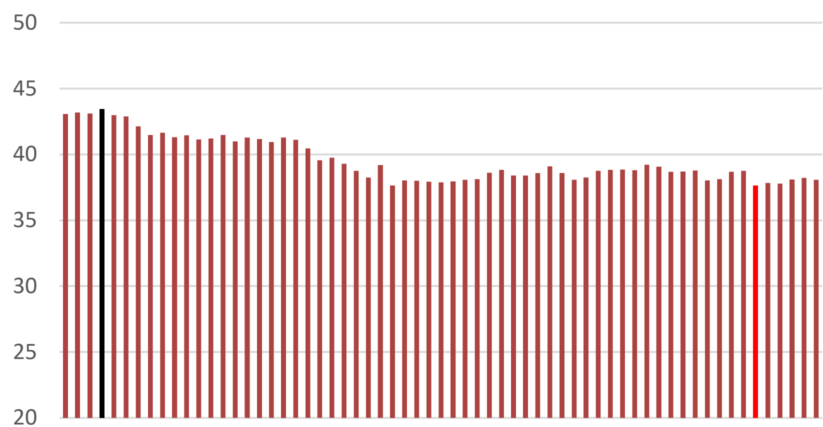
This was also 13%, or £5.6bn, off its all-time high wind speed, which was recorded on 24th October 2017 (£43.6bn), albeit still 8% above its pre-Brexit level.

Nor were there any gusts to a new peak value in 1Q.

In total, too, there were 63 weather trading days in the first quarter and the Sector rose on 32 of them and fell on 31; and none was becalmed.

Similarly, in 13 weeks, five were up-wind and eight down - and all three months were negative: January -8%, February -3%, March -1%.

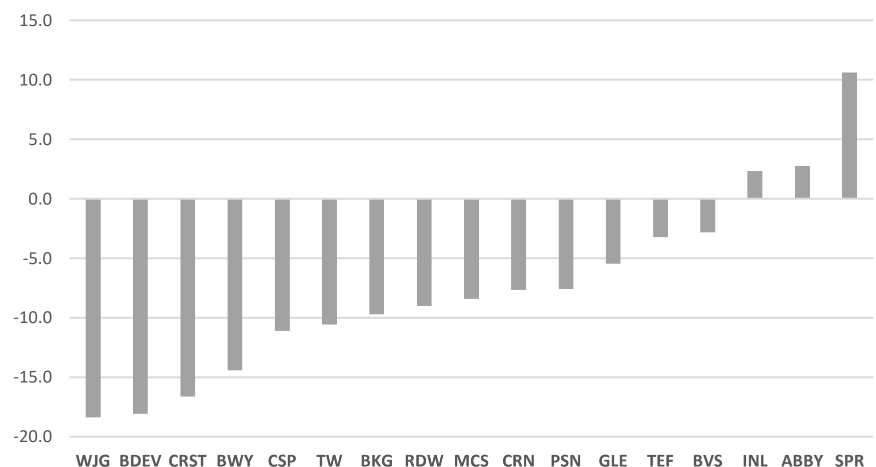
**UK Housebuilding Sector stock market value – daily – in 1Q 2018 (£bn)**




*Note: black denotes 1Q 2018 high on 5th January 2018 and red is the 1Q 2018 low on 22nd March 2018*

*Source: Hardman & Co Research*

**The Share prices in 1Q 2018 vs. 4Q 2017 (% change)**




*Source: Hardman & Co Research*

The best week was Week 10 (+2.6%) with the worst Week 5 (-4.8%).

The best day was 7th February (+2.5%) and the worst weather came a day later on 8th February (-4.0%).

Looking back to the Sector's trough (7th July 2008), the rise has been 1,114% or £34.9bn and the Brexit precip from June 2016 – when Housebuilders lost 40% of their value in two days – happily abated.

And yet, the Sector still trades on a single-digit PER a year out.

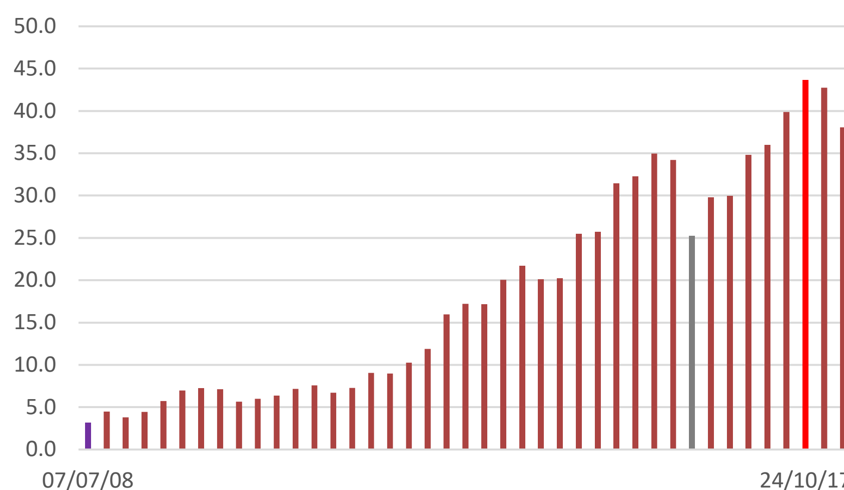
In terms of the average movement in Housebuilders' share prices, this was -7.5% on an actual basis and -10.7% wind-weighted by market capitalisation (in 1Q 2017, these were a fair weather +13.2% and +16.7%, respectively).

Only three from 17 companies blew warmly positive: newcomer Springfield (+10.6%), Abbey (+2.8%) and Inland Homes (+2.3%).

The worst was Watkin Jones (-18.4%), where the eponymous founder (first name 'Mark') sold shares to assist with his divorce. i.e. 1.5% (worth £7.5m at the time); but note that the family, in total, still holds 27.64% of the issued share capital.

Others blown by double digits included Barratt, Crest, Bellway, Countryside and Taylor Wimpey.

**UK Housebuilding Sector: market value, 3Q 2008 to 1Q 2018 * (£bn)**




**Low was on 7th July 2008 (purple) and high was on 24th October 2017 (red); post-Brexit is in grey*
*Source: Hardman & Co Research*

## Share prices year-on-year

Comparing 29th March this year with 31st March 2017, Housebuilders' share prices rose by an average 10% or 11% weighted by market capitalisation; comparing end-March 2017 with the same in 2016, the gains were 3% and 1%, respectively.

Bovis was the blow-away winner on +35%, with Countryside sheltering on +30% and all but four stocks were higher pressured year-on-year.

The losers were McCarthy & Stone (-24%), Crest (-16%), Taylor Wimpey (-4%) and Barratt (-3%).

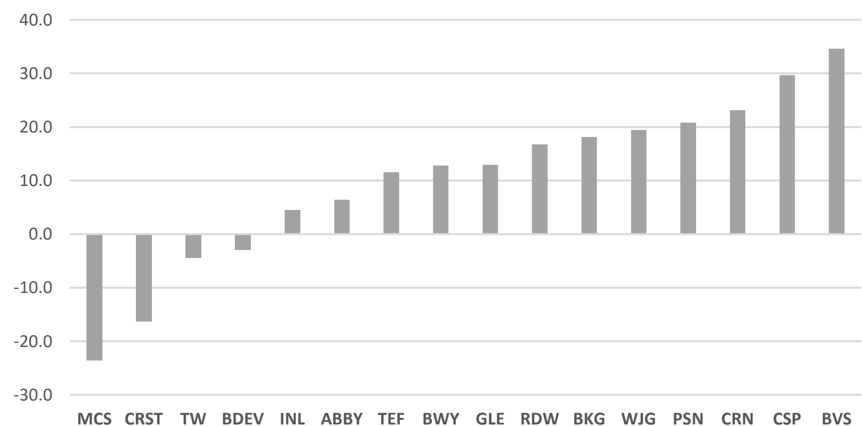
For the record, McCarthy & Stone closed 1Q on 144.5p, which compares with a November 2015 IPO price of 180p.

More broadly and looking at the last 33 quarters since 1Q 2010, the Sector has seen share price rises in 24 of them and falls in nine.

In 1Q 2018, the Housebuilders' share prices (-11% weighted) saw the worst of a bad storm when compared with the principal measures of the UK equity market (which were off in a climatic band from 6% to 8%) and the wider construction and real estate indices.

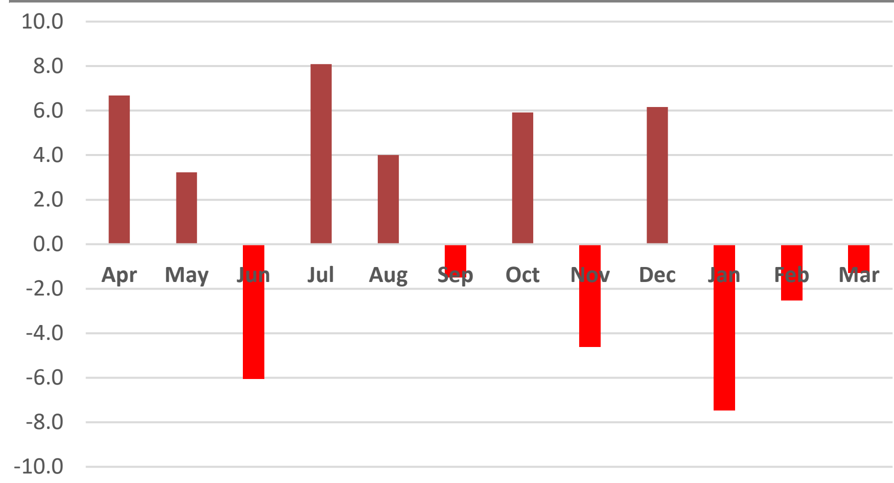
Year-on-year, though, the Housebuilders led the way, up 11%, on the same basis as above, which compares with the widely reported 4% fall in the FTSE 100 and particularly poor weather in a post-Carillion-liquidation construction industry.

**Housebuilding Sector: March 2018 vs. March 2017 (% change in prices)**



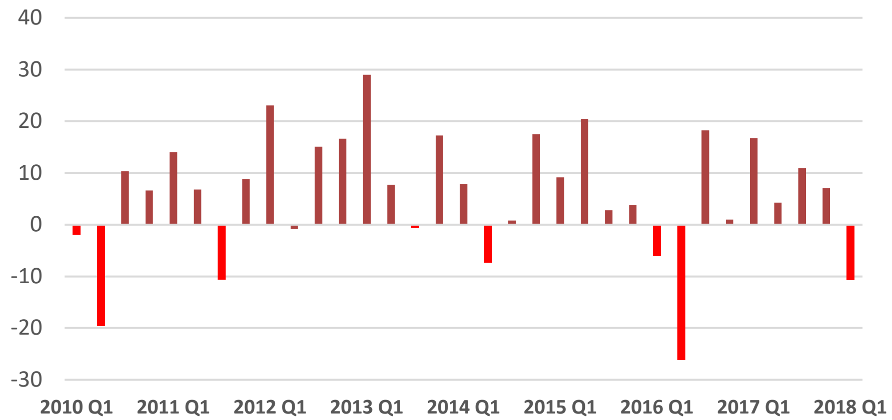

*Source: Hardman & Co Research*

**UK Housebuilding Sector: monthly to March 2018 (% change in prices)**




*Source: Hardman & Co Research*

**UK Housebuilding Sector share prices: 1Q 2010 to 1Q 2018* (% change)**




*weighted % change in share prices quarter by quarter
*Source: Hardman & Co Research*

## Peaks and values

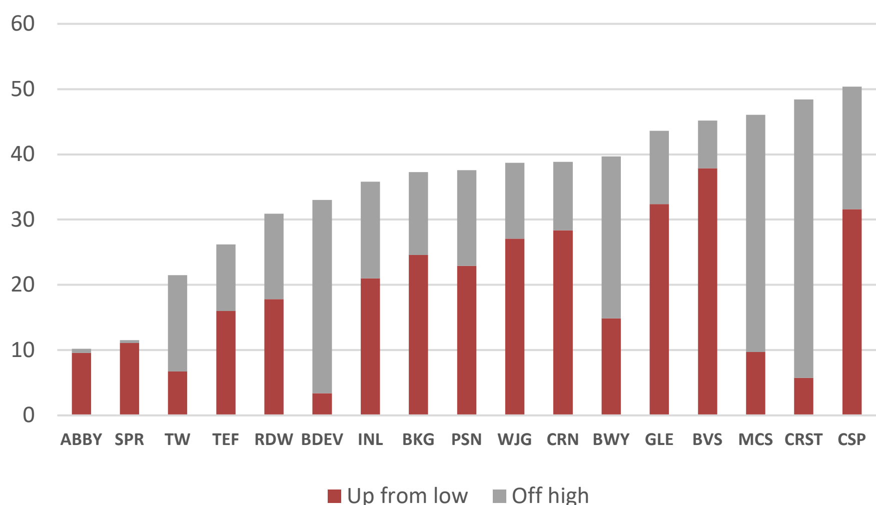
At 29th March 2018, Housebuilders' share prices were, on average, 1,807% above the lows of 2008 and 19% up on more recent 52-week lows (weighted, these numbers are 2,509% and 17%, respectively).

But they were also some 16% below their 2007 seasonal peaks (22% weighted) and 13% off 52-week highs (15% weighted).

Four housebuilders continue to waft through the FTSE 100: Berkeley (89), Barratt (85), Taylor Wimpey (73) and Persimmon (54).

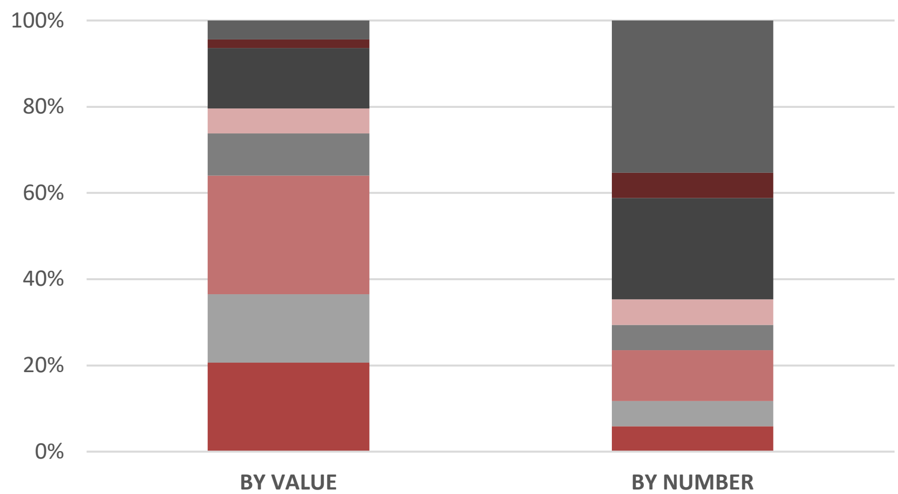
Together, these four represent 64% of the UK Housebuilding Sector value.

**Movement against 52-week lows and highs at 29/03/18 (% change)**



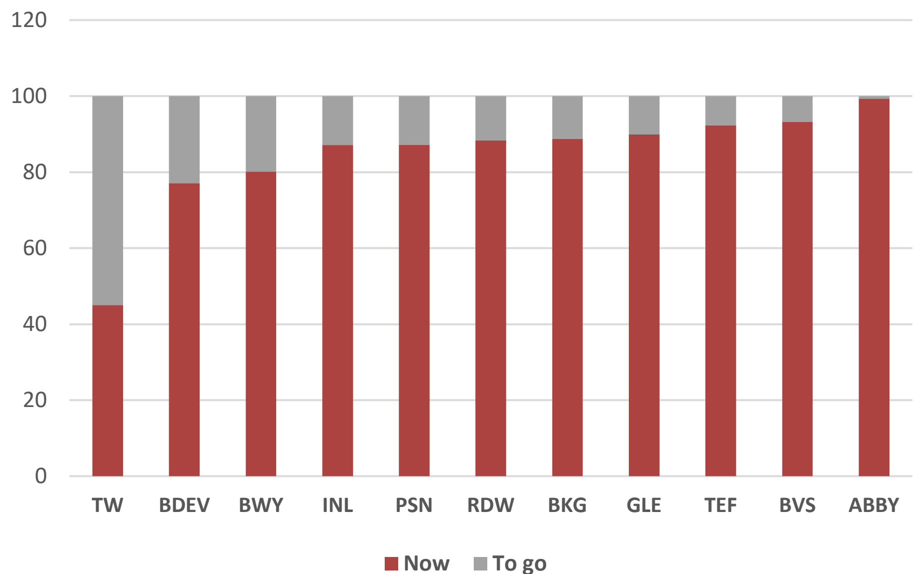

*Source: Hardman & Co Research*

**Sector structure by stock market value: 17 firms worth £37.1bn at 29/03/18***




*Note: Legend is in £bn*
*Source: Hardman & Co Research*

**Share prices now as % of all-time peak level at 29/03/18* (red shading)**




*Note: apart from Abbey, in Euro cents and ex Crest and all newcomers*
*Source: Hardman & Co Research*

## Price-to-book and total return

The Housebuilders' latest average price-to-book valuation was 1.69 on 29th March 2018 and 1.93 weighted (a year ago, the valuations were 1.73 and 1.99, respectively).

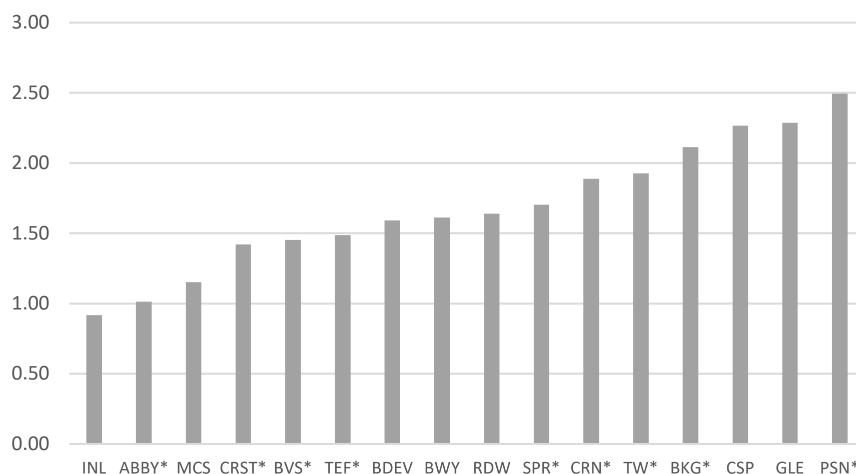
Four out of 16 companies are at wind speed of 2.0 or better, with Persimmon at 2.5 (with Watkin Jones at 3.63 excluded).

The Total Shareholder Return (TSR) for the Sector in the 12 months to 29th March 2018 was 14.4% and 16.8% weighted by market capitalisation (data are drawn by

Bloomberg); this compares with 6.5% and 5.9%, respectively, in the 12 months to 31st March 2017.

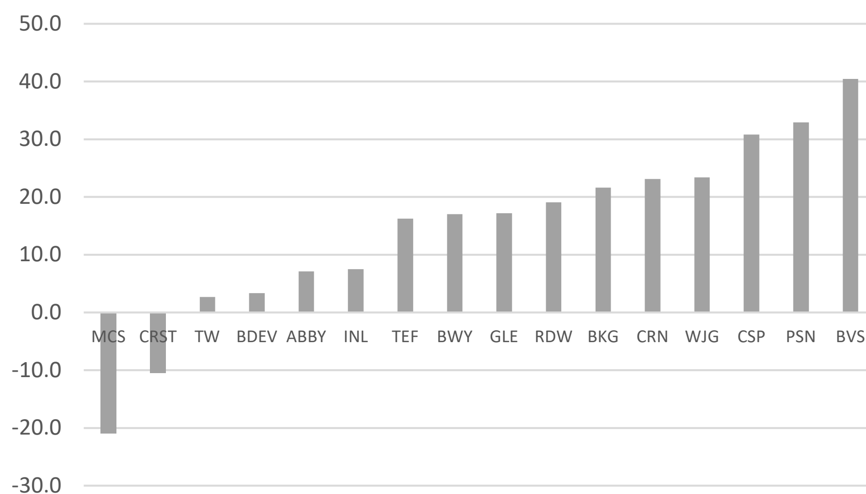
In the last 12 months, a recuperating Bovis was the winner with a 40.5% TSR, while both Crest (-10.5%) and McCarthy & Stone (-21.6%) were negative.

**Price-to-book value at year-end/latest interim*, priced at 29/03/18**




**denotes interims; weighted average is 1.93 and actual average is 1.69 (ex-Watkin Jones 3.63)*
*Source: Hardman & Co Research*

**Housebuilders' TSR in 12 months to 29/03/18 (annual %)**




*Source: Bloomberg*

# Valuation

The Sector's prospective PERs are 9.3x in 2018, followed by 8.7x in 2019; with only a small sample for 2020 (five companies), the potential PER is 9.7x.

Earnings growth is meteorologically forecast at 7.7% in 2018 and 5.5% in 2019 (which we would take any day of the week), with a dip in double figures shaping in 2020.

Berkeley's micro climate foresees earnings dropping sharply in 2019 (i.e. -30%), which affects the average.

For the record, trailing-12-month PERs for the UK's prime equity indices range from 12.7x to 14.7x.

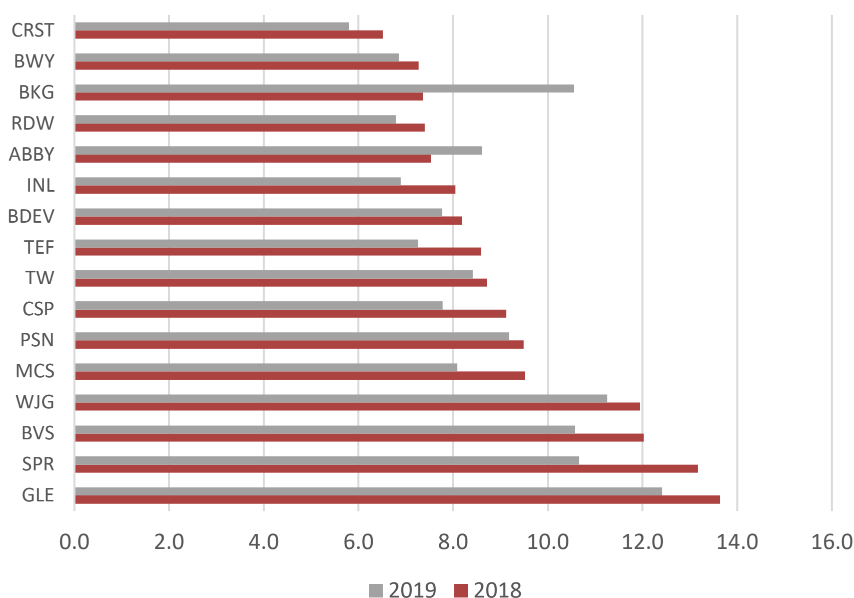
Turning to income sunshine in 2018 and 2019, the UK Housebuilding Sector yields a prospective 5.1% and 5.5%, respectively – covered 2.9x and 2.7x.

In 2020, the early indication from a small sample (five companies) is for shade in the yield valley.

Note, too, that a number of companies has committed to enhanced dividend forecasts, which means Crest, Barratt, Taylor Wimpey, Persimmon and Bovis are yielding 7.9% to 8.8% in 2018E.

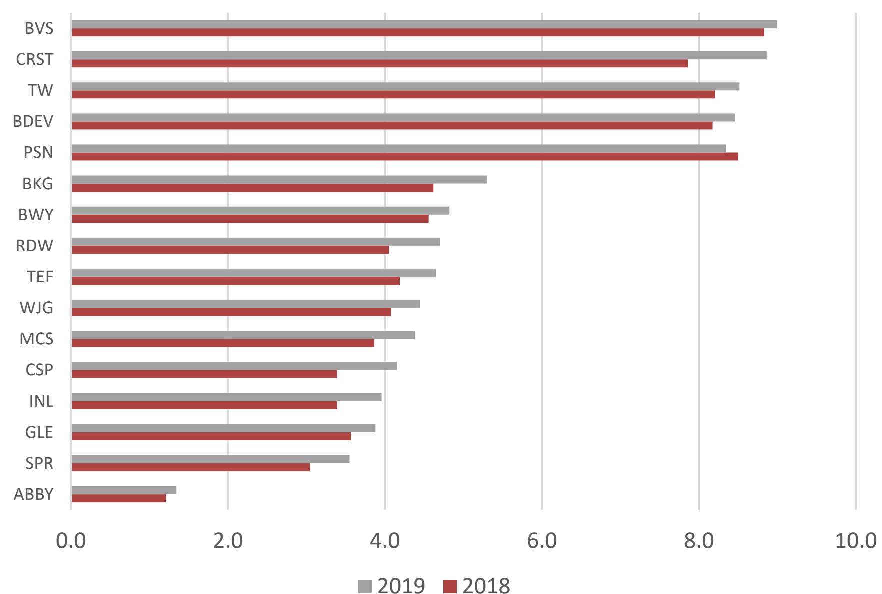
For the record, the UK equity market yields between 2.8% and 4.1% historically, with average cover of 2.1x; all calculations are made at the LSE at close on 29th March 2018.

**PER: 2018E (9.3x) and 2019E (8.7x) as at 29/03/18**




*Source: consensus forecasts from Digital Look; Hardman & Co Research*

Yield: 2017E (avg. 3.9%), 2018E (4.3%) and 2019E (4.1%), at 29/103/18




*Source: consensus forecasts from Digital Look; Hardman & Co Research*

# Results and trading in 1Q 2018

In 1Q, there were four sets of final results, eight finals and 22 other trading-related Sector announcements from the 17 Sector companies.

Average individual pre-tax profits for the 1Q reportees rose 11%, while EBIT margins inched up from 19.3% to 19.4% (ex-Springfield and Inland) on revenue 9% larger at £14.2bn.

EPS rose 16%, on average (ex-big Bovis negative). At the same time, dividends were raised a staggering 36%; in turn, average individual cover dipped from 2.7x to 2.3x.

The average increase in orders was 5% (from a sample of six).

Average individual ROCE dipped 20 basis points to 20.0%, with Capital Turn pretty stable at 1.05 (ex-Watkin Jones).

**Profit & Loss**

| Date | Company | Event | Period | Pre-tax profit (£m) | | PBT | EBIT margins (%) | | Revenue | Orders | DPS | DPS cover (x) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Old | New | % chg. | Old | New | % chg. | % chg. | % chg. | Old | New |
| 15-Jan | Watkin J. | Full Year | 30-Sep | 40 | 43 | 7 | 14.2 | 14.1 | 13 | - | 65 | 3.1 | 2.2 |
| 24-Jan | Crest | Full Year | 31-Oct | 195 | 207 | 6 | 20.4 | 20.6 | 5 | 8 | 20 | 2.2 | 2.0 |
| 07-Feb | Redrow* | Half Year | 31-Dec | 140 | 176 | 26 | 19.5 | 19.7 | 20 | 5 | 50 | 5.2 | 4.4 |
| 19-Feb | Gleeson* | Half Year | 31-Dec | 12 | 14 | 18 | 18.3 | 17.6 | 23 | - | 38 | 2.6 | 2.3 |
| 20-Feb | Springfield* | Half Year | 31-Dec | 2.6 | 3.1 | 20 | 6.3 | 6.6 | 11 | - | na | na | 3.5 |
| 21-Feb | Barratt* | Half Year | 31-Dec | 321 | 343 | 7 | 17.8 | 18.0 | 9 | 2 | 18 | 3.5 | 3.2 |
| 27-Feb | Persimmon | Full Year | 31-Dec | 783 | 977 | 25 | 24.8 | 28.2 | 9 | 7 | 74 | 1.5 | 1.1 |
| 28-Feb | T.Wimpey | Full Year | 31-Dec | 733 | 812 | 11 | 20.8 | 21.0 | 8 | -1 | 26 | 1.7 | 1.5 |
| 01-Mar | Bovis | Full Year | 31-Dec | 162 | 124 | -23 | 15.8 | 12.8 | -3 | - | 6 | 2.1 | 1.6 |
| 20-Mar | Bellway* | Half Year | 31-Jan | 248 | 289 | 17 | 22.0 | 22.2 | 15 | 8 | 28 | 4.4 | 4.0 |
| 28-Mar | Inland* | Half Year | 31-Dec | 5 | 5 | 7 | 8.6 | 10.5 | - | - | 30 | 3.7 | 3.4 |
| ***TOTAL (£m)** ex Inland* | | | | *2,640* | *2,992* | | | | | | | | |
| *Individual average change (%)* | | | | | | *11* | | | *11* | *5* | *36* | *2.7* | *2.3* |
| *Sector average change (%)* | | | | | | *13* | | | *9* | | *47* | | |
| *Individual average margin (%)* | | | | | | | *17.1* | *17.4* | | | | | |
| *Sector average margin (%)* | | | | | | | *20.7* | *21.5* | | | | | |
| 06-Mar | Cairn Homes | Full Year | in Euro | -1.5 | 6.5 | - | 8.9 | 10.0 | 265 | 11 | - | - | - |
| | | 31-Dec | In GBP | -1.2 | 5.7 | | | | | | | | |

*Notes: (i) Pre-tax profit numbers are adjusted where necessary and are net of exceptionals;*
*(ii) DPS includes specials where appropriate;*
*(iii) Springfield was floated on 16th October 2017;*
*(iv) Inland's 88% increase in revenue to £61.2m is ex-the averages;*
*(iv) Cairn is listed in London and Dublin and reports in Euros; it has just moved from loss to profit and is ex-the average; and*
**denotes Interim Results.*
*Source: Hardman & Co Research*

## Balance sheets

| Date | Company | Event | Period | Net Assets (£m) | | Net (Debt)/Cash (£m) | | Gearing (%) | | ROCE (%) | | Capital |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Old | New | Old | New | Old | New | Old | New | Turn (x) |
| 15-Jan | Watkin J. | Full Year | 30-Sep | 103 | 126 | -32 | -41 | 31 | 32 | 36.3 | 30.9 | 2.56 |
| 24-Jan | Crest | Full Year | 31-Oct | 719 | 818 | 77 | 33 | -11 | -4 | 22.6 | 23.0 | 1.07 |
| 07-Feb | Redrow* | Half Year | 31-Dec | 1,123 | 1,343 | -56 | -35 | 5 | 3 | 23.2 | 24.4 | 1.24 |
| 19-Feb | Gleeson* | Half Year | 31-Dec | 157 | 174 | 26 | 27 | -17 | -15 | 14.7 | 15.7 | 0.89 |
| 20-Feb | Springfield* | Half Year | 31-Dec | 31 | 58 | -31 | -14 | 99 | 24 | 9.8 | 9.5 | 1.42 |
| 21-Feb | Barratt* | Half Year | 31-Dec | 3,118 | 3,376 | 180 | 166 | -6 | -5 | 19.6 | 20.0 | 1.11 |
| 27-Feb | Persimmon | Full Year | 31-Dec | 2,694 | 3,149 | 913 | 1303 | -34 | -41 | 28.9 | 30.7 | 1.09 |
| 28-Feb | T.Wimpey | Full Year | 31-Dec | 2,900 | 3,137 | 365 | 512 | -13 | -16 | 25.3 | 24.6 | 1.17 |
| 01-Mar | Bovis | Full Year | 31-Dec | 1,016 | 1,057 | 39 | 145 | -4 | -14 | 16.3 | 12.1 | 0.94 |
| 20-Mar | Bellway* | Half Year | 31-Jan | 1,977 | 2,324 | -175 | -131 | 9 | 6 | 23.2 | 23.6 | 1.06 |
| 28-Mar | Inland* | Half Year | 31-Dec | 119 | 135 | -78 | -70 | 66 | 52 | 2.6 | 5.6 | 0.54 |
| ***TOTAL (£m)** ex Inland* | | | | 13958 | 15696 | 1227 | 1894 | | | | | |
| *Individual average change (%)* | | | | | 20 | | | | | | | |
| *Sector average change (%)* | | | | | 12 | | | | | | | |
| *Individual average ROCE (%) + Turn* | | | | | | | | | | 20.2 | 20.0 | 1.19 |
| *Sector average ROCE (%) + Turn* | | | | | | | | | | 18.3 | 18.5 | 0.85 |
| *Individual average gearing (%)* | | | | | | | | 12 | 2 | | | |
| *Sector average gearing (%)* | | | | | | | | -9 | -12 | | | |
| 06-Mar | Cairn Homes | Full Year | in Euro | 664 | 722 | -76 | -159 | 11 | 22 | - | - | - |
| | | 31-Dec | in GBP | 542 | 632 | -62 | -140 | | | | | |

*Notes: (i) ROCE is return on capital employed and is adjusted where required for half years where appropriate; (ii) Cairn is listed in London and Dublin and reports in Euros and it has just moved from loss to profit and is ex-the averages; and *denotes Interim Results.*
*Source: Hardman & Co Research*

# Performance and outlook

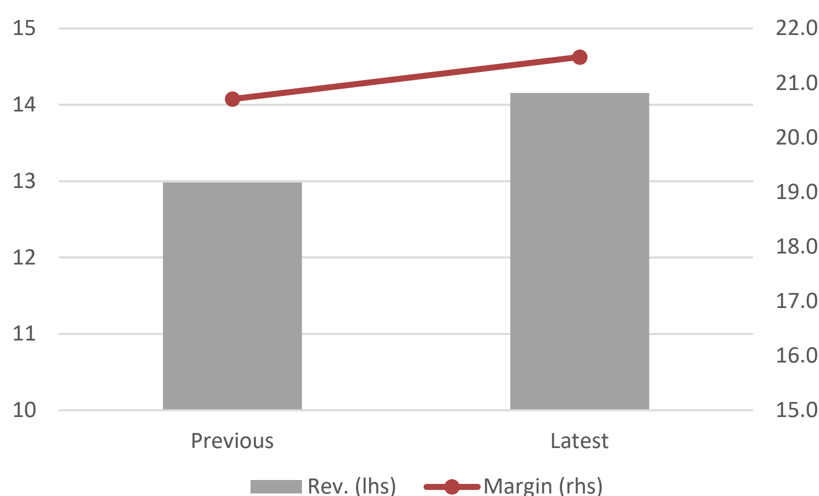
## *Watkin Jones (Finals – 15th January)*

It is not every day that a 49-year-old CEO of his eponymous company steps down "for personal reasons" – later revealed as a divorce (see earlier share sale).

And the company has done so well. It was floated in March 2016 at £1 and peaked at 251.25p in 2017, when it was also the best performer in the Sector by a street; in 1Q, though, it closed at 179.20p.

In its fiscal year to 30th September 2017, revenue rose 13% to £302m, as did EBIT to £42.7m. Better still, its earnings visibility is exemplary, with all 10 student developments (3,415 beds) scheduled for delivery ahead of the 2018-19 academic year forward-sold, plus five (from seven) for 2019-20. It is also developing a Build-to-Rent business and a student accommodation management unit.

**Sector revenue (£m) and EBIT margin (%): reported in 1Q 2018**



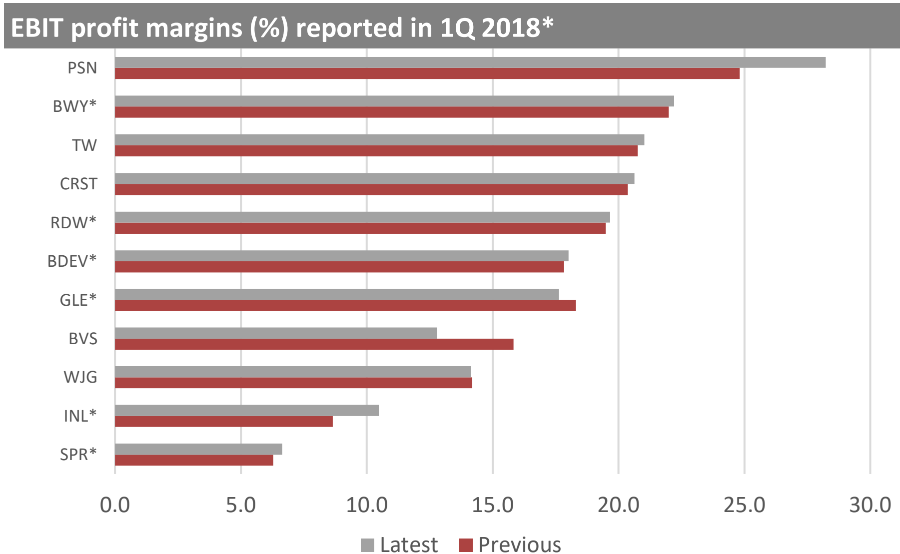

*Source: Hardman & Co Research*

## *Crest Nicholson (Finals – 24th January)*

The year-ending 31st October 2017 was soundish for Crest, with total revenue up 5% at just over £1bn, an EBIT margin of 20.6% (2016: 20.4%) and pre-tax profit (management's choice metric) rising 6% to £207m. The dividend was also raised 20%, with cover at 2.0x (2016: 2.3x).

Total completions, however, were up just 2%, comprising a surge in PRS but a 6% deficit on open-market sales. Similarly, as at mid-January, the value of forward sales was 8% ahead at £576m; albeit by 22nd March, forward sales, including completions, were 15% higher at £620m.

The Group has also stuck with its target revenue of £1.4bn in 2019 (2017: £1.07bn).




**denotes interim results*
*Source: Hardman & Co Research*

## *Redrow (Interims – 7th February)*

The company ended its half year on 30th December 2017 and it was all about records in revenue (+20% to £890m) and completions (+14% to 2,811); and yet its interim statement ran to just 1,118 words i.e. less is more and the share price agreed.

EBIT was also 22% to the good at £175m, although margins remained mired at sub-20% i.e. 19.7 this time versus 19.5% previously. The dividend, however, was raised 50% with cover still at 4.4x (versus 5.2x).

Yes, the order book, at 31st December, was 5% up at £1.05bn. However, "reservations in the first five weeks of the second half have been in line with the strong comparable period last year".

The latter is a negative, but the shares rose 5.5% to 625.5p on the figures (although on 29th March, they were at 595.5p).

## *Gleeson (Interims – 19th February)*

Revenue rose 23% to £77m in the six months to 31st December 2017, with an operating margin of 17.6% (2016: 18.3%). Meantime, pre-tax profit was struck at £13.7m, up 19% and the dividend was increased by 38.5%.

By division, Gleeson Homes' revenue rose 35% to £73.7m, with an operating margin of 16.7% (2016: 15.5%). No order book data, however, were promulgated.

Gleeson Strategic Land, however, had a poor 1H, with operating profit 43% lower at £2.3m, albeit the Group still sees "strong demand from medium and large housebuilders for good-quality sites in the South of England". It added: "The Board is confident that the Group will deliver a result for the full year in line with expectations".

## *Springfield Group (Interims – 20th February)*

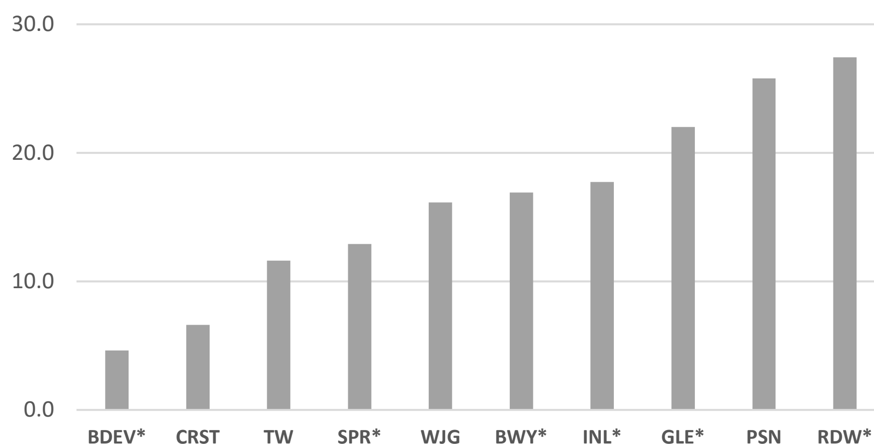
Having floated in October 2017 at 106p (29th March: 120p), these were the company's maiden 1H results to 30th November.

Springfield operates in Scotland, only, delivering both private (78% of revenue) and affordable housing – and 1H revenue rose 11% to £55m, with a 15.4% EBIT margin (2016: 14.5%) and pre-tax profit 20% ahead at a clean £3.1m.

The company sold 184 (-6%) private units in the half, at an average price 13% higher year on year at £234,000 plus 96 (2016: 68) affordable units at £122,000 (-1%).

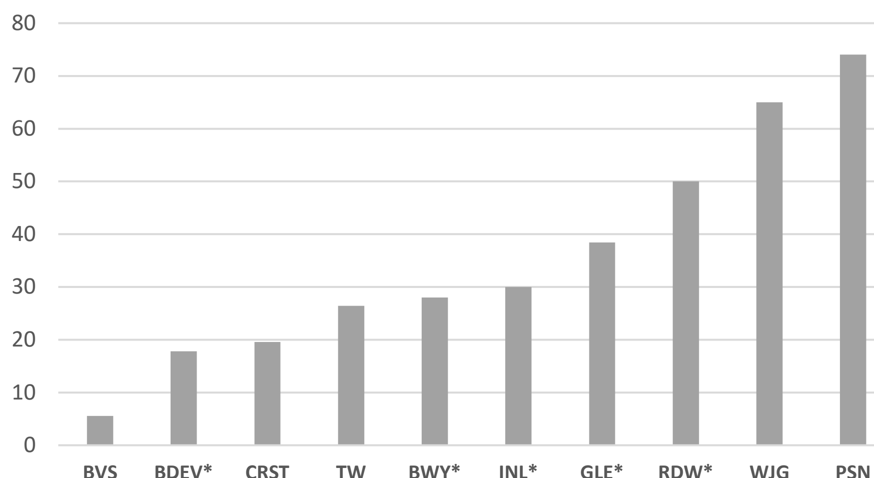
It has "a strong order book of contracted revenues" and "anticipates revenue and profit for full year 2017-18 to be 5-10% ahead of market expectations".

**EPS growth* (% change) reported in 1Q 2018**




**denotes interim results*
*Source: Hardman & Co Research*

**DPS growth reported in 1Q 2018* (% change)**




**denotes interims*
*Source: Hardman & Co Research*

### *Barratt (Interims – 21st February)*

In the six months to 31st December 2017, total completions inched up 2% to 7,324, with revenue ahead 10% at a touch under £2bn. The operating margin was virtually unchanged at 17.9% (2016: 17.8%), with pre-tax struck at £343m (+7%) and the dividend increased 18% and covered 3.2x (2016: 3.5x).

There was little more excitement when it came to Total Forward Sales, which were up just 2.0% at £3.08bn as at 18th February 2018 (driven by the affordable sub-sector). By units, the orders were 4.4% up at 13,285. Barratt spoke of "continued headwinds in the high end central London market". It added: "overall our net private reservation rate was 0.68 (2016: 0.68) per active outlet per week in the half year period, in-line with a strong prior year".

### *Persimmon (Finals – 27th February)*

The Group promulgated a 15,000-plus word preliminary statement. This is thesis length and no one actually reads it (other than sad people like me); and then there is the trees/paper used in the printing.

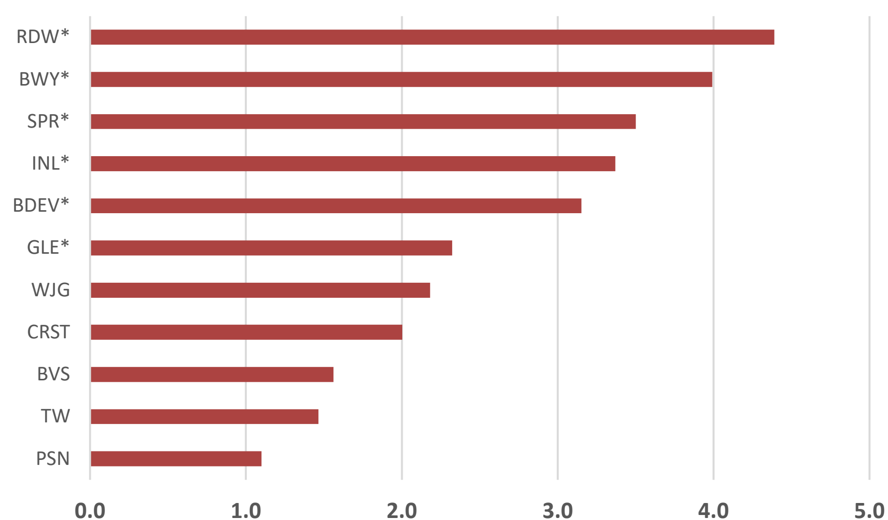
This is a pity, too, because the results were very good, with unit sales up 6% at 16,043 and revenue better by 9% (average selling prices added 3.2% to £213,321).

EBIT margins were 28.2% (2016: 24.8%), with pre-tax 25% better at £977m and the 2017 dividend (including specials) ramped 74% to 235p per share.

Forward sales were up 7.4% at £2.03bn, including completions in calendar year to date. Persimmon also continues to invest in its own building materials, timber frame residential units, bricks and now tiles.

With a weather eye on Brexit *et al* it added: "present key uncertainties that will have a substantial influence on market outcomes".

**Dividend cover (x) reported in 1Q 2018***




**denotes interims*
*Source: Hardman & Co Research*

### *Taylor Wimpey (Finals – 28th February)*

The company's 10,000-plus word announcement was dominated by a £130m exceptional charge on its leasehold housing units (instead of ground rents doubling every 10 years, they will now be based on RPI).

The second niggle was an order book (at 18/02), which was off 1.8% in units (to 8,415) and down 0.5% by value (to £1.97bn). The shares fell 4% to 186p and some 30 million were traded on the day (normally, say, 13 million). The closing price on 29th March was 184.6p.

In 2017, revenue was 8% better at £4bn, with total units of 14,842 (+5%) and prices up 3.5% at £264,000. At the same time, EBIT margins were a touch better at 21% (2016: 20.8%) and pre-exceptional pre-tax was struck 11% higher at £812m. The dividend was hiked 26%.

Finally, Spain added £26.8m of EBIT, an increase of 30%.

### *Bovis (Finals – 1st March)*

Greg Fitzgerald, former Galliford Try CEO (in its heyday), has been in situ for less than a year but is doing all the things you would expect. We even forgive him, too, for the business school jargon such as 'balance sheet optimisation' (*aka* 'balance sheet reduction').

And, yes, there is a good business here – which had a super reputation in its respective heyday.

In 2007, Bovis sold 3,646 houses (-8.3%), with revenue at £1.03bn (-3%) but with a core selling price up 9.3% at £334,500. Meantime, EBIT margins (adjusted) were 12.8% (2016: 15.8%), with pre-tax off 23% at £124.3m before exceptionals of £10.3m (2016: £7.0m).

The dividend for the year was increased 6%, but with a promise for a 20% rise this year to 57p, plus a special dividend of 45p.

Unsurprisingly, year-end forward sales data were very good, with the value up 23% in value at £518m and a breath-taking 32% in terms of units at 2,656 (remember Bovis was in a state of flux at end-2016).

Targets through 2020 are as follows: 4,000 units (2017: 3,645), a gross margin of 23.5% (2017: 19.0%) and ROCE of 25% (2917: 12.1%)…

…and fiscal/calendar 2018 will see a "significant improvement in financial performance and profitability".

### *McCarthy & Stone (trading update – 6th March)*

On 22nd February, two directors/spouses of directors bought 67,341 shares (0.013%) at 135.2p per share and the shares fell 7% in the week. On 6th March, the Group issued a 'yin and yang' trading update for 1H (to end-February) and the shares rose 6.3% to 146p – and closed 1Q at 144.5p.

1H forward sales, including completions, were ca.16% up annualised at £487m, but 1H operating profit is likely to be only some 12% of current market expectations for the year (on flat revenue of around £240m); this is half the run rate of 1H 2017.

This reflects "ongoing subdued conditions in the secondary market impacting older stock" and "the level of investment required to deliver H2 completions".

The prospect of the Government reducing ground rents on new long leases to zero continues to hang over proceedings too and in fiscal 2018, the profit to be generated by the Group's freehold reversion sales is expected to be ca.£33m. So, it is serious.

In response to this uncertainty, the Group has "exercised additional caution" on land exchanges and planning consents.

For the record, there are currently 11.8 million people aged 65 or over in the UK, rising to an estimated 17.3 million by 2037, representing a 47% increase, according to ONS data.

### *Cairn Homes (Finals – 6th March)*

An old Irish proverb says "there's no prosperity without discipline and control". Cairn is a model of the latter and the plenteousness will be sure to follow, with consensus forecasts for a nine-fold rise in pre-tax profits in 2018 to €54m and then adding some 70% in 2019 to €90m.

Ireland suffered a distinctly calamitous fate in the Global Financial Crisis, which non-Irish Lehman Brothers inaugurated in September 2008.

But Cairn had the vision, in 2015, to IPO and then buy the majority of its landbank over the next nine months (in total, it holds 34 separate sites for some 14,100 residential units and nine-tenths of these are located in the Greater Dublin Area).

Demand is also rampant. Irish GDP grew at 8.1% in 2017 and it is forecast to rise 3.9% and 3.1% in 2018 and 2019, respectively. Employment is growing (3.8% in the year to September 2017) and consumer spending rose 2.2% last year.

The population is rising, too, with a cumulative 4.76% in the period 2011 through 2017, which is nearly three times the EU average of 1.76%. In turn, this has led to an estimated housing shortage of 47,000 houses (i.e. 34,350 were built over these seven years but 82,000 were required).

Cairn will double its unit sales this year to 800 and, thereafter, it expects a run-rate of 1,300 to 1,400 sales annually from 2020. Unsurprisingly, "the Company looks forward to continued significant growth in sales, profit and cash generation over the next three years".

### *Berkeley (trading update – 16th March)*

The Group has said that trading is in line with business plan requirements – and sales prices are better. At the same time, market conditions in London and the southeast of England are unchanged, with buyers constrained by high transaction costs, mortgage limits and prevailing economic uncertainty.

Berkeley also added that it is currently unable to increase production beyond the business plan levels; forward sales, however, at 30th April, are still expected to be above £2.0bn.

Guidance was also reaffirmed guidance for the delivery of at least £3.3bn of pre-tax profit for the five-year period from 1st May 2016 to 30th April 2021; this includes £1.5bn for fiscal 2018 and 2019 – with approximately 60% weighted towards the current year.

The Group remains cautious, though, in its investment strategy and is acquiring land selectively.

### *Bellway (Interims – 20th March)*

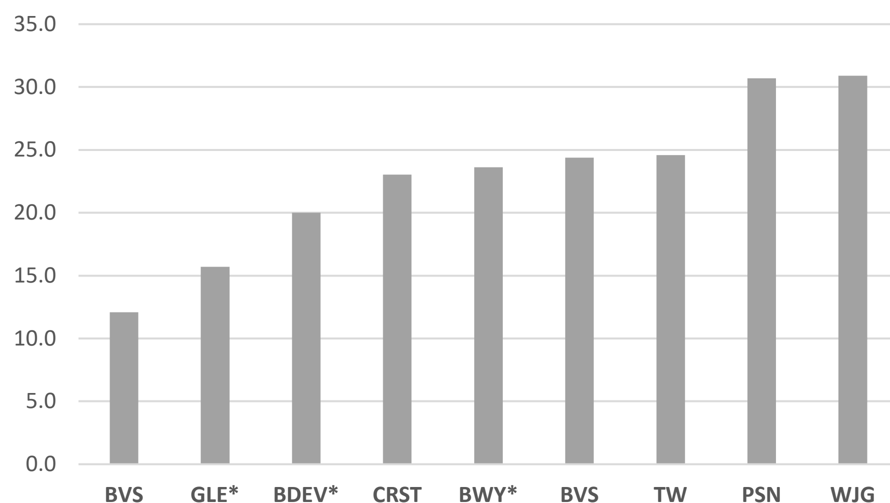
The thinking man's housebuilder had a typically winning half year to end-January, with revenue up 15% at £1.32bn and an EBIT margin of 22.2% (2017:22.0%) – and both pre-tax profit (to £192m) and earnings up 17%.

The dividend was also raised 28% and the Group said it expected continuing dividend cover to be ca.3x (1H 2018: 4.0x).

Forward sales in pound notes were 8% better at £1.52bn, albeit unit forward sales were just 0.4% higher at 5,465.

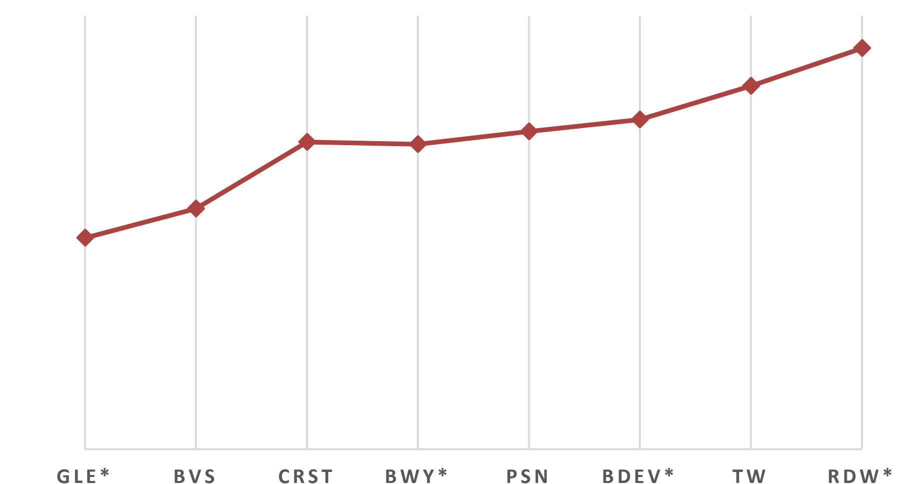
The Group said: "demand for Bellway product remains resilient, with customer confidence seemingly unaffected by the ongoing uncertainty surrounding the forthcoming exit from the EU"; and it added that it "has the flexibility and financial strength to respond to unforeseen circumstances that may arise as the country negotiates its exit from the EU".

**Latest reported and average ROCE (%), 1Q 2018***




**denotes interims; ROCE is return on capital employed*
*Source: Hardman & Co Research*

**Capital turn (x) reported in 1Q 2018***




*denotes interims; Capital Turn is Revenue divided by Capital Employed
Source: Hardman & Co Research

### *Inland Homes (Interims – 28th March)*

This specialist brownfield land developer and housebuilder generated a four-fifth increase in revenue in 1H to £61m and a gross margin of 18.6% versus an inevitably higher 21.1%.

Pre-tax profit was also 9% better at £5.4m, despite the prior year being inflated by a £6m sales gain. The dividend was hiked 30%.

The company sold 338 residential plots in 1H and the land bank still increased 3% to 7,372 plots (30% with planning) with an anticipated GDV in excess of £2.2bn.

Inland's residential unit order book has surged 22% to £38.9m and "despite some near-term headwinds, the overall outlook for the Sector remains favourable".

# Macroeconomics

GDP growth was confirmed at 0.4% in 4Q 2017 (vs. 3Q 2017) and 1.7% for the year. Business Investment grew 2.1% annualised and Household Spend by 1.8% (the slowest since 2012).

The Consumer Price Index (CPI) dipped in February to 2.7% annualised, which compares with 3.0% in January. Good news.

Unemployment was 4.3% again in the January quarter (as it was in October) but compares with 4.7% a year ago; January 2018 was the joint lowest since 1975.

Retail Sales in October rose 0.8% (after declines in December and January) and by 1.5% year-on-year; however, in February last year, the annualised rise was 3.3%. That said, GfK reported that consumers were the most confident for 10 months in March.

## Mortgages

UK Finance (incorporating BBA and CML data) said that gross mortgage lending in February was estimated to have been £19bn, which is 4.9% more than a year earlier, but below the monthly average of £21.4bn for 2017. Note, too, that the actual number of mortgages advanced in February was off 11% year-on-year.

For the record, BBA is the British Bankers Association and CML is the Council of Mortgage Lenders, which essentially cover the High Street lending market.

Turning to Bank of England data, they showed that new residential mortgage commitments rose 5.2% in 4Q 2017 year-on-year to £64.9bn, albeit the tally was -6.8% on 3Q 2017; in February, too, the actual number of mortgages was off 4.8% at 63,910.

## Volumes and prices

Experian (where I am an advisor) estimates that Private Housing Output will have risen 8.3% last year, to be followed by 3% or so p.a. growth in 2018, 2019 and 2020 (all in real terms), but slowing over the piece. Meantime, Public Sector Residential Output is also growing, at ca.3% p.a. (after +13.1% in 2017) but on a mildly rising trajectory over the three years.

Elsewhere, on actual house prices, the Nationwide reports -0.2% in March, albeit +0.8% in 1Q and +2.1% on an annualised basis. The bank also spoke of subdued economic activity and the ongoing squeeze on household budgets. Nonetheless, it still forecasts +1% or so in prices for 2018 as a whole.

Rightmove, however, is a little more positive with its recording of +1.5% to £304,504 in March for ‘newly marketed asking prices’ – and with +2.1% annualised. However, there were 5% fewer properties on the market than a year ago.

Finally, the Reuters Housing Market Poll (to which I contribute) expects a median +2.0% for UK house price inflation in 2018 (including -0.5% in London) and then 2.0% in 2019 and 2.3% in 2020.

# The weather forecast

Source: iStock

A millibar is a unit of pressure which essentially measures the weight of the atmosphere overhead; and typical sea level pressure is about 1,010 millibars. As noted technically, too, a storm undergoes bombogenesis when its central low pressure drops at least 24 millibars in 24 hours; this is a lot and it is fast.

Bombogenesis tends to occur more often in what are called mid-latitude (or extra-tropical) cyclones.

The continuing Brexit negotiations could be described euphemistically as 'mid-latitude' and they are certainly extra-tropical i.e. warm UK air masses being met by a cold EU atmosphere.

In addition, reference, either direct or indirect to Brexit, has found its way into the various results announcements from the Sector.

Bellway, for example, spoke of "unforeseen circumstances that may arise as the country negotiates its exit from the EU"; in fact, it mentioned exit and EU thrice in a single statement.

Persimmon added "the negotiations associated with the UK's exit from the EU, including both the transitional arrangements and the terms of the longer-term relationship, together with the nature of UK's trading relationships with its other global partners, present key uncertainties that will have a substantial influence on market outcomes".

Berkeley was even more categoric: "the operating environment and its impact on transaction volumes…. do not support the step-up in Berkeley's production levels that these markets so badly need".

Berkeley has also indicated to the market that – while it is on track longer term – it will see a substantial fall in profits in fiscal 2019; and consensus earnings forecasts are pointing to -30%.

Elsewhere, Barratt talked about "continued headwinds in the high-end central London market" and "near-term headwinds" were also echoed by Inland Homes on 28th March.

More practically, Barratt also said that forward sales (when it reported at end-February) were just 2% better in cash terms and this was driven by affordable units.

Similarly, Redrow said that reservations in the first five weeks of calendar 2018 were only in line with the previous year (okay, the comparative was a robust period); at the same time, unit sales at Bellway were just +0.4% when it reported on 20th March.

Meantime, Taylor Wimpey was even edgier, with an order book (as at 18th February) showing -1.8% in units and -0.5% in value, while McCarthy & Stone spoke of "ongoing subdued conditions in the secondary market".

Yes, others are doing better: Crest Nicholson's forward sales were up 15% as at 22nd March and Persimmon's were up 7.4% as at 27th February. In addition, specialist cases, such as Gleeson, Springfield and a recuperating Bovis, are very confident.

In terms of the UK economy, it is, on face value, okay – and even the Government has increased its GDP forecasts. At the same time, economists' estimates across the board are for growth of between 1% and 2%.

There has also been good news on inflation – which may have peaked – with February dipping 0.3% on January to 2.7% on an annualised basis.

Finally, average earnings have inched up, with 'normal pay' (ex-bonuses) rising 2.6% p.a. in the January quarter, up from 2.5% in December (the most recent peak was May 2015 at 2.9%).

But it is all a bit cool-to-cold and the UK climate remains prone to a rush of indiscriminate hot air and a 'bomb cyclone', i.e. a rapid intensification, combined with a system of winds spinning around an area of low pressure. These generally form over a stretch of water – like the English Channel – and where a dip in barometric pressure quickly makes the storm powerful and destructive.

Bombogenesis is wicked.

## Quote:

*"Good luck has its storms"*

*Source: George Lucas*

# Glossary

*Abbey (ABBY)*

*Barratt Developments (BDEV)*

*Bellway (BWY)*

*Berkeley Group Holdings (BKG)*

*Bovis Homes Group (BVS)*

*Cairn Homes (CRN)*

*Countryside Properties (CSP)*

*Crest Nicholson Holdings (CRST)*

*M J Gleeson (GLE)*

*Inland Homes (INL)*

*McCarthy & Stone (MCS)*

*Persimmon (PSN)*

*Redrow (RDW)*

*Springfield Properties (SPR)*

*Taylor Wimpey (TW)*

*Telford Homes (TEF)*

*Watkin Jones Group (WJG)*

*Note: Share prices at 29th March 2018*
*Adjustments have been made to share prices and metrics where required*
*Selected stocks are excluded from charts and sector averages due to extreme movements or for structural reasons*

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*Hardman & Co Research Limited (trading as Hardman & Co)*
*35 New Broad Street*
*London*
*EC2M 1NH*

*+44 (0) 20 7194 7622*
*Follow us on Twitter @HardmanandCo*

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# Hardman Team

| Management team | | | |
|---|---|---|---|
| **+44 (0)20 7194 7622** | | | |
| John Holmes | jh@hardmanandco.com | +44 (0)20 7194 7629 | Chairman |
| Keith Hiscock | kh@hardmanandco.com | +44 (0)20 7194 7630 | CEO |
| David Banks | db@hardmanandco.com | +44 (0)20 7194 7622 | Corporate Finance |

| Marketing / Investor Engagement | | |
|---|---|---|
| **+44 (0)20 7194 7622** | | |
| Richard Angus | ra@hardmanandco.com | +44 (0)20 7194 7635 |
| Max Davey | md@hardmanndco.com | +44 (0)20 7194 7622 |
| Antony Gifford | ag@hardmanandco.com | +44 (0)20 7194 7622 |
| Ann Hall | ah@hardmanandco.com | +44 (0)20 7194 7622 |
| Gavin Laidlaw | gl@hardmanandco.com | +44 (0)20 7194 7627 |
| Vilma Pabilionyte | vp@hardmanandco.com | +44 (0)20 7194 7637 |

| Analysts | | | |
|---|---|---|---|
| **+44 (0)20 7194 7622** | | | |
| **Agriculture** | | **Bonds / Financials** | |
| Doug Hawkins | dh@hardmanandco.com | Brian Moretta | bm@hardmanandco.com |
| Yingheng Chen | yc@hardmanandco.com | Mark Thomas | mt@hardmanandco.com |
| Thomas Wigglesworth | tcw@hardmanandco.com | | |
| **Building & Construction** | | **Consumer & Leisure** | |
| Tony Williams | tw@hardmanandco.com | Steve Clapham | sc@hardmanandco.com |
| Mike Foster | mf@hardmanandco.com | Jason Streets | js@hardmanandco.com |
| **Life Sciences** | | **Media** | |
| Martin Hall | mh@hardmanandco.com | Derek Terrington | dt@hardmanandco.com |
| Dorothea Hill | dmh@hardmanandco.com | | |
| Grégoire Pavé | gp@hardmanandco.com | | |
| **Mining** | | **Oil & Gas** | |
| Paul Mylchreest | pm@hardmanandco.com | Angus McPhail | am@hardmanandco.com |
| **Property** | | **Services** | |
| Mike Foster | mf@hardmanandco.com | Mike Foster | mf@hardmanandco.com |
| **Special Situations** | | **Tax Enhanced Services** | |
| Steve Clapham | sc@hardmanandco.com | Brian Moretta | bm@hardmanandco.com |
| Paul Singer | ps@hardmanandco.com | Chris Magennis | cm@hardmanandco.com |
| Yingheng Chen | yc@hardmanandco.com | | |
| **Technology** | | **Utilities** | |
| Milan Radia | mr@hardmanandco.com | Nigel Hawkins | nh@hardmanndco.com |

**Hardman & Co**

35 New Broad Street
London
EC2M 1NH

Tel: +44(0)20 7194 7622

www.hardmanandco.com