UK Housebuilding Sector in 2Q 2019

- "Are we there yet?"

By Tony Williams, Hardman & Co Analyst

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“Are we there yet?”

$$T = t_0 + \frac{1 + \beta A}{\alpha C^2}$$

Source: Creative Commons

Dwight Barkley PhD is a Professor of Mathematics at the University of Warwick. He studies waves in excitable media such as the Belousov-Zhabotinsky reaction, heart tissue and neurons.

In 1997, Dr Barkley and Dr Laurette Tuckerman, a Paris-based mathematical physicist, developed ‘bifurcation analysis for time steppers’, which is a technique for modifying computer codes to perform bifurcation analysis.

More lyrical, perhaps, Dwight is also known for formulating an equation to estimate how long it will be until a child in a car asks the question “are we there yet?” And, it is shown on the image on page 3 of this report.

Herein, there are three factors which decide the timing of this wearisome question i.e. one plus the number of activities, divided by the number of children in the car squared. That figure is then added to the time it took the family to get into the car and set off on its journey.

Crucial in putting off the first query as to the proximity of the destination are on-board activities for children i.e. no activities equals a question before leaving the driveway.

Dr Barkley says: “Mathematics can help answer many of life’s questions”.

If only the Brexit journey were that simple. It is not. We are all children now stuck in the back seat; and, maybe, we are still on the driveway with a dearth of on-board activities.

Yes, three years on Brexit-resolution-fatigue is making itself felt across the board, including the UK Housebuilding Sector, where the fall in value in 2Q’19 was 7%.

Berkeley said something similar in its final results, on 20 June, when it lamented an uncertain operating environment and “a lack of visibility in the political outlook”; and its PBT is expected to fall by a further third this fiscal year.

The daily Sector value chart is also lurching from top-left to bottom-right (as is the British Pound versus the Euro).

Yes, there were two palpable positives in 2Q from the NHBC and UK Finance about building activity and mortgages; plus, on the third day of 3Q, CBRE’s bid for Telford Homes. Nonetheless, prospective earnings growth for the Sector is now flat in both 2019 and 2020.

This is about the journey.

1Q 2019

In 2Q of this year, the stock market value of the UK Housebuilding Sector declined 7% or £2.4bn. For the record, in calendar 2018, it declined 27% or £11.8bn.

Note, too, that the Sector's 2Q peak was on 24 April with its low coming on 3 June. It also closed the quarter 21% off its all-time high from 24 October 2017.

April and June were OK but it was May that did the damage

Month by month, April (+1.4%) and June (+0.9%) were modestly positive but it was May that spoiled the party with an 8.7% drop.

In terms of runners and riders, the best week was Week 14 (+2.5%) and the worst Week 21 (-5.9%).

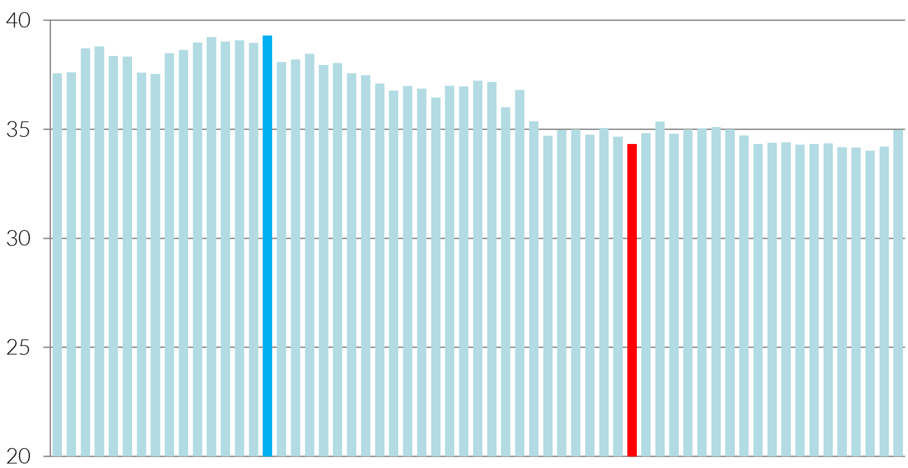
In sum, too, from a tally of 13 weeks, eight were 'up' and five were 'down'. These weeks contained 61 trading days in 2Q, too, which were almost evenly split 31 'up' and 30 'down'.

Looking back to the Sector's trough (7 July 2008), the rise has been more than 1,000% (i.e. £32bn); and the Sector is 39% above where it was in the immediate aftermath of the Brexit referendum.

The Sector has risen in 23 of the last 34 quarters and seven of the last 10 years

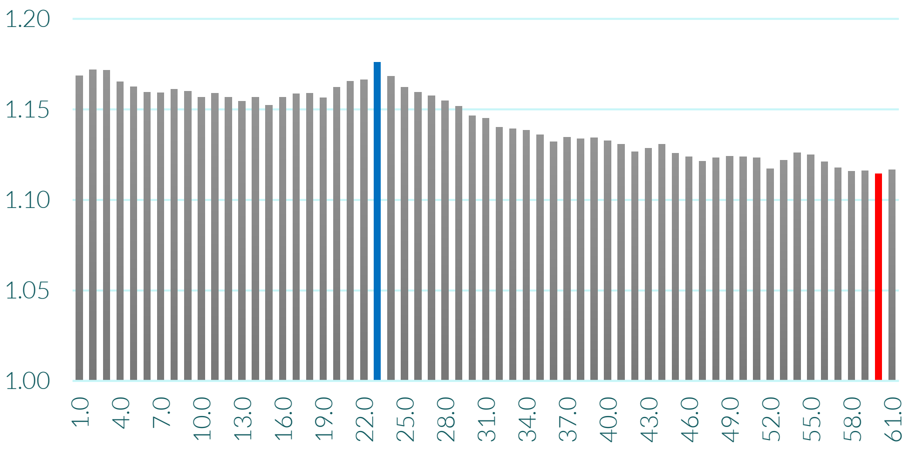
Similarly, the Sector has risen in value in 23 of the last 34 quarters (and seven of the last 10 years through 2018).

UK Housebuilding Sector market value – daily: 2Q'19 (£bn)



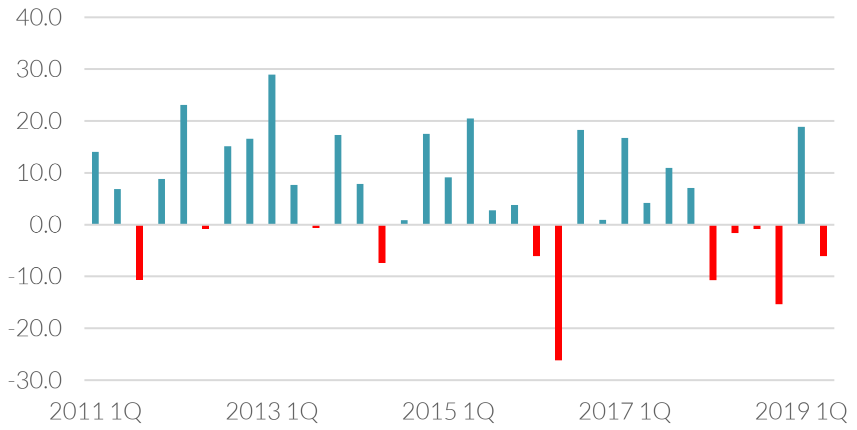
Note: low (RED) was on 3 June and high (BLUE) on 24 April
Source: Hardman & Co Research

Euro to British Pound exchange rate: 2Q'19



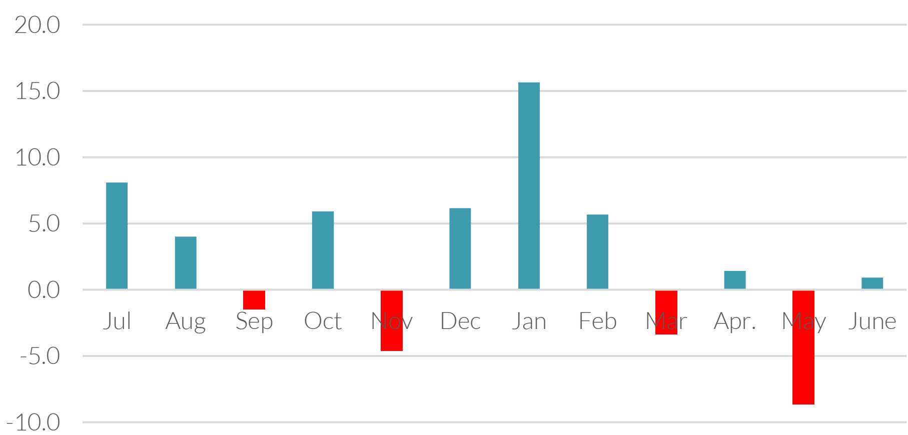
Note: low (RED) was on 27 June and high (BLUE) was on 3 May
Source: Hardman & Co Research

UK Housebuilding Sector share prices: 1Q'11 to 2Q'19 (% change)



Source: Hardman & Co Research

UK Housebuilding Sector: 12 months to end-June 2019 (% change in value)



Source: Hardman & Co Research

Housebuilders' share prices declined by a weighted 6% in 2Q

2Q – the story continues

Housebuilders' share prices declined by an average 5% actual in 2Q (QoQ) or 6% weighted by market capitalisation. YTD, these numbers were +9% and +11%, while, against a year ago, there was deficit of 8% and 7%, respectively.

A reinvigorated Telford (+11%) was top of a lean 2Q leader board and was one of only four risers. Meantime, dual-listed (Dublin and London) Cairn and Glenveagh were the worst performers, down by around 17% each.

Earlier, too, we juxtaposed the close match of the Housebuilders' value shifts against the Euro exchange rate to the British Pound. It is a barometer of the prevailing Brexit wind; and the Sector is prone.

YTD, it is a brighter picture with Housebuilders' share prices rising by an average 9% actual and 11% weighted.

Here, too, Inland (+26%) was a runaway winner in 2019 so far – with support from Barratt (+24%) and Bovis (+20%); plus six other stocks rising by double digits.

Only two are lower in 2019 so far i.e. McCarthy & Stone and Countryside, which are both off 2% or so.

Looking at the same time a year ago, only four out of 18 stocks were higher; and, ironically, McCarthy & Stone led the way on +39%. Worst, encore, were Cairn and Glenveagh with huge falls of 33% and 37%, respectively.

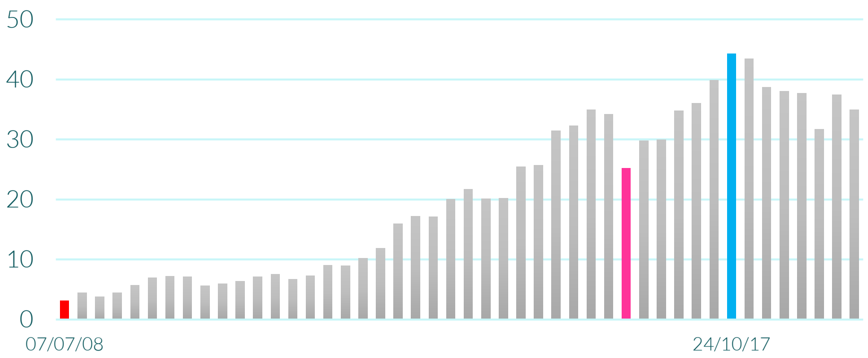
The Sector was also the worst relative performer in 2Q against the conventional measures of the UK equity market with a deficit of 6% (average share price movement weighted). At the same time, the FTSE 100, 250 and All Share indices, were all higher.

The listed UK real estate companies were also in the red zone in 2Q. However, the Construction and Building Materials Sector was the best performer (+3%), which is counter-intuitive given the news flow here.

In 2019 so far, the Housebuilding Sector is up 11%, which puts it second-best to Construction (from a low base, clearly), ahead of real estate and similar to the prime measures of UK equities.

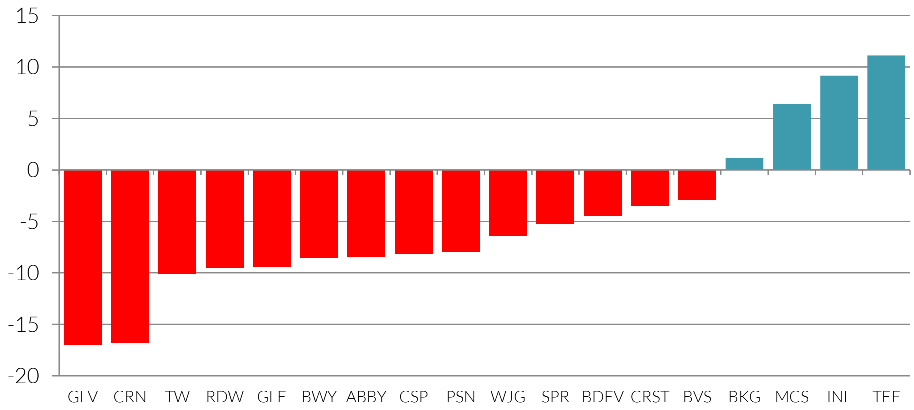
YoY, however, Sector and indices were negative with the Housebuilders off 6.6%.

UK Housebuilding Sector market value: 3Q 2008 to 2Q 2019 (£bn)



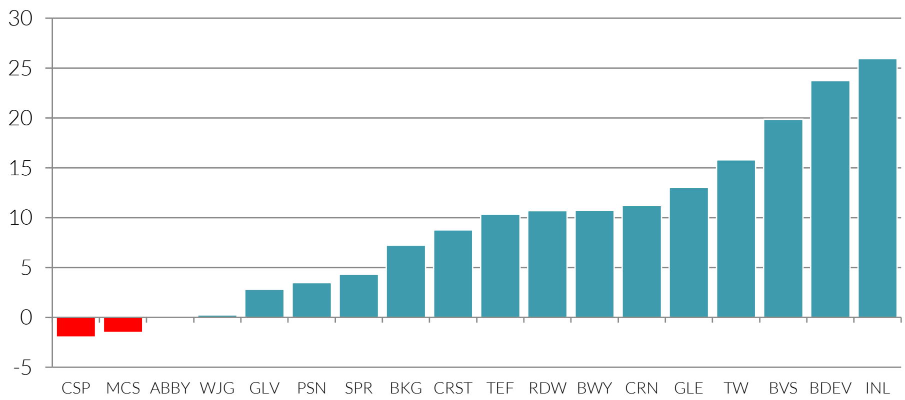
Note: low (RED) was on 7 July 2008 and high (BLUE) was on 24 October 2017; Brexit Vote (PINK)
Source: Hardman & Co Research

Individual Sector shares prices in 2Q versus 1Q'19 (% change)



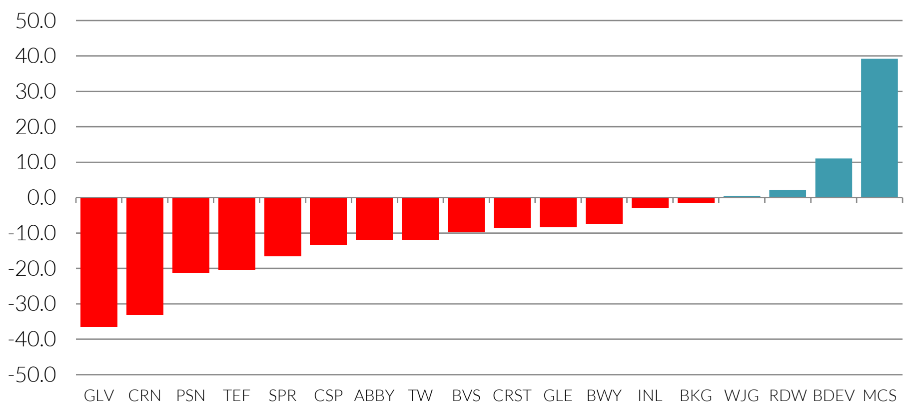
Source: Hardman & Co Research

Individual Sector share prices in 2019 to date – as at 28 June 2019 (% change)



Source: Hardman & Co Research

Individual Sector share prices YoY – as at 28 June 2019 (% change)



Source: Hardman & Co Research

Peaks and values

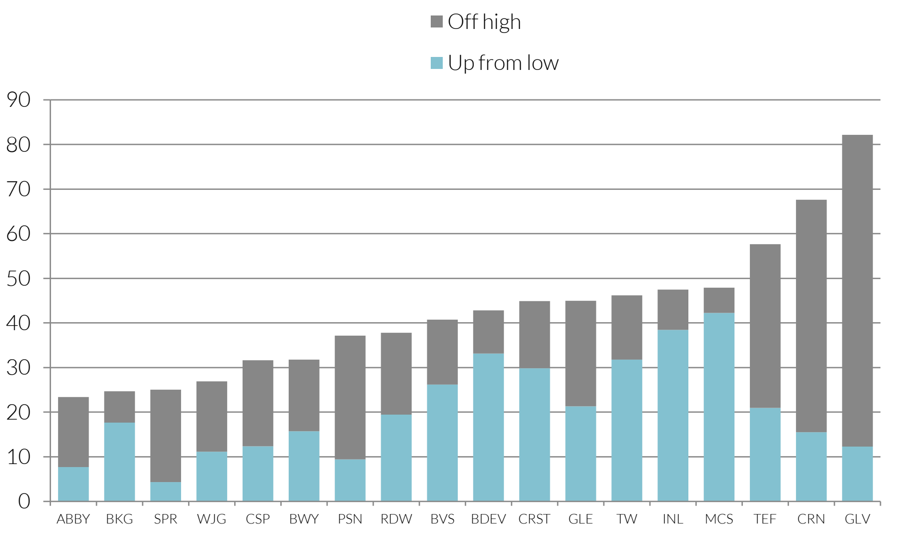
Four players account for 63% of Sector value

At 28 June 2019, Housebuilders' share prices were, on average, some 1,600% above the lows of 2008; and 21% up on more recent 52-week lows (weighted, these numbers play 2,300% and 22%, respectively).

But the Housebuilders were also some 24% below their 2007 peaks (i.e. 26% weighted); plus they are at 20% and 21% off 52-week highs on an actual and weighted basis, respectively.

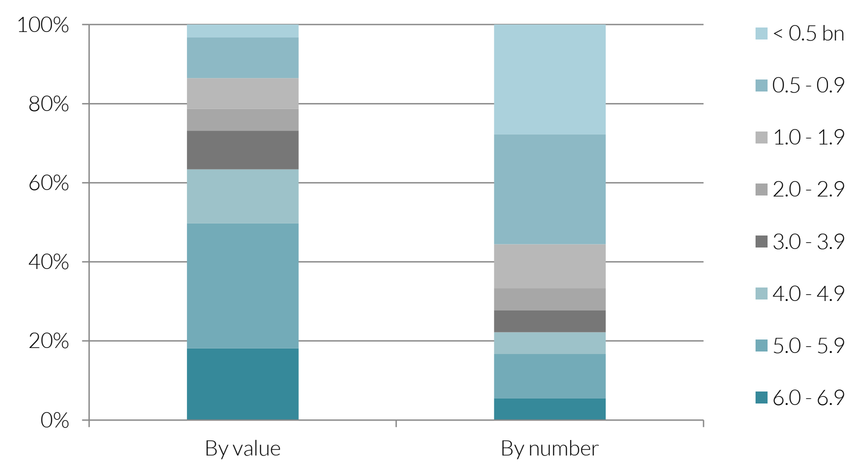
Four also continued in the FTSE 100 as at 28 June 2019: Berkeley (number 91); Taylor Wimpey (81); Barratt (77); and Persimmon (72). Together, these four players account for 63% of Sector value.

Movement against 52-week lows and highs as at 28 June 2019 (% change)



Source: Hardman & Co Research

Sector structure by stock market value: 18 firms worth £35bn at 28 June 2019



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

Price-to-Book and Total Shareholder Return

The average TSR in the past 12 months was -3.2%

The Housebuilders' latest average Price-to-Book (P/B) valuation was 1.46x on 29 March 2019 and 1.62x weighted.

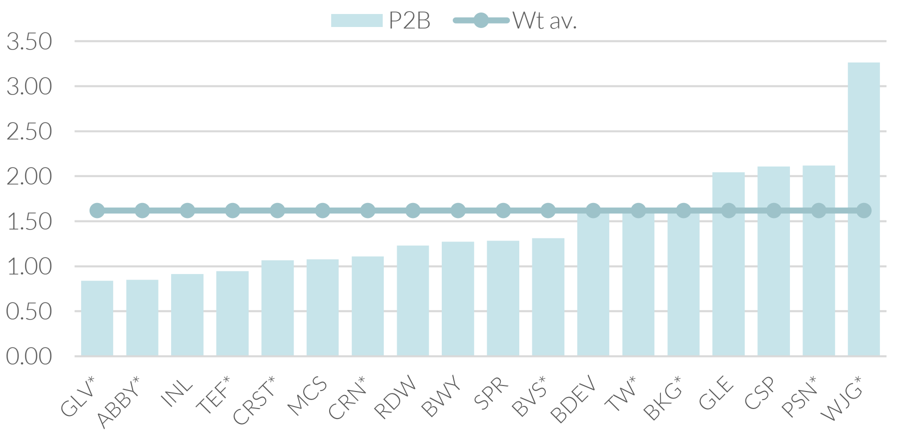
A year ago, these ratios were louder at 1.67x and 1.88x, respectively.

Four out of 18 companies are at 2.0x or better, including Watkin Jones at an extraordinary 3.26x.

Total Shareholder Return (TSR) for the Sector in the 12 months to 28 June 2019 was -3.2%, albeit the weighted average was flat (i.e. 0.04%).

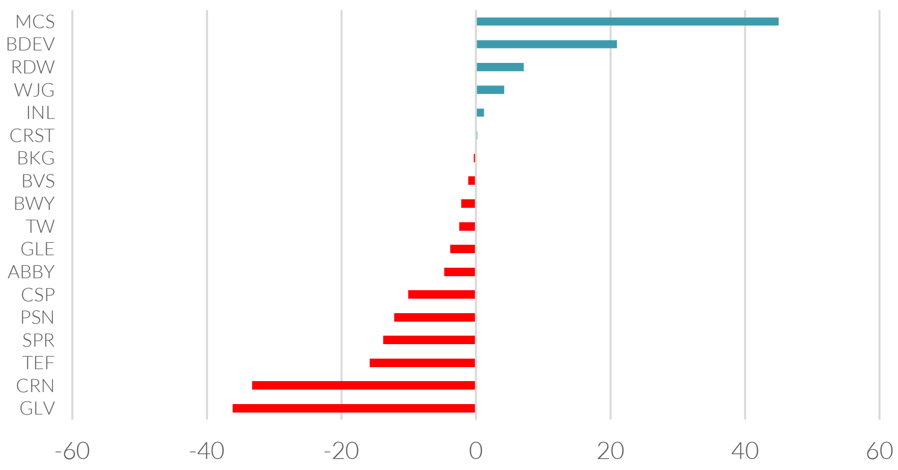
Only six out of 18 Housebuilders were positive; but ex-the three Dublin/London listed stocks (Abbey, Cairn and Glenveagh), the average was +1.1% actual and 1.6% weighted.

Housebuilders' P/B at year-end/latest interims – priced at 28 June 2019 (x)



**denotes interim results; weighted average is 1.62x, and actual average is 1.46x*
Source: Hardman & Co Research

Housebuilders' TSR in 12 months to 28 June 2019 (annual %)



Source: Bloomberg, Hardman & Co Research
Note: CSP is estimated

Valuation

The consensus earnings growth forecast in 2019 is essentially flat

The Housebuilding Sector's prospective PERs are 8.7x in 2019, followed by 8.7x, again, in 2020, based on consensus forecasts.

Average earnings growth is forecast at barely 1% in 2019 and is flat-to-slightly negative in 2020 (hence an unchanged PER); and based on just four forecasts in 2021, the earnings growth figure is 2%.

Berkeley has proffered guidance for a sharp prospective drop in PBT of one third in fiscal 2020 (i.e. the consensus is minus 31%) - which impacts the average.

For the record, trailing 12 month PERs for the FTSE 100, All Share Index and FTSE 250 range from 16.0x to 22.9x; which compares with the Sector's 8.8x on same basis.

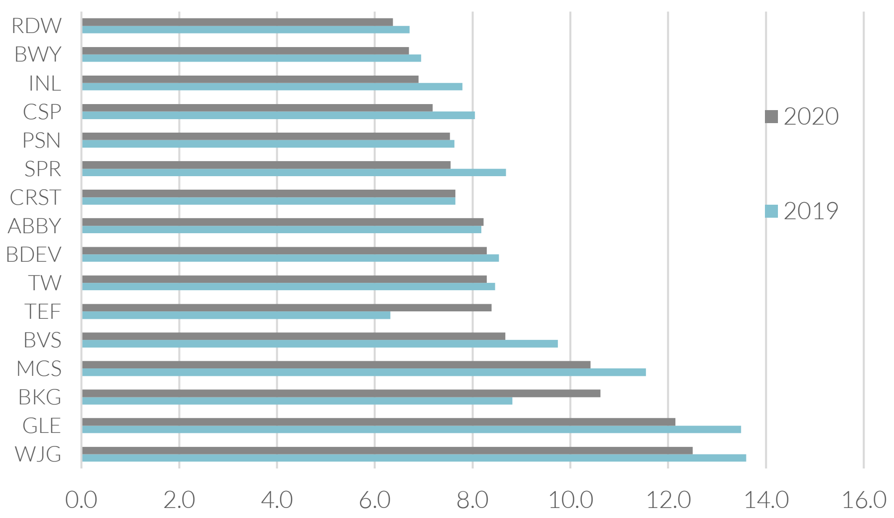
Note, too, Cairn and Glenveagh are excluded due to losses or minimal earnings at this point; plus Berkeley and Telford have actually reported 2019 numbers.

In 2019 and 2020, the UK Housebuilding Sector average yield is forecast at 6.8%, followed by 6.5% – with dividend cover at 2.0x and 2.4x, respectively (these metrics YoY are impacted by one-off special payments). A number of companies has committed to these enhanced dividend payments, which means that there are three companies with double-digit prospective yields (see chart on next page).

For the record, the UK equity market yields between 3.2% and 4.3% historical, with average cover of 1.4x, which compares with 5.8% and 2.9x for the Housebuilders all on a trailing 12-month basis.

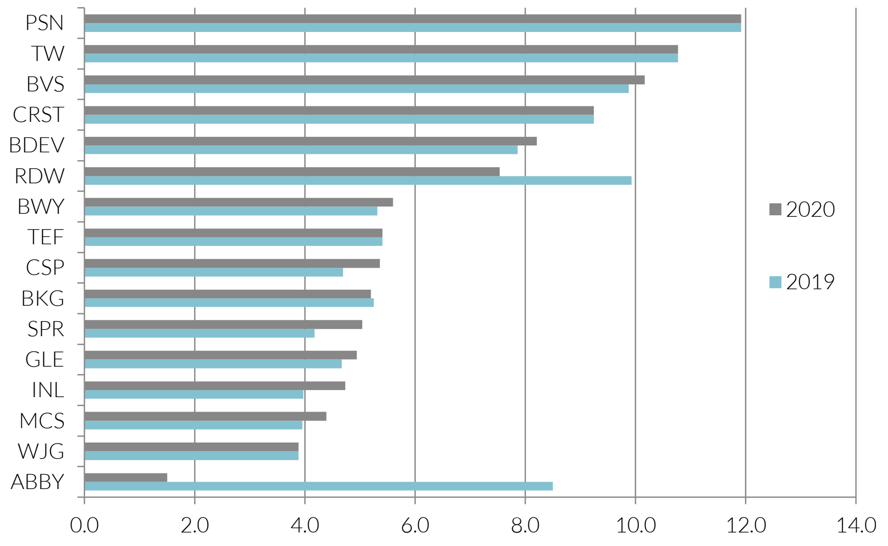
The FTSE 100, 250 and All Share represent the UK equity market; and all calculations are made at the London Stock Exchange (LSE) close on 28 June 2019.

Housebuilding Sector PER: 2019E (8.7x) and 2020E (8.7x) as at 28 June 2019



Source: consensus forecasts from ShareCast; Hardman & Co Research

Housebuilding Sector yield: 2019E (6.8%) and 2020E (6.5%) at 28 June 2019



Source: consensus forecasts from ShareCast; Hardman & Co Research

Results/trading announcements, 2Q

In 2Q, there were two final results and four interims, plus some 18 other trading-related announcements from the 18 Sector companies (this symmetry is a coincidence).

Margins eased from16.4% to 15.2%

Average individual pre-tax profits for the 2Q reportees rose 10%, and average individual EBIT margins dipped from 16.4% to 15.2% – on revenue 8% larger at £4.82bn.

EPS increased 9%, on average (minus 4% ex-McCarthy & Stone), while dividends were raised 8% (1% ex-Countryside) with average individual cover easing from 2.5x to 2.3x.

Orders rose by 7% from a sample of six but ex-Countyside's extraordinary +49%, they were down 4%.

Average individual RoCE reduced from 20.0% to 18.0% with capital turn little changed at 1.13x (versus 1.16x).

Profit & Loss data

Date	Company	Event	Period ending	PBT (£m) Previous	PBT (£m) Latest	PBT % chg.	EBIT margin (%) Previous	EBIT margin (%) Latest	Revenue % chg.	Orders % chg.	DPS % chg.	DPS cover (x) Previous	DPS cover (x) Latest
10-Apr	McCarthy & St.	Half Year	28-Feb	11	19	80	6.1	7.6	17	-17	0	0.9	1.5
16-May	Countryside	Half Year	31-Mar	74	82	10	17.2	15.9	20	49	43	3.3	2.5
21-May	Watkin Jones	Half Year	31-Mar	24	26	10	15.1	16.4	0	-	11	3.0	3.0
29-May	Telford	Full Year	31-Mar	46	40	-13	15.0	11.6	12	-	0	2.9	2.6
12-Jun	Crest	Half Year	30-Apr	72	64	-11	16.8	14.1	7	15	0	2.0	1.8
19-Jun	Berkeley	Full Year	30-Apr	950	775	-18	28.1	26.0	5	-18	-9	2.7	2.5
Total (£m)				1177	1007								
Individual average change (%)						10			10	7	8	2.5	2.3
Sector average change (%)						-14			8				
Individual average margin (%)							16.4	15.2					
Sector average margin (%)							23.2	21.1					

Notes: (i) profit before tax (PBT) is adjusted where necessary and excludes exceptionals
(ii) EBIT is earnings before interest
(iii) DPS is dividend per share; Berkeley's includes share buy-backs
Source: Hardman & Co Research

Balance sheet data

Date	Company	Event	Period ending	Net assets (£m) Previous	Net assets (£m) Latest	Net (Debt)/Cash (£m) Previous	Net (Debt)/Cash (£m) Latest	Gearing (%) Previous	Gearing (%) Latest	RoCE (%) Previous	RoCE (%) Latest	Capital turn (x)
10-Apr	McCarthy & St.	Half Year	28-Feb	735	748	-74	-56	10	7	3.7	3.8	0.7
16-May	Countryside	Half Year	31-Mar	721	813	14	-40	-2	5	24.2	25.7	1.6
21-May	Watkin Jones	Half Year	31-Mar	134	161	38	18	-29	-11	32.8	27.6	1.7
29-May	Telford	Full Year	31-Mar	231	253	-103	-94	45	37	13.7	10.8	0.9
12-Jun	Crest	Half Year	30-Apr	822	861	-79	-68	10	8	15.6	12.7	0.9
19-Jun	Berkeley	Full Year	30-Apr	2,591	2,963	687	975	-27	-33	29.8	27.5	0.9
Total (GBP)				5234	5799	484	736					
Individual average change (%)					11							
Sector average change (%)					11							
Individual average RoCE (%, adjusted)										20.0	18.0	1.13
Sector average RoCE (%, adjusted)										19.8	17.5	0.74
Individual average gearing (%)								1	2			
Sector average gearing (%)								-9	-13			

Notes: (i) RoCE is return on capital employed and adjusted where required for half years, goodwill, etc.
Source: Hardman & Co Research

Performance and outlook

McCarthy & Stone (interim results – 10 April)

When a business generates a return on capital of 3.8%, it is in need of change, and the group has embarked on a “transformation strategy”. And, to emphasis the fact, the word “strategy” was used 17 times in its Half-Year Statement, which ran to less than 5,000 words – together with the word “improvement” 13 times and “steady state” on six occasions. McCarthy & Stone is also “right-sizing” and “rightsizing” (sans hyphen). Are these different things?

The nation’s largest retirement housebuilder increased volumes 11% in 1H to 845 units at an ASP of £319,000

Turning to the numbers, the largest retirement housebuilder reported the six months to 28 February 2019. Here, revenue increased by 17% to £281m, reflecting an 11% increase in volumes to 845 units and +7% on the ASP to £319,000. Underlying EBIT margins improved from 6.1% to 7.8 but the lowly quantum was due to “increased use of discounts and incentives, particularly part-exchange, to counteract a more challenging secondary market”. For the record, part-exchange was used in 46% of transactions (2018: 40%). Note, too, that RoCE was just 3.8% (2018: 3.7%) annualised. In turn, underlying PBT rose by almost two-thirds to £18.9m (although statutory PBT fell by the same quantum, from £11m to £4m, post a one-off exceptional restructuring debit of £14m). Earnings behaved similarly, and the dividend was held at 1.9p, covered 1.5x by underlying EPS (2018: 0.9x).

McCarthy & Stone also spoke about its new three strategy year (as noted above) and the appointment of two COOs, and both “right-sizing activity” and “rightsizing the business” (but we are not sure what either of these actually means). At the same time, the land bank is reduced by a fifth to ca.8,372 plots or some 3.9 years’ supply (2018: 4.4 years). The group has also closed its South West region, and Scotland will be wound down and closed over the next 12 months.

In quantum, though, the “transformation strategy” is forecast to deliver £40m of total cost savings p.a. by fiscal 2021. McCarthy has also launched trials on 21 services across six categories, including health/wellbeing and food/drink (the latter has been widely reported). In addition, it is looking at multi-tenure options, including share ownership and rental.

Turning, then, to the vexed issue of ground rents, the group said: “on 15 October 2018, Government announced that it is proposing to allow the retirement community sector to continue charging an economic ground rent after they are capped elsewhere, subject to offering customers a choice between paying a higher sale price or a ground rent. We worked closely with the Government during the consultation period, which ended on 26 November 2018, and expect the outcome to be announced later this year”.

The group’s year-end is changing from August to October

Looking forward, “completion volumes remain ahead of prior year, despite increasingly challenging market conditions with continued use of part-exchange”; sales leads and enquirers are in line with last year, despite “the planned lower level of sales releases i.e. 28 versus 54 a year ago”. This reflects “strategic focus on rebalancing workflow”. As for the forward order book of £485m as at 5 April, this was some 17% behind last year due to a variety of factors. For the full year, which will be the 14 months to 31 October (due to a year-end change from 31 August), the volume outturn remains expected at ca.2,300 units (12 months 2018: 2,134) with an expected ASP unchanged at ca.£300,000.

Demand for retirement units is estimated at 30,000 p.a., vs. supply of just 6,000

"Increased use of discounts and incentives, particularly part-exchange, [is] now expected to continue into H2 to counteract more challenging secondary market". Similarly, house price inflation remains subdued and build cost inflation is expected to be around 3% to 4%. The group concluded with mention of "the backdrop of continuing uncertainty and challenging market conditions". Over the medium term, however, the structural imbalance between supply and demand within the housing market continues; and this is particularly acute for retirement units, where the demand is estimated at 30,000 retirement units p.a. against a supply of just 6,000 units, according to Knight Frank.

Sector revenue (£m/LHS) and EBIT margin (%/RHS) reported in 2Q'19

Source: Hardman & Co Research

Taylor Wimpey (trading statement/AGM – 25 April)

A bit of pull/push was offered by Taylor Wimpey.

The group offered a bit of pull/push at its AGM covering the period from New Year's Day until "today" i.e. the day of the meeting. In any event, the pushers won, and the shares fell 7.6% at the off to 177.65p, which was clearly overdone i.e. later they settled at 181.95p, which marked a deficit of 5.4%. Radio 5's 'Wake up to Money' called the trading update a profit warning. At the end of 2Q, the shares closed at 157.8p.

And so, what were the negatives? Biggest and worst was increased build cost pressures. "We have seen higher than expected cost inflation in early 2019, particularly in materials, and now expect build cost inflation for 2019 to be ca. 5% [in February it said 3%-to-4%]. This is driven by a combination of underlying cumulative inflation and exchange rates impact on the cost base of suppliers, and a higher than expected demand in the short term from defensive additional buffer stock holding in the construction industry supply chain". In turn, this means that profitability for the year will be lower.

Secondly: "sales pricing has remained flat relative to the end of 2018".

Thirdly: "results to be weighted towards the second half".

It is a shame that the stock market focused on these negatives because there was spectacularly good news on the order book i.e. by value, it was 11.3% up at £2.4bn as at 21 April; by volume, the gain was 13.7% at 10,291 units, excluding legal completions to date. The rate of sales was first-class, too with "average private sales for the year to date" at 1.03 per outlet per week, which compares with the 0.85 in the same period last year i.e. a gain of 21.2%. Okay, this is bolstered by a large forward build and sales contract, but even without this, we estimate the net rise in the sales rate was 3.3%, which is still pretty tidy and is said to reflect more efficient use of larger sites.

Full-year volumes are expected to be "slightly higher than 2018"

"Trading through the spring selling season has been good, with robust customer confidence despite the wider political uncertainty". And, Taylor Wimpey remains "on track to meet our overall expectations for the year" with full-year volumes "slightly higher than 2018". It also expects to close the year with net cash of some £500m – after dividend payments of ca.£600m.

Persimmon (trading statement/AGM – 1 May)

This was not a positive missive, although it was frank and earnest; and evolutionary in terms of the group changing its spots. In the same week, too, the BBC highlighted some potentially perilous quality control issues.

The weekly sales rate for private units is 5% lower than last year.

First the negatives, including forward sales, which are not "strong" – instead they are off 3.6% at £2.7bn; and this includes "substantial affordable units for housing associations". Similarly, the weekly-private-sales-rate-per-site since the start of the year is 5% lower than the previous year.

Okay, a contributory factor here is "a more targeted approach to the timing of sales releases on a number of sites and to progress build to a more advanced stage before releasing homes for sale to the market where demand is strong. As expected, these measures have reduced the number of sales reservations made since the start of the year". This initiative is designed to provide greater accuracy for anticipated moving-in dates. As previously announced, too, the group's actions will be independently reviewed – and the results are set to be promulgated in 4Q of this year.

On a brighter note, private average selling prices (in the order book) nudged up 0.6% to ca.£237,850. Indeed, since the start of the year, Persimmon has talked about the new build housing market having proved "resilient with high levels of employment and low interest rates continuing to support consumer confidence……the level of customer activity has been encouraging with visitor levels to site, sales conversion rates and cancellation rates all running in line with our expectations". However, 1H legal completions will only be similar to last year and "the second half of the year will be similarly determined by our continued focus on progressing our build programmes ahead of sales release together with prevailing market conditions".

"We have remained very selective with the acquisition of new land"

The group has also opened only 43 of the ca.90 new outlets planned for the first half of the year. "Given the increased uncertainties around the future performance of the UK economy we have remained very selective with the acquisition of new land during the period". At the same time, Persimmon continues to develop its off-site manufacturing capability in Doncaster. Here, Brickworks is producing close to optimal capacity with Tileworks scheduled for commissioning in 2H.

Finally, the group also talked about overall build cost inflation being ca.4% for the year (Taylor Wimpey is at 5%). The special dividends continue, too, as planned, and "The Board remains confident of the future prospects of the Group".

PS: at the group's AGM, all 16 resolutions were agreed to by the shareholders who voted (64%-65% of the total). Dissenters ranged from 0.06% to 10.42% per resolution with the Report on Remuneration (including the former CEO's big bonus) attracting a negative vote of 7.75%.

Barratt (trading update – 9 May)

"The full year is modestly above the Board's previous expectations"

"Strong performance and firmly on track for the full year" was the strapline on the UK's largest housebuilder's trading statement for 1 January through 5 May; and it was both pithy and accurate. In terms of the latter, Barratt said that, while volume growth was expected to be "towards the lower end of our medium-term target range, the outlook for the full year is modestly above the Board's previous expectations". The shares rose 2.4% on the day to 600p; at the end of 2Q, they were 572.6p.

The key number here, though, was an order book 2.4% to the good in terms of value at a touch over £3bn and 3.9% ahead in units at 3,365. Okay, this is bolstered heavily by affordable housing i.e. this segment rose 45% to £1.19bn, which meant private sales were off 17% at £1.82bn. But that is okay; and it is a recurring theme this year. These metrics are also markedly better than those for Persimmon (see earlier). Note, too, that net private reservations per active outlet per average week are at 0.79, which is just a sliver down on a year ago (i.e. 0.80).

In terms of implied average selling prices, there are some interesting movements with Private units down 9%, Affordable units up an extraordinary 22% and JVs up an astronomical 43%. A rational man would deduce that there were less private sales in London and the South East, with the opposite effect for Affordable units and JVs.

Around 90% of house-build materials sourced by a centralised procurement function

"We are making good progress on our medium-term targets. We continue to focus on driving margin improvements through the business, which are expected to deliver a modest improvement to the Board's previous expectations this financial year". Barratt also continues to buy 18 to 22,000 plots of land p.a. at a minimum 23% gross margin. At the same time, build cost inflation is running at 3% to 4% (Taylor Wimpey is the only one on 5% so far); plus, around 90% of house-build materials is sourced by a centralised procurement function manufactured or assembled in the UK.

"To improve our cost profile, we have made further refinements to our new housing ranges this financial year, without affecting our quality or design standards. We continue to roll these ranges out across the business, providing us with the flexibility to re-plan sites to suit market conditions and meet consumer demands should the need arise. Our new house-type ranges are suitable for modern methods of construction (MMC). We continue to develop, trial and implement MMC and aim to use it in the construction of 20% of our homes by 2020".

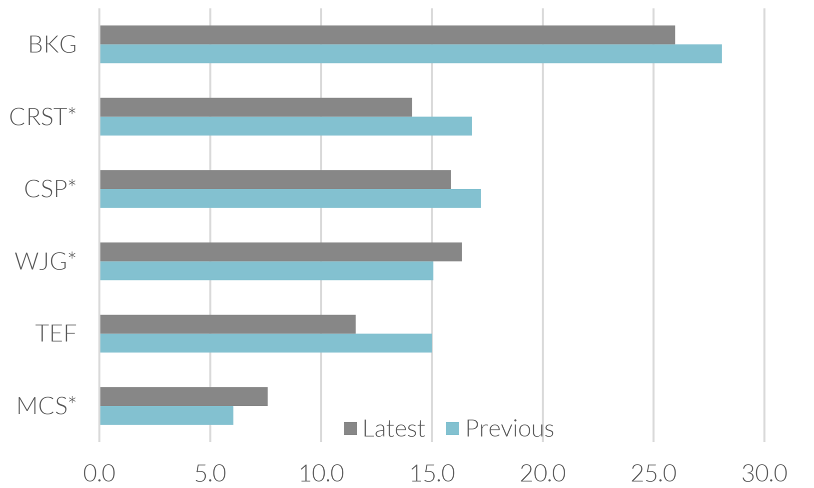
Barratt is extraordinarily liquid with anticipated year-end net cash of £600m to £650m

Barratt also remain extraordinarily liquid with anticipated net cash at the year-end (30 June) of some £600m to £650m. In addition, its extended capital return plan will pay £175m of special dividends in November 2019 and 2020, in addition to ordinary dividends that are covered 2.5x by earnings.

"Whilst the future departure of the UK from the EU has created increased levels of economic and political uncertainty, the Group is in a strong position, operating with average net cash, a strong balance sheet, a healthy forward sales position and an experienced management team".

"We remain focused on driving further margin improvement and delivering our medium-term targets of volume growth of 3% to 5% over the medium term, land acquisition at a minimum 23% gross margin and a minimum 25% ROCE".

Individual EBIT profit margins reported in 2Q’19 (%)



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

Abbey plc (trading update – 13 May)

Erudition is Abbey’s middle name and in its latest trading update it showed why i.e. the net word count was 92 words; and it said pretty much everything that needed to be said. Most significant here was an admonition that “operating profit will be lower than last year”.

The group’s fiscal year-end is 30 April but, in the first half (to end-October), operating profit was up 2.2% to €23.9m. Revenue for the full year, however, was said to be higher. But this means “lower margins” and “this trend of falling margins seems set to continue in the current year”.

Unit sales in the UK and Ireland (especially) were lower in the fiscal year to 30 April

Unit sales for fiscal 2019 were also lower: in the UK 511 (-2%) and in Ireland 36 (-52%), albeit Czechia’s volumes rose four-and-a-half-fold to 32. This also means that there was appreciation in selling prices somewhere. Given the progress of Cairn and Glenveagh, though, lower sales in Ireland seem counterintuitive.

Note, too, that in 2H of its fiscal year, the number of units sold by Abbey in the UK and Ireland fell by 28% (to 234) and 60% (to 17), respectively. That said, “forward sales for the Group are good”. Full-year numbers are out in the week commencing 8 July.

Countryside (interim results – 16 May)

A 49% increase in its order book in 1H

When a company reports half-year results and a 49% increase it its forward order book (to £1.04bn), you would expect more than a penny on the share price (okay, by the end of Week 20, it was 1.4% better at 323.4p, but at the end of 2Q, the share price was 298.4p). Yes, the order book is bolstered by affordable units (including those from acquisitee Westleigh) but that’s okay.

Turning, then, to the 1H performance to 31 March 2019 and adjusted revenue (all metrics quoted here are adjusted), this increased 20% to £564m, which included 1,889 partnership units (+61%) and 473 (-2%) in the group’s Housebuilding Division. For the record, the implied ASPs within Partnerships (including affordable, PRS and some private units) was £181,260 i.e. a decline of 14%. At the same time, the implied Housebuilding ASP was +2.1% to £467,685. But it also said that there is “some pressure on higher price points” above £600,000.

Meantime, the group's operating margin was lower in the half year at 15.9% versus 17.2%, which is attributed to changes in geographical and tenure mix. At the same time, both PBT and EPS rose 10%, the former to £81.8m; albeit this was stated gross of the oddity of "a one-off non-cash inventory impairment charge of £7.4m in our Manchester region" plus a net £4.1m acquisition-related cost debit. Note, too, that the dividend was increased by a staggering 43% to 6.0p per share, in line with Countryside's policy for a "pay-out ratio to 40% of adjusted earnings from continued cash generation".

The group's net private reservation rate is at the top of its target range

"Following a strong second quarter, with a net private reservation rate at the top of our target range (i.e. 0.86 from 0.87), we remain well placed to deliver on full year expectations. As expected, completions will be second half weighted but are underpinned by a strong forward order book and further outlet openings in the second half. Our geographic expansion following the integration of Westleigh provides us with a strong platform for future growth. Additionally, we continue to see attractive new business opportunities in both divisions to support our medium-term strategy".

PS: around the time of the results, the *Daily Telegraph* reported that Countryside had effectively been banned from building properties in Liverpool amid the ongoing scandal over the sale of leasehold houses; and Liverpool City Council said it would not assist the company with developments or sell it land.

Watkin Jones (interim results – 21 May)

Watkin Jones is sold out through fiscal 2021

Watkin Jones put the 'vis' into visibility of earnings with 11 developments (5,334 beds) within Student Accommodation currently forward-sold for delivery in fiscals 2019 to 2021; plus a further three (594 beds) in legals. What's more, this momentum is rubbing off on its newer Build to Rent (BTR) business and Accommodation Management.

In the six-month results to 31 March, top-line growth was a flat at +0.5% to £1,599m, which comprised a decline in student accommodation but very good gains in the much smaller BTR and Residential units. At the same time, though, EBIT margins (ex-a special payment to the incoming CEO of £2.6m) nudged ahead 50bps to 16.4% and, in quantum, rose 9% to £26.0m. Again, the lion's share of operating profit came from student accommodation (81% of gross profit) but the others are coming up fast (BTR especially). In turn, PBT was struck at £26.0m (ex-the-exceptional debit), which was up 10%, with EPS ahead 8%. The interim dividend was raised 11% with cover at 2.95x (1H 2018: 3.05x).

RoCE in 1H was 27.6%

Turning to the balance sheet, the metrics are excellent with adjusted RoCE of 27.6% (1H 2018: an unsustainable 32.8%), with capital turn at 1.69x (1H 2018: 2.18x). There was also an operating cash outflow in 1H, which reflects the normal working capital cycle. The group, however, still sported net cash of £18.3m (1H 2018: £38m); the latter shift, too, was exacerbated by a delay in the receipt of a contractual cash payment of £14.0m, which arrived in April, post the 1H accounting date.

Turning to the relatively new BTR, it holds a secured development pipeline of eight sites (five with planning), from which it is targeting to deliver approximately 1,800 apartments over the period fiscals 2020 to 2023. Five of these sites have planning (1,031 apartments). The group continues to explore the opportunity of creating a separate BTR investment vehicle too.

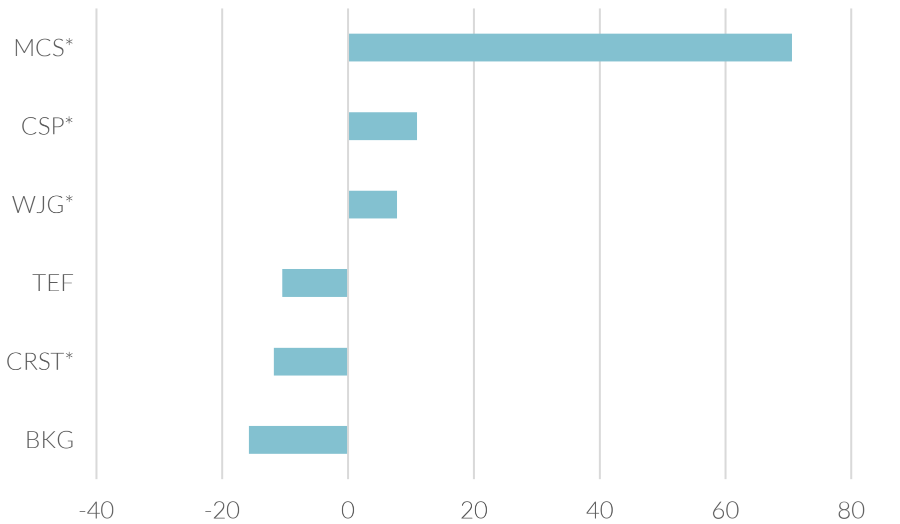
On the Accommodation Management front, Fresh Property Group (FPG) currently has 15,421 student beds and BTR apartments under management across 56 schemes. Note, however, that, as of now, it is currently appointed to manage 21,018 units across 73 schemes by fiscal 2022.

Not to be outdone, the Cinderella unit, i.e. Residential, had a ball in 1H with almost doubled units to 53 sales in the North West, plus 22 affordable residential apartments at Stratford in London.

"…this will continue to provide excellent visibility on future earnings and cash flow…"

New CEO (since 02 January) Richard Simpson said: "I continue to be very excited by the opportunities in this business, seeing the market dynamics for both student accommodation and BTR so strongly supportive of the Group's forward sale model. Together with our pipeline of forward sold and secured development sites, this will continue to provide excellent visibility on future earnings and cash flow. Consequently, the Board remains confident in the prospects for the Group".

Individual EPS growth reported in 2Q'19 (% change)



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

Bovis (trading statement/AGM – 27 February)

Once again, too, there was no order book data. Why not?

The group's tone was affirmative but more measured, relatively, than days of yore, and the much-loved Bovis words "controlled" and "disciplined" were used just a single time each. Once again, there was no order book data. Why not? Okay, the average private sales rate per site per week is up 17% at 0.61 (2018: 0.52) on the back of "good demand in the year to date", which is useful; and Bovis has also opened seven new developments in the year to date, and is operating from an average of 87 active sites. "We expect to open a further 16 new sites this year, and our average active sites for 2019 to be at a similar level to the prior year" i.e. 87. More broadly, too, the group has been awarded 4 stars by the HBF in its latest annual customer satisfaction survey.

At the same time, "our overall improved cost control continues and alongside our margin initiatives, this is offsetting the impact of limited sales price inflation and build cost inflation running at ca. 3% to 4%". And, Bovis's new Partnerships Housing division has also delivered its first scheme, which is a JV with Riverside.

Turning to dividends and following 2018's final payout of 38.0p, Bovis will have paid 102p in 12 months (2017: 47.5p), including the special dividend of 45p per share paid in November 2018.

"We continue to see good levels of demand for new homes across all of our operating regions"

"The current market fundamentals remain strong and we continue to see good levels of demand for new homes across all of our operating regions. We have a strong forward sales position and are confident of delivering completions in line with our expectations for the year. The Group set out its medium-term targets to be achieved by 2020 to return Bovis Homes to being a leading UK housebuilder and significantly improving returns to our shareholders. We continue to make good progress against these targets with several already achieved. We expect to make further progress on the Group's operational and financial performance in the current year".

We are big fans of CEO Greg Fitzgerald, too, and the man is clearly making the cut. Bovis was an excellent business and, with Greg in charge, we believe it will be again. Ironically, too, the travails experienced 'Before-Fitzgerald' will help it to be quicker in terms of metric improvement.

Bovis (proposed bid for Galliford Try – May)

The potential bid for Galliford was exclusively reported by Sky TV, after which Greg Fitzgerald duly offered £1.05bn (including £100m of private placement debt) for Linden Homes and the Partnerships & Regeneration business of Galliford Try.

£1.3bn was the right figure, in our view

This was, of course, rejected, and the two protagonists are no longer speaking. We think that £1.3bn was the right figure (which is ca.10x historical earnings); remember, too, that Galliford Try's market capitalisation at the time was £695m, which makes the arithmetic very attractive for the target. Similarly, such a deal would have been transformational for Bovis.

In the denouement, does Galliford remain 'in play'? Probably – albeit its Construction unit appears to be a safety net. Serendipitously, too, Galliford tried to buy Bovis two years ago and was largely thwarted by the target appointing the former Galliford Try CEO, Mr Fitzgerald, as its CEO.

Telford Homes (final results – 29 May)

Telford's share price has responded handsomely to its strategic shift

On 16 May, the group's shares hit 270.5p. However, in the week that it reported, they closed at 297.5p; and by the close of 2Q, they were at 314.5p – way to go. Yes, Telford's PBT was 13% down after a tough year and a dynamic strategic shift towards BTR. However, Telford delivered its forecast £40m of PBT. In fact, it made £40.3m and maintained its dividend. The company also intends to be more generous on payouts going forward with a potential kitty in excess of one-third of earnings. Revenue at £354m (+12%) was a record, too, and the gross margin was still over 20% (actually 21.2%) with EBIT profitability at 11.6% (2018: 15.0%).

Looking forward, 2020 will be another down year in profits, as indicated, which is to be expected as Telford changes its spots; but, thereafter, growth should resume its upward path i.e. check out the development pipeline of 4,900 homes with a value of £1.59bn, which is up a fifth YoY. Note, too, that over 80% of the units in the development pipeline have planning consent and are in design or under construction; and 60% of those under construction are forward-sold.

Nor could we do better than CEO Jon Di-Stefano's summary: "ultimately, we believe Telford Homes has a robust long-term outlook based on a model that is less cyclical, lower risk and less capital intensive, building on our recognised skillset and excellent reputation, and underpinned by demand from both institutional investors and rental customers". So good in fact, that CBR has launched an agreed bid at 350p per share on 3 July.

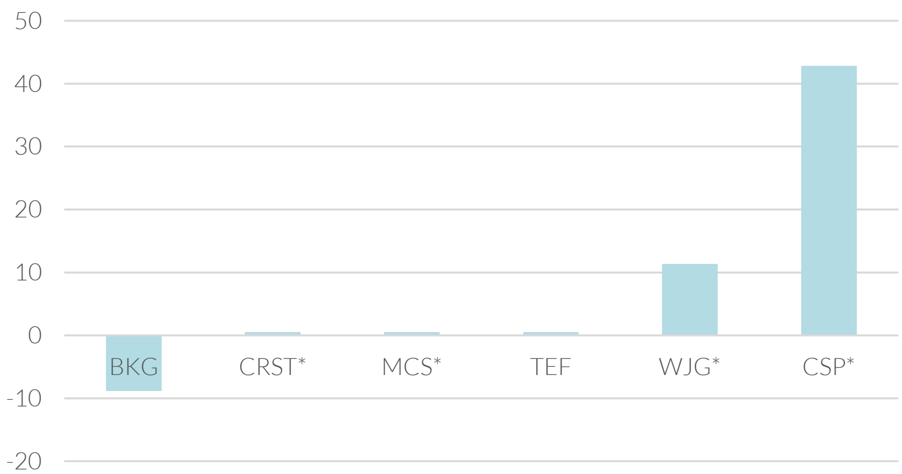
Inland Homes (trading update – 6 and 26 June)

The company issued six trading-related announcements in 2Q and, on 6 June, said that its planning application for Wilton Park in Beaconsfield, Buckinghamshire, had received a resolution to grant planning permission subject to the signing of a Section 106 Agreement. This largely 100 acre site has an estimated GDV of £350m.

Inland is also shifting its year-end from 30 June (23 days away at the time of the announcement) to 30 September, and it says that the change is being made because it wants to capture as much value as possible following significant planning decisions and reflect them in its results.

On 26 June, Inland also said that a resolution to grant planning (subject to Section 106) had been received at Cheshunt Lakeside in Hertfordshire. The master plan GDV here is estimated at £620m.

Individual DPS increases reported in 2Q'19 (%)



*denotes interim results
Source: Hardman & Co Research

Glenveagh (trading statement/AGM – 7 June)

All units within the group's delivery target of 725 are now sold

At the time of its AGM (where all resolutions were passed), the group simultaneously issued a trading statement. It said that all units within Glenveagh's 2019 delivery target of 725 were now sold, signed or reserved, with the exception of the 90-unit Herbert Hill apartment scheme, where a preferred bulk sale process expected to complete in 2H 2019. This is very good news for a December year-ender.

Similarly, reservation numbers are benefiting from Glenveagh's increased number of open sales outlets. The group has also seen strong private interest and sales for its starter-home schemes in the spring selling season. Open sales outlets now total 12, with strong absorption at existing schemes, while new launches are also performing well with "robust private buyer demand" at Semple Woods, Blackrock Villas and Ledwill Park. Glenveagh has also added to its development land portfolio in the period with two off-market acquisitions in Howth, Co. Dublin and Bray, Co. Wicklow for a combined consideration of ca.€24m. These two sites are capable of delivering 200 and 175 units, respectively.

The Board also reaffirmed its confidence that full-year results would be in line with its expectations.

Gleeson (Directorate change – 10 June)

The group abruptly parted company with CEO and MD Jolyon Harrison on Monday 10 June. Apparently, the 71-year- old and the group could not agree on remuneration and succession. For the record, Jolyon was paid almost £3m last year. In his place, too, ex-Keepmoat Homes CEO, James Thomson, has stepped in as CEO on an interim basis.

Since Jolyon became CEO in July 2012, Gleeson's share price has risen eight-fold

Since Jolyon became CEO/MD in July 2012, Gleeson's share price has increased eight-fold and PBT has risen from £5.8m to £37m (in the five years to fiscal 2018).

Gleeson shares fell more than 10% in Week 24 to 796p and closed 2Q at 728p.

The outgoing CEO/MD will also be missed by the industry and financial markets because walrus-moustached Jolyon was such an irrepressible figure and a wonderful source of positivity. At this time, too, he also owns 3.42% of Gleeson.

Crest Nicholson (interim results – 12 June)

There was a sure-footed tone to the group's half-year announcement covering the six months to 30 April. This follows the departures of Crest's CFO (October) and CEO (March) and the manful stepping in of Crest-incumbent Chris Tinker as Interim CEO (since 26 March). At the same time, Crest Nicholson stalwart Stephen Stone has become NE Chairman (April), and a new COO in Tom Nicholson (no relation) started at the end of May, followed, in September, by Peter Truscott joining as CEO from Galliford Try (as did Tom). Shall I repeat that?

There was clearly a suitable case for treatment because the 1H results were not banner, albeit there were some encouraging trends. For the record, 1H revenue actually rose 7% to £502m, which comprised fewer units (i.e. minus 9% to 1,184, including affordable homes), albeit at an open-market ASP 8% higher at £423,000. The EBIT margin, however, dropped 270bps to 14.1% and £70.8m in quantum (1H 2018 has been restated across the board too). PBT was 11% lower at £64m with EPS off 12%, although the dividend was maintained at 11.2p.

Crest's forward sales position is up 15% at £625m

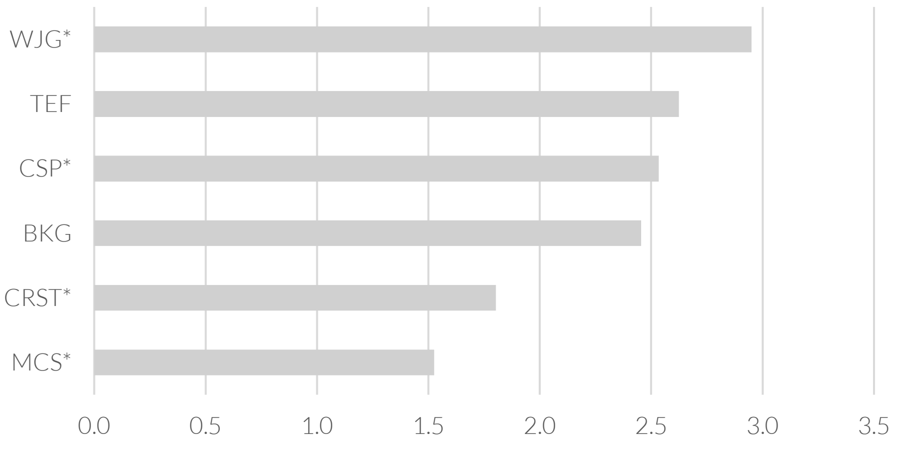
As with many of its peers, Crest is undertaking more partnership work. "Our [new] strategy to reduce forward sales risk through an increased proportion of pre-funded, presold homes has also realised a 15% increase in our total forward sales position [to £625.2m for all years]. This increased certainty has traded an element of operating margin, which together with generally flat pricing and continuing build cost inflation [3 to 4%], has contributed to a reduction in the operating margin". Turning to sales-per-outlet-per-week (with higher ASP product normally selling at a slower rate), this was at 0.78 in 1H, which is the same as 1H last year and compares with 0.82 for the whole of fiscal 2018.

"Trading performance has been encouraging in the first half set against the uncertain and politically turbulent backdrop. Business operations are proving resilient and operational efficiency initiatives are making planned progress. We have also recently strengthened the operational leadership team to further support these programmes. We have implemented large parts of the revised strategy and are on track to continue during the second half year. Given the current market, the Board remains confident in the prospects for the rest of the year and in achieving earnings in line with consensus".

The short-term land bank has "an assessed GDV" of £5.9bn

For the record, ShareCast shows a 12% fall in earnings for 2019 and a decline of 1% in fiscal 2020. Note, however, that Crest sports a short-term land bank of 18,060 units with "an assessed GDV" of £5.9bn, plus an even larger potential number in its Strategic and Partnership land pipeline.

Individual DPS cover reported in 2Q'19 (x)



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

Bellway (trading update – 12 June)

The takeaways from the group's trading update were negative.

The takeaways from the group's brave-faced trading update were: "pressure on the gross margin and a cash order book 3.5% lower". The shares dipped 1% on the day and 2.1% in Week 24 to 2,757p. However, at the end of 2Q, they were at 2,785p.

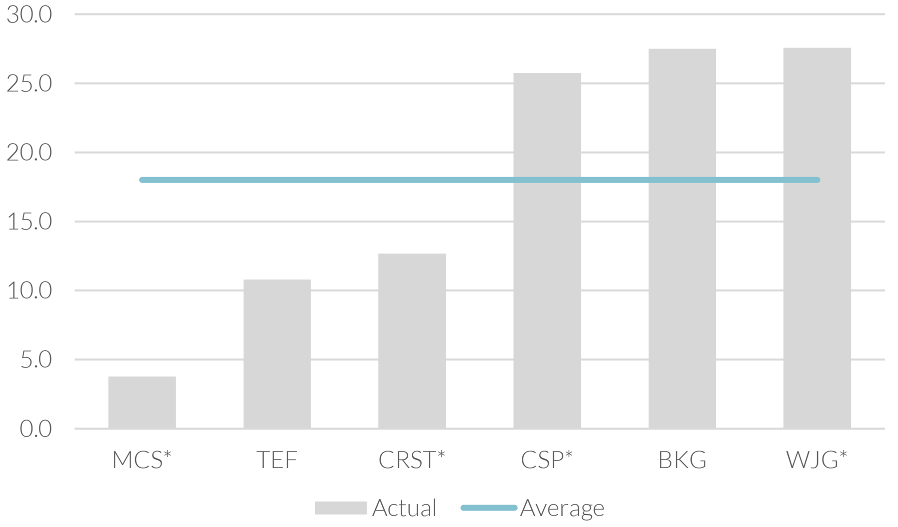
For the record, the update covered the period in 1 February to 2 June and the GM point was made as follows: "While house prices in general remain firm, the benefit of house price inflation continues to diminish. In addition, as has been the case for a number of years, cost increases continue to be experienced throughout the broader construction sector. Bellway's strong operational focus, with an embedded culture of cost management, has ensured that our cost base remains well controlled and this has helped to mitigate some of the pressure on the gross margin". Mitigate or not, this is a potentially burgeoning negative.

The forward order book was 3.5% lower at £1.64bn

Turning to the forward order book, this has risen 2.7% to 6,312 units (with 68% contracted). However, it is 3.5% lower in value at £1.64bn, which is said to be "a reflection of the planned growth in lower value social completions this year, with this being in accordance with previous guidance". At the half year, at the end of March, these percentage changes were +4% and -2.6%, respectively. Elsewhere, Bellway spoke of "strong sales demand in the period, with a 4.7% increase in the reservation rate to 244 per week". In terms of outlook, Bellway said that "demand for good quality, affordably priced new homes continues to be strong" and "customer confidence is resilient".

Finally, the group also said that it "is well placed to deliver further earnings growth this financial year, in line with the Board's expectations". ShareCast shows consensus earnings growth of 3% this year (to 31 July) and 2% next. I would take this.

Individual RoCE reported in 2Q'19 (%)



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

Berkeley Group (final results – 19 June)

Annual results to 30 April 2019 came in some 10% better than expected at £775m, albeit this was a fifth lower YoY. As recently as September 2018, Berkeley committed to at least £3,375m of PBT over the five fiscal years 2017 through 2021 (originally this was £3bn).

PBT in fiscal 2019 was a fifth lower YoY at £775m

On 19 June, the group announced that guidance on total PBT over five years had changed to: "current 18% out-performance against December 2016 plan to deliver £3.0 billion". This implies a tally of £3,540m and it is effectively "circa £3,500m".

Since fiscal 2017, the group has generated £2,547m of PBT, which leaves £953m for the two fiscal years 2020 and 2021.

Within its Results announcement, too, Berkeley said that PBT is anticipated to fall by around a third in the current year to end-April 2020 i.e. to ca.£520m. This would leave £433m (minus 17%) for fiscal 2021. It would also mean pretty much a halving of profits between fiscal 2017 and fiscal 2021.

Net cash at the year-end had increased 42% to £975m

Back in fiscal 2019, Berkeley sold 3,698 units (including 297 under Help to Buy) at an average price £748,000 (+4.6%). It also closed the year with net cash 42% higher (yes, 42%) at £975m. Okay, proceeds due on forward sales were down 18% at £1.8bn, although the group says it has £6.2bn of estimated future gross margin in its land holdings, which is a little over 3% ahead of the figure a year ago and is expected to be realised over the next three fiscal years.

During the year, too, Berkeley made shareholder returns of £251.9m (2018: £287.1m) by way of share buy-backs and dividends (£53m).

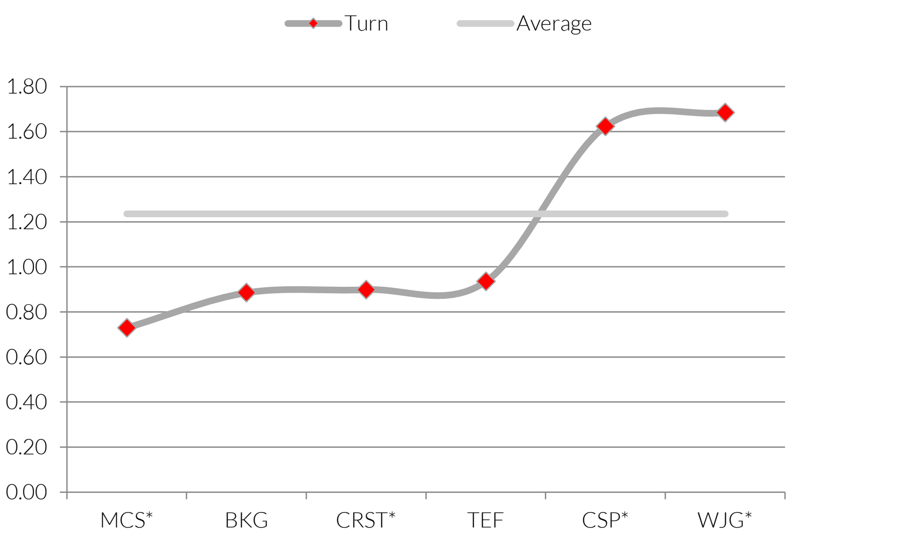
Looking at profitability, the EBIT margin was down 280bps, albeit this was still 26.0%, with RoCE of 27.5% (2018: 29.8%). Berkeley also said trading conditions and the value of new reservations secured remained stable, with 2018-19 being marginally ahead of 2017-18.

On the cost front, the rise remains steady, at around 4% p.a., and Berkeley has a burgeoning modular production unit. "The risks associated with a 'no deal Brexit' are well documented. For Berkeley, areas of potential impact include short term materials availability and pricing and, over the longer term, the availability of skilled labour".

"A lack of visibility in the political outlook"

"The operating environment has been uncertain for three years, since the UK chose to leave the European Union, resulting in a lack of visibility in the political outlook. When seen alongside the increasing property tax burden since 2014, and a complicated, costly and bureaucratic planning system, it is unsurprising that both demand and supply are constrained at present. Businesses are used to, and indeed thrive on changing economic and commercial conditions but they do need a supportive and stable political and regulatory environment to invest with confidence and stimulate growth".

Individual reported capital turn in 2Q'19 (x)



**denotes interim results; capital turn is revenue divided by capital employed*
Source: Hardman & Co Research

Macroeconomics

Consensus GDP forecasts for the UK are in a band from 1% and 2% p.a. in 2019 through 2021 (2018: 1.4%)

GDP fell by 0.4% in the month of April (with construction off 0.4%), which will most likely mean 2Q being negative too (1Q: +0.5%). Consensus GDP forecasts for the UK in 2019, 2020 and 2021 are in a band from 1% to 2% (2018: 1.4%).

Samuel Tombs, Chief UK economist at Pantheon Macroeconomics, said April's drop in GDP almost entirely reflected the unwinding of the boost to activity in 1Q from precautionary pre-Brexit stockpiling. In addition, "we're reluctant to conclude, however, that the economy has fundamentally lost momentum, given the still-bright outlook for households' real incomes [...] All told, 2Q GDP now looks set to be awful - we're revising down our forecast for quarter-on-quarter growth to zero, from 0.2% previously - but the chances of growth remaining this weak remain slim. Markets have overreacted in pricing in a 30% chance of the MPC cutting Bank Rate before year end".

Inflation, as measured by the CPI, was 2.0% in May 2019, down from 2.1% in April and 2.4% a year ago.

Meantime, unemployment was 3.8% in the April (March 2019: 3.8% and April 2018: 4.2%). It has not been lower since the October to December period of 1974. Note, too, that average weekly earnings rose 3.4% in the same Quarter, which nets to 1.5% after inflation.

Retail sales in the May, by volume, increased 1.6% QoQ and 4.8% YoY. May on its own, however, was down 0.5% on April but 2.3% ahead of May 2018.

Mortgages

The Bank of England said that mortgage approvals in the five months to May were up 0.5% annualised.

UK Finance said the number of mortgages approved for house purchases, at 45,549, by the main high street banks in May was 4.7% higher than in April and 9.1% up on May 2018.

Bank of England data, and a wider catchment, showed 65,409 mortgage approvals for house purchases in May, which was 1.0% down on April but 0.5% up on May 2018. Note, too, that the first five months of 2019 were 1% higher annualised. For the record, these data are seasonally adjusted.

Volumes and prices

Residential transactions dropped 11.3% in May 2019 versus May 2018

Turning to the number of UK residential transactions – existing and newly built – these showed a sharp 6.4% drop to 89,810 in May versus April. The fall was even more razor-like YoY at 11.3% versus May 2018, according to HMRC seasonally adjusted numbers.

The National Housebuilding Council is the UK's leading warranty and insurance provider for new homes and its registration statistics are a lead indicator.

In the May Quarter, 43,985 new homes were registered to be built, which is an annualised increase of 12.6%. Note, too, that in May alone, the gain was 11% to more than 16,000, with numbers boosted by inward rental unit investment.

New homes to be built in London rose 125% YoY between March and May this year

In the May quarter, too, the private sector was 9% up to 31,322 with the affordable and rental sector ahead by a very significant 21% at 12,663. Included here, also, are more than 7,000 new homes registered in London between March and May this year, which is a 125% increase YoY.

NHBC CEO Steve Wood welcomed the figures: "it is encouraging to see such strong figures in May".

Looking even further forward, too, is Experian (where I am an advisor), which is forecasting that UK Private Housing Output will rise 2% this year, 2% in 2020 and 4% in 2021. At the same time, the much smaller Public Sector is set for +3%, +5% and +8%, respectively.

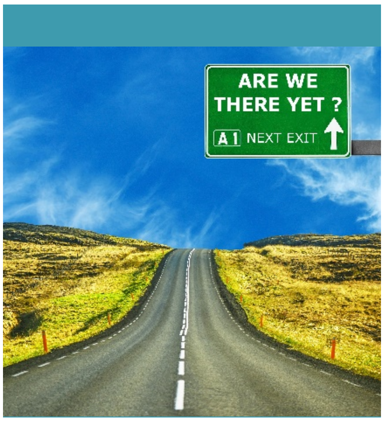
On the house price front (where everyone is an expert), the Nationwide said that UK house prices in May dipped 0.2% versus April, albeit they were 0.3% higher in the April quarter and ahead 0.6% YoY at £214,946. Market indicators were also said to have remained broadly stable.

At Rightmove, newly marketed properties rose 0.3% in the month of June to £309,348 and were within a whisker (i.e. £91 in June 2018) of a new record. That said, prices were flat on an annualised basis. Meantime, in London, "it's not a recovery yet but the pace of annual fall decline slows" i.e. -2% YoY (including +0.5% TfL Zone 3) from -3.8% in March.

Reuters is forecasting 1.2% house price inflation in the UK this year, with a recovery expected in London in 2020

Finally, the Reuters Housing Market Poll of 23 housing market watchers (including my services) says prices will rise 1.2% nationally this year, 2.0% next year and 2.5% in 2021. Included here is a 2% drop in London in 2019, before growth of 1.0% next year and 2.5% in 2021.

The Journey will end



Source: Shutterstock

Boris Johnson, PM in waiting (assuming the bookies are correct), has said he would drastically raise the threshold for stamp duty on house purchases from its current level of £125,000 to £500,000 – and slash the top rate from 12% to 7%.

On the final trading day of 2Q, this, unsurprisingly, resulted in a Blue-Zone-Friday for the Housebuilding Sector and made it the fourth best day of 2Q at +2.2% in value i.e. it is estimated that reducing stamp duty by a single percentage point could boost transactions 20%.

It also shows that the Sector is prone to good news (as it is to bad) and that there is a palpable willingness among investors to see it rise. Post-2Q's end, too, we have had an agreed bid from CBRE for Telford Homes on 3 July. This is a double surprise and a potentially graceful exit for the target but not a trend.

The gain on Friday 28 June also meant that the month of June was marginally positive (+1%); albeit 2Q remained 7% down in value.

Lost in the hurly-burly, however, were spectacularly good figures from the NHBC, where new home registrations in the UK rose by an annualised 12.6% in the May Quarter; and by 125% in London.

At the same time, the high street banks advanced 9.1% more mortgages in May YoY. Okay, residential transactions, existing-and-new, let the side down i.e. -11.2% annualised in May.

The Sector is doing its best but Brexit is simply taking too long; and we have all had these journeys, most palpably as nippers. They are non-conducive to harmony, future planning and doing. Fatigue is endemic, which, in turn, can lead to stunted growth and malady.

The view out the window is dull and getting duller.

We err on the optimistic, though, and suggest you buckle your seat belt of flat earnings growth this year and suck on the sweet of 6%-plus dividend yields.

The journey will end.

Quote:

“Brexit uncertainty is like a purgatory. I would accept any outcome right now: in; out; whatever.”

Source: Paul Gambles, Managing Partner, MBMG Group

Glossary

Name (ticker): share price; market value

Abbey (ABBY): 1,400 cents; Euro 300m

Barratt (BDEV): 572.6p; £5,839m

Bellway (BWY): 2,785p; £3,430m

Berkeley Group (BKG): 3,731p; £4,781m

Bovis Homes (BVS): 1,033p; £1,393m

Cairn (CRN); 119 cents; Euro 939m

Countryside (CSP): 298.4p; £1,343m

Crest Nicholson (CRST): 357p; £917m

M J Gleeson (GLE): 728p; £397m

Glenveagh (GLV): 73 cents; Euro 636m

Inland Homes (INL): 65.5p; £135m

McCarthy & Stone (MCS): 136.6p; £734m

Persimmon (PSN): 1,997p; £6,361m

Redrow (RDW): 544p; £1,916m

Springfield (SPR): 108.5p; £105m

Taylor Wimpey (TW): 157.75p; £5,173m

Telford Homes (TEF): 314.5p; £239m

Watkin Jones (WJG): 206p; £526m

Note: Share prices at 28 June 2019
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

About the author

Tony Williams leads the Building and Construction team at Hardman & Co.

He has followed the building industry for more than 30 years, working as an analyst and corporate financier at UBS, Morgan Stanley and ING Barings. His industry roles have included Director of Corporate Planning and Strategy at Tarmac plc and Director of Public Affairs at AMEC, as well as a number on Non-Executive Directorships. He is also the founder and CEO of Building Value Ltd.

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