May 2021

HARDMAN & CO.

HENRY BOOT PLC

What's in a name?

Shakespeare said it first. What someone or something is called or labelled is arbitrary compared with their or its intrinsic qualities; this is especially true of sobriquets. Henry Boot has been monikered a Luddite because of its mix of businesses. Unfashionable, maybe, but intrinsically valuable, singularly and in concert. These include property development, land promotion, construction, plant hire, housing and a dash of PFI. Having traded for more than 100 years, Henry Boot is also old enough to know better; and it does. Not just in mix but in terms of blooming financial metrics; and it pays dividends through thick and thin. "A rose by any other name would smell as sweet".

- **Strategy:** The group possesses a high-quality strategic land portfolio, an enviable reputation in the property development market, an expanding, jointly-owned housebuilding business plus a first-class construction business, Banner Plant ,and it enjoys strong cashflow from its PFI unit: Road Link (A69) Ltd.

- **Metrics:** Boot generates a double-digit RoCE in a normal year, turns its capital at least once and sports a Quick Ratio above 1.0 year after year; and no-one can remember when it did not pay an annual dividend. It has also had a new CEO since January 2020 in Tim Roberts, a former Main Board Director of British Land.

- **Valuation:** After a COVID-19-impacted-2020, the current year is one of recovery; and hence a PER in the mid-teens. But for fiscal 2022 and 2023, the valuation is only just in double digits, with a yield nudging 3%. "Our balance sheet remains rock solid" and there are "encouraging signs of recovery in our key markets".

- **Risks:** There's only one really: will the tortuous path of COVID-19 de-rail the international economic and construction recovery? Right now, the smart money is on 5%-7% growth in UK GDP this year and next. Plus, Experian talks of double-digit growth in construction this year, followed by 3% or 4% p.a.

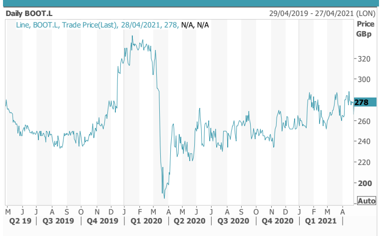
- **Investment summary:** Henry has been around the track a bit. It has also shown terrific dynamism. Luddite it is not – either original or neo. The group possesses a high-quality strategic portfolio, an enviable reputation and polished metrics. And, it has strength in diversity, fresh leadership and budding recognition.

Financial summary and valuation

Year-end Dec (£m)	2018	2019	2020	2021E	2022E	2023E
Revenue	397	380	222	264	320	336
Gross profit	78.0	81.0	40.5	60.7	72.8	76.5
EBIT	50.0	50.4	17.5	30.1	43.5	47.8
EBIT margin	12.6%	13.3%	7.9%	11.4%	13.6%	14.2%
PBT	48.6	49.1	17.1	29.8	43.3	47.6
EPS (p)	28.3	28.3	9.0	15.6	22.7	24.9
DPS (p)	9.0	5.0	5.5	6.0	7.1	8.0
Cover (x)	3.1	3.1	1.6	2.6	3.2	3.1
NAV	302	319	314	334	365	399
Net (debt)/cash	-18.4	27.0	27.0	15.2	5.0	3.4
PER (x)	9.4	9.4	29.6	17.1	11.7	10.7
Yield	3.4%	1.9%	2.1%	2.3%	2.7%	3.0%

Source: Hardman & Co Research

Property



Source: Refinitiv

Market data

EPIC/TKR	**BOOT**
Price (p)	**266**
12m High (p)	290
12m Low (p)	220
Shares (m)	133.211
Mkt Cap (£m)	354
EV (£m)	327
Free Float*	80%
Country of listing	UK
Market	LSE

**As defined by AIM Rule 26*

Description

Henry Boot was established 135 years ago, and is one of the UK's leading land promotion, investment/development and construction groups. Based in Sheffield, it comprises Hallam Land Management, HB Developments, Stonebridge Homes, HB Construction, Banner Plant, and Road Link (A69) Ltd.

Company information

Chairman	Jamie Boot
CEO	Tim Roberts
CFO	Darren Littlewood

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Key shareholders

Directors	4.57%
Reis family	15.74%
Canaccord Genuity	6.28%
Unicorn AM	5.13%
Fulmer Trust	4.31%
London & Amsterdam	4.14%

Diary

20 May	AGM

Analyst

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Prologue

A Luddite is a member of any of the bands of English workers who destroyed machinery, especially in cotton and woollen mills, between 1811 and 1816. He believed that mechanisation was threatening his job and the jobs of others. In turn, Neo-Luddism is a philosophy opposing many forms of modern technology. At its best, it raises precautionary concerns about the technological impact on individuals, communities and the environment. Either term, however, is generally a pejorative.

Lessons from history

The traditional UK construction industry model mixed cash-generative contracting with asset-based activities, such as housebuilding, property development and other businesses, like plant hire. This dissipated in the wake of a near doubling of interest rates in the 12 months or so from June 1988 (7.38%) and a very difficult period for the domestic economy through 1995. In any or either event, the large contractors exited development, housebuilding, in particular, *et al* (who remembers Trafalgar House, for example?) and the behemoths like Persimmon and Taylor Wimpey were incipient – and they grew and grew.

Kier is clearly not a candidate for poster child

This was less true for the contractors, and there was real pain experienced over time. Ultimately, there were casualties in the private and listed sectors (Connaught and Roc, for example), and the evisceration of the likes of Mowlem and Alfred McAlpine. A number of combined businesses survived, although Carillion (in 2018) did not, and Kier is clearly not a candidate for a poster child here.

Henry Boot was founded in 1886, before debuting on the London Stock Exchange (LSE) in 1919. It was already then double-handed in construction and development, including housebuilding; and, in fact, it was the first-ever quoted housebuilder on the LSE. Between WW1 and WW2, it also built more houses (public and private) than any other company. Nor did it operate exclusively in residential – it had many strings to its bow, including a railway engineering business, which it later took internationally. Success away from home, though, was mixed and, in 1985, the group lost £7m. In the following year, Jamie Boot (great grandson of Henry) became Chairman and he remains in the post today. In 1988, the railway engineering business was sold. Much later, in 2003, Henry Boot cited competing cash demands from its property development and plant divisions and sold its 700-unit-a-year private housing unit to Wilson Bowden (now part of Barratt) for £48m.

Luddite it is not – either original or neo

The group has been around the track a bit and garnered several T-shirts along the way. It has also shown terrific dynamism. Luddite it is not – either original or neo. Today, it possesses a high-quality strategic land portfolio, an enviable reputation in the property development market – which, in turn is backed by a substantial investment property portfolio – and an expanding, jointly-owned, housebuilding business. It has a construction specialism in both the public and private sectors, a long-standing plant hire business (Banner) and enjoys strong cashflow from its PFI contract through Road Link (A69) Ltd. Financially, too, it generates a double-digit RoCE in a normal year, turns its capital at least once and sports a Quick Ratio above 1.0 year after year. Henry Boot, pretty much, always pays a dividend, too – even in 2020.

New CEO, Tim Roberts, is ex-British Land – a very significant choice

Note, too, that the group has a (relatively) new CEO in Tim Roberts – incumbent since January 2020; and his background is significant, given that he was at British Land for 15 years, running its office team. He also developed a strategy for shifting the London office focus towards more mixed-use campuses including a residential offering. Tim was also a Main Board member at British Land and he is also an NED at Songbird PLC, whose principal subsidiary is Canary Wharf Group plc. In 2020-21, Tim has also undertaken a strategic review of the group, which will sharpen its focus on "our three long-term markets: industrial & logistics; residential; and urban development", all of which "benefit from structural tail winds" right now. He has also revamped Boot's ESG (Environmental, Social and Governance) strategy, which will be led by "135 Henry Boot", which also celebrates the group's 135th anniversary. The latter is nothing short of extraordinary.

Outlook

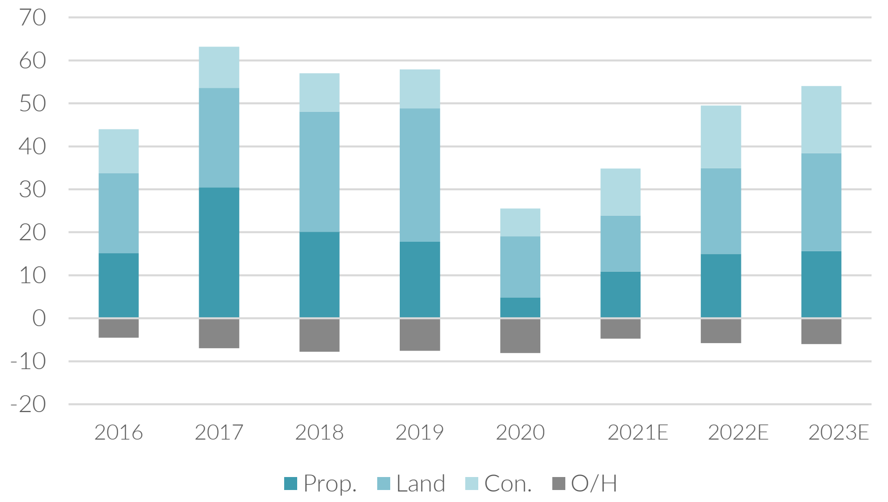
A useful windfall profit of £7.4m came from land and business divestments

COVID-19 was, predictably, writ large in calendar 2020. Group revenue dropped 41% to £222m, with Property-Investment-and-Development, plus Land Promotion, hardest-hit and, together, almost £160m lighter, at ca.£107m, which meant that Construction revenue (across three businesses) actually nudged up 1.5% to £116m. At the same time, the gross margin shed 310 basis points to 18.2%, while EBIT was struck at just 35% of the previous year's tally, i.e. £17.5m (2019: £50.4m). Okay, this includes an additional one-off profit of £7.4m, which was made from disposals, largely land, in 2020 (2019: nil); and it's a good job that it had them.

By division, too, Property's EBIT was impacted the most, dropping from £17.8m to £4.9m (rounded), with Land Promotion more than halving to £14.2m (including sale profits), and Construction, including Henry Boot Construction, Banner Plant and Road Link (A69) reporting EBIT of £6.5m (2019: £9.1m). Thereafter, statutory PBT for Boot was almost two-thirds lower, at £17.1m. EPS behaved similarly, but the rebased dividend was increased by a sturdy 10% to 5.5p, with cover at 1.6x (2019: 3.1x).

In terms of the balance sheet, RoCE was academic, at 6.1% (2019: 17.5%); and the target remains 10%-15%. However, the Quick Ratio remained luxuriant, at 1.34 (2019: 1.48); and Boot sported virtually unchanged net cash of £27m at 31 December, in a tough year, which had risen to £38.5m by end-February.

Composition of EBIT, 2016 through 2023E (£m)



Source: Hardman & Co Research

HBD completed an heroic GDV of £58m in 2020

In terms of actual trading, Land Promotion (*aka* Hallam Land Management) "performed well" after housing recovered and was "unexpectedly buoyant in H2" – which meant the sale of 2,000 plots (2019: 3,427) on nine sites. It also closed the year with 88,070 plots in hand, of which 27% had, or were in-for, planning. Henry Boot Developments (HBD) completed an heroic GDV of £58m in 2020 (with the group's share at £55m), where all schemes were sold, let or retained as investments. Note, too, "committed developments" stand at £312m (HBD share £85m), with "our development pipeline" maintained at £1.4bn (HBD share £1.1bn), of which 78% is in industrial and logistics.

In addition, 50%-owned housebuilder, Stonebridge Homes, sold 115 units last year (2019: 159 sales), which was ahead of target. Similarly, 2021 has started well, with sales already agreed on 69 units to date – which is, again, well ahead of expectations. For the record, too, Stonebridge's landbank runs to 1,119 plots (2019: 1,023 plots). At the same time, Henry Boot Construction entered 2021 with a full order book; it also finished the year on 95% of planned site activity. Similarly, Banner Plant increased its activity to 95% of year-on-year sales, while Road Link (A69) "generated encouraging returns".

Financial summary and metrics

Year-end Dec (£m)	2018	2019	2020	2021E	2022E	2023E
Revenue	**397**	**380**	**222**	**264**	**320**	**336**
Gross profit	78.0	81.0	40.5	60.7	72.8	76.5
Admin.	-24.1	-29.7	28.8	28.0	28.5	28.7
Pension	-6.0	-4.5	-4.6	-5.0	-4.5	-4.0
Investments	1.2	2.1	1.2	0.0	0.0	0.0
JV/Associates	0.8	1.5	1.8	2.4	3.7	4.0
Asset sale	0.0	0.0	7.4	0.0	0.0	0.0
EBIT	**50.0**	**50.4**	**17.5**	**30.1**	**43.5**	**47.8**
Net interest	-1.4	-1.3	-0.4	-0.3	-0.2	-0.1
PBT	**48.6**	**49.1**	**17.1**	**29.8**	**43.3**	**47.6**
Tax	-8.2	-9.7	-3.4	-5.9	-8.5	9.4
Minorites/Pref.	-2.9	-1.9	-1.8	-3.2	4.6	5.1
Tax	*16.9%*	*19.7%*	*19.6%*	*19.6%*	*19.6%*	*19.6%*
Earnings	37.5	37.6	11.9	20.8	30.2	33.2
EPS (p)	**28.3**	**28.3**	**9.0**	**15.6**	**22.7**	**24.9**
Diluted EPS (p)	28.0	28.1	8.9	15.5	22.6	24.8
DPS (p)	**9.0**	**5.0**	**5.5**	**6.0**	**7.1**	**8.0**
Shares in issue (m)	132.6	132.6	132.7	133.2	133.2	133.2
Diluted shares in issue (m)	133.7	133.7	133.4	133.9	133.9	133.9
Margins						
Gross	19.6%	21.3%	18.2%	23.0%	22.8%	22.8%
EBIT	12.6%	13.3%	7.9%	11.4%	13.6%	14.2%
PBT	12.2%	12.9%	7.7%	11.3%	13.6%	14.2%
Shareholders' funds	302.3	318.5	313.5	334.0	365.2	399.4
Capital employed	339.5	336.2	332.3	352.0	385.7	422.4
Net (debt)/cash	-18.4	27.0	27.0	15.2	5.0	3.4
RoCE	15.4%	17.5%	6.1%	9.6%	12.2%	12.2%
Capital turn (x)	1.17	1.13	0.67	0.75	0.83	0.80
Quick ratio	1.00	1.48	1.34	1.23	1.24	1.21

Source: Hardman & Co Research

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