HARDMAN&CO.

UK Housebuilding Sector in 3Q 2019

- ‘And then there were 17’

By Tony Williams, Hardman & Co Analyst

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‘And then there were 17’

Source: Creative Commons

Dame Agatha Christie (née Miller) published more than 80 books and plays; and the Guinness Book of World Records lists her as the best-selling novelist of all time with roughly two billion copies sold.

‘And then there were none’ was originally published in 1939, with an un-politically correct title; and it is still the world’s best-selling mystery (with more than 100 million sold). It is also number six on the list of best-selling books of all-time.

The plot concerns 10 guests and staff holed up on a small, isolated island off the Devon coast. One by one, they meet their maker in a homicidal sequence choregraphed by a retired judge with both a “savage bloodlust and a strong sense of justice”. Okay, two (very stressed) protagonists actually top themselves.

The novel is full of surprises and the fateful question (on repeat) is who’s next?

Similarly, CBRE bidding for Telford was a double surprise (seller and buyer) and reduces the listed UK Housebuilding Sector by one to 17.

And, the second question on everyone’s lips (after “why CBRE?”) is: “who’s next?”

Of course, outside the Sector drawing room, we have Bovis and its agreed bid-in-progress for Galliford Try’s residential units including Linden Homes. Plus, that other Luddite (contracting and housebuilding combo), Kier, is selling its homes’ business.

This is not ‘Ordeal by Innocence’ or ‘Destination Unknown’.

It is a ‘Postern of Fate’.

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3Q 2019 – a real page turner

In 3Q of this year, the stock market value of the UK Housebuilding Sector increased by 10% or £3.4bn.

For the literary record, in calendar 2018, it declined 27% or £11.8bn.

Note, too, that the Sector’s 3Q plot peak was on its final day, i.e. 30 September, with its low coming on 15 August.

It also closed the quarter just 14% off its all-time high from 24 October 2017.

Month by month, too, July (+4.1%) and September, especially, (+9.1%) were very good indeed with only August spoiling the middle act with a 3.5% drop.

The Sector has risen in 24 of the last 35 quarters and seven of the last 10 years through 2018

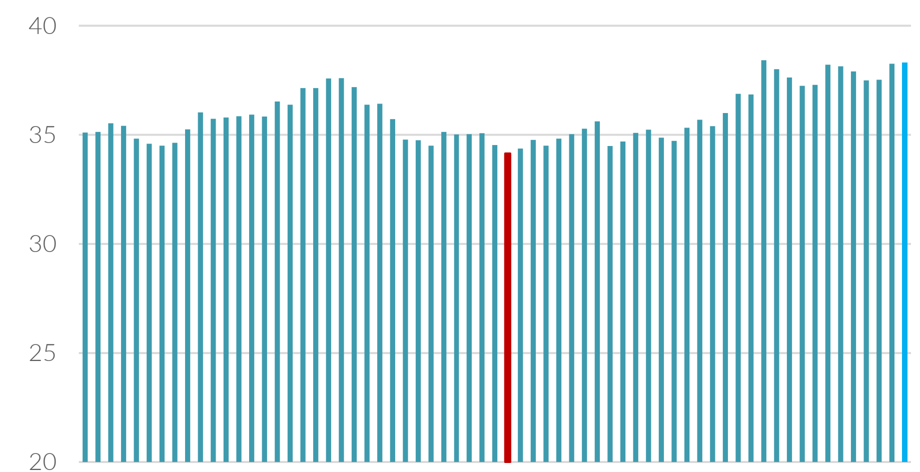
Best week was Week 37 (+7.7%) with the worst being Week 31 on minus 4.9% (and, from a tally of 13 weeks, six were ‘up’ and seven ‘down’ in the best sellers’ list.

From 65 trading days in 3Q, too, the split was 38 ‘up’ and 27 ‘down’.

Looking back to the Sector’s trough (7 July 2008) the rise has been more than 1,100% (i.e. £35bn); and the Sector is 52% above where it was in the immediate aftermath of the Brexit referendum (‘The Hollow’).

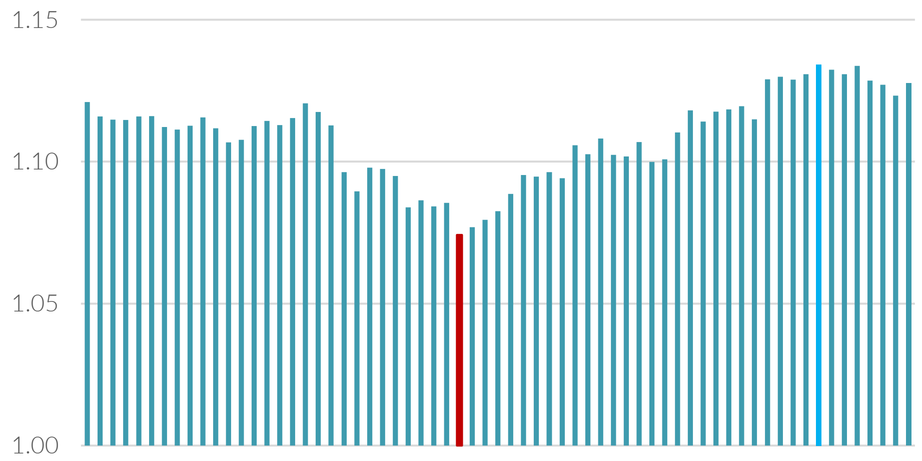
Similarly, the Sector has risen in value in 24 of the past 35 quarters (and seven of the past 10 years through 2018).

UK Housebuilding Sector market value – daily: 3Q 2019 (£bn)



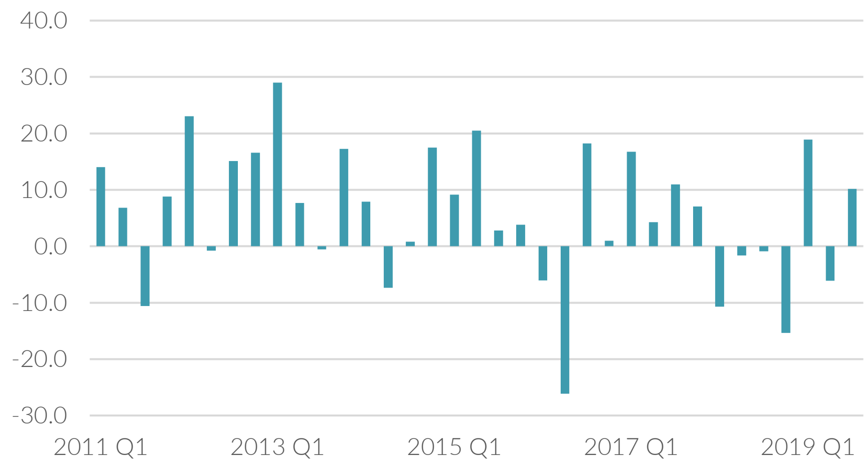
Note: low (RED) was on 15 August and high (BLUE) on 30 September
Source: Hardman & Co Research

Euro to British Pound exchange rate: 3Q 2019



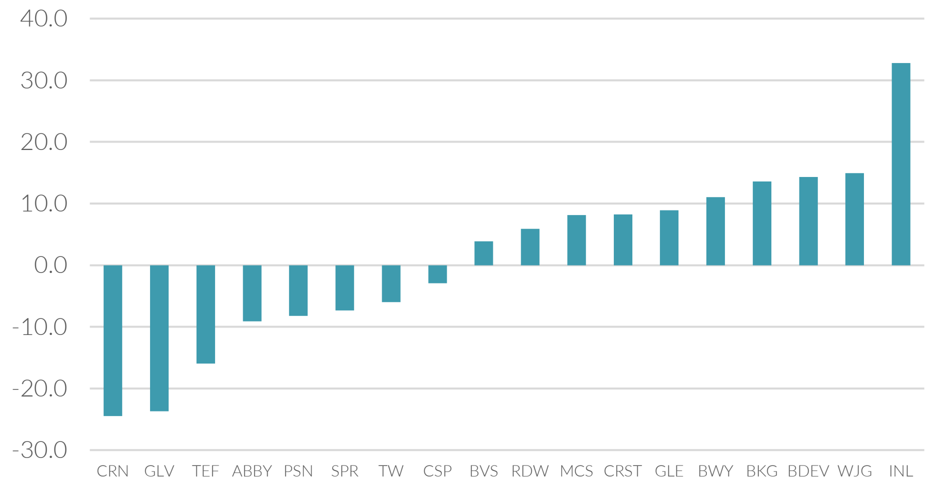
Note: low (RED) was on 15 August and high (BLUE) was on 19 September
Source: Hardman & Co Research

UK Housebuilding Sector share prices: 1Q 2011 to 2Q 2019 (% change)



Source: Hardman & Co Research

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



Source: Hardman & Co Research

3Q – the story continues

Housebuilders’ share prices have risen 19% in 2019 so far (through 30 September)

Housebuilders’ share prices rose smartly by an average 9% actual in 3Q (QoQ), or 10% weighted by market capitalisation. Year-to-date, these numbers were +19% and +23% whilst against a year ago, the gains were slimmer volumes at 1% and 5%, respectively.

A reinvigorated Inland (+21%) and Bellway (+20%) were top of the 3Q best-seller list; and then dual-listed (Dublin and London) Cairn Homes was the sole negative author with a drop of 7%.

Earlier, too, we highlighted the close match of the shifts in value for the Housebuilders against the Euro vs. the British Pound i.e. the exchange rate is a barometer of the prevailing Brexit wind. Note, too, the Sector and Pound’s low in 3Q were on the same day i.e. 15 August.

In the year-to-date, it is an even better picture-book with share prices rising by an average 19% actual and 23% weighted.

Inland (+52%) was a runaway novel winner with support from Bellway, Bovis, Redrow and Gleeson which all rose between 25% and 33%.

In 2019, up until 30 September, not one stock was lower, although Abbey was unchanged.

Inland (+33%) once more eschewed writer’s block on an annualised basis

Looking at the same time a year ago, 10-from-18 stocks are higher with Inland (+33%) once more eschewing writer’s block.

Worst, encore, are Cairn and Glenveagh (the Irish businesses) with very significant deficits of 25% and 24% respectively.

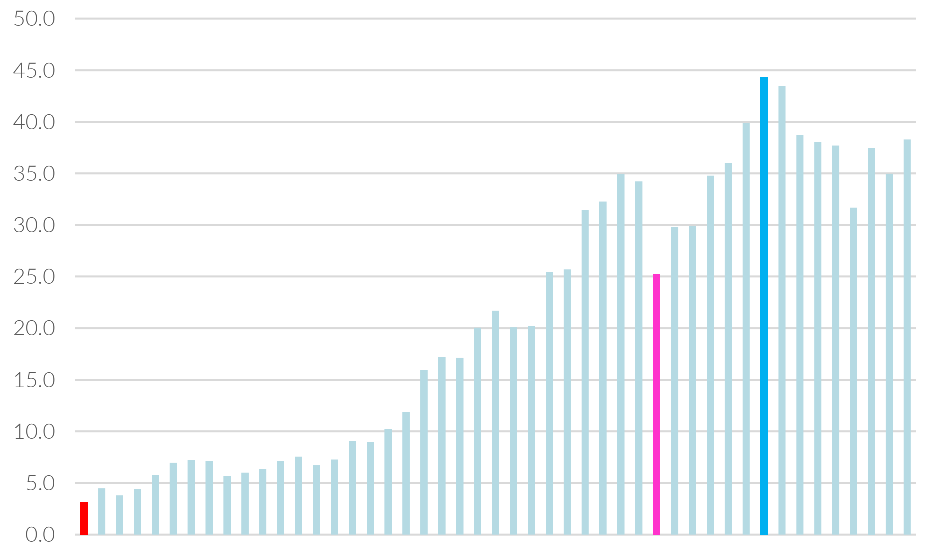
In terms of 3Q on 2Q, Housebuilding (+10%) was, once more, the best relative performer on the London Stock Exchange against its peer sectors and the principal

market indices. The Sector also led over the 12 months to end-September with a 3% gain.

Oddly (given the earlier Chapters), Construction and Building Materials was the best performer in 2019 to date (to 30 September) with a 25% surge; albeit the Housebuilders are close behind on 23%.

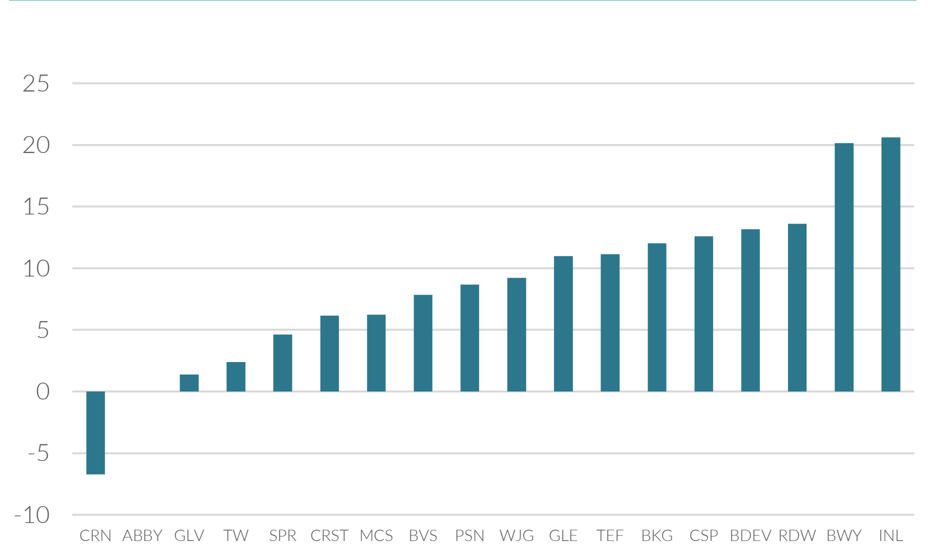
At the same time, the three core measures of the UK equity market – the FTSE 100, 250 and All Share – were flat in 3Q in a band from minus 0.5% to +0.1% and all were negative compared with a year ago. In 2019 to date, however, the equity market's three principal indices were up by between 10% and 11% through September.

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



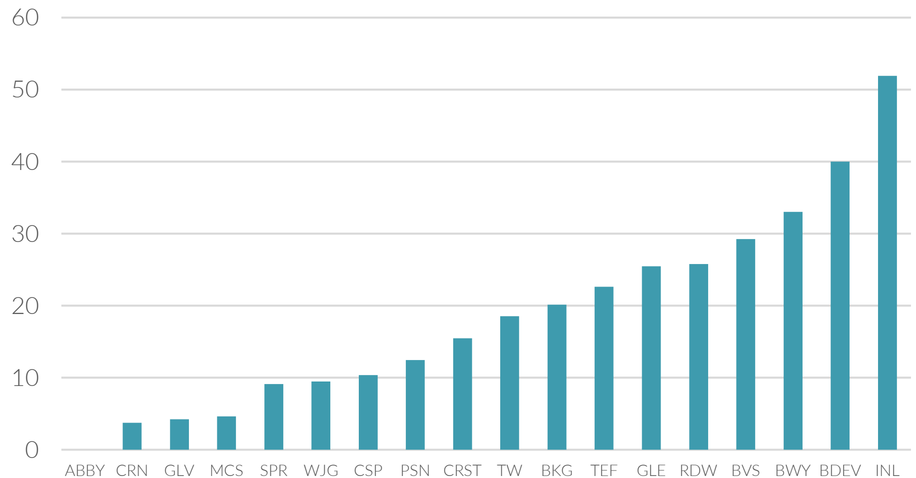
Note: low (RED) was on 7 July 2008 and high (BLUE) was on 24 October 2017; Brexit Vote (PINK)
Source: Hardman & Co Research

Individual sector shares prices in 3Q 2019 vs. 2Q 2019 (% change)



Source: Hardman & Co Research

Individual share prices in 2019 to date – as at 30 September 2019 (% change)



Source: Hardman & Co Research

Peaks and values

Four players account for 63% of Sector value

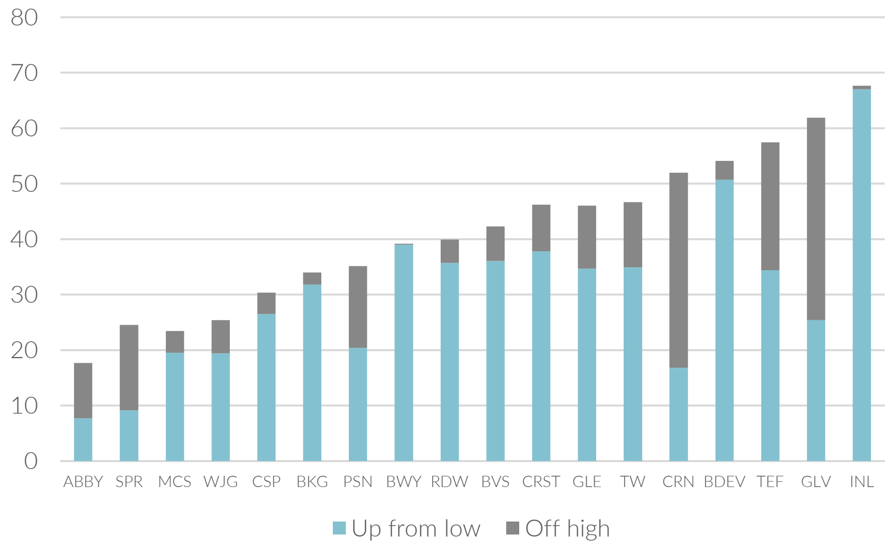
At 30 September 2019, Housebuilders’ share prices were, on average, some 1,800% above the lows of 2008; and 30% up on more recent 52-week lows (weighted, these numbers are written as 2,400% and 34% respectively).

However, the Housebuilders were also ca.17% below their 2007 peaks (and 18% weighted); plus, they are 14% and 11% off 52-week highs on an actual and weighted bases, respectively.

‘The Big Four’ housebuilders also continue in the FTSE 100, and, on 01 October 2019, they placed as follows: Berkeley (number 83); Taylor Wimpey (82); Barratt (63); and Persimmon (58).

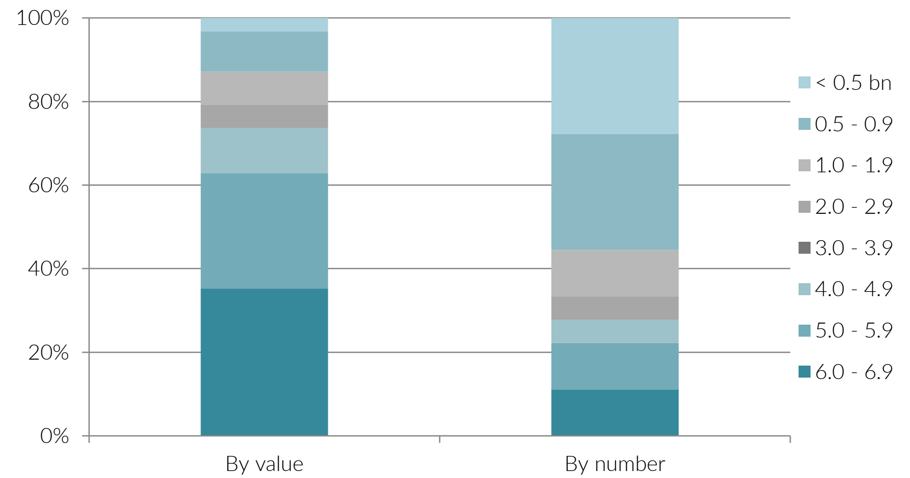
Together, these four playwrights account for 63% of Sector value.

Movement against 52-week lows and highs as at 30 September 2019 (% change)



Source: Hardman & Co Research

Sector structure by stock market value: 18 firms worth £38.3bn at 30 Sep 2019



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

The average TSR in the past 12 months was -12.4% weighted by market capitalisation

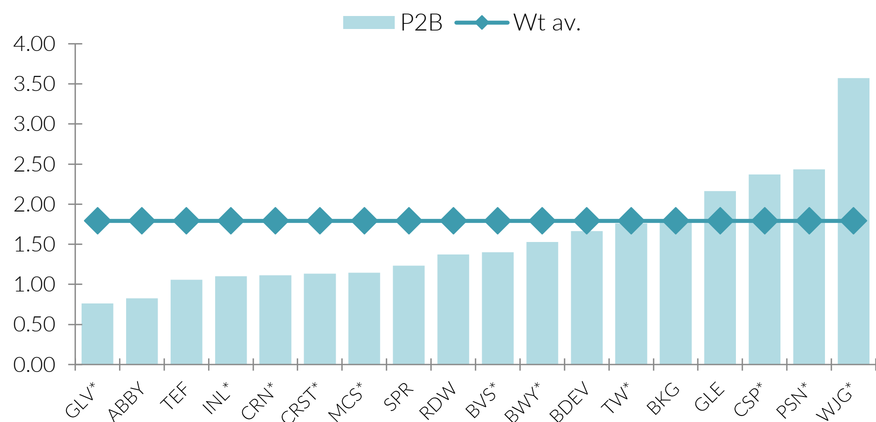
Price-to-Book and Total Shareholder Return

The Housebuilders’ latest average Price-to-Book valuation was 1.58 on 30 September 2019 and 1.79 weighted; and four-from-18 companies were at 2.0 or better including Watkin Jones with a Booker Prize-worthy 3.57.

A year ago, the core ratios were, longer, at 1.70 and 1.91.

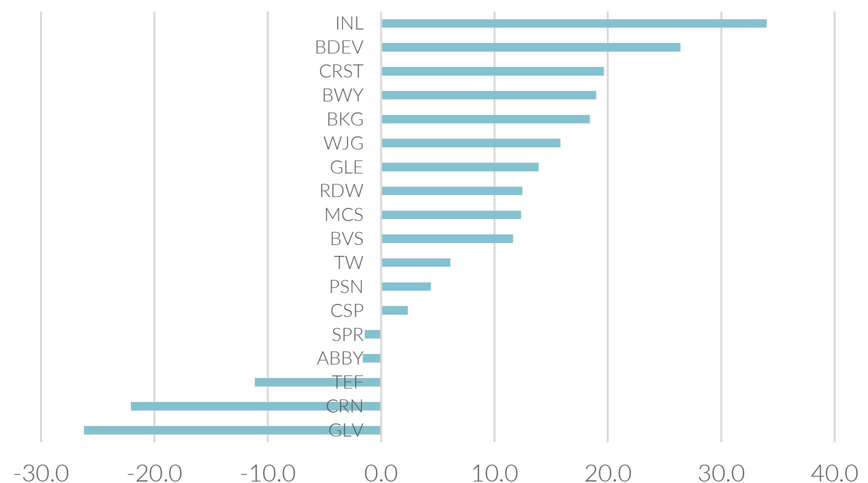
Total Shareholder Return (TSR) for the Sector in the 12 months to 30 September 2019 was 7.4% actual and 12.4% weighted by market capitalisation. However, excluding the three Dublin/London listed stocks (Abbey, Cairn and Glenveagh), which were all negative – the average TSR is 12.3% actual and 13.8% weighted.

Housebuilders’ P/B at year-end/latest interims – priced at 30 September 2019 (x)



**denotes interim results; weighted average is 1.79x, and actual average is 1.58x*
Source: Hardman & Co Research

Housebuilders’ TSR in 12 months to 30 September 2019 (annual %)



Source: Bloomberg, Hardman & Co Research

Valuation

The consensus earnings growth forecast in 2019 is essentially flat at +3%; with 1% pencilled in for next year

The Housebuilding Sector’s prospective PERs are 9.5x in 2019 followed by 9.4x in 2020, based on consensus forecasts from ShareCast.

Average earnings growth is forecast at a marginal 3% in 2019 and at 1% in 2020; and, based on just six forecasts in 2021, the forecast earnings growth figure is 4%.

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 affects the average.

For the record, trailing 12-month PERs for the FTSE 100, All Share Index and FTSE 250 range from 15.1 to 19.7x; which compares with the Sector’s 9.8x on same basis.

The Sector yields almost 6% in both 2019 and 2020

Note, too, Cairn and Glenveagh are excluded due to losses or minimal earnings at this point; and Telford has been taken over and is excluded (and a significant dip in earnings for the current year was expected).

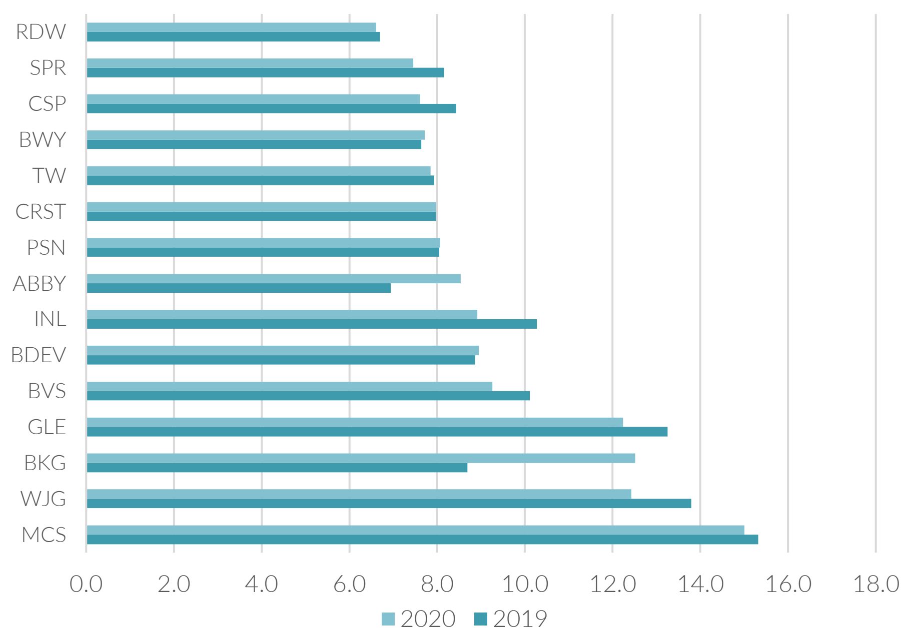
In 2019 and 2020, the UK Housebuilding Sector average yield is forecast at 5.8% followed by 5.9% – with dividend cover at 2.6x and 2.4x respectively.

A number of companies has committed to enhanced dividend payments, which means that there are two companies with double-digit prospective yields (see chart).

For the record, the UK equity market yields between 3.3% and 4.4% historic with average cover of 1.5x; which compares with 5.5% and 2.8x for the Housebuilders.

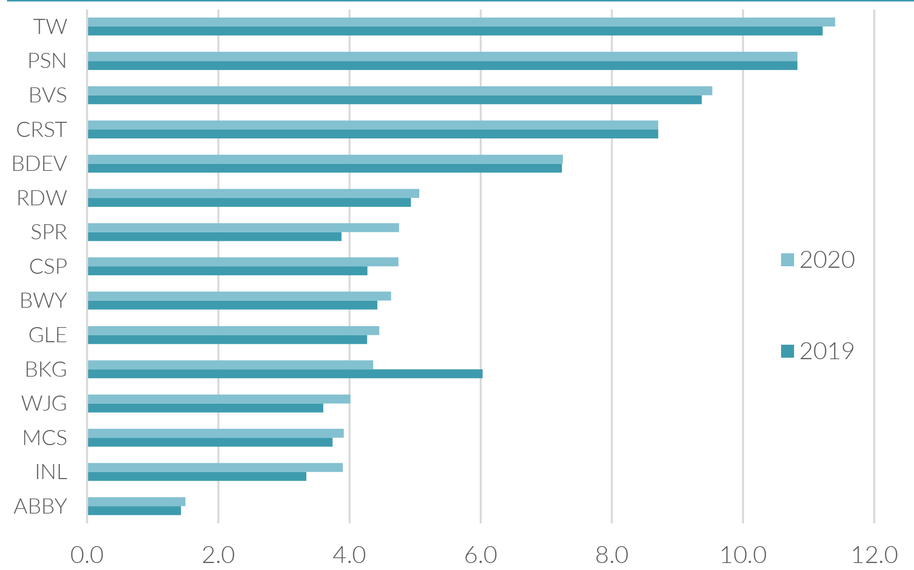
Here the FTSE 100, 250 and All Share represent the UK equity market; and all calculations are made at the London Stock Exchange (LSE) close on 30 September 2019.

Housebuilding Sector PER: 2019E (9.5x) and 2020E (9.4x) as at 30 Sep 2019



Source: consensus forecasts from ShareCast; Hardman & Co Research

Housebuilding Sector yield: 2019E (5.8%) and 2020E (5.9%) at 30 Sep 2019



Source: consensus forecasts from ShareCast; Hardman & Co Research

Results/trading announcements, 3Q

In 3Q, there were five sets of final results and three interims plus more than a dozen trading updates from the 18 Sector companies.

Margins eased from19.2% to 18.8%

Average individual PBT for the 3Q reportees rose 11% whilst average individual EBIT margins dipped 40bps from 19.2% to 18.8% – on 1.5% higher revenue at £11.48bn.

EPS increased 6.4% on average while dividends were raised 15% (or 7% ex-Taylor Wimpey) with average individual cover easing from 2.2x to 2.0x.

Orders declined 1% from a sample of four; albeit, ex-Taylor Wimpey’s exuberance, the dip was minus 5%.

Finally, average individual RoCE was little changed at 20.7% (vs. 20.8% last time); with capital turn little changed, too, at 1.12x (vs. 1.09x)1.13x (vs. 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
11-Jul	Abbey (€)	Full Year	30-Apr	58	51	-13	26.8	22.9	6	N.A.	11	12.7	10.1
	Abbey (GBP)			52	45	-14			5		11		
31-Jul	Taylor W.	Half Year	02-Jul	331	300	-9	20.1	18.0	1	12	57	3.4	1.9
20-Aug	Persimmon	Half Year	30-Jun	521	514	-1	28.2	29.1	-4	-4	0	0.6	0.6
05-Sep	Redrow	Full Year	30-Jun	380	406	7	19.9	19.5	10	-8	9	3.0	3.0
05-Sep	Barratt	Full Year	30-Jun	829	900	9	17.8	19.0	-2	-2	7	1.5	1.6
10-Sep	Bovis	Half Year	30-Jun	60	72	20	14.6	16.0	9	N.A.	8	1.9	2.1
17-Sep	Gleeson	Full Year	30-Jun	37	41	11	18.7	16.4	27	N.A.	8	1.7	1.8
18-Sep	Springfield	Full Year	30-Jun	10	17	69	7.6	9.2	36	N.A.	19	2.9	3.2
Total (£m)				2,219	2,294								
Individual average change (%)						11			10	-1	15	2.2	2.0
Sector average change (%)						3			1				
Individual average margin (%)							19.2	18.8					
Sector average margin (%)							20.1	20.2					
EXTRA:				€m	€m								
23-Aug	Glenveagh			-8	-4	-	-	-	3,408	-	-	-	-
12-Sep	Cairn Homes			12	22	79	13.9	14.2	48	18	-	-	1.0

Notes: (i) Abbey, Taylor Wimpey and Redrow DPSs are ex-specials
(ii) Abbey's DPS cover is excluded from the average
(iii) newly floated Cairn and Glenveagh are shown separately as they evolve
Source: Hardman & Co Research

Balance sheet data

Date	Company	Event	Period ending	Net assets (£m)		Net (Debt)/Cash (£m)		Gearing (%)		RoCE (%)		Capital
				Previous	Latest	Previous	Latest	Previous	Latest	Previous	Latest	turn (x)
11-Jul	Abbey (€/Euro)	Full Year	30-Apr	342	367	83	99	-24	-27	17.1	14.4	0.63
	Abbey (GBP)			300	315	73	85					
31-Jul	Taylor W.	Half Year	02-Jul	2,951	3,008	525	392	-18	-13	21.4	19.3	1.07
20-Aug	Persimmon	Half Year	30-Jun	2,836	2,838	1,155	833	-41	-29	39.3	38.5	1.33
05-Sep	Redrow	Full Year	30-Jun	1,483	1,585	63	124	-4	-8	25.5	24.6	1.26
05-Sep	Barratt	Full Year	30-Jun	3,706	3,961	791	758	-21	-19	22.3	21.7	1.15
10-Sep	Bovis	Half Year	30-Jun	1,061	1,074	43	102	-4	-10	11.4	14.1	0.89
17-Sep	Gleeson	Full Year	30-Jun	188	204	41	30	-22	-15	19.6	20.1	1.23
18-Sep	Springfield	Full Year	30-Jun	79	89	-15	-30	19	33	9.8	13.0	1.41
Total (GBP)				12,604	13,072	2,675	2,295					
Individual average change (%)						5						
Sector average change (%)						4						
Individual average RoCE (%, adjusted)										20.8	20.7	1.12
Sector average RoCE (%, adjusted)										17.3	17.0	0.84
Individual average gearing (%)								-14	-11			
Sector average gearing (%)								-21	-18			
EXTRA:				Euro/€m	Euro/€m							
23-Aug	Glenveagh	Half Year	30-Jun	843	840	132	-41	16	-5	-	-	0.09
12-Sep	Cairn Homes	Half Year	30-Jun	730	775	-176	-95	-24	-12	3.7	5.4	0.38

Notes: (i) 'Cap. Turn' is Capital Turn i.e. revenue-divided-by-capital-employed
Source: Hardman & Co Research

Performance and outlook

Abbey (final results – 11 July)

The group’s fiscal year ends on 30 April and, as per usual, its reporting erudition was an evidentiary core skill; i.e. a 759-word preliminary statement (603 net). Generally, too, the Abbey adopts an admonitory tone – but here it was bleak.

Challenging backdrop for the business

“In recent months we have experienced a disappointing succession of planning decisions that have delayed the start of a number of new projects. As a result, UK turnover is expected to fall this year. Lower turnover together with lower margins will reduce the Division’s contribution to group results”. Meantime, in Ireland, whilst good progress is being made in pushing volume, “stable prices together with rising costs are a challenging backdrop for the business”.

Similarly, “the outlook continues to be uncertain. House prices are broadly stable however costs continue to rise. The regulatory environment is constantly evolving with initially at least a negative impact on productivity. Credit conditions for customers remain tight and the ‘Help to Buy’ schemes in both the UK and Ireland are supporting many of our buyers. The abrupt withdrawal of ‘Help to Buy’ would have a material impact on our business. Overall, however, the Group is in a healthy financial position and will continue to seek out opportunities to build new homes in all its markets”.

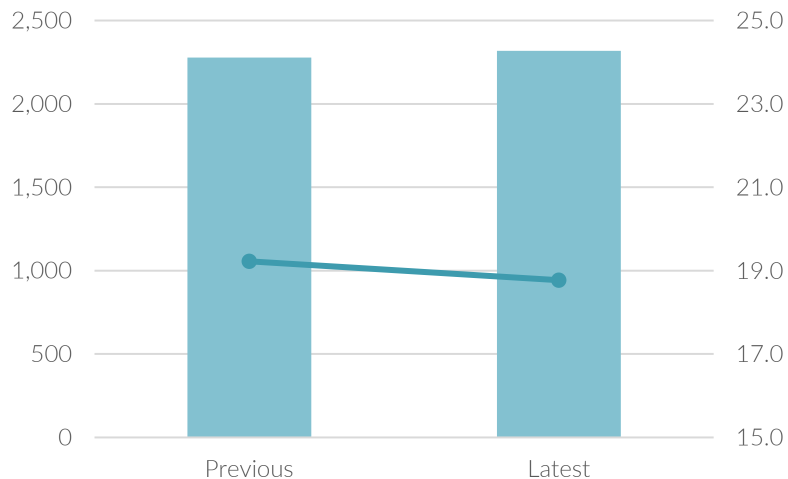
As for the scores on the doors, Abbey reported PBT 10% lower at €53m on revenue 12% higher at €231m. The rise in revenue came from the UK (housing and plant hire) and Abbey’s small residential business in Czechia, as Ireland’s activity halved to €12.4m. At the same time, net EBIT margins dropped 41bps to 22.6% with the bulk of the damage coming in Ireland (21.6% to 12.4%). UK profitability also down, albeit from 27.7% to a still very respectable 23.6%. In addition, Abbey sold 32 units in Czechia where it generated an EBIT of €1.9m plus €3.6m from M&J, the plant hire unit, together with more than €1m from rents plus add-ons.

The family holds 85.6% of Abbey

Note, too, that the ordinary dividend for the year was increased 11% to 20c plus the one-off 100c announced at the half year; and Abbey holds almost €100m of net cash against net assets of €367m.

PS: In addition, Abbey also continues to buy its own shares back and the Gallagher family now holds 85.6%.

Sector revenue (£m/LHS) and EBIT margin (%/RHS) reported in 3Q 2019



Source: Hardman & Co Research

The order-book is up 17% at more than £1.1bn

Countryside (trading statement – 25 July)

This communication covers the three months ending 30 June 2019 (the group is a September year-ender). First-off, the performance was in line with full-year expectations (albeit, it didn’t say whose?). However, total completions dipped (i.e. 0.5%) to 1055 units albeit Partnerships was up 5% at 865, which meant private sales fell by a fifth to 190 units (that’s a big number). What’s more private average selling price was also off 0.5% at £374,000. On a more positive note, the ‘net reservation rate per active site per week’ was up 12.4% at 1.00 (3Q 2018: 0.89). Even more positive is an order-book of more than £1bn (i.e. £1.135bn) which is also up a staggering 17% (no misprint either).

“We continue to see strong customer demand across both divisions for all tenures of homes. As previously referenced, we have a significant delivery programme in the fourth quarter due to the phasing of construction. However, we are fully reserved for private sales for the full year and fully sold for both PRS and Affordable homes. With build programmes on track, our focus now continues to be one of converting our private for sale reservations into completions in the fourth quarter. We are active on a total of 135 sites (Q3 2018: 122 sites) and remain on track to deliver full year expectations”.

Watkin Jones (development update – 29 July)

The group’s update contained good news in Canterbury, Leicester, Swansea and Exeter on Student Accommodation, including 197 bed/£19.6m forward sale in Kent. Similarly, on Build-to-Rent, it has secured a 186-unit site in Brighton plus 184 in Leicester.

“Positive momentum across all key areas of the business”

CEO Richard Simpson said: “we continue to see positive momentum across all key areas of the business. Our six PBSA schemes for delivery in fiscal 2019 are on track for completion ahead of the 2019-20 academic year and we continue to see an encouraging pipeline of potential future sites across the UK. The final quarter of the financial year is typically a busy period for the Group in terms of forward sale activity and we expect that to be the case again this year in respect of both the PBSA and BTR pipelines. Our expertise in acquiring sites at attractive prices, securing planning consent and then forward selling the schemes to a wide range of investors not only

validates our business model but also demonstrates that, even in a more complex market, our strategy remains extremely resilient. The sectors in which we operate are highly attractive to investors and we continue to make solid progress against our internal targets”.

Taylor Wimpey (interim results – 31 July)

Just one calendar month after closing its books for the first half (on 30 June), the group promulgated its interim results. The shares, however, fell 7.8% on the day (to 162.85p) and 20.4% in Week 31 to 155.5p. Butterfly and wheel come to mind, particularly as the group was yielding 11.8% prospective at that share price (at time of writing, the price was 155.65p). Yes, there were some negatives (especially on profitability) or, at least some degree of circumspection, but there was also a total order book up 11.5% to £2.5bn running into 2020.

PBT was 9.4% lower at £300m

Turning to the scores on the doors, revenue was flat (+0.8%) at £1.73bn and the gross margin was off 230bps at 23.6%. EBIT was off almost 10% at £312.1m (with profitability easing from 20.1% to 18.0%). In turn, PBT was 9.4% lower at £300m with adjusted EPS at 7.40p (-9.8%). The dividend, however, was increased 57% to 3.84p.

Unit output was little changed (+0.7%) at 6,541 with the private ASP rising 2% to £301,000. Note, too, a record 1H net private sales rate per week at 1.00 across an average of 257 outlets (1H 2018: 0.83 across 280 outlets).

In terms of current trading in 1H, the “UK housing market was stable, with robust demand”. However, the “south east remained generally more challenging, particularly at higher price points”.

“Pricing was flat overall in the first six months. Whilst there remains a high degree of uncertainty regarding the UK’s exit from the EU, we have not seen any meaningful change in customer confidence or sentiment in 2019 to date”. However, cost inflation was an issue at 6.1% in 1H, exacerbated by exchange rates; and the build cost inflation estimate for the year is at ca.5%.

And there’s the rub

“We anticipate that full year 2019 results will be in line with expectations. As previously guided, we expect full year volumes to be slightly higher than 2018 as we have seen results from our strategic approach to large sites impact more quickly than expected. In this environment where pricing is flat, and there is increased build cost pressure, our margins will be lower in 2019 than in 2018”. And there’s the rub.

Bellway (trading update – 8 August)

Bellway and its typically workmanlike trading update were greeted with a 2.3% decline in the group’s share price to 2,817p on the day and minus 3.9% to 2,806p in Week 32. Once again, the ‘LM’ words played their part i.e. lower margins; albeit beautifully euphemised here “with the operating margin continuing to moderate towards a more normalised level”. Or more graphically; “whilst the pricing environment remained firm, the margin enhancing benefit of house price inflation continues to diminish. This will result in further moderation in the operating margin from the 21.5% reported at 31 January 2019 (31 July 2018: 22.1%)”.

PBT for the year just gone is expected to be in line with current market expectations i.e. +4% to £664m

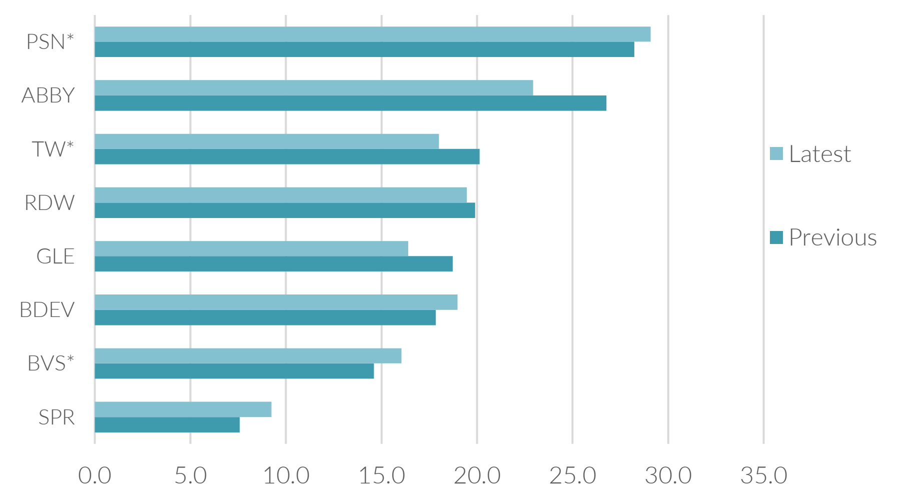
That said, PBT, for the fiscal year to 31 July, is expected to be in line with current market estimates which are, courtesy of Bloomberg and Reuters, £664m (+4%). The group itself said revenue in the year was up ca.9% at £3.2bn with unit output ahead by 5.7% to a record 10,892; at an ASP of £292,000 (+2.5%). On a similarly positive note, Bellway has opened 110 new sales outlets taking the average to 268 active sites (2018: 247). In turn, ‘the average weekly reservation rate’ (a new measurement for us) increased by 5% to 210 per week. In particular, too, divisions operating in Essex, Manchester and Scotland delivered solid results, “with demand most

pronounced for affordably priced homes in desirable locations. Customer confidence was resilient and despite the evolving political backdrop, trading in the second half of the financial year was more robust".

The orderbook is down in value by 5.9% to £1.22bn

Finally, in terms of the orderbook, this was up in units (+0.8% to 4,878) but down in value (-5.9% to £1.22bn). In turn, Bellway said it expects "more moderate volume growth in the year ahead". Supporting this, too, is a hat-trick of the HBF's five-star ratings and net cash £201m (2018: £99.0m). Bellway's prelims are to be reported on 15 October. "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.

Individual EBIT profit margins reported in 3Q 2019 (%)



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

Persimmon (interim results – 20 August)

In its half-year statement, the word 'Group' was mentioned 65 times in a net 4,519-word statement (including seven times in a single paragraph). Similarly, 'customer(s)' clocked in at 50 mentions.

PBT was 1% lower at £513.4m

Scores on the door are as follows (after issuing an original and then an amended statement). Revenue was off 4% at £1,754m generated from the sale of 7,584 private and partnership units (minus 6%) at an average private selling price 1.7% better at £242,912 (note, too, that while private sales accounted for 79% of units sold, the number – 5,963 – was off 9.3%). The gross margin, which was already extraordinary, increased 90bps to 31.7%. EBIT was struck at £510.1m (pre-impairment), which was down 2%. However, EBIT margins rose from 28.2% to 29.1%. PBT came in at £513.4m (down 1%) with underlying EPS reducing by 4% (to 130.6p).

The very generous dividend was maintained at 235p per share. Persimmon yields 12.3% historic and prospective based on its capital return plans.

Persimmon is a veritable machine (which we offer as a compliment) with RoCE of 38.5% in the half year (1H 2018: 39.3%) and a capital turn of 1.33x (1H 2018:

1.39x); and, despite a hefty cash outflow, the group closed 1H with £833m in the bank (1H 2018: £1,155m). For good measure, too, it makes bricks, timber frame housing units and the like plus, very soon, roof tiles. The group (*sic*) also divulged a huge amount of detailed financial information and most impressive was the cost of land within cost-of-sales reduced from 15.0% to 13.9% whilst build costs etc. dipped 0.3% to 52.3%.

Persimmon is the first UK housebuilder to introduce a retention scheme

More broadly, Persimmon is the first UK housebuilder to introduce a retention scheme, which will cost some £15m p.a. with cover extended to include any faults identified during the first week of occupation (initially this was limited to the point of purchase and it was estimated, in March, that customers could see an average of £3,600 held back by their solicitors). The group has also launched a well-publicised independent review of its business, which will examine issues including poor quality around the group’s new-build homes and how quickly it deals with customer complaints. The latter was the subject of a Channel 4 exposé. The results are expected in late-2019. Additionally, a new independent team of construction quality inspectors is being introduced to strengthen Persimmon’s “current assurance processes across each of our regional businesses”.

“The programme of change and investment implemented across all areas of the business over the last six months is a clear signal of cultural and operational change at Persimmon, putting customer care at the very centre of the business”.

Turning to the order book, it remains gargantuan and goes to show that Persimmon sells houses whatever the fuss (such as the Channel 4 above) or previous CEO salary levels. Note, too, the group has increased work-in-progress by 37% to £1,024m. That said, the first seven weeks of 2H have not been that startling (i.e. minus 11.5% in units to 1,878) albeit the tally for the year-to-date is at 11,006 and only 4% shy of 2018. By value, too, the performance is more uniform with deficits of ca.3% across the board i.e. total orders are off 3.4% at £2,048m.

In terms of the outlook, Persimmon was pragmatic about the Brexit denouement. It also continues to experience some pressure on cost and availability of certain materials in the supply chain with 4% cost inflation pencilled in. However, it has focused on self-help measures to mitigate these challenges. For example, standard house types, in-house manufactured bricks and “our collaborative approach to working with our sub-contractors and suppliers”. And, “with our strong financial position, high quality land holdings and healthy forward sales we remain confident of the Group’s future prospects”. The shares dipped 0.83% on the day to 1,846.50p before rising 3.7% in Week 34 to 1909.50p; and, at the time of writing, they were 2,088p.

Glenveagh (interim results – 23 August)

On the day of its results, the incumbent CEO departed

This Irish housebuilder, listed on Euronext Dublin and the LSE, has seen its share price fall 42% in the past 12 months, including a 4.5% dip to 63c in Week 34 (the company was floated at €1 in October 2017). On the day of its interim results, too, its CEO, Justin Bickle stepped down with immediate effect to be replaced by the COO Stephen Garvey. Two new NEDS have also been added (see below). Glenveagh, which also has ex-Countryside man Richard Cherry as a Non-Executive Director, has said that it will promulgate an “Updated Business Plan" to shareholders in 1Q next year.

Turning to the half year, revenue was €45.5m (up from a fledgling €1.3m in 1H 2018) on which it generated a pro-forma gross margin of 17.6%. After administrative costs, there was an EBIT loss of €2.8m (2018: €7.8m); and, after interest, a pre-tax loss of €3.8m (2018: €8.2m). In terms of net assets, these are €849m (31 December 2018: €843m) with net debt at €42m (2018: net cash of €132 m). Note, too, that

inventory is over €900m (2018: €719m) of which almost 80% is in land (13,350 plots). At the same time, the Quick Ratio is just 0.41 (2018: 4.35).

“High confidence in meeting 725 sales’ target for 2019”

In the half year, Glenveagh sold 158 units sales (1H 2018: six units) driven by starter-home developments at an ASP of €287,000 (1H 2018: €199,000). Operating from 13 sites right now, it has 800 units sold, signed or reserved as at 19 August. Glenveagh also says that it has “high confidence in meeting 725 sales’ target for 2019 and good progress/visibility towards our 2020 target”.

Note, too, the Irish economy is strong with expected GDP growth of 4.9% this year and 4.1% next. Population growth is burgeoning too with a 13% increase (631,000) expected between 2019 and 2010; and 37% between 2019 and 2050. Note, too, that the number of first-time-buyer mortgage approvals grew by an annualised 12.5% in 1H. But, at 72c per share, this very positive macro outlook for Glenveagh is being ignored; as it is at Cairn Homes (minus 40% year-on-year at 96c).

Barratt (interim results – 5 September)

PBT rose 9% to £910m

The quintessential salesman, produced a first class set of figures for the fiscal year to 30 June 2019, albeit revenue actually dipped 2.3% in the year to £4.76bn comprising 17,856 units (+1.6%) with an average private selling price of £312,000 (minus 5.1%). EBIT margins rose 120bps to 19.0%. PBT (including JVs) was struck at £909.8m (after deducting legacy costs), which was 8.9% ahead of the previous year – with EPS better by 9.2%. In terms of the total dividend, this was raised 5.9% to 46.4p, which was covered 1.6x (2018: 1.5x). Note, too, that pretty much all of the group’s operating cashflow (£443m) went on paying dividends (£452m). That said, Barratt has £758m in the bank (2018: £791m). It also generated a 21.7% RoCE (2018: 22.3%) in fiscal 2019, which was very close to the previous year and a continuing-to-be-outstanding capital turn of 1.15x (2018: 1.25x).

In terms of the orderbook, as at 2 September, this was 2% up in terms of units at 12,911 but 2% down in cash at a touch under £3bn. More revealing, though, is the movement in orders between 30 June and 2 September this year compared with last year. In 2018, the gain was 40% in cash and 25% in units, this year the respective gains were significantly lower at 15% and 13%.

Barratt expects to grow towards the lower end of its medium-term target range in fiscal 2000 i.e. a rise of 4% to 5% in its wholly-owned unit completions

Based on current market conditions, Barratt expects to grow volumes towards the lower end of its medium-term target range in fiscal 2020 i.e. a rise 3% to 5% wholly owned unit completions, which is, it says, in line with current market expectations. “The housing market fundamentals remain attractive, with a long-term undersupply of new homes, strong Government support to the sector and a positive lending environment. Whilst there is increased economic and political uncertainty, the Group is in a strong position. We recognise that the economic outlook will depend on the form of the UK’s EU withdrawal in the medium term. We have a substantial net cash balance, a well-capitalised balance sheet, a healthy forward sales position, a continued focus on delivery of operational improvements across our business and an ongoing commitment to deliver high quality homes across the country. The Board will continue to monitor the market and economy and believes that our strong financial position provides us with the resilience and flexibility to react to potential changes in the operating environment in fiscal 2020 and beyond”.

The shares declined 3.6% to 599.5p on the numbers, which was over-done and they closed Week 36 at 613p i.e. minus 3.1% over five days – and still over-done. At the time of writing, they were 618.2p.

Redrow (interim results – 5 September)

EBIT margins declined 40bps but PBT rose 7% to £406m

The group saw revenue rise 10% to £2.1bn in the year to 30 June 2019 from 13% more legal completions at 6,443 – passing the 6,000 mark for the first time. The group also celebrated handing-over its 100,000th home in November 2018. In terms of the private average selling price, it increased by 2% to £389,500. In turn, the group’s EBIT margin was 40bps lower at 19.5% and PBT was struck at £406m, an increase of 7% and making, Redrow highlighted, six record years in a row. At the same time, EPS rose 8% and total dividends of 60.5p (including a 30p-special) was more than double the previous year’s payout with cover at 1.5x (2018: 3.1x).

The orderbook is down 11% at £1.16bn

Turning to the balance sheet, RoCE was almost a point lower but a still very good 24.6% (2018: 25.5%) with capital turn at an extraordinary 1.26x (2018: 1.28x); see Barratt, too. As for the orderbook, this is 11.3% lower at £1.02m and at the half year (reported on 6 February), it was 11.0% better at £1.16bn. The difference between the two orderbook numbers is also minus 12.7%.

Redrow said that the wider housing market continues to be affected by the uncertainty surrounding Brexit and the high cost of moving, particularly the burden of SDLT (Stamp Duty Land Tax). However, the new homes market has been “less affected and remained comparatively resilient”. Similarly, “market fundamentals remain encouraging”. That said, the group is wary about Help to Buy ending in 2023 (in fiscal 2019, ca.30% of Redrow’s completions are estimated to use the scheme). Indeed, Redrow said it would look to an extension or transitional arrangement.

“We are understandably cautious about Brexit”

“Since the start of the new financial year, trading has been encouraging and the demand for our homes is strong with reservations running ahead of last year……Over the course of the past year, the Group has worked alongside its supply chain to identify any disruption the business could experience in the event the UK leaves the EU without a deal. Our suppliers have both increased stocks of imported goods and put in place plans to source materials from alternative suppliers. We are understandably cautious about the post-Brexit future and also the eventual impact of the impending changes to the Help to Buy scheme. We do however have a clear strategy to continue to grow, albeit more modestly, centred on our award-winning Heritage Collection that is so popular across a broad range of buyers. We entered the new financial year with a strong order book, an excellent balance sheet and a pipeline of new outlets. Notwithstanding the political and economic uncertainty, we face, based upon trading over recent weeks, we have every reason to be confident that 2020 will be another successful year for the Group”.

Redrow shares rose 3.4% on the day of the numbers to 586p and closed Week 36 up 8% at 596p; and, at the time of writing, they were 601p.

Berkeley (AGM and trading update – 6 September)

The group’s AGM was accompanied by a Trading Update for the period 1 May through 31 August – and this was erudite in both extent (613 words net) and content. Berkeley shares rose 2.8% on AGM day and 1.6% In Week 36 to close at 3,980p. At the time of writing, they were 4.014p.

Forward sales “remain above £1.8bn” although no plus or minus was quoted?

“In the first four months of this new financial year, market conditions in London and the South East have remained robust and consistent with those reported with the full year results in June. Pricing has remained stable and the Group’s forward sales position remains above £1.8bn. There is good underlying demand for new homes built to a high quality that are well located and properly priced to meet the local housing need, supported by good availability of mortgages.

“The wider market remains constrained by high transaction costs and the uncertainty in the macro political and economic environment”.

The group also emphasised that it is "a long-term business" and it is working on "over 20 of the largest residential development opportunities in London and the South East, which will be delivering homes up to and, in many cases, beyond the end of the next decade". However, Berkeley has also remained cautious on investing in new opportunities i.e. net cash at end of the current half year (31 October) is anticipated to be a similar level (£975m) to the last year-end (30 April 2019).

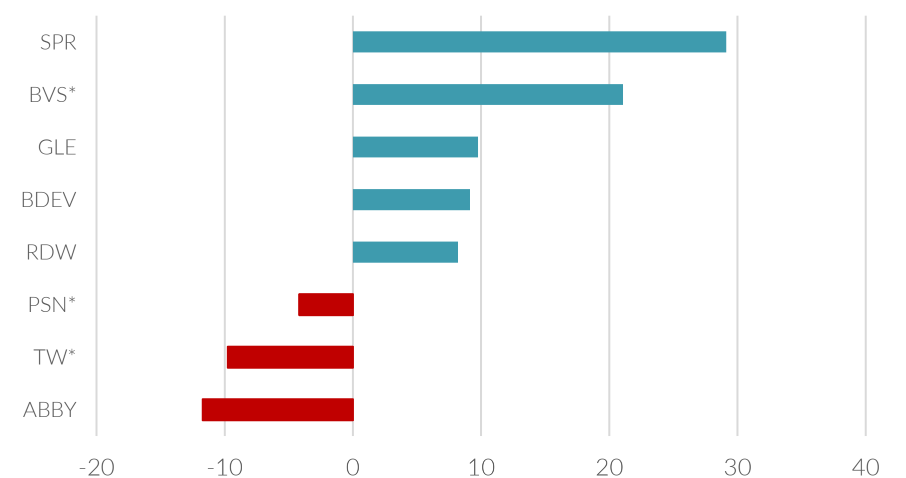
"Over the six years to 30 April 2025, we are targeting the delivery of £3.3bn of PBT".

"Over the six years to 30 April 2025, we are targeting the delivery of £3.3bn of PBT, with the profit in any one year ranging between £500m and £700m, depending upon the timing of delivery". At this time, too, it has "land in place for the next phase of its business plan" and sees "continued robust trading". As previously announced, too, Berkeley has extended its £280m (222p per share) annual shareholder returns programme to 2025, with a targeted pre-tax return on equity of at least 15% over this period.

"While very mindful of the potential for short-term market dislocations from the current political back-drop, we remain steadfast in our belief in the long-term resilience and attraction of our markets of London, Birmingham and the South East. We continue to work with our supply chain to assess and address the risks associated with disruptive Brexit to the extent this is possible, including accelerating the delivery of certain materials and components".

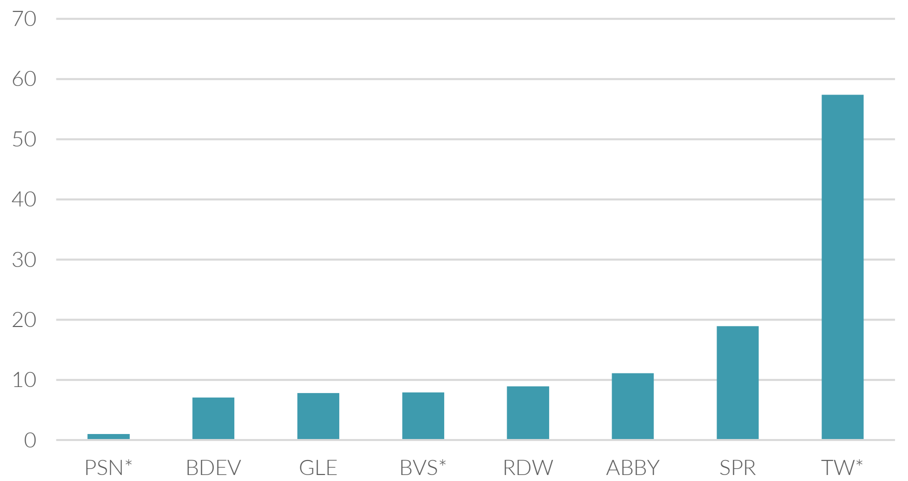
PS: There were 28 resolutions before the AGM and the average number of shareholders voting on each one was 71.2%. However, of those voting on the new remuneration policy, 43.01% was against it; although it was nonetheless carried. Similarly, the group's LTIP amendments were also voted against by 42.48%. In response, Berkeley said that it will consult again with shareholders and proxy advisers on this matter. Finally, the re-election of NED Adrian Li was voted against by 46.26%. Excluding these three resolutions, above, the average split across the remaining 25 was 97.6% of voters in favour and 2.4% against.

Individual EPS growth reported in 3Q 2019 (% change)



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

Individual DPS increases reported in 3Q 2019 (%)



*denotes interim results
Source: Hardman & Co Research

Bovis (interim results – 10 September)

PBT was a record £72.5m and was also up 20%

1H’s results were overshadowed by the ‘Potential Transaction’ with Galliford Try (see below). However, in the six months to 30 June, the group raised revenue 9% to £472m in the six months to 30 June, which comprised 1,647 units (+4.4%) including 660 affordable units (+12%). At the same time, the private ASP was 2.4% higher at £342,000, albeit underlying pricing was broadly flat. The gross margin was struck 70bps higher at 21.6% with the quantum of EBIT 20% to the good at £75.8m and EBIT margins 140bps better at 16.0%. PBT was a record £72.5m and also up 20% as were EPS (i.e. +21%).

The ordinary dividend was raised 7.9% to 20.5p and covered 2.1x (2018: 1.9x). In addition to ordinary dividends, a further £60m of capital (45p per share) is planned to be returned to shareholders in 2H. The latter derives from a three-year tally starting in 2017 of £180m (i.e. around 134p per share). However, if the Potential Transaction proceeds, the 1H 2019 £60m would be returned by way of a bonus share issue.

Turning to the balance sheet, net cash more than doubled to £102m (or 10% of NAV) with RoCE improved at 14.1% (2018: 11.5%) but remaining low. Capital turn also was improved from 0.78 to 0.88x; but, note that both Barratt and Redrow are over 1.0x.

Once again, no orderbook data is provided. Why not? However, in 1H there was a 15% increase in the private sales rate to 0.6 per site per week “despite an uncertain market backdrop”. Similarly, 96% of fiscal 2019’s planned completions are secure plus some 10% of 2020’s. For the record, too, Help to Buy accounted for 25% of completions in 1H. Finally, we would still like to know what a “re-planned owned land bank” is along with “controlled volume growth” and “balance sheet optimisation”.

“While we are having to work hard in the current market, we are confident of delivering completions in-line with our expectations for the year and deliver another strong performance”. But what about market expectations?

Bovis & Galliford Try (agreed bid for residential units – ongoing)

The deal values the combined business at less than 6x historic EBIT

For the second time of asking, Bovis said it wants to buy Galliford Try's residential businesses Linden Homes and Partnerships & Regeneration Divisions (PRD); and Galliford wants to sell. In what we believe is a buyer's market, too, this looks a great deal for Bovis (at less than 6x historic EBIT) and a lifeline for the challenged Galliford. Serendipity rules, too, as Bovis CEO, the redoubtable Greg Fitzgerald (54), used to run Galliford Try having joined age 17.

The 'Potential Transaction' is expected to value the housing businesses at £1.075bn comprising: the issue to Galliford shareholders of ca.£675m of Bovis shares; plus £300m in cash. On 30 September, Galliford's market capitalisation was £743m. In Week 37, Galliford declared a PBT 27% lower at £104.7m, including EBIT (pre-goodwill) of £182.6m from Linden and PRD combined.

Cairn Homes (interim results – 12 September)

"The leading Irish housebuilder" produced super interim results but its share price fell 7.6% on the day to €1.07 on Brexit fears (which, to be fair, the group took head-on). However, the shares later recovered a deserved poise and closed Week 37 up 1.8% at €1.13 (and at the time of writing they were €1.11). As for the 'B' word, Cairn said that the Central Bank of Ireland has reduced its forecast GDP growth in 2019, marginally, from 4.9% to 4.5% in 2019 but from 4.1% to just 0.7% in 2020, "as a result of a hard Brexit".

"In an industry lacking scaled homebuilders, the significant constraints and challenges presently facing the broader sector will likely intensify from a lower level of house price inflation over the coming years in the event of a hard Brexit. We acknowledge that a hard Brexit will have an impact on the Irish economy, however the Greater Dublin Area which is Cairn's core market area, has benefited from increased foreign direct investment and strong employment levels in recent years. In response to potentially less favourable economic conditions, Cairn is the best positioned homebuilder in Ireland to continue to expand and grow our operations as an equity led homebuilder of scale, with our low land cost and operational efficiencies ensuring we can build at volume, manage our price points and sell at prices where first time buyers can access mortgages".

PBT was 79% higher at €21.8m

Good stuff, as were the numbers with revenue rising 48% to €192m after selling 33% more units at 390 with an ASP of €449,000 ex-VAT (+14.2% and benefiting from one choice site). In terms of the gross margin, it was of 18.6% (and inevitably lower than 1H 2018 due to the expansion drive). EBIT was struck at €27.3m, which was an increase of 51% whilst margins here nudged up 30bps to 14.2%. PBT was €21.8m and 79% higher year-on-year. EPS behaved similarly and there was a maiden dividend of 2.5c. Cairn is also to embark on a €25m share buyback programme relating to a maximum 78.9m shares.

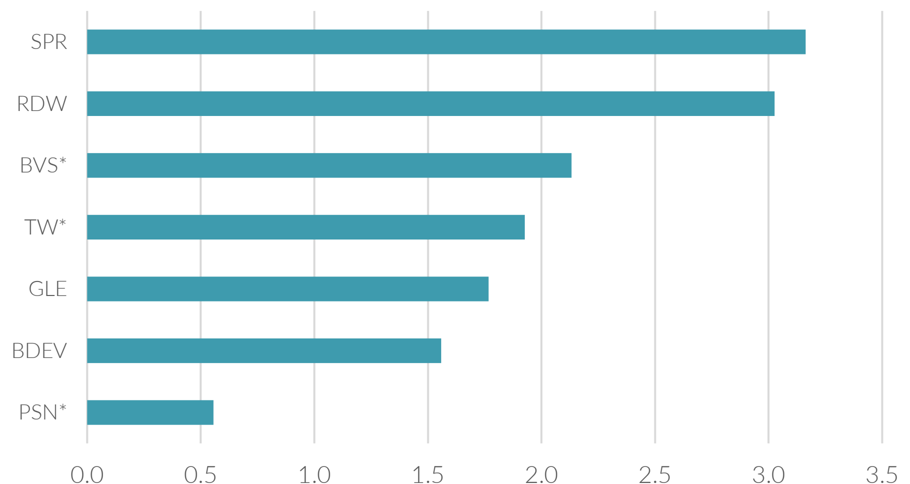
With RoCE at less than 6%, of course, there is still has some way to go. But liquidity is very good (i.e. a Quick Ratio of 1.28x) and net debt dropped sharply in the first half from €176m to €95m.

Best of all, though, is a forward sales cash tally, which is up 18% at €446m with the corresponding unit number 37% up at 1,250. "The supply / demand imbalance continues to be a significant challenge for the Irish housing market and notwithstanding general concerns surrounding Brexit, the Company continues to experience strong demand for our new homes, particularly our competitively-priced and well-located starter homes. Cairn recorded our strongest sales period in the year to date in May and June 2019 and this has continued through the Autumn".

Cairn's current land bank will also support the delivery of a ca.15,400 new homes over, say, four to six years. This means that the group can continue to increase

output without the need to buy more land. In turn, Cairn expects to generate ca.€500m or ca.60% of its current market capitalisation in free cash through 2022.

Individual DPS cover reported in 3Q 2019 (x)



*denotes interim results
Source: Hardman & Co Research

Gleeson (final results – 17 September)

"The low-cost housebuilder and strategic land specialist" issued final results for the year to 30 June, which showed PBT growth of 11%. However, its share price fell 5.6% in Week 38 to 802p. The market clearly misses former CEO Jolyon Harrison and his 'never undersold' attitude. At the time of writing, the share price was 792p.

In the year, revenue rose 27% to £250m comprising £197m (+28%) from housebuilding (the North and Midlands) and £53m from land sales (22%) exclusively in the South of England. And, by-the-by, Gleeson Strategic Land is no longer for sale. In our view, this was always a difficult ask and unlikely to attract a sufficient divestment premium.

EBIT margins fell 220bps to 16.4%

EBIT rose 11% to £41m but EBIT margins fell 220bps to 16.4% as "a result of accelerating build rates on our existing sites and investment in overheads to support growth". PBT was also 11% higher at £41.2m with EPS ahead 10% and the dividend +8% to 34.5p with lean cover of 1.77x (2018: 1.74x). The Board aims to maintain ordinary dividend cover between 1.75x and 2.75x.

RoCE was 20.1% (19.6%) with capital turn over 1.0x again at 1.23x (2018: 1.05x). Gleeson, as per usual, closed the year with net cash of £30.3m (2018: £41.3m) or 15% of NAV (2018: 22%) with the dip due largely to working capital.

By division, Gleeson Homes sold 25% more units in the year at 1,529 from an average 65 outlets – and an average selling price 3% higher at £128,900 to a catchment of "predominantly young, first-time buyers (4-out-of-every-5 sales) and people on low incomes". The company also said that it is "well on track to achieving target of 2,000 units per annum by 2022". Divisional EBIT here increased 15% to £28.4m, although profitability fell from 16.1% to 14.1%. At the same time, Strategic Land contributed a record £12.6m of EBIT but margins here were also down – sharply – by 430bps to 23.8%. Herein, nine land sales were completed during the year, with the potential to deliver 1,755 new homes; and a further eight sites were

bought to make 60 (2018: 61). The company added, too, that “demand for high-quality sites remains strong from both medium-sized and large housebuilders”.

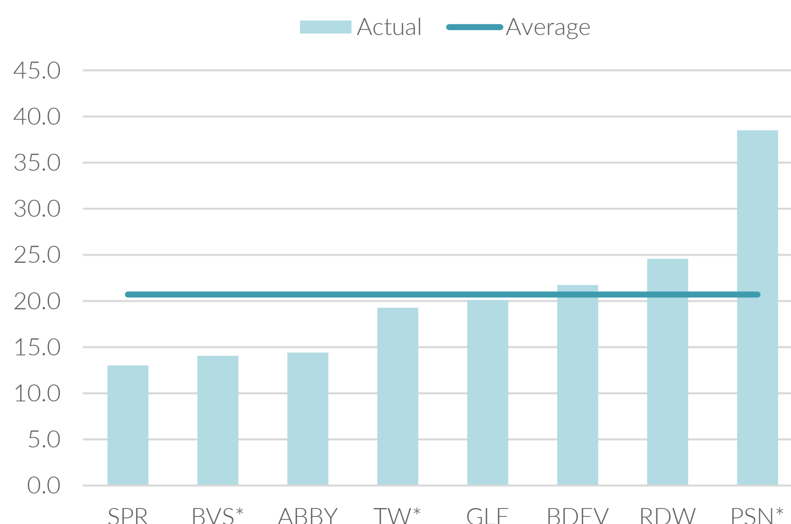
68% of Gleeson house buyers used Help to Buy

“Despite the uncertainties surrounding Brexit, the demand for our low-cost homes from young first-time buyers and low-income families in the North of England remains robust”; elsewhere in the document demand was also described as “extremely strong”. Clearly the latter is better. Note, too, that 68% of Gleeson house buyers used Help to Buy; and “nearly all (99.9%) of our homes sold with Help to Buy would be below the new regional limits that will come into force in 2021”.

“The Board is confident that our unique business model will continue to deliver significant growth in both revenue and profits in the current financial year and beyond”. However, as is its wont. Gleeson does not provide orderbook metrics. Why not?

Finally, Gleeson also hopes to announce a new and permanent CEO within three months i.e. following the summary departure of former CEO, Jolyon Harrison in June, ex-Keepmoat CEO James Thomson has been holding the fort as an interim Chief.

Individual RoCE reported in 3Q 2019 (%)



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

Springfield (final results – 18 September

In typically Scots fashion, this company is never going to toot its own horn. No, it is not dull (albeit below par on profitability) but it is over-looked/ignored. Last Tuesday, too, it produced full-year results for just the second time i.e. it floated in October 2017. The IPO price was 106p and, in Week 38, the shares closed at 109.5p (+3.3%) on a braw set of numbers; and at the time of writing, the shares were 113.5p.

PBT rose more than two-thirds to £16.5m

The company (which has made two acquisitions in two years in Dawn and Walker) raised revenue 36% to £191m, in the year to 31 May, which was split between private building (+41% to £143m) and affordable (+15% to £43m). In terms of units, the private numbers increased 37% to 630 at an ASP of £227,000 (+2.3%) while Affordable sold just 12 more houses at 322 with an ASP rising 10.6% to £133,000.

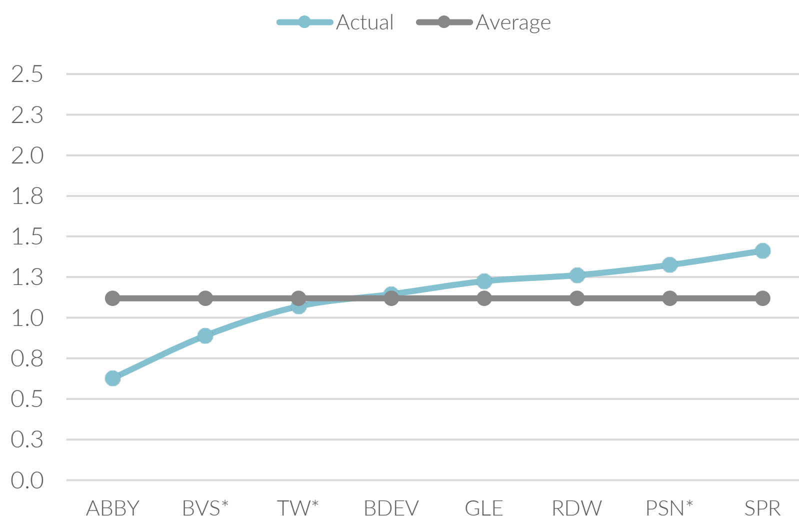
Turning to EBIT (before exceptional items), it soared 65% to £17.6m. However, after shelling out 9.3% in administrative charges (2018: 8.3%) EBIT profitability was still just 9.2% (2018: 7.6%). Thereafter, PBT was £16.5m and ahead by more than two-thirds, while EPS (after acquisition-related share issues) added 29%. At the same time, the dividend was increased 19% to 4.4p, which was covered 3.2x (2018: 2.9x). RoCE, however, was just 13.0% (2018: 9.8%) although capital turn has a very handsome 1.41x (1.30x). At the same time, net debt broadly doubled in the year to £29.6m or 33% of NAV (2018: 19%).

Looking forward, Springfield estimates that its private 16-year land bank (15,938 plots) has a GDV of £3.2 bn (2018: £2.4 bn), whilst in the Affordable Sector, it holds 4,427 plots (2018: 3,719).

“The demand for housing in Scotland continues to outstrip supply at a time when interest rates are low and mortgage availability is good. House price growth in Scotland is ahead of that in the rest of the UK and the Scottish Government continues to focus on bolstering levels of affordable housing as it seeks to hit its target of building 50,000 new affordable homes by 2021”.

Springfield says that it remains “on track to deliver continued growth in line with market expectations”. But no orderbook data are included in the stock exchange statement. Why eschew this?

Individual reported capital turn in 3Q 2019 (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 increased by 0.3% in August (with construction also at +0.3%), although the August Quarter was flat. Consensus GDP forecasts for the UK in 2019, 2020 and 2021 are in a band from 1% to 2% (2018: 1.4%).

Inflation, as measured by the CPI dipped, unexpectedly, to 1.7% annualised in August (from 2.1% in July) to the lowest level since the end of 2016.

Unemployment was 3.8% in the July Quarter (June: 3.8% and July 2018: 4.0%). It has not been lower since October to December 1974. Note, too, that average weekly earnings rose 3.8% in the same quarter; 1.9% net of inflation.

Retail Sales by volume actually dipped in August 0.2% vs. the previous month – which caused a stir – although they rose 2.7% on an annualised basis; and, the month August, on its own, was 3.3% ahead year-on-year.

Mortgages

UK Finance said that mortgage approvals in the first eight months of 2019 are running 6.9% ahead of 2018

UK Finance: in August, new mortgage approvals (43,957) dipped sharply vs. July i.e. minus 14.4%; however, they were 3.2% ahead year-on-year. Similarly, in the first eight months of 2019 (342,481), they are running 6.9% ahead of 2018; a very good number.

Bank of England: mortgage approvals for August at 65,545 were down just 2.2% on July (the best month since January 2018) and by a touch (minus 0.9%) year-on-year. Note, too, that in the first eight months of 2019, BoE mortgage approvals are up 1.1% (at 526,300) on the same period last year.

Volumes and prices

Residential transactions in the first eight months of 2019 are off by just 3.1% at 767,730

Residential transactions rose by a very significant 15.8% in August to 99,890 vs. July and by 0.9% year-on-year on a provisional seasonally-adjusted basis. For the year-to-date, though, residential transactions are lower, i.e. off 3.1% in first eight months of 2019 (at 767,730) vs. the same period in 2018.

Turning to the National Housebuilding Council, it says the number of new house registrations in August declined 10.3% to 12,295 units; and within this tally private registrations tumbled 19.5% to 8,420 with affordable/rental rising 19.2% to 3,875.

In the August Quarter 2019, there was slightly better news with total registrations in the three months June-July-August of this year dipping just 5.1% to 40,213 vs. the same time in 2018 (albeit there was again a push/pull with private units off 8.4% to 27,795 while affordable/rental rose 3.7% to 12,418).

Total Registrations in London rose 5.1% in the August Quarter

Regionally, too, there was a glimmer, with total registrations in London in the August Quarter rising 5.1% annualised to 6,168.

NHBC CEO Steve Wood said: “The slowdown in overall registrations in August seems to be partly due to prevailing uncertainties in this pre-Brexit period. Nonetheless, it is encouraging to see growth coming through in the affordable and rental sector”.

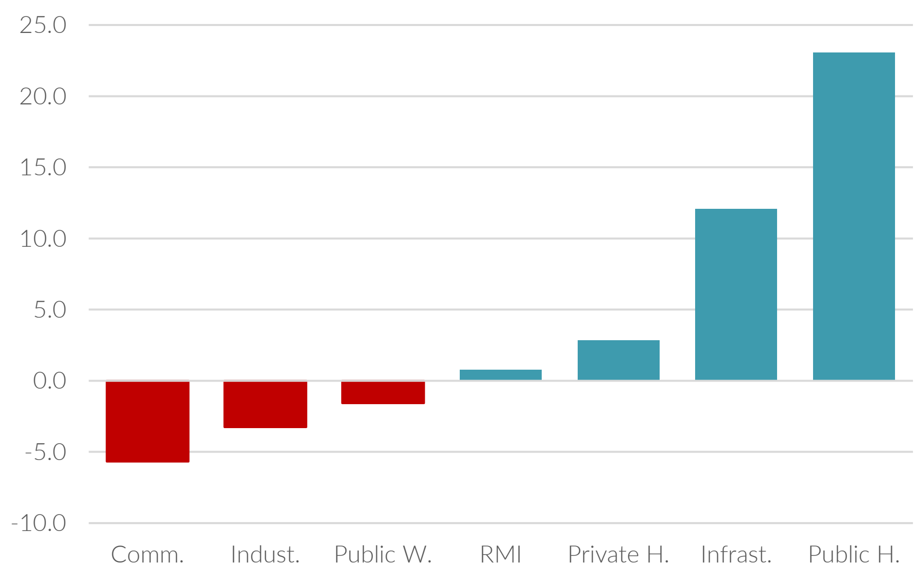
Next up, prices, and Nationwide (on 1 October) said that average house prices dipped “modestly” in September by 0.2% seasonally-adjusted (August: 0.0%) to £215,352 – with London and the South East doing the damage. At the same time, the annualised shift was just +0.2% (August: +0.6%), which is the lowest since January.

Meantime, Rightmove said that the price of property coming to market fell by 0.2% to £304,770 for the first time in the month of September since 2010. Nor was there any sign of an autumn bounce yet. Similarly, the number of sales agreed (minus 5.5%) is down in all regions compared with a year ago. As for the annualised rate, the rise in September was just 0.2%.

The Reuters Poll says 1% growth in house prices this year and 1.8% in 2020; followed by 2.7$% in 2021

Reuters Housing Market Poll (to which I contribute) says prices will rise 1.0% nationally this year, 1.8% next year and 2.7% in 2021. Included here, is a 2% drop in London in 2019 before the Capital shows a flat outturn (i.e. 0%) next year and +2.0% in 2021.

UK Construction Output annualised % change in value in first 7 months of 2019



**Commercial; Industrial; Public Works; Repair, Maintenance & Improvement; Private Housing; Infrastructure; and Public Housing. Seasonally adjusted*
Source: HMRC; Hardman & Co Research

Total UK Construction Output in the first seven months of 2019, through July, rose 2% with positive contributions from four-out-of-seven sub-sectors (see chart).

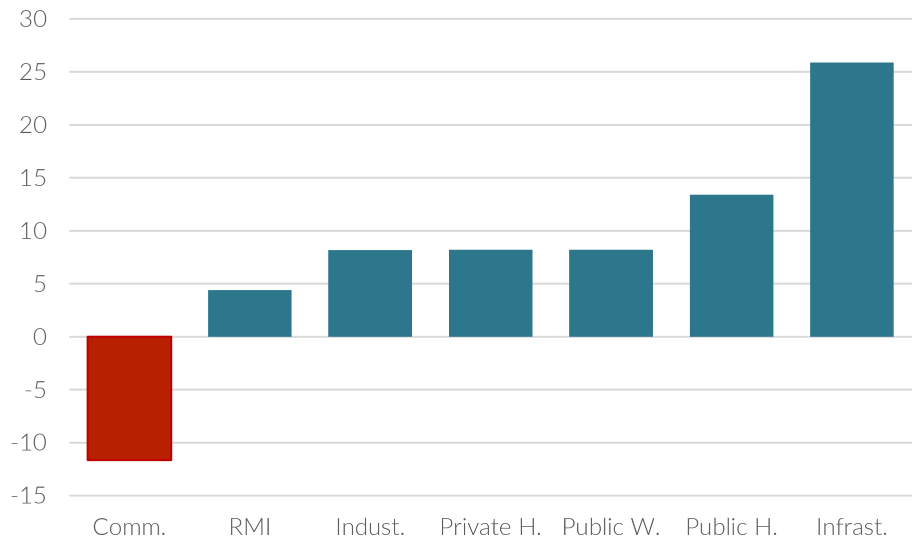
Herein, too, Public Housing soared 23.1% albeit from a low base. Remember, too, that this residential sub-sector is one-fifth the size of Private Housebuilding where growth was also positive to the tune of 2.8%.

Private Housing Output rose 4.4% in July vs. June; and by 1.9% annualised

Private Housing Output was also on the rise in the month i.e. +4.4% in July vs. June and +1.9% year-on-year.

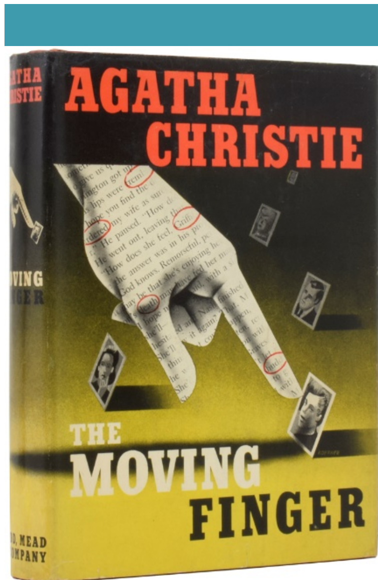
Experian (where I advise on its deliberations) says that Private Housing Output is forecast to rise 2% this year, 2% in 2020 and 4% in 2021; at the same time, the much-smaller Public Sector is set for +0%, +5% and +8% over the same three years. See chart.

Forecast Total UK Output growth in 2019-21 (% change in real terms) – Experian



**Commercial; Repair, Maintenance & Improvement; Industrial; Private Housing; Public Works; Public Housing; and Infrastructure. Seasonally adjusted*
Source: HMRC; Experian and Hardman & Co Research

Bookends



Source: Creative Commons

Telford Homes' last trading day was the final day of 3Q i.e. Monday 30 September. It was founded in 2000 and floated a year later.

Its final market value was a touch over £267m at 349.5 pence per share (the agreed bid was at 350 pence in cash). But the company was not the smallest Housebuilding Sector constituent i.e. both Inland Homes (£162m on that day) and Springfield (£109m) are smaller editions.

Telford had established a very useful position in selling houses in East London. However, faced with a difficult market (not alone there), it re-wrote its strategy to focus on Build-to-Rent, which it knew how to do in any event. This would clearly take its toll on near-term earnings and, at the time of the bid, ShareCast's consensus number for the fiscal year to 31 May 2020 showed a 42% drop.

Then, however, in a plot twist, along came the tall dark CBRE. Its buying of Telford, too, is a tiny segue for a business which is capitalised at USD16.6bn; but it is not without imagination i.e. and even Dame Agatha couldn't have made this one up.

Elsewhere, Kier is less reliant on imagination than on a palpably pragmatic (and newish) CEO in Andrew Davies. He is working on securing the group's future and part of this process is selling Kier Living, which should be done around Christmas.

Also, in draft, Bovis and Galliford Try (see earlier) have agreed a £1.1bn publishing deal for the former to buy the latter's residential business on a lean 6.6x historic EBIT. As the great Warren Buffett once said: "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful".

And FoMo is endemic right now, too, given that Halloween is around the corner and there is no story-board on Brexit.

Pro tem, the Housebuilding Sector is hanging in there and although its macro metrics are not banner, they could be much, much worse. For example, UK Finance (two-thirds of the market) says mortgage approvals are 6.9% up annualised in the year to August; and residential transactions are off just 3.1% over eight months of 2019.

Private Housing Output in August also rose 4.4%. And, Experian forecasts that, "assuming an orderly Brexit", there is £3bn (in real terms) more work in the Private Housing Sector over the next three years through 2021 plus almost £1bn in the Public Sector. As noted earlier, too, I co-author these numbers with Experian.

Finally, the stock market value of the UK Housebuilding Sector rose 10% in 3Q and it is up by more than a fifth year-to-date.

The British Pound/Euro exchange rate is a proxy for an orderly Brexit and 'The Moving Finger' for housebuilders' share price (second only the Banks in this propensity). The Pound rose for six straight weeks and then fell in Weeks 39 and 40.

But it's not over yet.

Quote:

"The Moving Finger writes; and, having writ, moves on: nor all thy piety nor wit shall lure it back to cancel half a line, nor all thy tears wash out a word of it"

Source: Rubáiyát of Omar Khayyám – translated by Edward FitzGerald

Glossary

Name (ticker): share price; market value

Abbey (ABBY): 1,400 cents; €294m

Barratt (BDEV): 648p; £6,598m

Bellway (BWY): 3,346p; £4,121m

Berkeley Group (BKG): 4,179p; £5,261m

Bovis Homes (BVS): 1,114p; £1,502m

Cairn (CRN); 111 cents; €872m

Countryside (CSP): 336p; £1,512m

Crest Nicholson (CRST): 379p; £974m

M J Gleeson (GLE): 808p; £441m

Glenveagh (GLV): 74 cents; €645m

Inland Homes (INL): 79.0p; £162m

McCarthy & Stone (MCS): 145.1p; £780m

Persimmon (PSN): 2,170p; £6,912m

Redrow (RDW): 618p; £2,177m

Springfield (SPR): 113.5p; £109m

Taylor Wimpey (TW): 161.5p; £5,297m

Telford Homes (TEF): 349.5p; £267m

Watkin Jones (WJG): 275p; £575m

Note: Share prices at 30 September 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.

Tony joined Hardman & Co in 2013. He holds an MSc in Economics from the University of Manchester.

Notes

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