

# SPRINGFIELD PROPERTIES

## HOME CONSTRUCTION

3 June 2024

SPR.L

94p

Market Cap: £111.5m

### SHARE PRICE (p)



12m high/low

103p/51p

Source: LSE Data (priced as at prior close)

### KEY DATA

Net (debt)/cash	£(41.2)m (at 31/05/24)
Enterprise value	£152.7m
Index/market	AIM
Next news	YE update, early July
Shares in issue (m)	118.7
Chairman	Sandy Adam
CEO	Innes Smith
CFO	Iain Logan

### COMPANY DESCRIPTION

Springfield Properties, Scotland's only quoted housebuilder, is focused on delivering private and affordable housing.

[www.springfield.co.uk](http://www.springfield.co.uk)

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## Village partnership with Barratt speeds growth

Springfield has entered into a major partnership with Barratt Developments (BDEV) to accelerate the creation of the Scottish housebuilder's planned 'village' of over 3,000 homes near the strategically connected city of Stirling. The sale of the land to Barratt, as part of a new 50:50 strategic collaboration between Springfield and Barratt, will reduce debt by more than its previous guidance and should contribute to planned growth in the medium term.

- Unique site.** Durieshill is on a site totalling almost 600 acres, with a gross development value of c.£776m, and will feature extensive community facilities and green spaces, with sustainability at its core (page 2).
- Growth and ROCE benefits.** Partnering with Barratt accelerates the development, while containing Springfield's capital commitments. According to CEO Innes Smith: 'Due to the substantial size of this site, this partnership marks a significant milestone for Springfield, emphasising the worth of our extensive land holdings with planning permission in sought after locations throughout Scotland. The infrastructure support provided by Barratt in this collaboration will enhance Springfield's growth prospects in the medium term, minimise risks and optimise our return on capital.'
- Collaboration terms.** Both companies will build and sell private and affordable homes on the site. In consideration for half of the land at Durieshill, Barratt will provide and fund the infrastructure for the entire site, expected to take five years, and has made a cash payment of £10m to Springfield. The site infrastructure provision by Barratt will significantly accelerate the development, while eliminating Springfield's requirement to tie up capital over the period. Springfield has received £10m from the profitable sale of the initial 34 acres. The remaining land will be exchanged for infrastructure provision as development milestones are achieved.
- Lower-than-forecast FY24E net bank debt.** The cash proceeds from the profitable land sale will contribute to reducing Springfield's FY24E debt. Springfield expects to report bank debt, pre-IFRS16, of c.£41m as at 31 May 2024, ahead of its stated target of £55m and a reduction of more than the £10m specific to the agreement. We have cut our estimate for net debt accordingly for FY24E, while not at this time changing any other assumptions for FY24E or FY25E (pages 4 and 5).
- Springfield overview.** Springfield, which floated on AIM in 2017, provides private and affordable homes in high-growth areas in Scotland, including village developments. The landbank is one of Scotland's largest (page 3).

FYE MAY (£M)	2021	2022	2023	2024E	2025E
Revenue	216.7	257.1	332.1	281.1	272.5
Fully Adj PBT	18.5	20.8	16.0	10.3	13.0
Fully Adj EPS (p)	14.2	15.2	10.4	6.4	8.1
Dividend per share (p)	5.75	6.20	0.00	0.00	1.50
PER (x)	6.6x	6.2x	9.0x	14.6x	11.6x
Dividend yield (%)	6.1%	6.6%	N/A	N/A	1.6%
EV/EBITDA (x)	7.0x	6.3x	6.7x	7.3x	7.7x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

*Durieshill the latest of Springfield's successful villages*

*Ideally located for locals and commuters*

## Sustainability and connectivity at heart of latest village

Durieshill will be a new standalone sustainable community near Stirling, and will join other growing Springfield villages, including Bertha Park outside Perth, Dykes of Gray in Dundee and Elgin South in Moray. It has planning in place for 3,000 private and affordable homes alongside new schools, shops and other business opportunities, community woodlands and greenspace. The full site, stretching over c.600 acres, is one of the largest detailed planning application for housing development to be approved in Scotland to date, with a gross development value of c.£776m. The Group has worked closely with Stirling Council for over 20 years on the design and planning of the development.

The development will include extensive green spaces, including woodland, community landscaping and allotments, and 'pocket parks'. The travel network within Durieshill 'prioritises sustainable travel and promotes health and well-being'.

The infrastructure programme is set to include significant upgrades to existing roads, electrical supply and sewage works, providing the community with all the amenities it will need as it grows. Initial groundworks are expected to commence in late 2024, creating over 200 new jobs, apprenticeship roles and opportunities for the local supply chain.

The historic city of Stirling, population 94,300, is centrally located in Scotland, within an hour's road or rail travel to Glasgow, Edinburgh, Dundee and Perth. Located, close to the start of the Highlands, it has a thriving local economy, featuring financial services, life sciences, tourism and food and drink sectors.

**Figure 1: Visualisation and strategic location of Durieshill**



Source: Springfield Properties

*Scottish market underpinned by long-term growth prospects and a distinctive home-buying model. Springfield offers a differentiated and lower-risk model*

## Springfield in brief: unique model in resilient market

Springfield was transformed into a housebuilder by current chairman Sandy Adam in the 1990s and it was admitted to AIM in October 2017. We continue to believe that economic and political dynamics are likely to support growth in housebuilding volumes and prices in Scotland, where values have lagged most of the UK. We believe Springfield benefits from a distinctive business model, and that strategically important acquisitions and expansion of innovative multi-tenure rental partnerships since floating are supportive of a return to growth. See our [Springfield research section](#) on Progressive's website.

- **Long term, a more attractive market?** While there have been challenges across the UK housing market, we remain upbeat on Scottish opportunities. Scotland lags England in the proportion of homes owned privately and the Scottish Government has pledged to build 110,000 affordable homes by 2031-32; the increase in the Affordable Housing Investment Benchmark in June 2023 reinforces this commitment. House prices in Scotland are more affordable in relation to incomes than in almost any other UK region.
- **Scottish missive system.** With buyers legally bound much earlier than in England and Wales, the missive system offers high revenue visibility and a secure income stream.
- **A distinctive model.** Springfield has a differentiated business model that focuses on two differing markets, both of which have high demand and, arguably, a lower risk profile: family housing and affordable housing (the latter is provided both as part of planning requirements in the private housing division as well as in its own right in the affordable housing division). Springfield buys land mainly 'off market' at more attractive prices than in the mainstream market, preferring more complex long-term projects, demonstrated particularly in its Village sites.
- **Distinctive village communities.** A cornerstone of Springfield's strategy is a focus on its mid-sized village communities. All of these are set in a rural context but close to fast-growing cities, located in Dundee, Perth, Stirling and Elgin. A factor in Springfield's success in securing these sites has been its close co-operation with local councils and other stakeholders; a key differentiator for the group, in our view.
- **Smart deals.** Mactaggart & Mickel was Springfield's fifth strategic acquisition and continues its record of regional expansion in Scotland with innovative deal structures allowing payment as homes are sold. Tulloch, in December 2021, strengthened Springfield's presence in the Highlands. This followed Dawn Homes in 2018 in the West of Scotland, while Walker Group in 2019 focused on popular commuter areas around Edinburgh, with higher-priced homes and stronger gross margins than Springfield's then-existing private housing division. The 2011 acquisition of Redrow's Scottish business took Springfield into central Scotland, a step change for revenue.
- **Evolving ESG credentials.** Springfield has had a longstanding commitment to ESG and an inherent culture of looking after people and the environment. The Group published its first formal ESG Strategy in 2022 with updates reported annually.

Figure 2: P&L and per share data

Year-end May (£m)	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>216.7</b>	<b>257.1</b>	<b>332.1</b>	<b>281.1</b>	<b>272.5</b>
<b>Gross profit</b>	<b>38.8</b>	<b>43.1</b>	<b>48.0</b>	<b>45.5</b>	<b>42.5</b>
<i>Margin (%)</i>	17.9%	16.8%	14.4%	16.2%	15.6%
Admin, other income	(19.0)	(20.6)	(27.3)	(27.0)	(25.0)
<b>Total operating profit</b>	<b>19.8</b>	<b>22.6</b>	<b>20.7</b>	<b>18.5</b>	<b>17.5</b>
<i>Margin (%)</i>	9.1%	8.8%	6.2%	6.6%	6.4%
Exceptionals	(0.6)	(1.1)	(0.7)	(0.5)	-
Net interest	(1.2)	(1.8)	(4.7)	(8.2)	(4.5)
<b>PBT, reported</b>	<b>17.9</b>	<b>19.7</b>	<b>15.3</b>	<b>9.8</b>	<b>13.0</b>
<b>PBT, pre-exc</b>	<b>18.5</b>	<b>20.8</b>	<b>16.0</b>	<b>10.3</b>	<b>13.0</b>
Reported tax	(4.2)	(3.7)	(3.2)	(2.4)	(3.1)
<i>Underlying tax rate (%)</i>	22.6%	18.2%	20.5%	24.0%	24.0%
<b>Net attrib profit</b>	<b>13.7</b>	<b>16.1</b>	<b>12.1</b>	<b>7.5</b>	<b>9.9</b>
Basic EPS (p)	13.8	14.7	10.2	6.3	8.3
Adjusted EPS (p)	14.4	15.6	10.7	6.6	8.3
<b>Adjusted, dil. EPS (p)</b>	<b>14.2</b>	<b>15.2</b>	<b>10.4</b>	<b>6.4</b>	<b>8.1</b>
DPS - declared (p)	<b>5.75</b>	<b>6.20</b>	-	-	<b>1.50</b>
NAV (p)	109.0	121.2	127.1	133.3	141.6
TNAV (p)	107.4	116.3	122.1	128.2	136.6

Source: Company Information and Progressive Equity Research estimates

**Figure 3: Adjusted cash flow statement and summary balance sheet**

Year-end May (£m)	FY21	FY22	FY23	FY24E	FY25E
<b>Adjusted cash flow statement</b>					
Op profit inc exc.	19.1	21.5	20.0	18.0	17.5
Depreciation	2.2	1.7	2.3	2.3	2.3
Other	0.5	12.4	0.4	-	-
Working capital change	35.2	(16.5)	(14.5)	26.0	(4.0)
<b>Operating cash flow</b>	<b>57.0</b>	<b>19.1</b>	<b>8.1</b>	<b>46.3</b>	<b>15.8</b>
Capex	0.0	(0.1)	(0.1)	(0.0)	(0.0)
Interest	(1.3)	(1.6)	(3.8)	(8.2)	(4.5)
Tax	(4.2)	(3.5)	(2.9)	(2.4)	(3.1)
<b>Free cash flow</b>	<b>51.5</b>	<b>13.8</b>	<b>1.4</b>	<b>35.7</b>	<b>8.1</b>
Acquisitions	0.3	(44.0)	(21.4)	(14.2)	(2.0)
Dividends - paid	(3.3)	(6.3)	(5.6)	-	-
Financing	(34.2)	37.1	18.0	-	-
<b>Change in net cash</b>	<b>14.3</b>	<b>0.6</b>	<b>(7.5)</b>	<b>21.5</b>	<b>6.1</b>
<b>Summary balance sheet</b>					
Intangible fixed assets	1.6	5.8	6.0	6.0	6.0
Tangible fixed assets	4.5	5.8	7.8	5.6	3.4
Investments, other FA	6.0	8.3	6.8	6.8	6.8
Working capital	128.8	182.9	243.3	217.3	221.3
Provisions, others	(8.9)	(21.2)	(45.5)	(31.3)	(29.3)
Net cash/(debt)*	(20.8)	(38.1)	(67.7)	(46.2)	(40.1)
<b>Net assets</b>	<b>111.2</b>	<b>143.5</b>	<b>150.6</b>	<b>158.1</b>	<b>168.0</b>
<i>*Pre-IFRS16 net bank debt</i>	<i>(18.2)</i>	<i>(34.1)</i>	<i>(61.8)</i>	<i>(41.2)</i>	<i>(35.1)</i>

Source: Company Information and Progressive Equity Research estimates

**Financial Summary: Springfield Properties**

Year end: May (£m unless shown)

	2021	2022	2023	2024E	2025E
<b>PROFIT &amp; LOSS</b>					
Revenue	216.7	257.1	332.1	281.1	272.5
Adj EBITDA	21.9	24.3	22.9	20.8	19.8
Adj EBIT	19.8	22.6	20.7	18.5	17.5
Reported PBT	17.9	19.7	15.3	9.8	13.0
Fully Adj PBT	18.5	20.8	16.0	10.3	13.0
NOPAT	15.3	18.5	16.4	14.1	13.3
Reported EPS (p)	13.8	14.7	10.2	6.3	8.3
Fully Adj EPS (p)	14.2	15.2	10.4	6.4	8.1
Dividend per share (p)	5.8	6.2	0.0	0.0	1.5
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	57.0	19.1	8.1	46.3	15.8
Free Cash flow	51.5	13.8	1.4	35.7	8.1
FCF per share (p)	51.8	12.7	1.2	30.1	6.8
Acquisitions	0.3	(44.0)	(21.4)	(14.2)	(2.0)
Disposals					
Net cash flow	14.3	0.6	(7.5)	21.5	6.1
Overdrafts / borrowings					
Cash & equivalents					
Net (Debt)/Cash, post-IFRS 16	(20.8)	(38.1)	(67.7)	(46.2)	(40.1)
Net (Debt)/Cash, pre-IFRS 16	(18.2)	(34.1)	(61.8)	(41.2)	(35.1)
<b>NAV AND RETURNS</b>					
Net asset value	111.2	143.5	150.6	158.1	168.0
NAV/share (p)	109.0	121.2	127.1	133.3	141.6
Net Tangible Asset Value	109.6	137.8	144.7	152.2	162.0
NTAV/share (p)	107.4	116.3	122.1	128.2	136.6
Average equity	103.5	127.4	147.1	154.4	163.1
Post-tax ROE (%)	13.2%	12.6%	8.2%	4.8%	6.1%
<b>METRICS</b>					
Revenue growth		18.6%	29.2%	(15.4%)	(3.1%)
Adj EBITDA growth		10.9%	(5.6%)	(9.4%)	(5.0%)
Adj EBIT growth		14.3%	(8.4%)	(10.4%)	(5.6%)
Adj PBT growth		12.5%	(23.1%)	(35.4%)	25.8%
Adj EPS growth		7.6%	(31.6%)	(38.2%)	25.8%
Dividend growth		7.8%	(100.0%)	N/A	N/A
Adj EBIT margins	9.1%	8.8%	6.2%	6.6%	6.4%
<b>VALUATION</b>					
EV/Sales (x)	0.7	0.6	0.5	0.5	0.6
EV/EBITDA (x)	7.0	6.3	6.7	7.3	7.7
PER (x)	6.6	6.2	9.0	14.6	11.6
Dividend yield (%)	6.1%	6.6%	N/A	N/A	1.6%
P/NAV (x)	0.86	0.78	0.74	0.71	0.66
FCF yield	55.1%	13.5%	1.3%	32.0%	7.3%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

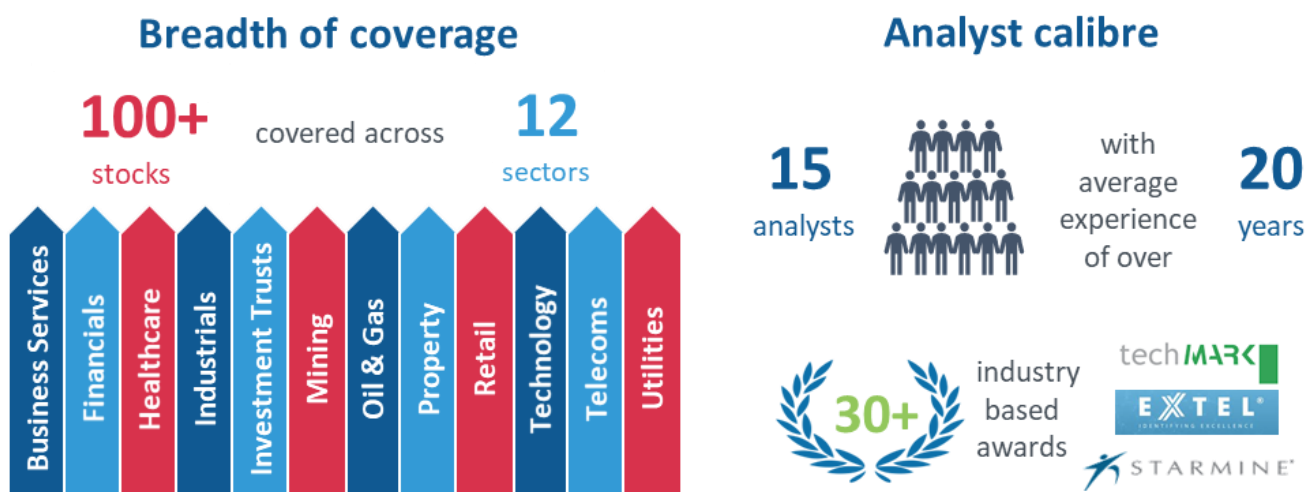
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