Progressive EQUITY RESEARCH

SPRINGFIELD PROPERTIES
HOME CONSTRUCTION

17 September 2024

SPR.L

105p

Market Cap: £124m

SHARE PRICE (p)

12m high/low	107p/51p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(39.9)m *(at 31/05/24)*
Enterprise value	£163.9m
Index/market	AIM
Next news	AGM, Oct (TBC)
Shares in issue (m)	118.8
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.thespringfieldgroup.co.uk

SPRINGFIELD PROPERTIES IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

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Debt reduction strategy pays dividends

Springfield Properties has returned to paying dividends earlier than we expected as a result of its focus on debt reduction over the past year and in its confidence, as signs grow of a recovering sales market in Scotland. FY24 results, to 31 May, were slightly ahead of our estimates. The Group confirms it expects to meet expectations for FY25E, while we have introduced estimates for the following two years, which assume continued growth.

- **Profit slightly ahead of expectations.** Total revenue fell by 20% to £267m, in line with our expectations, mainly due to a 32% decline in private home completions, similar to competitors. Adjusted PBT fell by 34% to £10.6m, 2.4% above our £10.3m estimate, while company guidance was raised during the year, due to strong profits on land sales, which helped raise the gross margin from 14.4% to 16.3% (pages 2 - 7). Net bank debt fell from £61.8m to £39.9m as a result of the Group's strategy to sell land – while still maintaining one of the strongest land banks in Scotland.
- **Early resumption of dividend underlines confidence.** The outstanding positive was the early resumption of dividend payments, with a final declared of 1.0p. According to CEO Innes Smith: "We look to the future with increasing confidence and, accordingly, we are pleased to be able to return to making dividend payments earlier than initially anticipated".
- **Estimates extended as visibility improves.** Our estimates for FY25E are essentially unchanged, but in light of the greater confidence outlined in the outlook statement, we have introduced forecasts for FY26E and 27E, which show further growth in all tenures.
- **Markets and politics improving.** A relative shortage of housing across all tenures has meant that Scotland has outpaced most other regions of the UK in both private pricing and rents. We believe a more supportive political backdrop is now emerging in Scotland (page 8).
- **Highland opportunities.** Two huge national investments – The £3bn Green Freeport and upgrade to national power networks, needing new housing for the workforce – are emerging in the Highlands, where Springfield bolstered its presence with the 2021 Tulloch acquisition, with further power-related opportunities expected across Scotland (page 9).
- **Unique multi-tenure model.** Springfield provides a unique mix of private and affordable homes in key market areas in Scotland, including village developments as well private rental sector (PRS) opportunities (page 11).

FYE MAY (£M)	2023	2024	2025E	2026E	2027E
Revenue	332.1	266.5	271.6	286.2	291.6
Fully Adj PBT	16.0	10.6	13.1	17.0	18.0
Fully Adj EPS (p)	10.4	6.8	8.1	10.4	11.0
Dividend per share (p)	0.00	1.00	1.50	2.50	4.50
PER (x)	10.0x	15.4x	13.0x	10.0x	9.5x
Dividend yield (%)	N/A	1.0%	1.4%	2.4%	4.3%
EV/EBITDA (x)	7.1x	8.0x	7.6x	6.6x	6.4x

Source: Company Information and Progressive Equity Research estimates.

Dividends restored and estimates extended

Challenging year, but improved outlook leads to reinstatement of dividend

The improving prospects were summed up by the outlook statement: "We are encouraged by early indications for an improving backdrop. While it remains early days, we have started to see an improvement in private housing demand since year end – with reservation rates being ahead of the same time last year. Similarly, having actively recommenced signing affordable contracts, contracted order book in affordable housing at year end was also ahead of where it was at the same point in the previous year. We look to the future with increasing confidence". The main highlights in the past year include:

- Net bank debt fell sharply from £61.8m to £39.9m – largely as a result of the Group's previously announced strategy of land sales.
- Revenue fell by 20% to £267m, led by a 27% reduction in Private Housing and a lower 13% fall in Affordable Housing.
- The gross margin increased from 14.4% to 16.3%. Thanks to a 5.3% reduction in operating expenses to £26.5m, the adjusted operating margin rose from 6.2% to 6.7%.
- Adjusted PBT fell by 34% to £10.6m – 2.4% ahead of our estimate of £10.3m. There were £0.9m of exceptional costs. Diluted adjusted EPS fell 35% to 6.8p – 5.4% ahead of our estimate.
- A final dividend of 1.0p was proposed, ahead of our anticipation of dividend being resumed in FY25E, explained by the Group's increasing confidence.

FY26E and FY27E estimates introduced, pointing to further growth

Forecasts extended by two years as outlook become clearer

Our estimate for FY25E is essentially unchanged but we have introduced forecasts for FY26E and FY27E in light of the greater confidence and visibility implied in the Group's outlook statement. As we explain, we believe these may be on the conservative side.

Private Housing: early signs of buyers returning

Lower volumes offset by higher prices

Revenue declined by 27% to £185m, with lower volumes offset by improved mix. Private completions declined by 33%, reflecting slowing activity levels during the period, reported by most UK housebuilders. However, the Group "experienced some recovery in private housing demand from January 2024, and continued to experience a steady level of reservations through to year end". Meanwhile, average prices rose by 8.1%, supported by both the mix of homes sold and underlying resilience in the Scottish market. Although the Group does not separately disclose margins for the different businesses, we believe gross margins for Private Housing remained relatively stable.

"Significant increase" in reservation rate since year end

Looking forward, there is a more optimistic tone: "While it remains early days, the Group has also experienced an improvement since year end. In particular, there was a significant increase in reservation rates during the traditionally quieter school summer holiday period compared with the same period last year".

In our view, Springfield has reacted to this improved climate by tentatively taking a more proactive stance to development. In September 2023, it had reacted to the then weaker sales rates by "significantly" curtailing its speculative development activities, only building homes when a reservation was secured. However, at end of the financial year the Group began to undertake 'soft launches' to test the market ahead of building, amid the increase in reservation rates.

Key milestone for Village developments with Barratt collaboration

In the Village Developments, which include up to 3,000 homes across tenures, new phases of homes were released for sale during the year at Bertha Park and Elgin South. There was also a continued expansion of amenities and strengthening of community engagement across all the Village developments, enabling the local communities to become more established.

A key milestone was the signing of a strategic collaboration agreement with Barratt Developments (BDEV.L) for the development of the Group's Durieshill site, to create a new village, spanning almost 600 acres, near Stirling (see Progressive note, 3 June). The development has planning in place for 3,000 private and affordable homes alongside new schools, local shops and other business opportunities, community woodlands and greenspace. The Group completed a land sale to Barratt during the year for an initial 34 acres of land at the site for £10m. Separately, over the coming years, Barratt will receive land at the site in exchange for providing and funding the major infrastructure development for the entire site. This agreement will accelerate the development of the site while eliminating the Group's need to tie up capital over a multi-year period.

New estimates point to further growth

Our estimates, potentially conservative at this point, given the improving market backdrop, are for little change in revenue for FY25E, but an 11% step up in our newly introduced FY26E forecast, as new sites come on stream, and, again possibly conservative, a 2% uplift in FY27E. Our assumption is that gross margins will tick up modestly over this period.

Affordable Housing: improved contract terms support a return to growth

Decline in revenue less in Affordable Housing

The Affordable Housing business experienced a lower decline in revenue, 13%, with an 18% fall in completions and a 5.8% rise in average selling price. This mainly reflected a change in approach by the Scottish Government. During the year, the Group recommenced actively engaging with affordable housing providers. This was a result of the Scottish Government increasing the affordable housing investment benchmarks and a reduction in levels of cost price inflation of both labour and materials, which enabled housing associations to increase the price of affordable housing contracts. (In FY23 the business went into loss and revenue had fallen by 16% as it paused entering into new affordable-only contracts in response to the previous unchanged benchmarks, amid rising input costs). Legacy affordable contracts had depressed the margins in the business, but these are now all complete.

Improved contract terms

Affordable housing received "encouraging demand" during the year, signing contracts totalling over £50m for delivery during FY 2024 and beyond. These feature more equitable terms, such as shorter-term contract durations and, given the lower cost price inflation dynamics noted above, allow more certainty on margins.

We believe the fundamental of the Affordable Housing business remain strong, given the chronic shortage of good quality homes across Scotland. Financially, affordable housing offers high revenue visibility with low capital exposure and strong cash flow dynamics, offering strong ROCE characteristics.

Our revenue estimates for FY25E are unchanged, with a 38% increase to just over £65m, reflecting both volume and price increases under the new contracts. Thereafter, we have prudently assumed no change to either volumes or prices, and with margins returning to historical levels.

Contract Housing: rebound expected in FY27E

Contract Housing was hit by rent regulations

The Contract Housing business provides development services to third party private organisations and receives revenue based on costs incurred plus fixed mark up. To date, this has largely consisted of private, private rented sector (PRS), affordable housing and other homes and services provided to Bertha Park Limited. The 24 homes completed during the year (FY23: 107) comprised 10 private homes, 13 affordable homes and one PRS home at Bertha Park. The reduction reflects no new phases of private housing being released until the end of the year and the contribution to 2023 of delivery under the Group's PRS contract. As previously reported, Springfield's strategy to expand PRS activity was put on hold following the introduction of rent control by the Scottish Government in FY23. While the national rent cap has since been lifted, the publication of a Housing Bill proposing the potential for local rent setting has meant that PRS investors are not committing to projects in Scotland.

We have not assumed any change in our FY25E revenue estimate of £7.9m, which we assume will hold steady for FY26E, but forecast a marked increase to £13.0m in FY27E as PRS revives and other opportunities emerge. Although the Parliament is still advocating rent controls, we understand ministers may be taking a more pragmatic approach to PRS/build-to-rent (BTR), given the steep rise in private rents in the country and the need to attract private investment to increase housing supply (Figure 5).

Land sales drove debt reduction; now supporting growth

Still one of the most valuable land banks in Scotland in spite of land sales

Total revenue of £28.1m was generated by profitable land sales in FY24 (FY23: £3.7m) as part of the Group's strategy of reducing net bank debt. The high quality land bank comprises 5,593 owned plots, 88% with planning permission "secured at an attractive cost per plot" and a further strategic landbank of 31,471 plots (FY23: 6,712 and 32,142 respectively.

We are expecting a reduced level of land sales as the Group has significantly reduced its net bank debt and we see significant opportunities, especially in the Highlands. Springfield continues to have one of the largest land banks in Scotland, in key locations across the country. This includes across the North of Scotland where it is set to benefit from the expected sharp increase in housing demand to support the delivery of renewable infrastructure projects, such as the Inverness and Cromarty Firth Green Freeport (page 9) and Scottish & Southern Energy Networks' powerline (page 10).

Strong sales recovery since 2020 boosted by innovative model

Stronger growth than most large UK housebuilders; similarities in longstanding model with Vistry's new strategy

Springfield's revenue has grown by 23% since 2021 despite challenges of rising interest rates and cost of living pressures. By comparison, total revenue from the five of the top six UK quoted housebuilders (Barratt, Persimmon, Taylor Wimpey, Bellway and Redrow – now part of Barratt) has only increased by 10% over the same three year period (to their latest reported year-ends).

Vistry Group has taken a different approach to its closest peer group, focusing on the asset-light partnership model. We believe there have been elements of Springfield's multi-tenure approach that pre-dates Vistry's – including affordable housing provision over and above S.75 (the Scottish equivalent of S.106) commitments and the Contracting business model. We intend to focus further on this in forthcoming notes.

Figure 1: Divisional revenue analysis

Year-end May (£m)	FY22	H1 23	H2 23	FY23	H1 24	H2 24	FY24	FY25E	FY26E	FY27E
Private Housing										
Completions	712	429	437	866	279	305	584	570	650	670
YoY change (%)	*27.4%*	*118%*	*-15.1%*	*21.6%*	*-35.0%*	*-30.2%*	*-32.6%*	*-2.4%*	*14.0%*	*3.1%*
ASP (£000)	245.0	276.5	308.3	292.6	314.2	318.2	316.3	325.8	316.0	312.8
YoY change (%)	*-1.2%*	*15.3%*	*24.8%*	*19.4%*	*13.6%*	*3.2%*	*8.1%*	*3.0%*	*-3.0%*	*-1.0%*
Revenue	174.4	118.6	134.7	253.4	87.7	97.1	184.7	185.6	205.2	209.5
Affordable Housing										
Completions	405	175	153	328	144	126	270	325	325	325
YoY change (%)	*11.6%*	*-14.2%*	*-23.9%*	*-19.0%*	*-17.7%*	*-17.6%*	*-17.7%*	*20.4%*	*0.0%*	*0.0%*
ASP (£000)	158.6	159.1	170.5	164.4	176.8	170.8	174.0	200.2	200.2	200.2
YoY change (%)	*8.8%*	*2.5%*	*5.2%*	*3.6%*	*11.1%*	*0.2%*	*5.8%*	*15.1%*	*0.0%*	*0.0%*
Revenue	64.3	27.8	26.1	53.9	25.5	21.5	47.0	65.1	65.1	65.1
Contract Housing										
Completions	125	69	38	107	9	15	24	30	30	60
YoY change (%)	*145.1%*	*19.0%*	*-43.3%*	*-14.4%*	*-87.0%*	*-60.5%*	*-77.6%*	*25.0%*	*0.0%*	*100.0%*
ASP (£000)	132.0	154.1	238.1	183.9	206.9	208.9	208.1	263.3	263.3	217.2
YoY change (%)	*-17.3%*	*19.0%*	*77.6%*	*39.4%*	*34.2%*	*-12.3%*	*13.2%*	*26.5%*	*0.0%*	*-17.5%*
Revenue	16.5	10.6	9.0	19.7	1.9	3.1	5.0	7.9	7.9	13.0
Total completions	1,242	673	628	1,301	432	446	878	925	1,005	1,055
YoY change (%)	*27.6%*	*46.6%*	*-19.8%*	*4.8%*	*-35.8%*	*-29.0%*	*-32.5%*	*5.3%*	*8.6%*	*5.0%*
Total ASP (£000)	205.5	233.4	270.5	251.3	266.2	272.9	269.6	279.6	276.9	272.7
YoY change (%)	*0.1%*	*24.0%*	*25.5%*	*22.3%*	*14.0%*	*0.9%*	*7.3%*	*3.7%*	*-0.9%*	*-1.5%*
Land sales, other	1.9	4.8	0.3	5.2	6.7	23.1	29.8	13.0	8.0	4.0
Total revenue	**257.1**	**161.9**	**170.2**	**332.1**	**121.7**	**144.8**	**266.5**	**271.6**	**286.2**	**291.6**
YoY change (%)	*18.6%*	*85.6%*	*0.2%*	*29.2%*	*-24.9%*	*-14.9%*	*-19.8%*	*1.9%*	*5.4%*	*1.9%*

Source: Company Information and Progressive Equity Research estimates

Figure 2: P&L, per share data

Year-end May (£m)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Group revenue	**140.7**	**190.8**	**143.5**	**216.7**	**257.1**	**332.1**	**266.5**	**271.6**	**286.2**	**291.6**
Gross profit	**22.1**	**34.3**	**27.4**	**38.8**	**43.1**	**48.0**	**43.4**	**45.0**	**48.9**	**50.6**
Admin, other income	(11.5)	(17.3)	(16.1)	(19.0)	(20.6)	(27.3)	(25.5)	(26.0)	(26.7)	(27.5)
JVs	0.0	0.6	0.9	-	-	-	-	-	-	-
Operating profit	**10.7**	**17.6**	**12.1**	**19.8**	**22.6**	**20.7**	**17.9**	**19.0**	**22.3**	**23.1**
Exceptionals	(0.6)	(0.6)	(0.4)	(0.6)	(1.1)	(0.7)	(0.9)	-	-	-
Interest	(0.9)	(1.1)	(2.0)	(1.2)	(1.8)	(4.7)	(7.3)	(5.9)	(5.3)	(5.1)
PBT, reported	**9.2**	**16.0**	**9.7**	**17.9**	**19.7**	**15.3**	**9.7**	**13.1**	**17.0**	**18.0**
U-lying tax rate (%)	*19.0*	*18.8*	*20.6*	*22.6*	*18.2*	*20.5*	*20.9*	*25.0*	*25.0*	*25.0*
Reported tax	(1.9)	(3.1)	(2.1)	(4.2)	(3.7)	(3.2)	(2.1)	(3.3)	(4.2)	(4.5)
Net attrib. profit	**7.4**	**12.8**	**7.6**	**13.7**	**16.1**	**12.1**	**7.5**	**9.8**	**12.7**	**13.5**
PBT pre-exc	**9.8**	**16.5**	**10.2**	**18.5**	**20.8**	**16.0**	**10.6**	**13.1**	**17.0**	**18.0**
EBITDA	**11.7**	**18.6**	**13.6**	**21.9**	**24.3**	**22.9**	**20.5**	**21.6**	**24.9**	**25.7**
Wtd shares (million)	73.4	96.3	96.9	99.4	109.0	118.5	118.6	118.6	118.6	118.6
Dil shares (million)	73.6	97.3	97.9	101.2	111.8	122.0	123.4	122.1	122.1	122.1
EPS, basic (p)	10.0	13.3	7.9	13.8	14.7	10.2	6.4	8.3	10.7	11.4
EPS, dil, pre-exc (p)	**10.7**	**13.8**	**8.2**	**14.2**	**15.2**	**10.4**	**6.8**	**8.1**	**10.4**	**11.0**
DPS - declared (p)	**3.7**	**4.4**	**2.0**	**5.75**	**6.2**	**-**	**1.0**	**1.5**	**2.5**	**4.5**
Dividend cover (x)	2.9	3.2	4.2	2.5	2.5	na	7.0	5.5	4.3	2.5
FCFPS (p)	14.8	11.2	(32.8)	51.8	12.7	1.2	30.6	6.0	10.1	20.0
NAV (p)	82.0	91.9	98.0	109.0	121.2	127.1	133.3	140.1	149.0	157.2
TNAV (p)	81.4	90.2	96.3	107.4	116.3	122.1	128.5	135.5	144.6	153.1

Source: Company Information and Progressive Equity Research estimates

Figure 3: Adjusted cashflow and summary balance sheet

Year-end May (£m)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Adjusted cash flow statement										
Group op profit	10.1	16.5	10.8	19.1	21.5	20.0	17.0	19.0	22.3	23.1
Depreciation	1.1	1.6	2.4	2.2	1.7	2.3	2.3	2.3	2.3	2.3
Intangible amort.	-	-	0.0	-	-	0.3	0.3	0.3	0.3	0.3
Other	0.2	0.6	2.4	0.5	12.4	0.1	(0.2)	-	-	-
Working cap changes	3.1	(2.7)	(42.2)	35.2	(16.5)	(14.5)	25.1	(5.0)	(3.0)	8.0
Operating cash flow	**14.4**	**16.0**	**(26.6)**	**57.0**	**19.1**	**8.1**	**44.5**	**16.6**	**21.9**	**33.7**
Capex	(0.7)	(1.2)	(0.5)	0.0	(0.1)	(0.1)	0.1	(0.3)	(0.3)	(0.3)
Interest	(1.1)	(1.2)	(1.6)	(1.3)	(1.6)	(3.8)	(6.5)	(5.9)	(5.3)	(5.1)
Tax	(1.7)	(2.9)	(3.1)	(4.2)	(3.5)	(2.9)	(1.8)	(3.3)	(4.2)	(4.5)
Free cashflow	**10.9**	**10.7**	**(31.8)**	**51.5**	**13.8**	**1.4**	**36.2**	**7.1**	**12.0**	**23.8**
M&A, investments	(15.3)	(20.9)	(3.2)	0.3	(44.0)	(21.4)	(12.1)	(3.0)	(7.0)	(17.0)
Dividends - paid	(0.8)	(3.8)	(3.1)	(3.3)	(6.3)	(5.6)	-	(1.8)	(2.2)	(3.8)
Financing	8.9	4.9	36.5	(34.2)	37.1	18.0	(18.1)	-	-	-
Net cashflow	**3.7**	**(9.0)**	**(1.5)**	**14.3**	**0.6**	**(7.5)**	**6.0**	**2.3**	**2.9**	**3.0**
Summary balance sheet										
Intangible fixed assets	0.6	1.6	1.6	1.6	5.8	6.0	5.7	5.4	5.2	4.9
Tangible fixed assets	4.5	5.0	6.3	4.5	5.8	7.8	7.2	5.2	3.1	1.1
Investments, other FA	1.9	2.4	5.3	6.0	8.3	6.8	6.8	6.8	6.8	6.8
Working capital	90.8	125.1	162.8	128.8	182.9	244.4	221.0	226.0	229.0	221.0
Provisions, other	(3.5)	(16.0)	(9.3)	(8.9)	(21.2)	(46.7)	(37.0)	(34.0)	(27.0)	(10.0)
Net cash/(debt)*	(15.3)	(29.6)	(70.9)	(20.8)	(38.1)	(67.7)	(45.4)	(43.1)	(40.2)	(37.2)
Net assets	**79.0**	**88.6**	**95.9**	**111.2**	**143.5**	**150.6**	**158.2**	**166.3**	**176.8**	**186.6**
** Net cash, pre-leases*				*(18.2)*	*(34.1)*	*(61.8)*	*(39.9)*	*(37.6)*	*(34.7)*	*(31.7)*

Source: Company Information and Progressive Equity Research estimates

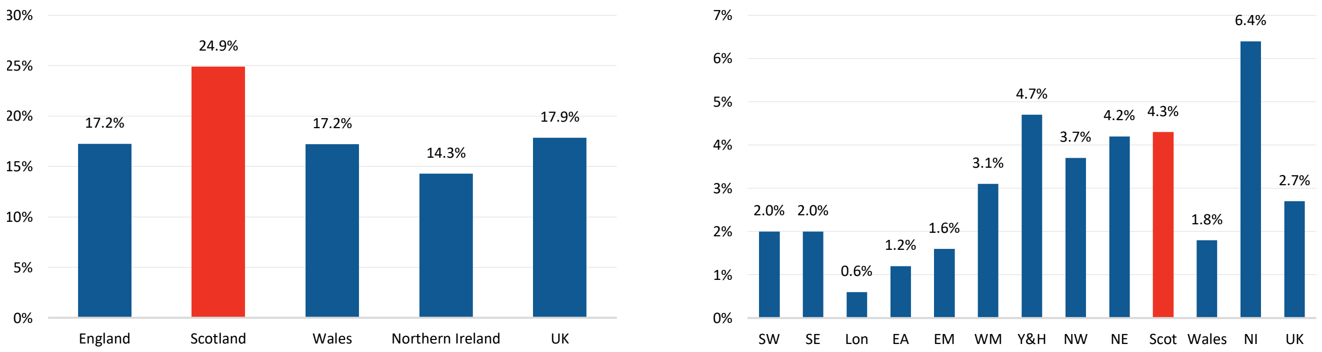
More evidence of recovering market north of border

Early evidence of volume growth after relatively resilient pricing

Scotland has been one of the more resilient markets in the UK over the past year; more evidence now appears to support an improvement in volumes. It is hard to judge with great certainty regional volume trends amid a change in the overall market and with activity levels being more seasonal than pricing. However, latest data appears to support the positive tone in Springfield's result.

Total transactions, including cash as well as mortgaged, in the three months to July rose by 25% in Scotland compared to the previous three months, according to ONS data, the most comprehensive source of data. This is the highest of the four home nations and compares to +18% for the UK as a whole (Figure 4, LHS). ONS house price data, also relating to all purchases, showed Scotland rising by 4.3% Y/Y in July, the third strongest market and compared with a 2.7% increase for the UK (RHS).

Figure 4: Housing transactions, May – Jul 24, Y/Y chg (%) – LHS; House prices, Jul, Y/Y chg (%) – RHS

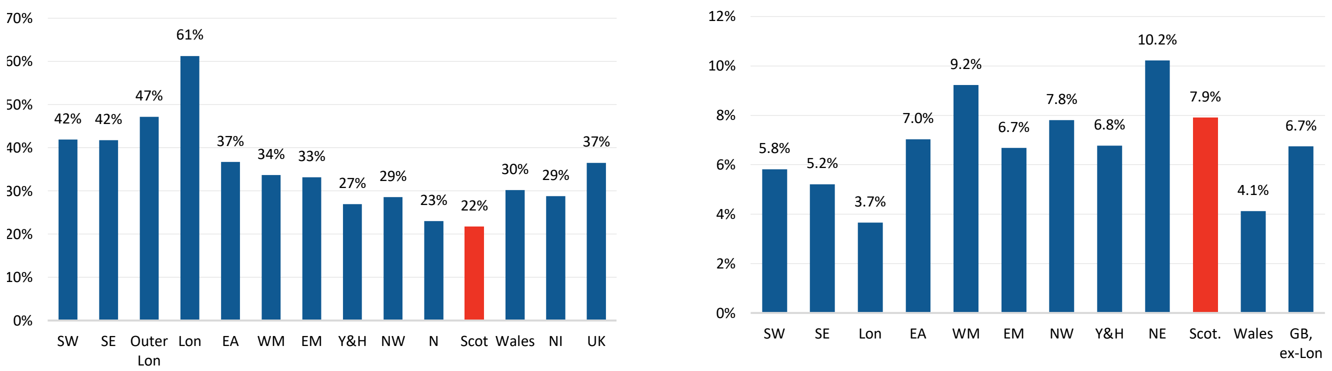


Source: ONS

Affordability the most attractive in UK; rental strength should tempt back build-to-rent investors

Notwithstanding relatively strong pricing in Scotland, the country is the most affordable across the UK in terms of prices paid by first time buyers (FTB) relative to take home pay (Figure 5, LHS). It has been widely reported that that Scotland has seen the fastest rises in newly agreed rents since the introduction of rent controls in 2022. This has slowed slightly in Q2, but remains strong and, as with sales, affordability is better than most of the UK.

Figure 5: FTB mortgage payments/take home pay, Q2 24 (%) – LHS; Regional rents, Y/Y chg, Q2 24 (%)



Source: Nationwide (LHS); Rightmove

Northern exposure rewarded by green mega-projects

Tulloch acquisition boosted land holdings in growth region about to gain further boost

Springfield's acquisition in December 2021 of Tulloch Homes appeared even then to be a shrewd move. The company had a strong presence and land holdings in the Inverness area, which had been one of Scotland's fastest growing areas before and since being granted city status in 2000. Since then, the population of what is now Scotland's fifth city has expanded by 17%, supported by growth in new industries including life sciences and renewables.

A further boost to growth will come from the establishment of the Inverness and Cromarty Firth Green Freeport, which is planned to generate around £3bn investment in the highlands over the next 25 years, in a region where Tulloch and Springfield have significant land holdings. However, in advance of that, a major opportunity for the region will come from an unlikely source, the construction of a new 120 mile power line to the North Sea.

Green freeport: creating 10,000 new jobs and housing needs

Springfield owns multiple sites within commuting distance of the five ports

The Green Freeport will cover an area of 520 ha around the Moray and Cromarty Firths, which had been major centres for the North Sea oil & gas industries since the 1970s and will now place the Highlands at the heart of Scotland's commitment to becoming a net-zero economy. The project will generate around £3bn investment in the region over the next 25 years and is intended to create 10,000 job opportunities.

The Freeport will comprise a 'free trade zone' encompassing five ports (Figure 6) offering tax advantages for investment, with a focus on the advanced manufacturing of low carbon technologies – including offshore wind, oil & gas decarbonisation and hydrogen production – supported by investments in research & development and workforce training.

We see this as a significant opportunity for Springfield. It owns a large number of sites with planning, with scope for many homes within commuting range of the ports. In addition, the increased demand provides opportunities for sites in Springfield's control which are not yet in local development plans. The Scottish Government is introducing new powers through 'Masterplan Consent Areas' and it is anticipated that it has the Freeport under consideration for this.

Figure 6: Inverness & Cromarty Firth Green Freeport map

Source: Greenfreeport.scot, Progressive Equity Research

Powerline: infrastructure link stimulates housing provision

Unprecedented commitment on a major infrastructure project will provide housing for workforce, which will then be transferred to communities

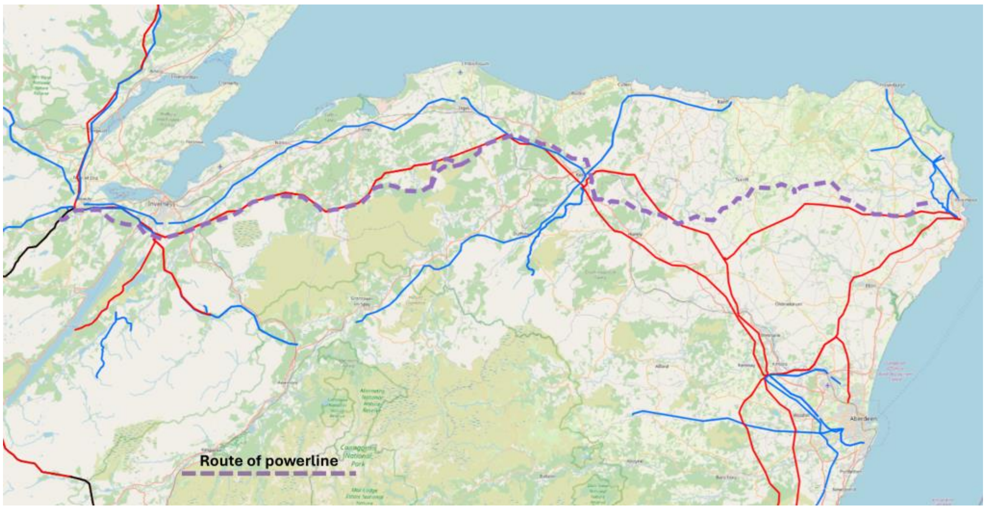
An earlier opportunity is the substantial investment being made by Scottish and Southern Energy Networks' (SSEN) to carry renewable energy from windfarm and other sources to users across the UK. This is backed by UK government commitments towards net zero and energy security. One of the first projects is investment in a new powerline from Peterhead in Aberdeenshire to Beauly just outside of Inverness (Figure 7). Balfour Beatty has been contracted to deliver the power lines and BAM Nuttall the sub stations. In what we see as a remarkable departure for major infrastructure projects, SSEN is committed to delivering permanent housing as part of the solution for the thousands of workers required over a five-year build period, which is scheduled to start in January 2026.

SSEN aims to leave a lasting legacy for the local communities, including the delivery of affordable housing that will be left behind for local housing providers or in the provision of local infrastructure. We believe this could provide a marker for future providers of major infrastructure projects – which often require new workforces to be brought into areas under construction and can be disruptive for local communities. SSEN is also committed to the welfare of its workforce – housing workers in temporary accommodation has been the norm in past projects we have observed.

Future opportunities as power network is extended

This is expected to be the first of several major opportunities as work on SSEN's lines continues from the north into the central belt, including through Dundee, Perth and Stirling – where Springfield has major landholdings, including in its village developments.

Figure 7: Planned route of powerline



Source: SSEN, Progressive Equity Research

Springfield in brief: unique model in resilient market

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

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 declared a 'housing emergency' and remains committed to a target 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.

Financial Summary: Springfield Properties

Year end: May (£m unless shown)

PROFIT & LOSS	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Revenue	332.1	266.5	271.6	286.2	291.6
Adj EBITDA	23.2	20.5	21.6	24.9	25.7
Adj EBIT	20.7	17.9	19.0	22.3	23.1
Reported PBT	15.3	9.7	13.1	17.0	18.0
Fully Adj PBT	16.0	10.6	13.1	17.0	18.0
NOPAT	16.4	14.2	14.3	16.7	17.3
Reported EPS (p)	10.2	6.4	8.3	10.7	11.4
Fully Adj EPS (p)	10.4	6.8	8.1	10.4	11.0
Dividend per share (p)	0.0	1.0	1.5	2.5	4.5
CASH FLOW & BALANCE SHEET	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Operating cash flow	8.1	44.5	16.6	21.9	33.7
Free Cash flow	1.4	36.2	7.1	12.0	23.8
FCF per share (p)	1.2	30.6	6.0	10.1	20.0
Acquisitions	(21.4)	(12.1)	(3.0)	(7.0)	(17.0)
Disposals					
Net cash flow	(7.5)	6.0	2.3	2.9	3.0
Overdrafts / borrowings					
Cash & equivalents					
Net (Debt)/Cash, post-IFRS 16	(67.7)	(45.4)	(43.1)	(40.2)	(37.2)
Net (Debt)/Cash, pre-IFRS 16	(61.8)	(39.9)	(37.6)	(34.7)	(31.7)
NAV AND RETURNS	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Net asset value	150.6	158.2	166.3	176.8	186.6
NAV/share (p)	127.1	133.3	140.1	149.0	157.2
Net Tangible Asset Value	144.7	152.5	160.8	171.6	181.6
NTAV/share (p)	122.1	128.5	135.5	144.6	153.1
Average equity	135.1	150.8	158.4	167.1	176.5
Post-tax ROE (%)	8.9%	5.0%	6.2%	7.6%	7.6%
METRICS	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Revenue growth	29.2%	(19.8%)	1.9%	5.4%	1.9%
Adj EBITDA growth	(4.5%)	(11.6%)	5.4%	15.2%	3.1%
Adj EBIT growth	(8.4%)	(13.4%)	6.2%	17.2%	3.5%
Adj PBT growth	(23.1%)	(34.0%)	24.1%	29.6%	5.8%
Adj EPS growth	(31.6%)	(35.1%)	18.9%	29.6%	5.8%
Dividend growth	(100.0%)	N/A	50.0%	66.7%	80.0%
Adj EBIT margins	6.2%	6.7%	7.0%	7.8%	7.9%
VALUATION	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EV/Sales (x)	0.5	0.6	0.6	0.6	0.6
EV/EBITDA (x)	7.1	8.0	7.6	6.6	6.4
PER (x)	10.0	15.4	13.0	10.0	9.5
Dividend yield (%)	N/A	1.0%	1.4%	2.4%	4.3%
P/NAV (x)	0.82	0.78	0.75	0.70	0.66
FCF yield	1.1%	29.2%	5.8%	9.7%	19.2%

Source: Company information and Progressive Equity Research estimates

Progressive EQUITY RESEARCH

17 September 2024

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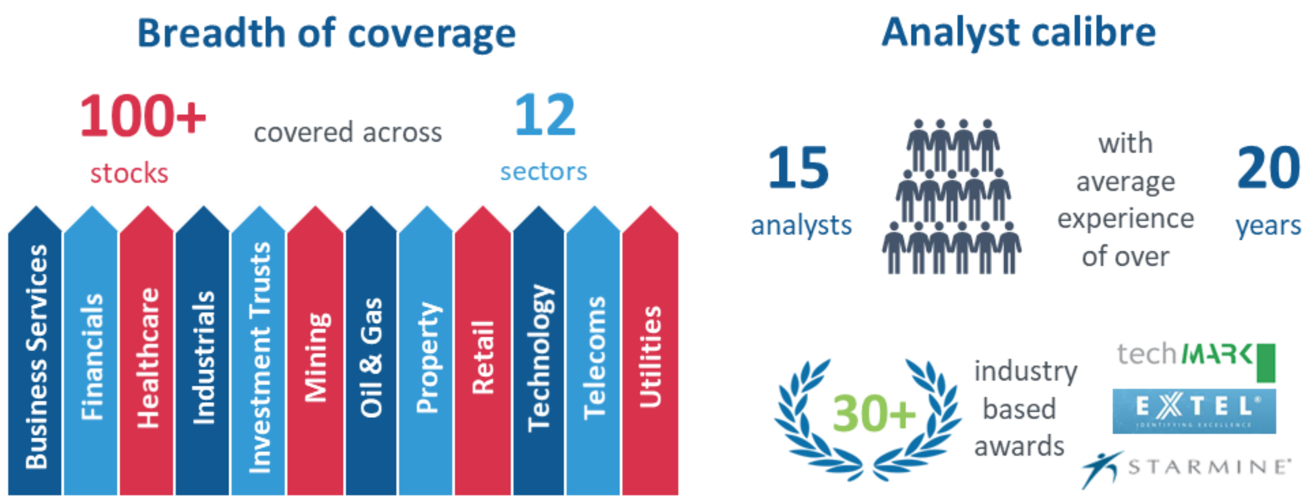

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