

SPRINGFIELD PROPERTIES

HOME CONSTRUCTION

10 December 2024

SPR.L

89p

Market Cap: £105.6m

SHARE PRICE (p)



12m high/low

111p/74p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(63.6)m (at 30/11/24)
Enterprise value	£169.2m
Index/market	AIM
Next news	HY results, mid-Feb
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

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Outlook confirmed as buyer confidence returns

Springfield 'remains confident in meeting market expectations for FY25' in its trading update for the first half to 30 November, highlighting 'an improvement in private housing reservation rates as homebuyer confidence returned' during the period and, looking forward to FY26E, increased funding for affordable housing announced in last week's Scottish Budget. We maintain our estimates for the three-year forecast period.

- FY25E guidance confirmed.** Springfield 'remains confident in meeting market expectations for FY25', with affordable housing gross margins improving and debt falling significantly on a Y/Y basis. We are not changing any aspects of our forecasts for FY25E-27E and will assess the constituent parts at the HY results in mid-February.
- Debt declines Y/Y.** Net bank debt at 30 November was £63.6m (30 November 2023: £93.4m; 31 May 2024: £39.9m). This reflects the strategic action undertaken in FY24 to reduce debt and a sustained focus on cost management. The increase in debt over the six-month period reflects the usual seasonal working capital cycle. Further reductions are possible: 'The Group continues to consider opportunities for profitable land sales of sites that do not impact its near-term development pipeline.'
- Private sales gather pace.** There have been encouraging signs from the private market: 'The Group entered the new financial year experiencing an improvement in private reservation rates as homebuyer confidence returned. This momentum was sustained through the first half'. There was an increase in private reservations in the first half compared with H1 2024, while selling prices 'have remained resilient'.
- Government's affordable housing boost.** The Group completed its legacy contracts at the end of the prior year, enabling 'a significant improvement in gross margin, which returned to double-digits'. There has been some hesitancy among affordable housing providers to commence new projects due to uncertainty around availability of public funding, leading to some projects in the pipeline starting slightly later than anticipated. However, with the Scottish Budget last week allocating £768m to affordable housing for 2025/26, the Group expects providers to now proceed with new contracts. In addition, the Scottish Government funding for affordable housing supply in 2025/26 is substantially higher than in the current year, which the Group expects to drive further growth in this market.

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)	8.5x	13.1x	11.0x	8.5x	8.1x
Dividend yield (%)	N/A	1.1%	1.7%	2.8%	5.1%
EV/EBITDA (x)	7.3x	8.3x	7.8x	6.8x	6.6x

Source: Company Information and Progressive Equity Research estimates.

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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 founded as a housebuilder by current chairman Sandy Adam in the 1990s and 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. The Scottish Government has declared a 'housing emergency' and remains committed to a target build 110,000 affordable homes by 2031-32, reinforced by the budget announcement for financial year 2025-26. House prices in Scotland are more affordable in relation to incomes than in almost any other UK region. While the introduction of rent caps has recently deterred investment into Build to Rent, latest Ministerial announcements on the forthcoming Housing Bill suggest that the future policy environment could attract PRS investors back to Scotland.
- **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, Elgin and Stirling, with the Group announcing in May 2024 that Durieshill in Stirling would be taken forward in partnership with Barratt. 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.
- **Highland opportunities.** Two huge national investments – the £3bn Inverness & Cromarty Firth 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.
- **Evolving ESG credentials.** Springfield has 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)

	2023	2024	2025E	2026E	2027E
PROFIT & LOSS					
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					
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					
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					
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					
EV/Sales (x)	0.5	0.6	0.6	0.6	0.6
EV/EBITDA (x)	7.3	8.3	7.8	6.8	6.6
PER (x)	8.5	13.1	11.0	8.5	8.1
Dividend yield (%)	N/A	1.1%	1.7%	2.8%	5.1%
P/NAV (x)	0.70	0.67	0.64	0.60	0.57
FCF yield	1.3%	34.3%	6.8%	11.4%	22.5%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

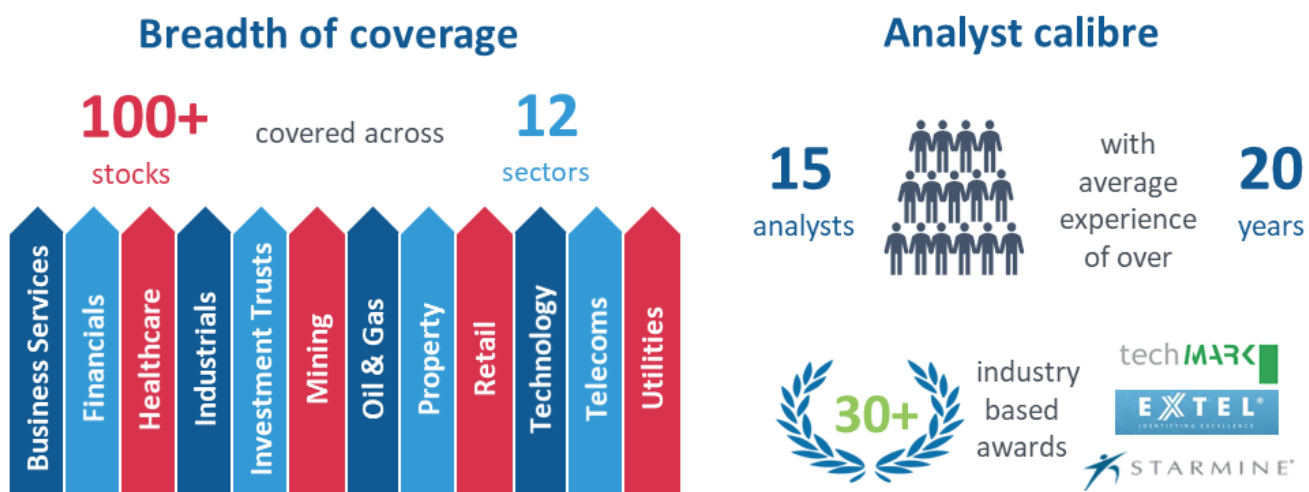
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