# Springfield Properties

An undervalued, high quality growth story

James Tetley

**July 2023**

Hannah Crowe

# Springfield Properties

19th July 2023

## An undervalued, high quality growth story

**Springfield Properties is one of Scotland's leading housebuilders. It has an enviable track record of growth and profitability and a reputation for building high quality homes in attractive locations. Whilst market headwinds have increased, in our view the 50% decline in Springfield's share price over the past year is significantly overdone. The business has navigated previous cyclical downturns impressively and has emerged strongly from them. We initiate coverage with confidence in the Group's long term growth prospects and see scope for a material re-rating of the shares as investor sentiment improves. Our Fair Value is 110p, based on a sector rating of 0.9x Price/ Book.**

### Excellent long term track record

Springfield has an excellent track record of growth, typically doubling in size every five years through a combination of organic growth and M&A. This growth trajectory has been maintained in the years since IPO in 2017 as the Group has added to its high-quality brand portfolio and strengthened its landbank in attractive locations through four acquisitions. Springfield has one of the largest landbanks in Scotland (13+ years of supply) with a GDV of c£3.5bn. Under the leadership of a highly experienced and ambitious management team, we expect this to support continued growth over the medium term.

### Managing market headwinds

Market conditions have undoubtedly become more challenging in recent months as rising interest rates have impacted on mortgage affordability and customer confidence. Barratt addressed this in their trading update last week, as did Springfield in their update this morning, which confirmed an in-line outturn to FY23, with some words of caution over the near-term market outlook.

### Share price offers deep value and recovery potential

Whilst sector commentary is likely to remain cautious in the near term, we expect investor sentiment to improve once there are clear signs that inflation is easing and interest rate rises are coming to an end. We initiate coverage with a **Fair Value per share of 110p**, which is based on a sector multiple of 0.9x Price/ Book. This represents c.70% upside to the current share price.

**Key Financials & Valuation metrics**

| Year-end May, £m | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
|---|---|---|---|---|---|---|
| Sales | 190.8 | 144.4 | 216.7 | 257.1 | 333.5 | 292.2 |
| EBITDA | 18.7 | 14.5 | 22.0 | 24.4 | 23.3 | 25.8 |
| Adjusted PBT | 16.0 | 10.2 | 20.7 | 22.7 | 16.1 | 17.6 |
| FD EPS (p) | 13.2 | 8.2 | 14.1 | 15.2 | 10.7 | 10.8 |
| DPS (p) | 4.4 | 2.0 | 5.8 | 6.2 | 3.0 | 3.5 |
| Net Cash/(Debt)* | -29.6 | -70.9 | -20.8 | -38.1 | -68.0 | -67.1 |
| Net Cash/(Debt)** | -27.9 | -67.5 | -18.2 | -34.1 | -62.1 | -61.3 |
| Net Debt**/EBITDA | 1.6x | 4.9x | 0.9x | 1.6x | 2.9x | 2.6x |
| P/E | 4.8x | 7.8x | 4.5x | 4.2x | 6.0x | 5.9x |
| EV/EBITDA | 0.0x | 10.1x | 4.4x | 4.7x | 6.2x | 5.6x |
| Price/ Book | 0.7x | 0.6x | 0.6x | 0.5x | 0.5x | 0.5x |
| Dividend yield | 6.9% | 3.1% | 9.0% | 9.7% | 4.7% | 5.5% |
| FCF yield | 17.4% | -51.3% | 80.9% | 19.6% | -0.4% | 23.7% |

*Source: ED analysis, all numbers IFRS 16 basis * including leases ** excluding lease*

**Company Data**

| | |
|---|---|
| EPIC | SPR.L |
| Price (last close) | 64p |
| 52 weeks Hi/Lo | 134p/64p |
| Market cap | £75.6m |
| ED Fair Value / share | 110p |
| Proforma net cash (debt) | (£68.0m) |
| Avg. daily volume: | 40,000 |

**Share Price, p**


*Source: AVDFN*

**Description**

Springfield Properties is one of Scotland's leading housebuilders (top three by volume). It has an enviable track record of growth and profitability and a reputation for building high quality homes in attractive locations. It has multiple awards for the quality of its homes and innovation.


**James Tetley (Analyst)**
0207 065 2690
james.tetley@equitydevelopment.co.uk

**Hannah Crowe**
0207 065 2692
hannah@equitydevelopment.co.uk

## Contents


Introduction to Springfield Properties ... 3

Company overview ... 4
- Selective approach to M&A ... 5

A reputation for quality and placemaking ... 6
- One of the largest landbanks in Scotland ... 6

Excellent ESG credentials ... 7
- *"Springfield has always had sustainability at its core"* ... 7

The Housing Market in Scotland ... 9
- New housebuilding activity ... 9
- Affordable housing – supply impacted by inflationary pressures ... 10
- Wider housing market activity (new build and existing homes) ... 11
- A word on the Scottish Missives System ... 12

Springfield's positioning ... 13

House prices and affordability trends in Scotland ... 15

Recent market pressures ... 17

Latest commentary from sector peers ... 19

Springfield's latest trading update (19th July '23) ... 20
- Divisional market commentary ... 20

Financial KPIs – Volume, ASP and Margins ... 21
- Volumes trends – pause to reflect more challenging market ... 21
- Average selling price – stable pricing, benefiting from site mix ... 22
- Gross margin – Inflation impact seen in FY'23, recovery FY'24 ... 23

Financials and Forecasts ... 24
- Other key income statement items ... 24
- Working capital investment ... 25
- Deferred consideration ... 25
- Significant asset backing ... 26

Valuation – discount to book value is compelling ... 27

Housebuilding sector share price performance ... 28

Board of Directors ... 30

## Web and social media

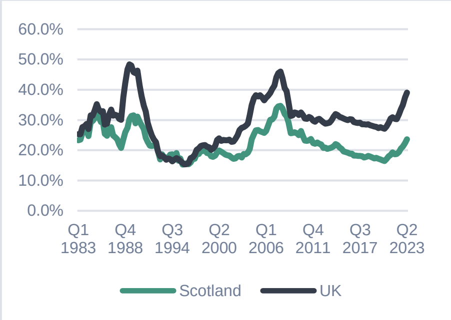
www.thespringfieldgroup.co.uk

Springfield Properties

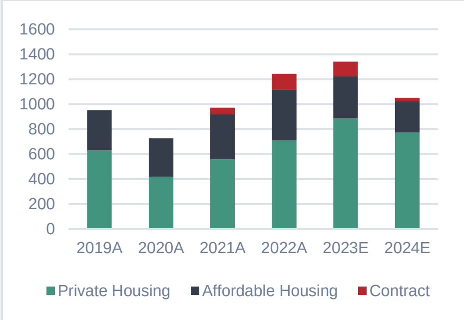
# Introduction to Springfield Properties

Springfield Properties builds high quality homes in attractive locations in Scotland. It has an excellent track record of growth, typically doubling in size every five years through a combination of organic development and M&A. It has the largest landbank in Scotland and a highly experienced and ambitious management team, both of which should support continued strong earnings growth over the medium term.

**Mortgage Payments as % of take-home pay**




**Springfield Sales Volumes**




*Source: Nationwide, Company, ED forecasts,*

Market conditions have undoubtedly become more challenging in recent months as rising interest rates have impacted on mortgage affordability and customer confidence. Whilst it is likely to take time for customer confidence to return to previous levels, we believe that investor confidence should improve more quickly once signs emerge that inflation is easing, and interest rates have peaked. In our view, the current share price offers significant value, representing just half of Springfield's book value per share.

## Investment Highlights

- A leading housebuilder in Scotland
- Excellent track record of growth
- Reputation for high quality and placemaking
- Highly experienced management team
- 13+ year land bank, c.£3.5bn GDV
- Villages represent a genuine differentiator
- Trusted partner in Affordable home provision
- History of strong cash generation

## Risk Factors

- Rising mortgage costs
- Economic pressures and risk of recession
- Inflation causing margin pressure for Affordable business
- Scottish Government support required for renewed growth in Affordable and Private Rental Sector (PRS)
- Planning delays can potentially impact timing of site activity

## Forecast Drivers

- Volume forecasts sensitive to customer confidence
- We assume c.20% reduction in homes sold in FY'24 with stable underlying pricing
- Average Selling Price (ASP) for Private homes in FY24 +7% (benefit of site mix)
- Gross margin expected to recover in FY24 following FY'23 softness in Affordable
- Overheads tightly controlled in FY'24
- We assume a return to steady growth in volume and ASP in FY25

## Valuation Overview

- Sector valuations reflect challenges over consumer confidence and uncertainty over industry forecasts
- Springfield's shares have been hit harder than all peers (trading at 6x P/E, 0.5x P/B)
- Earnings multiples are very low, but market lacking confidence to value shares on this basis
- Historic Price/ Book multiple provides confidence that significant value exists
- Our Fair Value is 110p (0.9x Price/ Book)

## Company overview

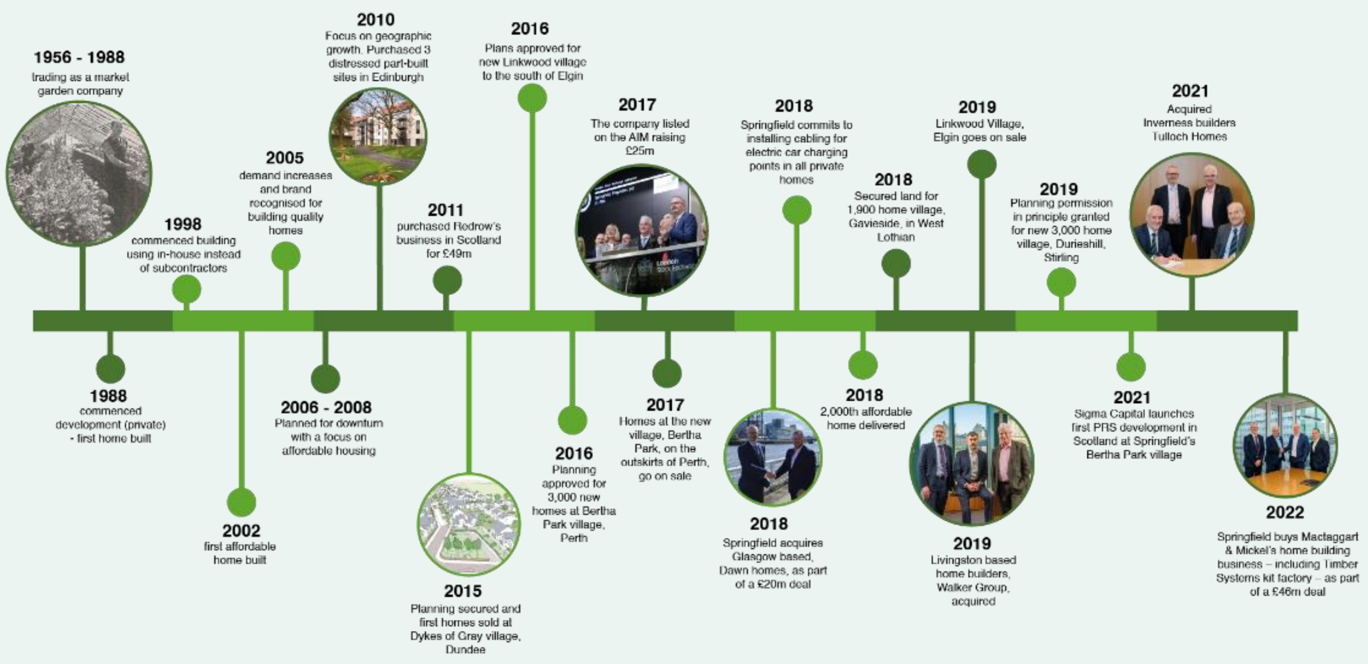
Springfield commenced housebuilding in 1988 and now builds over 1,300 homes p.a. in Scotland across private and affordable housing. It has an excellent reputation for building high quality, high specification family homes, reflected in high customer satisfaction ratings. As of November ’22, Springfield was actively building on 56 developments, typically within commuting distance to Scotland’s main towns and cities.

Springfield has one of the largest landbanks in Scotland, which includes a number of Villages. These are standalone developments, each designed to create up to 3,000 homes for 7,000 residents with attractive green space and community facilities. There are currently three Villages under development and two more within planning. The two most advanced Villages are Dykes of Gray near Dundee and Bertha Park near Perth. Springfield has delivered a number of Private Rental Sector (PRS) homes at Bertha Park in partnership with Sigma Capital Group, although PRS activity in Scotland has effectively been paused by a Scottish Government imposed rent cap in response to the cost-of-living crisis.

Springfield has strong relationships with local authorities and housing associations and has an excellent track record in affordable housing delivery. The Group has historically worked on several affordable-only housing developments with its partners, but the current inflationary environment has made this activity more difficult to manage, given the typical fixed priced structure of affordable only contracts. The recent increase in the Affordable Housing Investment Benchmark announced by the Scottish Government is encouraging and should ease viability for these projects to return (see page 20 on Springfield’s latest trading update).

Springfield listed on AIM in 2017 (at 106p per share), setting out an ambition to deliver 1,000 homes per annum over the medium term (up from 617 in FY17). This would build on a track record of doubling in size approximately every five years. This was achieved in FY22 (1,242 homes), continuing this growth trajectory.

**Springfield heritage and timeline**




*Source: Company*

## Selective approach to M&A

M&A has become a prominent feature of the company's growth over recent years. In the aftermath of the financial crisis, Springfield opportunistically acquired Redrow's Scottish business for £49m in 2011. This added 800 development plots to its portfolio on very favourable terms (10% deposit plus pay as complete thereafter). This was a transformational deal, significantly increasing the Group's scale and illustrating the Board's growth ambitions and entrepreneurship.

Since IPO, Springfield has added Dawn Homes, Walker Group, Tulloch Homes and Mactaggart & Mickel Homes. These acquisitions strengthened the Group's position in key regions of Scotland (Edinburgh, Glasgow, Inverness/ the Highlands and the Central Belt respectively). These are all well established and respected housebuilders and Springfield chose to integrate the businesses whilst retaining their strong brand identities.

**Springfield's brand portfolio**

*Source: Company*

### Acquisition summary post IPO

- June 2022 – Mactaggart & Mickel
    - 17 sites across Central Belt
    - 100-year history, focus on larger premium priced homes
    - Consideration up to £46m, in instalments, funded from existing facilities.
- December 2021 – Tulloch Homes
    - 33 sites across Inverness and Highlands
    - Consideration up to £56m (£42m up front), part funded by £22m placing at 140p.
- February 2019 – Walker Group
    - 10 sites across Edinburgh commuter belt
    - 50-year history
    - Consideration £31m (£21m up front), funded from existing facilities.
- May 2018 – Dawn Homes
    - 6 active sites across West Central Scotland/ Glasgow plus two to open in near term
    - 40-year history
    - Consideration up to £20.1m (£15.5m up front), part funded by £15m placing at 120p.

## Consistent award winner

# A reputation for quality and placemaking

Springfield regularly wins awards for the quality of its homes, innovation and customer satisfaction. It has a reputation for building high quality homes in attractive areas with excellent amenities. In customer surveys received in this financial year to date (as at the interims in Feb '23), 94% of customers reported that they would recommend the Group to a friend.

The Group's five Village developments are all in attractive locations within commuting distance of fast-growing cities. Demand for these Villages has been high, reflecting the desirability of larger family housing with local amenities in commuting distance of major cities. The success of the Villages has been recognised in industry awards including Bertha Park as Large Development of the Year (Scottish Homes Awards 2022) and Best Sustainable Development by WhatHouse? Awards.

**Bertha Park Village Development**

*Source: Company*

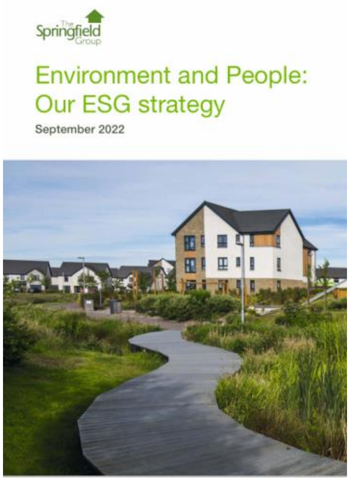
## One of the largest landbanks in Scotland

As of 30th November '22, the landbank comprised 16,975 plots of which 9,337 or 55% had planning permission in place. The Group had 56 active developments, 15 of which were added to the landbank in H1'23, replacing 10 developments, which were completed in the same period.

The landbank provides excellent visibility and security over future growth, representing 13 years of land supply at FY23 completion rates. In response to current market conditions, the Group has significantly reduced its land buying activity and is focused on realising the value of its existing land bank. In H1'23 the Group made a strategic sale of 60 plots to a national housebuilder, and it will consider further opportunities for strategic sales or land swaps where the terms and price are desirable.

## ESG strategy

### Click image for document:




***"Springfield has always had sustainability at its core"***

# Excellent ESG credentials

Springfield has a comprehensive ESG strategy, which was formally launched and documented in September 2022. The Group was already well advanced in this area as an early adopter of electric vehicle charging, air source, heat pumps and trialling road surfacing from recycled plastics.

In the last year, Springfield introduced a new Board Committee with overall responsibility for ESG. The committee is chaired by the Group CEO and has agreed a project plan and an approach to reporting on progress. The Group has written to all suppliers to raise awareness of Springfield's commitments to sustainability and to survey the supply chain with its own progress with ESG.

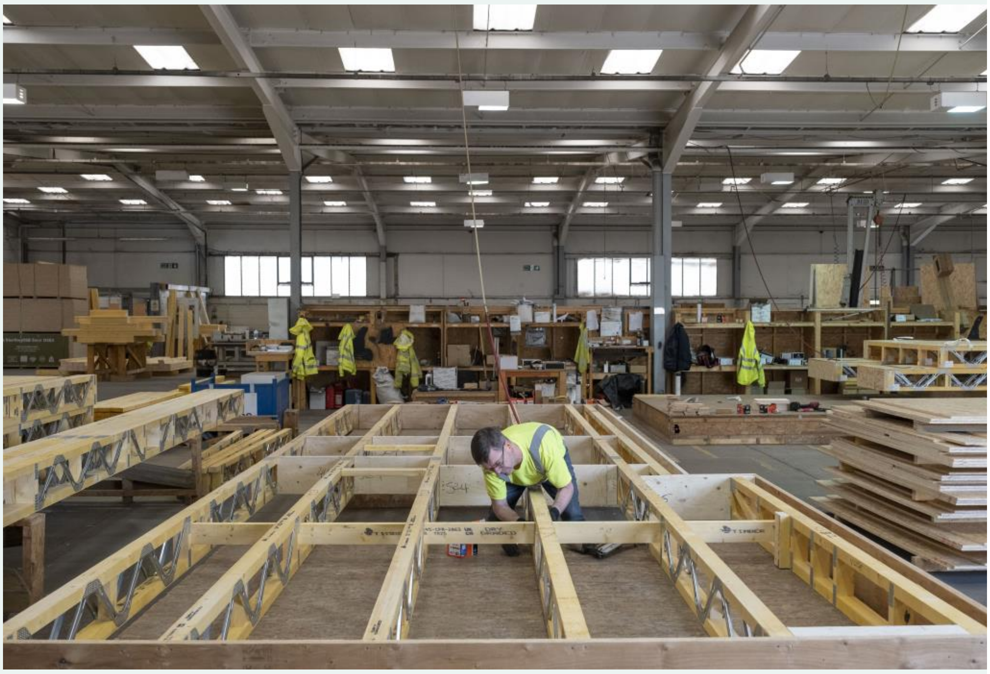
The Group recently published its first Equality, Diversity and Inclusion Policy and refreshed its Modern Slavery Statement.

Over the next five years there will be significant changes to new build homes in the UK reflecting the UK's climate change targets. These are encapsulated in the phasing in of new Part L, F & O regulations in England from June 2022, Parts L & F in late summer 2022 for Wales and Section 6 in Scotland from October 2022. Section 6 standards cover carbon emissions, fabric insulation standards, airtightness etc. Housebuilders are preparing for the phase-out of gas central heating systems from 2025 in England and Wales and 2024 in Scotland.

Springfield already uses environmentally friendly building techniques, with all homes built from timber frame construction. Springfield has two timber frame factories, the second of which came through the acquisition of Mactaggart & Mickel.

Timber frame is widely used in Scotland (much more so than in the rest of the UK) at 70% of the Scottish new build market. Timber frame can have a lower carbon footprint than traditional 'brick and block' building techniques due to the materials and use of off-site manufacture (OSM) techniques. Other potential benefits include less waste, improved transport efficiency, and more airtight components. Larger national housebuilders are increasingly now looking to increase their own timber frame output alongside brick and block to support their own environmental targets.

**Timber kit construction from own factories**



*Source: Company*

Springfield includes cabling for electric vehicles on all Springfield houses for private sale and offers a company electric car scheme for eligible employees. With gas boilers being outlawed from 2024 on new build properties, Springfield has adopted air source heat pump technology and has successfully delivered over 50 developments with homes heated by full air source.

## EV charging and air source heat pumps


*Source: Company*

Springfield has also always been strong on community engagement, consulting the local community and residents at all stages of development from planning to post build. The Group's villages concept focuses on creating communities with schools and amenities as desirable places to live for the long term.

Springfield is actively involved in community sponsorship, donations to local causes and education through engagement with local schools and apprenticeship programmes.

## Community engagement


*Source: Company*

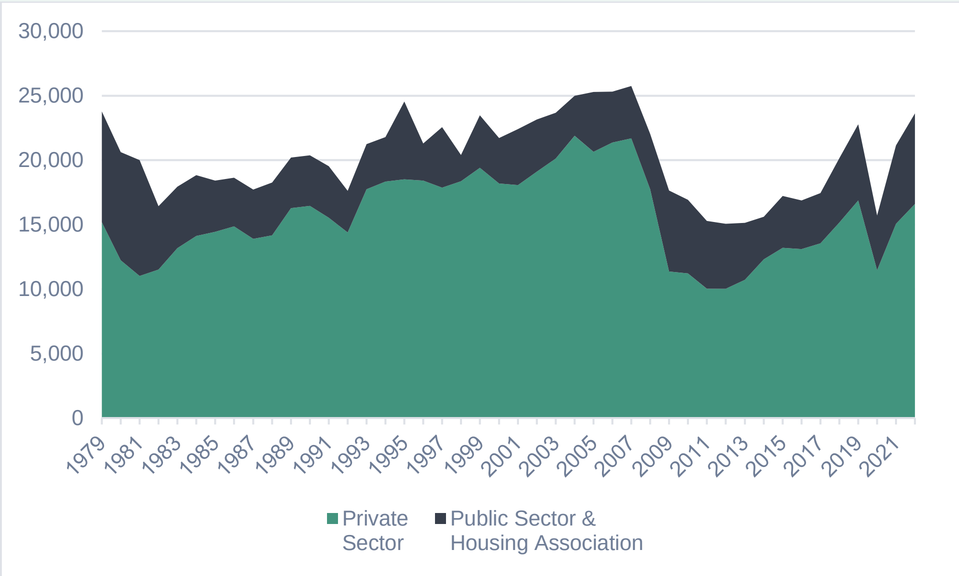
# The Housing Market in Scotland

## New housebuilding activity

As with the rest of the UK, new build housing completions in Scotland have generally been on an improving trend since the financial crisis. Housebuilders have responded to sustained demand for high quality, energy efficient homes in regions with strong fundamentals in terms of population and economic growth.

As can be seen in the chart below, housebuilding activity has increased significantly in recent years, but remains below the pre-financial crisis peak.

**Annual housing completions in Scotland**

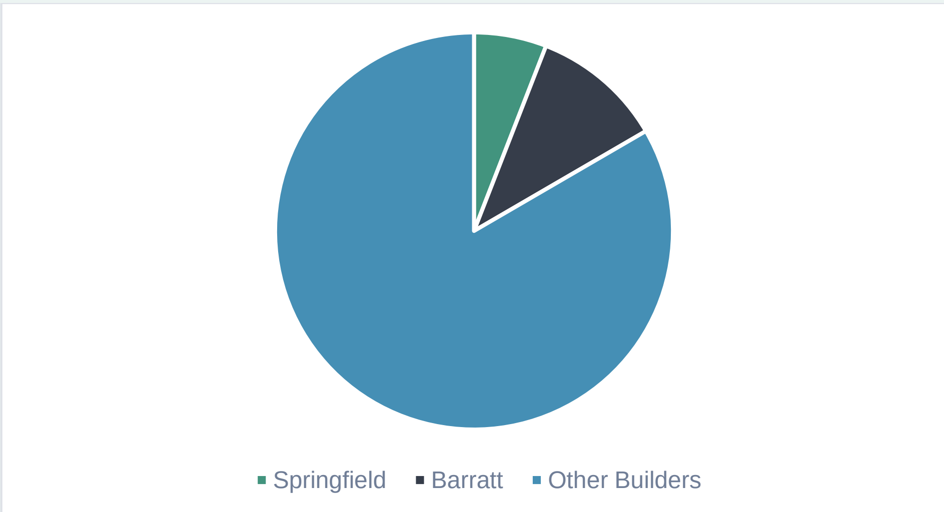



*Source: www.gov.scot*

Following a period of organic and acquisitive growth, Springfield is now one of the largest housebuilders in Scotland and, we believe, the largest builder focused solely on Scotland.

Several of the national builders have a strong presence in Scotland. We believe Barratt is the largest of these. Taylor Wimpey is probably comparable, but they do not tend to disclose their sales in Scotland.

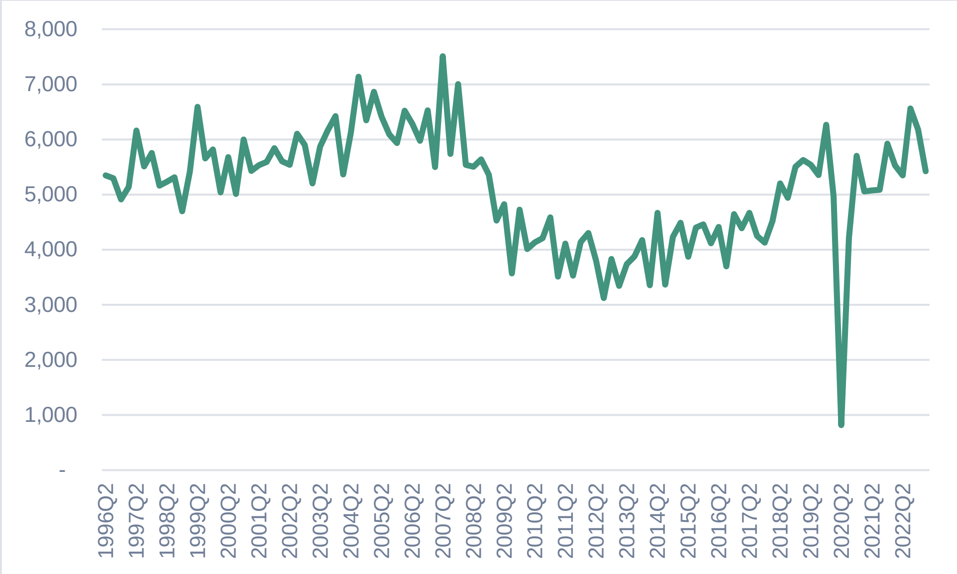
**Private home completions in Scotland**




*Source: Equity Development*

A steady increase in quarterly completions was abruptly halted by the COVID lockdowns but the industry and house-buyers bounced back quickly. During 2022, quarterly housing completions exceeded their pre-COVID peak, but this has dropped off somewhat in recent quarters.

**Quarterly housing completions in Scotland (to Q1'23)**




*Source: www.gov.scot*

## Affordable housing – supply impacted by inflationary pressures

Alongside an increase in private housing completions, the Scottish Government has committed to increasing the supply of affordable housing, which had been identified as an area of chronic undersupply.

Over £3.5bn has been earmarked for affordable housing funding through to March 2026 as part of a plan to deliver 110,000 affordable homes by 2032.

This has significantly increased the supply of affordable homes in recent years. The Scottish Government highlights that the annual average supply of affordable housing per capita in Scotland has been higher than in England and Wales over the past 15 years and that the number of affordable homes completed in the year to March '23 was the highest annual figure since the year 2000.

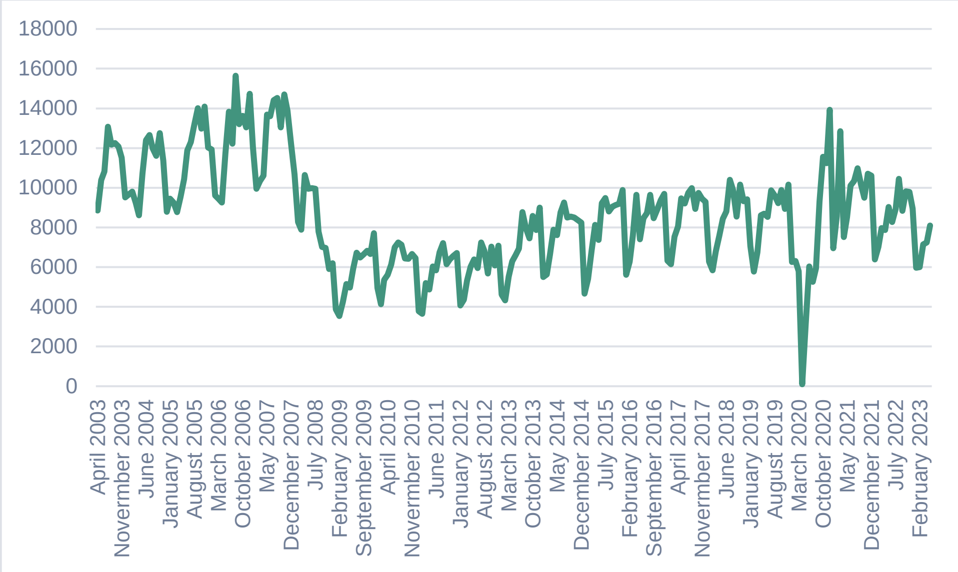
The past year, however, has seen a slowdown in affordable housing approvals, linked to the surge in inflation, which has undermined the profitability of the industry at previously agreed affordable housing prices. Springfield has temporarily paused entering into new long-term affordable housing contracts until market conditions improve.

Encouragingly, last month (June 2023) the Scottish Government increased its affordable housing investment benchmarks by 16.9%, which should enable housing associations to increase the price of affordable housing contracts and progress the building programmes required to meet the Government's affordable housing targets.

## Wider housing market activity (new build and existing homes)

The wider housing market (sale of existing as well as new build homes) has also shown steady growth in activity over recent years (COVID aside) and typically sees c.100k sales per annum.

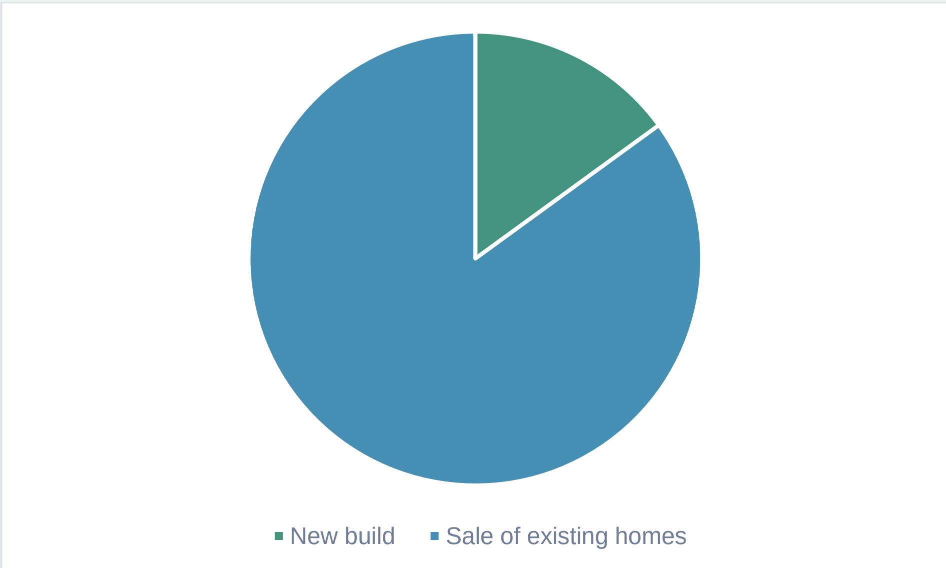
**Residential property sales in Scotland (monthly series)**




*Source: Registers of Scotland*

This implies that new build housing in Scotland generally accounts for c.15% of the overall housing market, although this will vary from year to year.

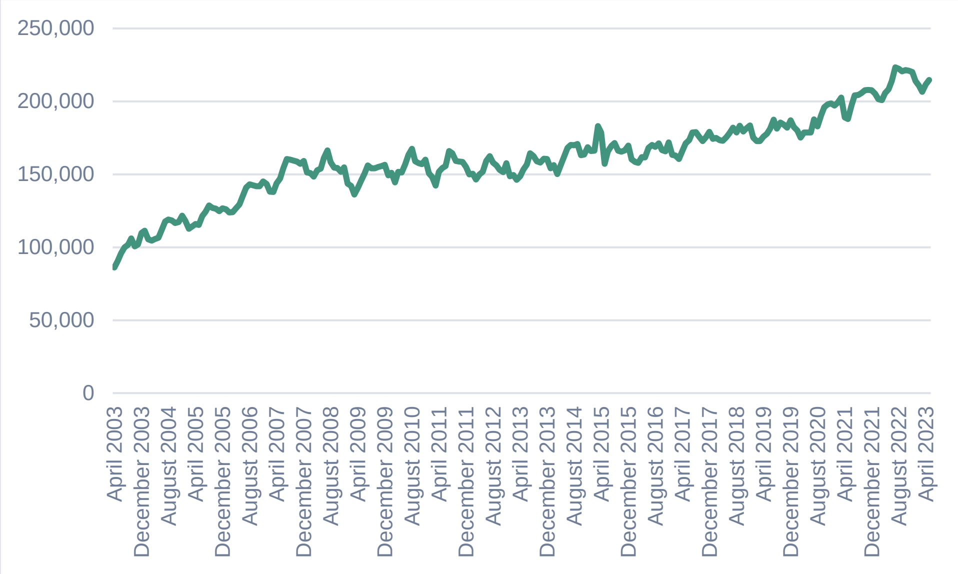
**Housing in Scotland – New build versus sale of existing homes**




*Source: Registers of Scotland, www.gov.scot. Equity Development*

As with the wider UK, the average house price in Scotland has trended positively over the past 20 years (with occasional periods of volatility), standing at £215k in May '23. Springfield's average selling price of £232k in FY23 reflects the Groups' focus on family homes in desirable locations. We discuss this further from page 13. The average selling price of Springfield's homes for private sale (rather than affordable/ social housing) was £290k in FY23 on our estimates.

**Mean average residential property price in Scotland (to May '23)**




*Source: Registers of Scotland*

## A word on the Scottish Missives System

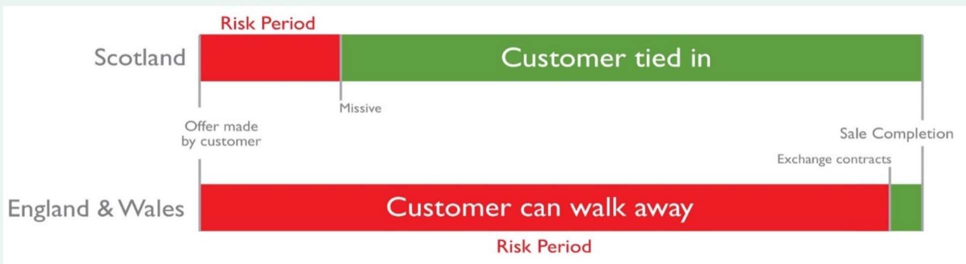
There is an important difference between the Scottish legal system for house buying and the system in England and Wales. Under the Scottish "missives" system buyers are legally bound to buy a property far earlier in the process than in the rest of the UK.

In England and Wales, an offer is accepted subject to a contract which is signed close to completion. Up to that time the buyer can walk away from the purchase. In Scotland, an offer is accepted subject to a missive being signed early in the process, long before completion, which ties the customer in and effectively guarantees the sale.

The missives system has the advantage of reducing speculative activity in Scotland and provides greater certainty for buyers and sellers in guaranteeing the sale approximately six months ahead of completion. Mortgage offers also last around six months, supporting this legal process.

Once a missive has been signed, the cancellation rate is very low, with costly implications to customers for cancelling at this stage. This gives greater certainty and visibility to house builders in Scotland, compared to the rest of the UK.

**The Scottish Missives System**



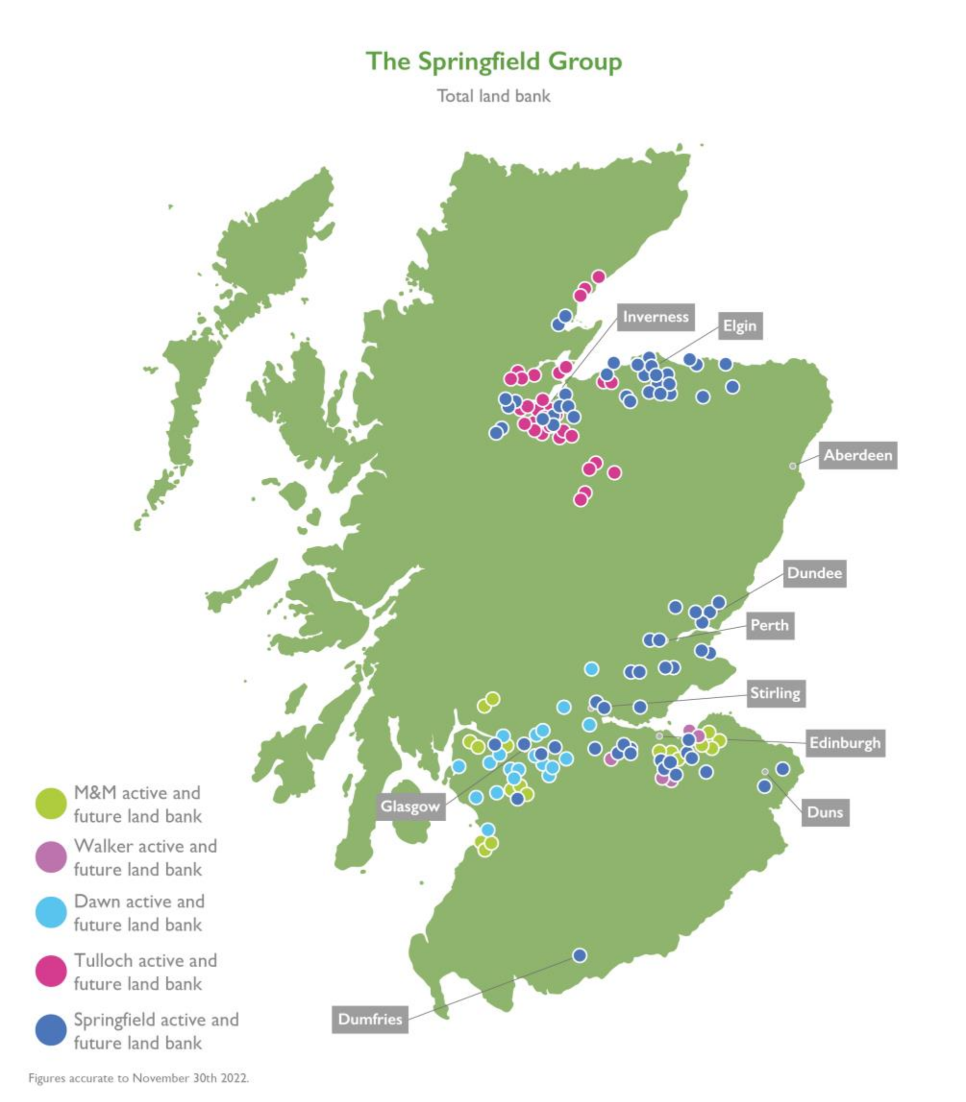

*Source: Company*

## Springfield's positioning

Springfield is a builder of high-quality family homes in attractive locations. The Group has a significant presence around most of Scotland's major cities, across the Central Belt of Glasgow to Edinburgh, and in the North and Highlands.

The Group has delivered strong organic growth, supplemented by several acquisitions in recent years, which have tended to add to the Group's landbank and profile in regions with attractive market dynamics. The impact of this can be seen clearly on the map below, which plots the Group's landbank across the country, highlighting the different brands that have been acquired over recent years. The strategy is to retain the brands acquired, which often have particular customer recognition and loyalty under the Springfield Group umbrella.

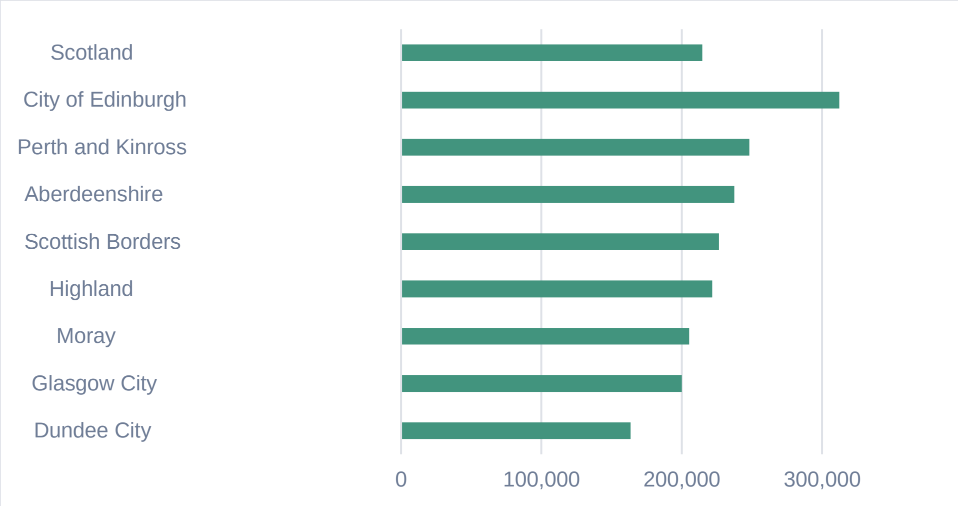
**Springfield Properties – Landbank across attractive regions of Scotland**




*Source: Company*

Springfield has a strong presence in most of Scotland's economically significant regions. The charts below summarise the average house price by region (as well as the national average). House prices in several of these regions are above the national average, most notably around Edinburgh.

**Average house price by region (May '23 transactions)**

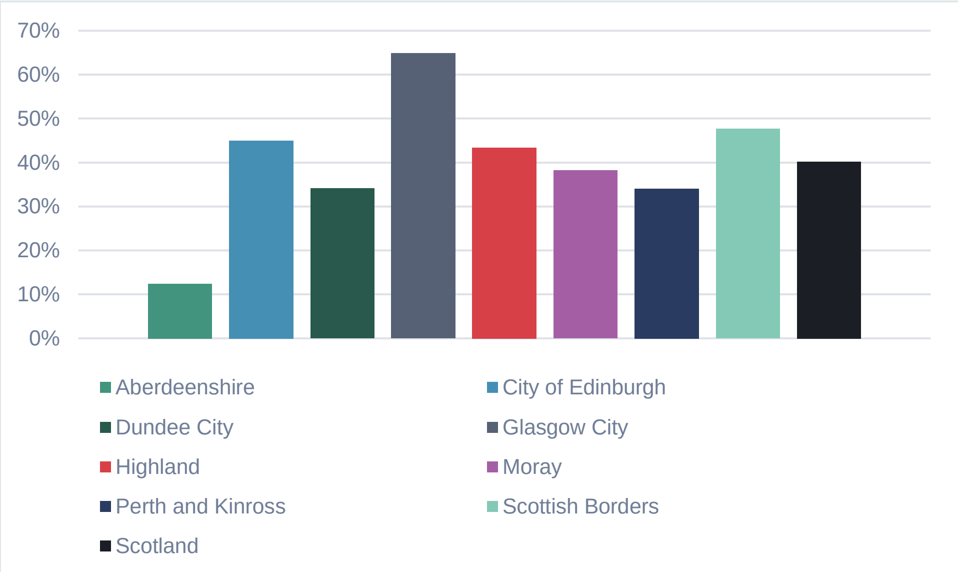



*Source: Registers of Scotland*

Springfield only has a small presence in Aberdeenshire, which is currently limited to an affordable housing partnership with Aberdeenshire Council. Springfield has chosen not to expand private housing into Aberdeen, a market with unique characteristics, being heavily influenced by the fortunes of the offshore industry. The chart below highlights the relative underperformance of house price inflation in Aberdeenshire over the past ten years, following an earlier house price boom in the area.

Glasgow has seen the most significant house price inflation over the past ten years (+65%) followed by Edinburgh (+45%), above the national average (+40%).

**House price inflation by Scottish region May '13 to May '23**

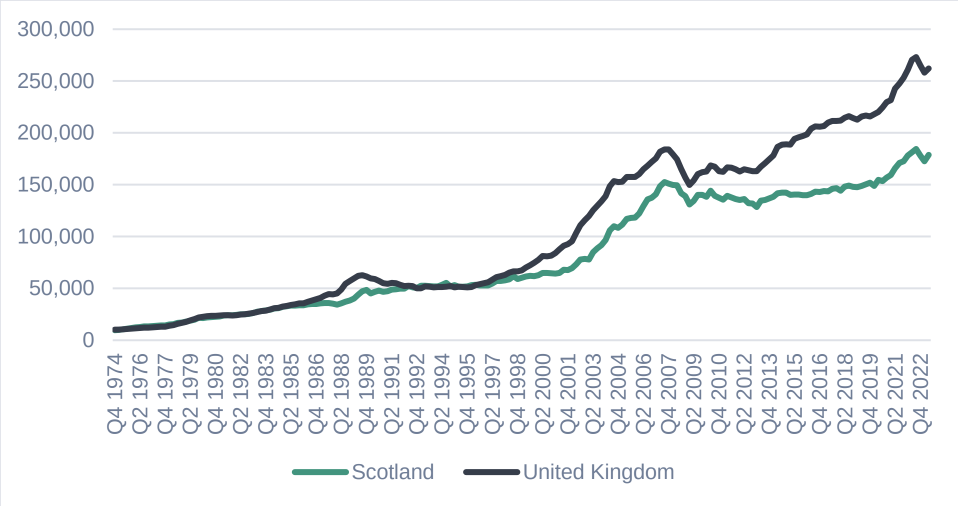



*Source: Registers of Scotland*

## House prices and affordability trends in Scotland

Whilst house prices have risen substantially over the past decade (and for several decades previously), growth in Scotland has not been as marked as the UK average. The wider UK figures are somewhat distorted by very sharp increases in London and the South East of England in particular. House price inflation in Scotland has followed the trend of the North of England more closely.

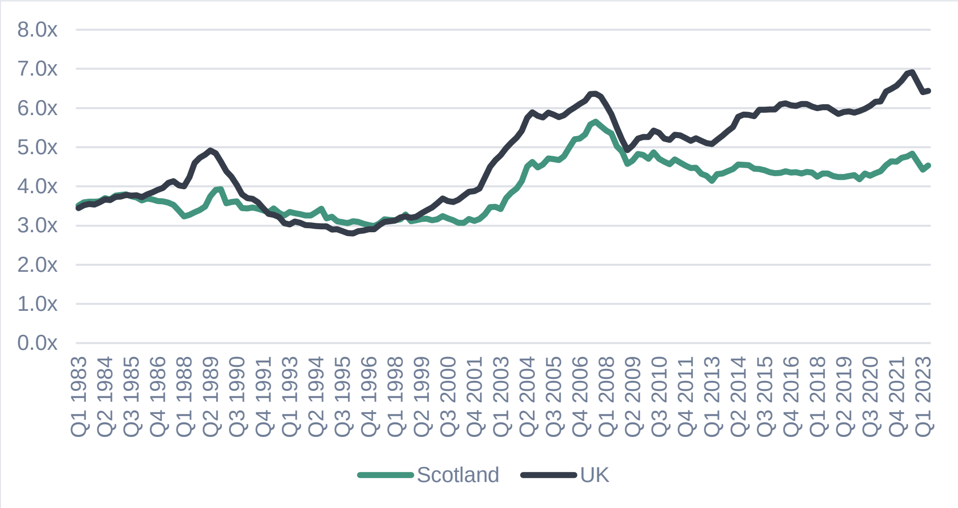
**Average house prices (UK and Scotland)**




*Source: Nationwide*

As a result, key affordability metrics in Scotland have not become stretched to the same extent as they have for the UK average, and in particular in London and the South East. The ratio of average house prices to average earnings is one key indicator of affordability that demonstrates this trend.

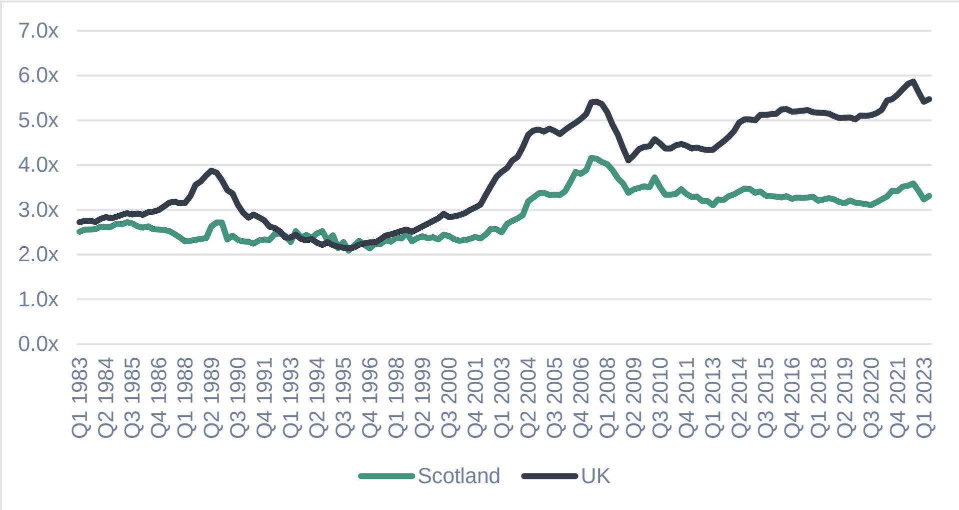
**House price/ earnings ratio (all buyers)**




*Source: Nationwide*

The challenges facing first time buyers are well documented in terms of affordability of payments, the need to build a deposit and meet mortgage lenders' house price/ earnings criteria. Whilst these pressures undoubtedly apply on a national level, they are again far more pronounced in London and South East England. On a relative basis, affordability for first time buyers is considerably less stretched in Scotland than in the UK as a whole, as highlighted by the two charts below.

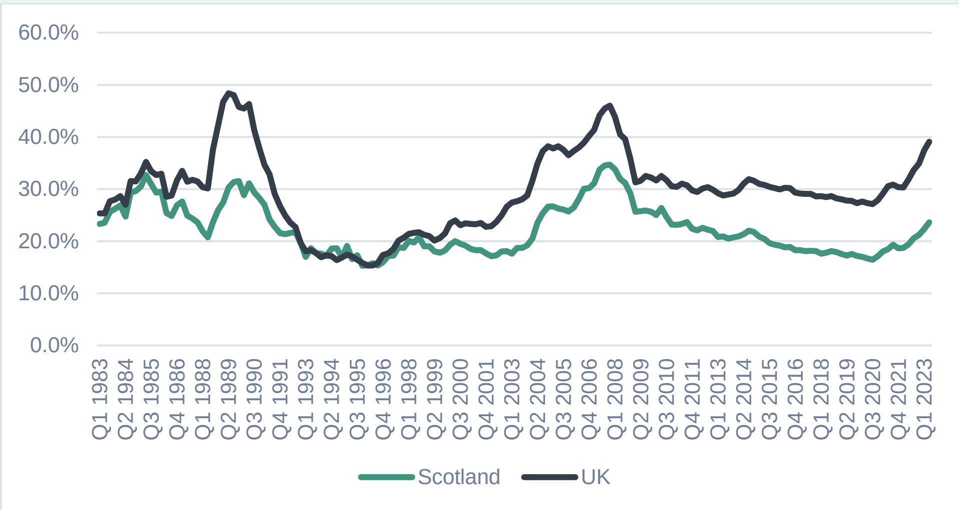
**House price/ earnings ratio (first time buyers)**




*Source: Nationwide*

To illustrate the point, the current house /price earnings ratio for first time buyers according to Nationwide is 3.3x in Scotland, 5.5x for the UK as a whole and 8.9x in London. These figures compare to the 40-year averages of 2.9x, 3.9x and 5.9x respectively.

**First time buyer mortgage payments as % take home pay**




*Source: Nationwide*

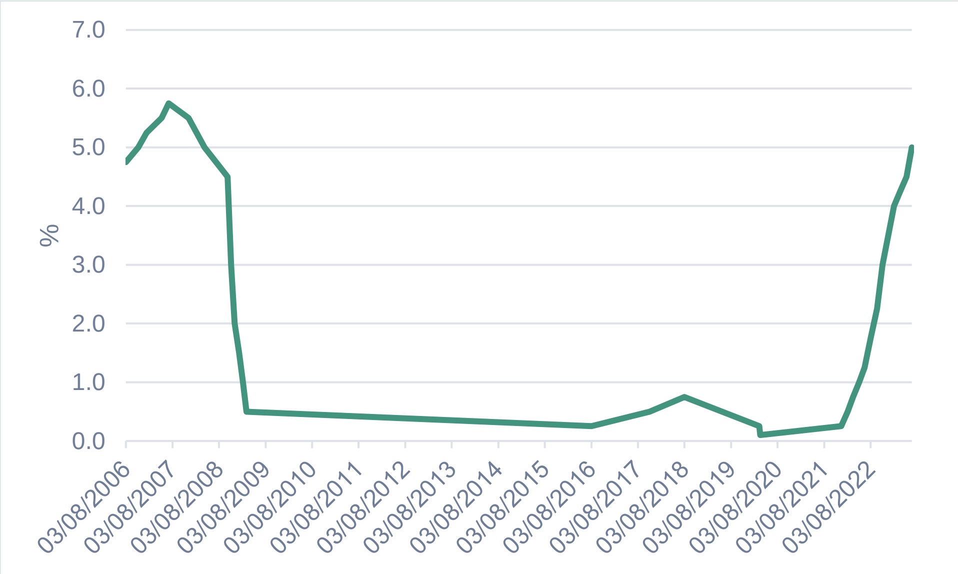
The long-term comparisons of affordability of mortgage payments paint a similar picture. First time buyer mortgage payments as a percentage of take-home pay in Q2'23 were 23.6% in Scotland, 39.0% in the UK as a whole and 64.9% in London. These compares to 40-year averages of 22.3% in Scotland, 29.5% in the UK as a whole and 46.2% in London.

## Recent market pressures

The UK housing market has seen a notable shift in sentiment over the past six months as persistently high inflation has been met with seemingly relentless increases in the Bank of England base rate. Mortgage rates have risen in step with expectations that interest rates will remain at levels that have not been seen since before the financial crisis.

The Bank of England base rate currently stands at 5.0% and further increases are expected before the end of this year, with some commentators suggesting it could go up to as much as 7.0% if inflation does not start to come under control in the next few months.

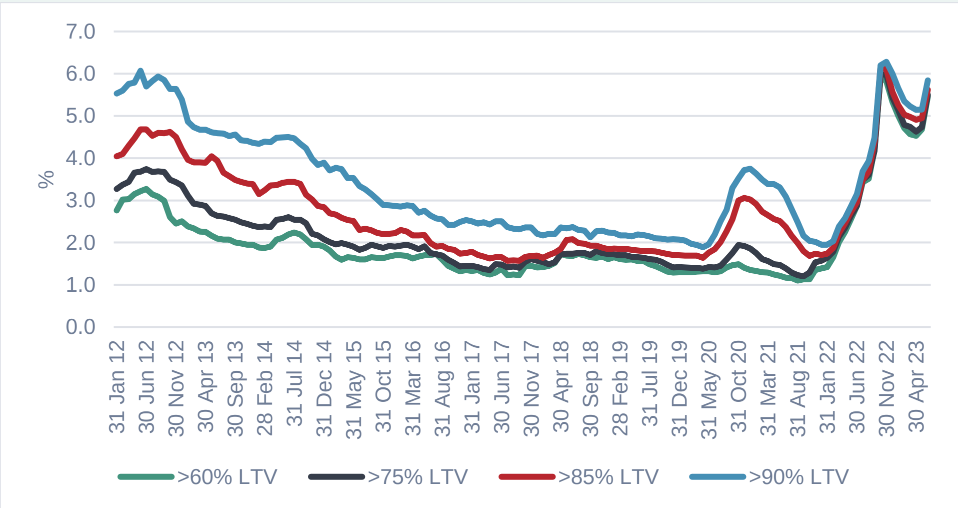
**Bank of England Base Rate**




*Source: Bank of England*

This has inevitably pushed mortgage rates to their highest level in over ten years. At the time of writing, mortgage rates have now surpassed the brief peak of Q4'22, when the market was unsettled by the Truss/ Kwarteng mini-budget.

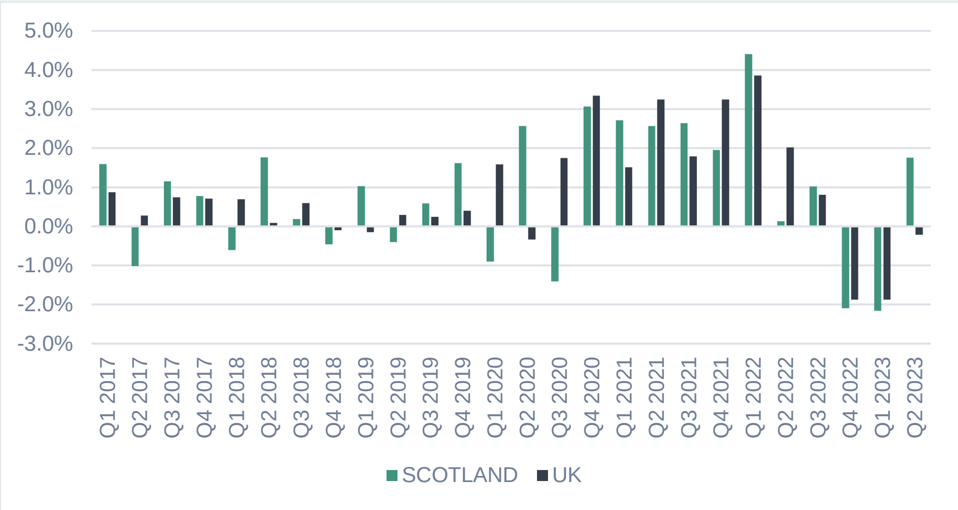
**Average two-year fixed rate mortgage offer**




*Source: Bank of England*

These movements in interest rates and mortgages are now having an impact on activity levels in the housing market. House prices have now fallen for the past three quarters and the latest (13th July '23) Royal Institute of Chartered Surveyors (RICS) survey highlighted the lowest reading on its house price balance index since April 2009, suggesting that prices are likely to continue to fall.

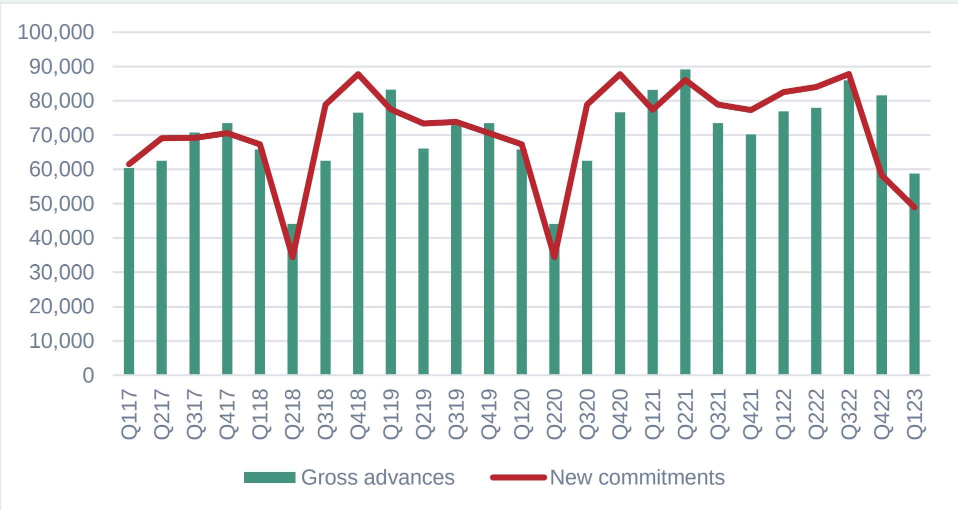
**Quarter on quarter change in house prices (UK and Scotland)**




*Source: Nationwide*

An impact has also been seen on new mortgage lending in recent months (see chart below) and RICS has reported a weakening of newly agreed sales and new buyer inquiries.

**New mortgage lending by quarter**




*Source: Bank of England*

Housebuilders are seeing an impact on their own sales rates, with some expecting a reduction in sales volumes over the coming year. We summarise recent housebuilder sector commentary on the following page.

## Latest commentary from sector peers

Recent weeks have seen a number of scheduled trading updates from Springfield's sector peers, with more to follow in the remainder of July and August. These companies offer a view over the whole of the UK, but most themes are relevant to the market in Scotland.

We provide a summary of recent commentary below and would highlight the following themes:

- Confidence in long term growth prospects
- Lower sales/ reservation rates than the seasonal norm, impacted by recent inflation/ interest rate rises
- A more cautious approach to land buying in the near term
- An increase in bulk sales of homes to institutions/ PRS providers

| Company | Update | Key commentary on trading and outlook |
|---|---|---|
| **Barratt Developments** | 13/07/2023 | Whilst the trading backdrop has become more challenging in recent months, with many of our customers facing significant cost of living pressures, we have responded decisively - increasing our reservations into the private rental sector, using incentives for customers in a disciplined way, and flexing our build activity, land-buying and operating costs to reflect market conditions. As outlined previously, we experienced a significant deterioration in demand during the second quarter and, whilst the position improved during the third quarter, reservations then slowed more than normal seasonal trends from mid-May to the end of June 2023. |
| **MJ Gleeson** | 07/07/2023 | Full year results to Jun '23 in line with expectations. Reservation rates over the last 6 months improved to 0.64 net reservations per site per week against 0.62 net reservations per week over the comparable period last year. Excluding four multi-unit sale agreements, the reservation rate was 0.44 per site per week net of 19% cancellations. Looking ahead, whilst the Board believes that demand from first-time buyers will continue at the levels seen through the last few months, it anticipates that interest from other value-driven buyers will increase as purchasers look to take advantage of Gleeson's more affordable price points and high quality. Whilst planning delays and economic uncertainty are causing some larger housebuilders to hesitate in completing land purchases, mid-size and regional housebuilders remain active buyers of high-quality consented land. |
| **Berkeley Group** | 21/06/2023 | Berkeley has delivered pre-tax profits in line with the guidance provided at the start of the financial year. This is a very strong performance, given market conditions and changing building regulations, and reflects the resilience of Berkeley's business model with its focus on the country's most undersupplied markets. We continue to see good levels of enquiry for well-located homes built to a high standard of design and quality but recognise that the market is likely to lack urgency until there is more certainty over interest rates. |
| **Bellway** | 13/06/2023 | Bellway has delivered an encouraging performance, buoyed by a seasonal uplift through the Spring, and the Group is on track to deliver full year volume output of around 11,000 homes. While customer interest is healthy, the Board remains mindful that cost of living pressures and the uncertain path of future interest rates could impact demand. Notwithstanding this, Bellway is well positioned to successfully navigate changing market conditions and continue to play an important role in increasing housing supply in the years ahead. |
| **Crest Nicholson** | 08/06/2023 | FY23 adjusted profit before tax expected to be in line with published consensus. We started our first half amidst the worst of the economic uncertainty arising from the September 2022 mini-budget. Rapidly falling consumer confidence and rising interest rates translated into softer demand in the housing market. Unemployment remains low and mortgage availability is good albeit at more expensive rates. The ongoing lack of housing supply is continuing to support house prices and these factors are also driving rental inflation. The economic case for buying a home therefore remains compelling, but for many first-time buyers the higher cost of borrowing and the cessation of Help to Buy are prohibitive. If interest rates continue to rise, and remain elevated, this will undoubtedly exacerbate this issue and start to impact demand and confidence again. |
| **Vistry** | 18/05/2023 | We have continued to see improving market conditions and the Group has traded in line with our expectations for the year to date. I am increasingly confident on the outlook for Vistry for FY23. Open market pricing has remained resilient, supported by the use of incentives particularly targeted at first time buyers. |
| **Taylor Wimpey** | 27/04/2023 | We have seen continued recovery from the low levels experienced at the end of 2022, supported by good mortgage availability, with an incremental improvement in sales as the Spring selling season progressed. |
| **Persimmon** | 26/04/2023 | Trading over recent weeks has offered some signs of encouragement with visitor numbers up, cancellation levels normalising and sales rates continuing the steady improvement evident since the start of the year. If sales rates continue at the levels seen year to date, we would expect full year 2023 volumes to be toward the top end of the previously indicated range. Sales prices remained firm. |
| **Redrow** | 09/02/2023 | Whilst 2023 will be a challenging year as the market resets, early indications are better than anticipated and the market appears to be finding a new, natural level. Redrow has become the first large housebuilder to begin selling homes which will incorporate air source heat pumps as standard. Underfloor heating will also be provided as standard on the ground floor in our detached homes. The approach has been shaped by customer trials, research and the work of our own in-house design & innovation team. |

*Source: Company reports/ Equity Development*

## Springfield's latest trading update (19th July '23)

Springfield's year-end update confirms that FY23 PBT is expected to be in line with expectations, whilst highlighting some caution over the near-term market outlook. The statement pointed to the strong long-term fundamentals of the housing sector, and in Scotland specifically, noting the greater affordability in Scotland compared with the UK as a whole, the structural undersupply of housing, and Springfield's large, high-quality land bank.

- FY23 revenue expected to be c.£330m, representing year-on-year growth of 28% and the Group's highest ever annual turnover
- Revenue growth reflected a record year of completions, driven by a full year contribution from the Tulloch Homes and Mactaggart & Mickel acquisitions, alongside organic revenue growth
- PBT for FY23 expected to be in line with expectations
- Private housing reservations impacted by homebuyer confidence
- Strategic decision to pause entering long-term affordable housing contracts maintained; post year end, Scottish Government increased affordable housing investment benchmarks
- Delivered annualised cost savings of c.£3m, through decisive response to market conditions
- Progress made against first-year objectives within ESG strategy
- Net debt reduced to c.£68m at year end (30th Nov '22: £73.7m)

## Divisional market commentary

### Private housing

Reservation rates during the period were impacted by recent market pressures. This was particularly evident following the UK Government's mini-budget, which remained low for an approximately three-month period. While there was recovery in the second half of the year, the forward order book at year end was below that of the previous year, as expected.

### Affordable housing

Affordable housing revenue declined, as expected, as the Group took made the strategic decision to pause entering into new long-term affordable housing contracts. Encouragingly, last month (June 2023) the Scottish Government increased its affordable housing investment benchmarks by 16.9%, which should enable housing associations to increase the price of affordable housing contracts and progress the building programmes required to meet the Government's affordable housing targets.

### Response to market conditions

As well as the action taken in the affordable housing business, Springfield has adopted a cautious approach to new site launches in private housing. Other actions include reducing land buying activity, pausing recruitment and reducing staffing levels, maintaining tight cost control and identifying synergies across the business. This has delivered savings of c.£3m p.a. Springfield also made a strategic land sale during the year, as previously announced, to a national housebuilder and will consider further opportunities where the terms and price are desirable.

## Financial KPIs – Volume, ASP and Margins

| Revenue model | | | | | | |
|---|---|---|---|---|---|---|
| **Year End May, £m** | **2019(A)** | **2020(A)** | **2021(A)** | **2022(A)** | **2023(E)** | **2024(E)** |
| **Completions** | | | | | | |
| Private | 630 | 419 | 559 | 712 | 885 | 772 |
| Affordable | 322 | 308 | 363 | 405 | 340 | 250 |
| PRS/Contract | - | - | 51 | 125 | 115 | 30 |
| **Group** | **952** | **727** | **973** | **1,242** | **1,340** | **1,052** |
| **% growth in completions** | | | | | | |
| Private | 57% | -33% | 33% | 27% | 24% | -13% |
| Affordable | 20% | -4% | 18% | 12% | -16% | -26% |
| PRS/Contract | - | - | - | 145% | -8% | -74% |
| **Group** | **42%** | **-24%** | **34%** | **28%** | **8%** | **-21%** |
| **Average Selling Price (ASP)** | | | | | | |
| Private | 227,397 | 236,095 | 247,943 | 244,944 | 286,584 | 309,511 |
| Affordable | 133,248 | 141,023 | 145,730 | 158,765 | 160,353 | 163,881 |
| PRS/Contract | - | - | 158,824 | 132,000 | 159,720 | 159,720 |
| Group | 195,553 | 195,817 | 196,814 | 192,190 | 229,961 | 266,077 |
| **% growth in ASP** | | | | | | |
| Private | 2% | 4% | 5% | -1% | 17% | 8% |
| Affordable | 11% | 6% | 3% | 9% | 1% | 2% |
| PRS/Contract | - | - | - | -17% | 21% | 0% |
| Group | 8% | 0% | 1% | -2% | 20% | 16% |
| **Revenue by division** | | | | | | |
| Private | 143.3 | 98.9 | 138.6 | 174.4 | 253.6 | 238.9 |
| Affordable | 42.9 | 43.4 | 52.9 | 64.3 | 54.5 | 41.0 |
| PRS/Contract | - | - | 8.1 | 16.5 | 18.4 | 4.8 |
| Other (inc Land Sales) | 4.6 | 2.1 | 17.1 | 1.9 | 7.0 | 7.5 |
| **Group Revenue** | **190.8** | **144.4** | **216.7** | **257.1** | **333.5** | **292.2** |

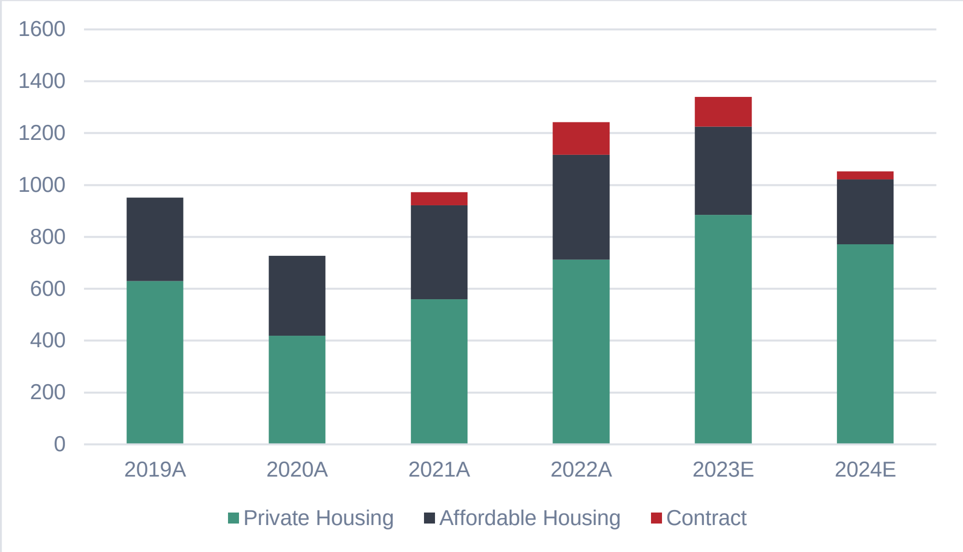
*Source: Company historic data, ED forecasts and analysis*

## Volumes trends – pause to reflect more challenging market

Springfield has an excellent track record of volume growth, typically doubling in size every five years. The Tulloch Homes and Mactaggart & Mickel acquisitions were a key driver of the 8% volume growth in FY'23, alongside the organic development of Springfield's Villages. The wider housing market experienced some volatility in the period, notably around the time of the Truss/ Kwarteng mini-budget in October. Confidence returned tentatively from the start of the calendar year, but sentiment has softened again in recent weeks in response to the repeated increases in interest rates. This feeds into our expectations for FY'24 (volume decline of 13% on the Private homes side of the business).

The Affordable and Contract (PRS) businesses are also showing a reduction in volume for specific reasons. Springfield has paused growth of its Affordable business in response to inflationary pressures. Pricing for Affordable homes is fixed at the beginning of a contract with little room for manoeuvre and this has impacted gross margins in the division. We expect Affordable activity to resume as inflation eases (and following the increase in the Scottish Government Affordable Housing Investment Benchmark) but cautiously. PRS activity in Scotland has been impacted by the Scottish Government's introduction of rent caps in response to the cost-of-living crisis, making it a less attractive growth area for institutional investors.

**Number of home completions by division**

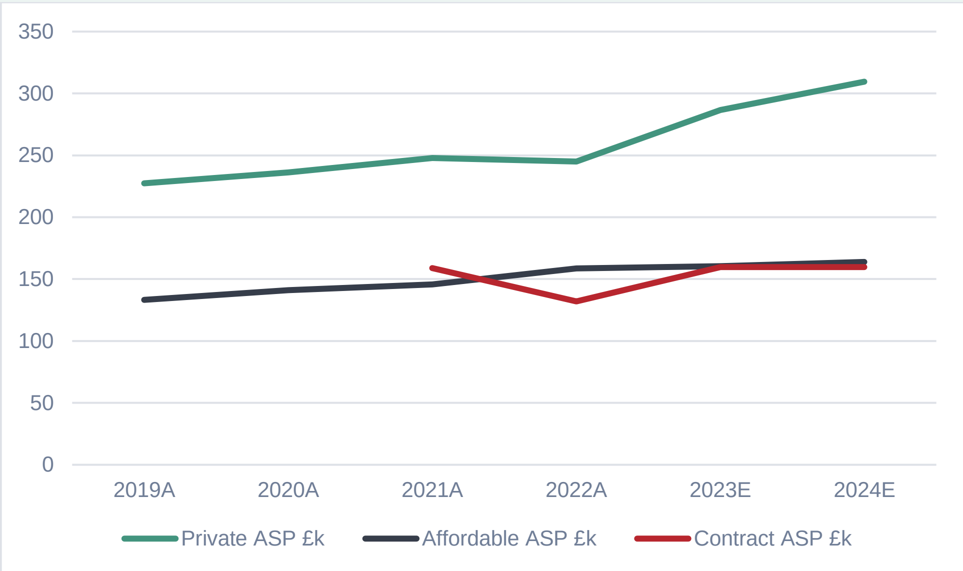



*Source: Company historic data, ED forecasts and analysis*

## Average selling price – stable pricing, benefiting from site mix

The main movements in average selling price in FY'23 relate to site mix, supported by the acquisition of Mactaggart & Mickel, a builder of family homes across the Central Belt. We expect this to continue to have a beneficial impact on mix in FY'24 and this is the main driver of the 7% growth in ASP we are assuming for Private sales in the coming year.

**Average selling price by division**

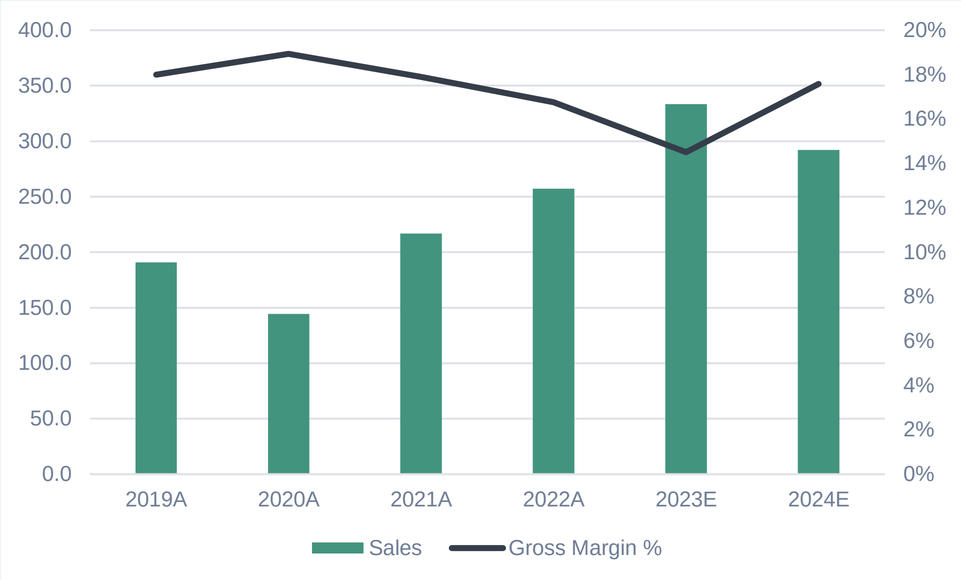



*Source: Company historic data, ED forecasts and analysis*

## Gross margin – Inflation impact seen in FY'23, recovery FY'24

Gross margin in FY'23 has been impacted by the inflationary environment, most notably in the Affordable business, as discussed earlier, where the industry is unable to put through pricing increases in response to rising costs during a contract. By contrast, within the Private business, rising house prices have helped to offset the impact of material and labour inflation on gross margins. We assume a recovery in Affordable margins in FY24 following the completion of loss-making contracts alongside some improvement in Private margins as inflationary pressures finally begin to ease (now being reported by other builders).

**Sales and gross margin trends**




*Source: Company historic data, ED forecasts and analysis*

## Financials and Forecasts

| Income statement | | | | | | |
|---|---|---|---|---|---|---|
| **Year End May, £m** | **2019(A)** | **2020(A)** | **2021(A)** | **2022(A)** | **2023(E)** | **2024(E)** |
| Group revenue | 190.8 | 144.4 | 216.7 | 257.1 | 333.5 | 292.2 |
| % growth | 36% | -24% | 50% | 19% | 30% | -12% |
| % 2 Year CAGR | 32% | 8% | 7% | 33% | 24% | 7% |
| COGS | -156.5 | -117.1 | -177.9 | -214.0 | -285.1 | -240.8 |
| % growth | 31% | -25% | 52% | 20% | 33% | -16% |
| % of revenue | 82% | 81% | 82% | 83% | 85% | 82% |
| **Gross profit** | **34.3** | **27.4** | **38.8** | **43.1** | **48.4** | **51.4** |
| % growth | 55% | -20% | 42% | 11% | 12% | 6% |
| % margin | 18% | 19% | 18% | 17% | 15% | 18% |
| Admin expenses | -16.6 | -14.1 | -17.2 | -19.1 | -25.1 | -25.6 |
| % of revenue | 9% | 10% | 8% | 7% | 8% | 9% |
| Other operating income | 1.0 | 1.3 | 0.4 | 0.4 | 0.0 | 0.0 |
| **Adj. EBITDA** | **18.7** | **14.5** | **22.0** | **24.4** | **23.3** | **25.8** |
| % growth | 79% | -22% | 52% | 11% | -5% | 11% |
| % margin | 10% | 10% | 10% | 10% | 7% | 9% |
| Depreciation | -1.6 | -2.4 | -2.2 | -1.7 | -2.2 | -2.2 |
| Amortisation | 0.0 | 0.0 | -0.1 | -0.2 | -0.2 | -0.2 |
| **Adj. EBITA** | **17.1** | **12.1** | **19.8** | **22.5** | **20.9** | **23.4** |
| % growth | 74% | -29% | 63% | 14% | -7% | 12% |
| % margin | 9% | 8% | 9% | 9% | 6% | 8% |
| Net interest | -1.1 | -2.0 | -1.2 | -1.8 | -4.8 | -5.8 |
| **Adj. PBT** | **16.0** | **10.2** | **18.5** | **20.8** | **16.1** | **17.6** |
| % growth | 75% | -36% | 82% | 12% | -23% | 9% |
| % margin | 8% | 7% | 9% | 8% | 5% | 6% |
| Other/ Exceptional Items | 0.0 | -0.4 | -0.6 | -1.1 | -0.6 | 0.0 |
| **Reported PBT** | **16.0** | **9.7** | **17.9** | **19.7** | **15.5** | **17.6** |
| Underlying tax | -3.1 | -2.1 | -4.2 | -3.7 | -3.1 | -4.4 |
| Underlying tax rate (%) | 20% | 21% | 23% | 18% | 19% | 25% |
| Adj. PAT | 12.9 | 8.1 | 14.3 | 17.0 | 13.0 | 13.2 |
| PAT | 12.9 | 7.6 | 13.7 | 15.9 | 12.4 | 13.2 |

*Source: Company historic data, ED forecasts and analysis*

### Other key income statement items

Whilst the revenue and gross profit drivers discussed on the previous pages are the key influences on the income statement, we would also highlight a tight control on overheads over the forecast period, post integration of Mactaggart & Mickel in FY23.

We reflect the increase in interest rates in our rising net interest forecasts and also reflect the increase in corporation tax in our forecast tax rate.

| Cash flow | | | | | | |
|---|---|---|---|---|---|---|
| **Year End May, £m** | **2019(A)** | **2020(A)** | **2021(A)** | **2022(A)** | **2023(E)** | **2024(E)** |
| Adj. EBITA | 17.1 | 12.1 | 19.8 | 22.5 | 20.9 | 23.4 |
| Depreciation | 1.6 | 2.4 | 2.2 | 1.7 | 2.2 | 2.2 |
| Amortisation | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 |
| PPE disposal (gain) | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 | 0.0 |
| Exceptional items | 0.0 | -0.3 | -0.6 | -1.1 | -0.6 | 0.0 |
| IPO costs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other non-cash | 0.1 | 1.4 | 0.4 | 0.5 | 0.8 | 0.0 |
| Working Capital | -2.7 | -42.1 | 35.2 | -4.7 | -15.4 | 3.0 |
| **Operating Cash Flow** | **16.0** | **-26.6** | **57.0** | **19.0** | **7.9** | **28.8** |
| Net Interest | -1.2 | -1.6 | -1.3 | -1.6 | -4.8 | -5.8 |
| Tax | -2.9 | -3.1 | -4.2 | -3.5 | -3.1 | -4.4 |
| **Net Op. Cash Flow** | **11.9** | **-31.3** | **51.5** | **13.9** | **0.0** | **18.6** |
| Purchase of PPE | -1.5 | -0.6 | -0.2 | -0.5 | -0.5 | -0.5 |
| Sale of PPE proceeds | 0.4 | 0.1 | 0.2 | 0.2 | 0.2 | 0.0 |
| Total Net Capex | -1.2 | -0.5 | 0.0 | -0.2 | -0.3 | -0.5 |
| **Equity Free Cash Flow** | **10.7** | **-31.8** | **51.5** | **13.7** | **-0.3** | **18.1** |
| M&A | -20.9 | -4.0 | 0.3 | -43.9 | -22.0 | -13.0 |
| Dividend | -3.8 | -3.1 | -3.3 | -6.3 | -5.6 | -4.2 |
| Share Issue | 0.0 | 0.0 | 2.2 | 22.0 | 0.0 | 0.0 |
| Lease additions | -0.4 | -3.3 | -0.7 | -2.8 | -2.6 | 0.0 |
| FX/Other | 0.0 | 0.8 | 0.0 | 0.0 | 0.6 | 0.0 |
| **Net Change in Net Debt** | **-14.3** | **-41.3** | **50.1** | **-17.3** | **-29.9** | **0.9** |
| Net Debt - BOP | -15.3 | -29.6 | -70.9 | -20.8 | -38.1 | -68.0 |
| Net Debt - EOP | -29.6 | -70.9 | -20.8 | -38.1 | -68.0 | -67.1 |

*Source: Company historic data, ED forecasts and analysis*

## Working capital investment

Working capital investment in FY23 reflects the strong growth in private sales activity and increase in sites, including the addition of those acquired with Mactaggart & Mickel at the very beginning of the financial year. We expect a modest working capital inflow in FY24 and FY25, which should support a reduction in net debt.

## Deferred consideration

The other significant cashflow item to highlight is the M&A line, which includes initial and deferred consideration payments on previous acquisitions (we do not forecast future acquisitions). In particular, Mactaggart & Mickel was acquired in June 2022 for a total consideration of £46.3m, comprising £10.5m cash on completion and deferred consideration of £35.8m to be paid proportionally as homes are sold over the next five years. The £22m M&A cashflow in FY23 includes £15.5m for Mactaggart & Mickel (including the timber frame factory) and £6.5m for Tulloch (deferred consideration).

| Balance sheet | | | | | | |
|---|---|---|---|---|---|---|
| **Year End May, £m** | **2019(A)** | **2020(A)** | **2021(A)** | **2022(A)** | **2023(E)** | **2024(E)** |
| **Non-Current assets** | | | | | | |
| PPE | 5.0 | 6.3 | 4.5 | 5.8 | 6.9 | 5.2 |
| Intangible assets | 1.6 | 1.6 | 1.6 | 5.8 | 5.6 | 5.4 |
| Investments | 1.5 | 0.2 | 0.0 | 0.5 | 0.0 | 0.0 |
| Accounts receivable | 0.9 | 4.9 | 5.4 | 5.6 | 5.4 | 5.4 |
| Other | 0.0 | 0.2 | 0.5 | 2.1 | 1.0 | 0.5 |
| **Sub-total NCAs** | **9.0** | **13.3** | **12.1** | **19.9** | **18.9** | **16.5** |
| **Current Assets** | | | | | | |
| Inventories and WIP | 148.6 | 174.4 | 156.8 | 230.1 | 275.4 | 267.4 |
| Trade/other receivables | 20.1 | 9.0 | 23.7 | 21.4 | 26.7 | 31.7 |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash/cash equivalents | 3.1 | 1.5 | 15.8 | 16.4 | 25.1 | 25.1 |
| **Sub-total CAs** | **171.9** | **184.9** | **196.3** | **267.8** | **327.2** | **324.2** |
| **Net working capital** | **125.1** | **162.6** | **128.8** | **182.9** | **243.4** | **240.4** |
| **Total Assets** | **180.9** | **198.2** | **208.4** | **287.7** | **346.1** | **340.7** |
| **Current Liabilities** | | | | | | |
| Trade and other payables | -43.7 | -20.8 | -51.6 | -68.5 | -58.7 | -58.7 |
| Land creditor | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions | 0.0 | 0.0 | 0.0 | -0.8 | -0.8 | -0.8 |
| Corporation tax | -2.0 | -0.8 | -0.9 | -0.3 | -1.0 | -1.0 |
| Leases | -1.0 | -1.2 | -0.8 | -1.3 | -1.7 | -1.7 |
| Borrowings | 0.0 | -18.0 | -34.0 | 0.0 | 0.0 | 0.0 |
| Deferred consideration | 0.0 | -2.1 | 0.0 | -6.1 | -12.0 | -8.0 |
| **Sub-total CLs** | **-46.7** | **-42.9** | **-87.3** | **-77.0** | **-74.2** | **-70.2** |
| **Non-current liabilities** | | | | | | |
| Borrowings | -31.0 | -51.0 | 0.0 | -50.5 | -87.2 | -86.3 |
| Leases | -0.6 | -2.3 | -1.9 | -2.7 | -4.1 | -4.1 |
| Provisions | -14.0 | -3.8 | -1.2 | -1.8 | -2.0 | -2.0 |
| Deferred taxation | 0.0 | -2.4 | -2.9 | -3.7 | -4.0 | -4.0 |
| Deferred consideration | 0.0 | 0.0 | -3.9 | -8.5 | -23.0 | -13.0 |
| **Sub-total NCLs** | **-45.6** | **-59.5** | **-9.9** | **-67.2** | **-120.4** | **-109.4** |
| **Total Liabilities** | **-92.3** | **-102.3** | **-97.2** | **-144.2** | **-194.6** | **-179.7** |
| **Net Assets** | **88.6** | **95.9** | **111.2** | **143.5** | **151.6** | **161.1** |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Shareholders' Funds** | **88.6** | **95.9** | **111.2** | **143.5** | **151.6** | **161.1** |

*Source: Company historic data, ED forecasts and analysis*

## Significant asset backing

We estimate Springfield's net asset value is >£150m, providing significant asset backing to the investment case. The most significant balance sheet item is inventory and WIP at £275m, reflecting build Work in Progress on Springfield's 56 active sites.

**We estimate book value per share at 127p for May'23 and tangible book value per share at 122p.**

## Valuation – discount to book value is compelling

**Peer Group Valuation Metrics**

| Company | Share Price | Market Cap | Ent. Value | P/TBV (LTM) | P/E (NTM) | P/E (FY1) | P/E (FY2) | EV/EBITDA (NTM) | Yield (NTM) |
|---|---|---|---|---|---|---|---|---|---|
| Barratt | 4.11 | 3,999 | 3,075 | 0.9x | 7.8x | 6.1x | 10.7x | 4.3x | 6.8% |
| Bellway | 20.22 | 2,433 | 2,140 | 0.7x | 7.9x | 6.2x | 10.8x | 4.8x | 6.9% |
| Crest Nicholson | 1.83 | 468 | 404 | 0.6x | 8.8x | 8.8x | 10.2x | 5.2x | 9.2% |
| Gleeson | 4.03 | 235 | 226 | 0.8x | 10.2x | 10.2x | 9.9x | 6.4x | 3.5% |
| Persimmon | 10.50 | 3,351 | 2,501 | 1.0x | 12.5x | 12.5x | 11.1x | 6.5x | 5.7% |
| Redrow | 4.52 | 1,454 | 1,347 | 0.8x | 5.4x | 5.4x | 9.3x | 3.6x | 6.2% |
| Springfield Properties | 0.64 | 76 | 150 | 0.5x | 6.0x | 6.0x | 5.9x | 5.5x | 5.5% |
| Taylor Wimpey | 1.05 | 3,685 | 2,848 | 0.8x | 11.9x | 11.9x | 10.7x | 6.2x | 9.0% |
| The Berkeley Group | 39.98 | 4,252 | 3,847 | 1.3x | 11.2x | 11.2x | 11.9x | 7.7x | 6.4% |
| Vistry | 6.81 | 2,350 | 2,319 | 1.2x | 7.3x | 7.3x | 7.3x | 4.8x | 6.7% |
| **Peer group average** | | | | **0.9x** | **8.9x** | **8.6x** | **9.8x** | **5.5x** | **6.6%** |

*Source: Equity Development analysis, share prices as of 13th July '23 COB*

In our view, Springfield's shares offer compelling value at this level. As we have highlighted in this note, market conditions have certainly become more challenging, but we would argue that this is more than reflected in the current share price.

Springfield's shares are the cheapest in the sector on a P/E basis (SPR's 6x P/E represents a c.40% discount to the sector average), as shown in the table above. We note, though, that forecast uncertainty is heightened across the sector by current market conditions, which makes P/E a less reliable valuation benchmark than at other times in the cycle.

We consider Price/ Book the most useful metric in the current environment. Despite earnings forecast uncertainties, we expect the sector to remain profitable and would not expect land write-downs to undermine company balance sheets, as they did during the financial crisis. On this basis, too, Springfield trades at a marked discount to peers (a 33% discount on a Last Twelve Months basis).

We acknowledge that Springfield is, unlike its peers, in a current net debt position, which may have a bearing on sentiment towards the shares, but we would highlight the Group's excellent track record of cash generation and successful navigation of both the financial crisis and the COVID crisis.

Since IPO in 2017, Springfield's long term average Price/ Book multiple has been 1.2x and its long-term average P/E rating has been 9.6x. These are in line with typical housebuilding sector ratings through the period, although individual company ratings will vary to reflect business models/ market focus etc.

**Whilst market headwinds have increased, in our view the 50% decline in Springfield's share price over the past year is significantly overdone. The business has navigated previous cyclical downturns impressively and has emerged strongly from them.**

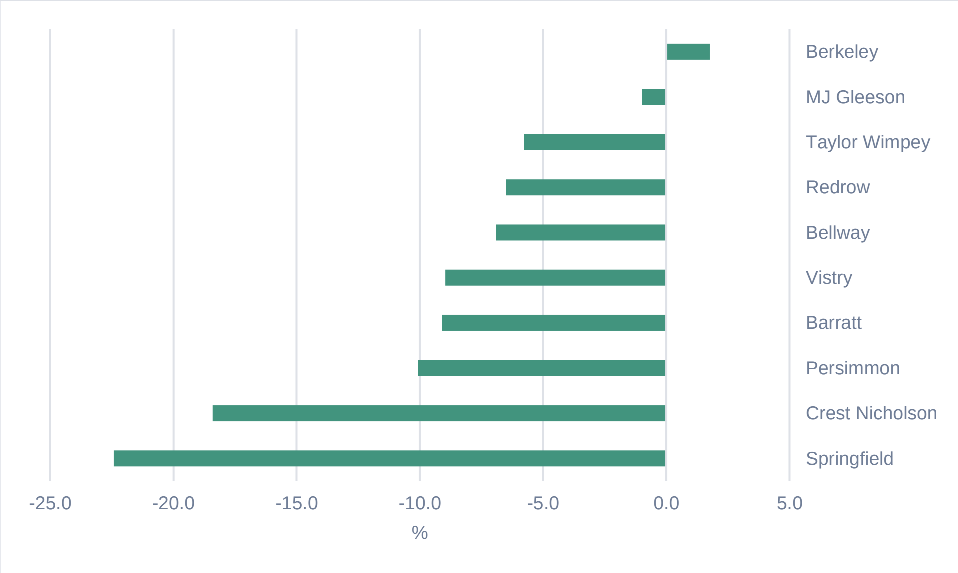
**We initiate coverage with confidence in the Group's long term growth prospects and see scope for a significant re-rating in the shares as investor sentiment improves. Our Fair Value is 110p, based on a sector rating of 0.9x Price/ Book.**

# Housebuilding sector share price performance

## Springfield underperforming peers during 2023…

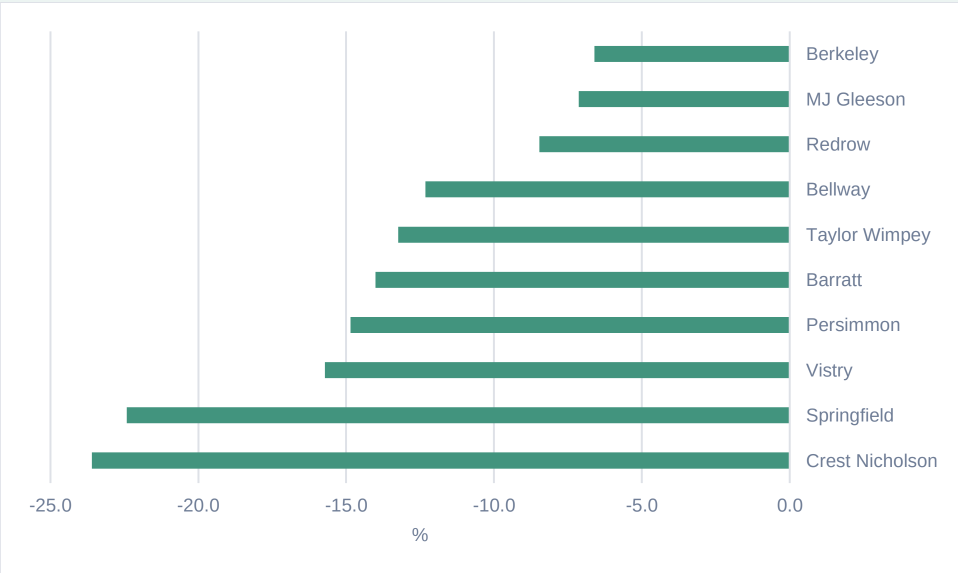
Springfield's shares have underperformed peers during 2023, notably in the past one month and three months, as illustrated by the charts below.

**One-month share price performance**




*Source: Equity Development, share prices to 13th July '23*

**Three-month share price performance**

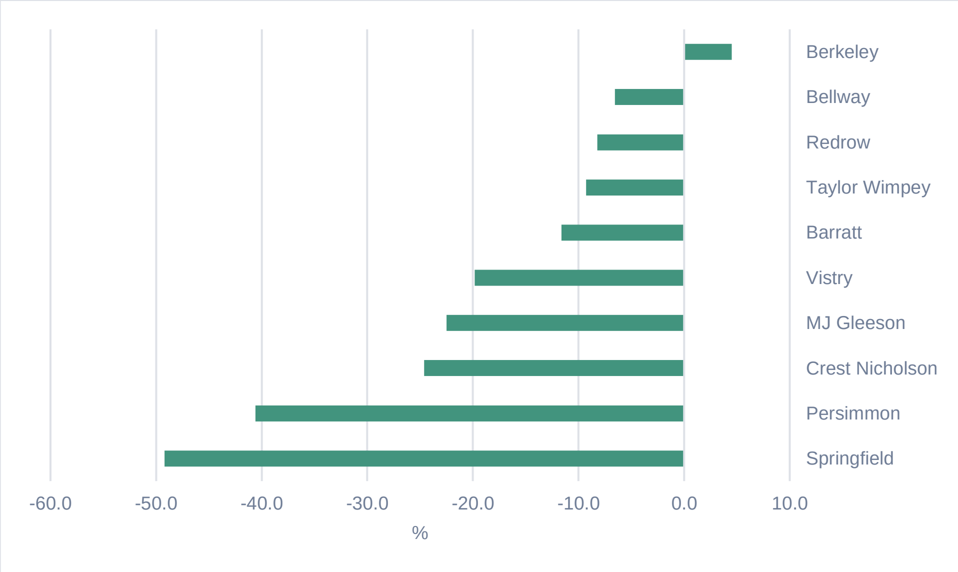



*Source: Equity Development, share prices to 13th July '23*

## …and on a twelve-month view

Springfield has also underperformed peers on a twelve-month view, as illustrated by the charts below. Springfield shares are currently trading at a 52-week low, whereas most sector peers have recovered somewhat from their lows, although share price volatility remains a theme across the sector.

### One-year share price performance




*Source: Equity Development, share prices to 13th July '23*

### Share price compared to 52 week high/ 52 week low


*Source: Equity Development, share prices to 13th July '23*

# Board of Directors

## Sandy Adam, Part-time Executive Chairman

Sandy is the grandson of the founder of Springfield and has worked for the Company since the 1980s. Sandy led the Company during its change from a market garden business into a housebuilder in 1988. Sandy has been Chairman of the Company since 2004 and has been the driver behind many key commercial decisions including the focus on affordable housing, the geographic expansion out of Moray in 2010, the acquisition of Redrow's Scottish assets/operations in 2011, the listing of Springfield on AIM in 2017, the acquisition of Dawn Homes in 2018, Walker Group in 2019, Tulloch Homes in 2021 and, most recently, Mactaggart & Mickel in 2022. Sandy has over 30 years of experience in the Scottish housing and property markets, including his role as Chairman of Homes for Scotland between 2014 and 2015.

## Innes Smith, CEO

After graduating from Heriot Watt University in 1991, Innes qualified as a chartered accountant with KPMG before joining SGL Technic, a subsidiary of a NASDAQ and Deutsche Bourse listed company, as financial controller. Innes was promoted to finance director at SGL Technic and after five years moved to Gael Force. Innes joined Springfield in 2005 as Finance Director and was appointed Chief Executive Officer in October 2012 after seven years with the Company. In his role as Chief Executive Officer Innes has grown the scale of the Springfield family of companies with annual revenue increasing from £53.5 million in 2011/2012 to £257.1 million in 2021/2022. Innes was appointed to the board of Homes for Scotland in 2016.

## Iain Logan, CFO

Iain has 13 years professional experience working in a PLC environment. Iain qualified as a Chartered Accountant in 2002 with PricewaterhouseCoopers in Edinburgh. He then spent 8 years with Murray International Holdings Limited gaining extensive corporate finance experience working on all aspects of acquisitions, disposals and fund raising within its investment company. Iain then spent 9 years as Group Financial Controller of Omega Diagnostics plc. Iain joined Springfield in 2020 as Group Financial Controller and was promoted to Finance Director in 2021. He played a key role in the acquisitions of Tulloch Homes in 2021 and Mactaggart & Mickel in 2022. Iain was appointed Group CFO in 2023.

## Roger Eddie, Non-Executive Director

Roger joined Bank of Scotland as a Graduate Trainee. He obtained his Chartered Banker professional qualification and was elected a Fellow of the Chartered Institute of Bankers in Scotland. Roger became a Business and Corporate Banking specialist, finally becoming the Director of Real Estate responsible for the North of Scotland property lending teams. In 2008 he joined Highlands and Islands Enterprise as a Senior Development Manager and returned to banking as a Senior Commercial Manager in 2010. He was appointed as a non-executive Director to the Board of the Port of Cromarty Firth in January 2013 and was elected as Chairman of the Authority from 2019 until his board tenure ended in December 2021. Roger joined Springfield as a non-executive Director on 13 November 2008.

## Matthew Benson, Non-Executive Director

Matthew graduated from Oxford University and began his career with Morgan Stanley, working in international finance in London. Matthew then established his own consultancy business focused on the structuring and planning of high quality residential and leisure projects. Matthew joined Rettie & Co. as a director in 2002, with responsibility for land and development, new homes and rural projects. He was appointed to the Springfield Board as a non-executive Director in 2011. Matthew has a number of other responsibilities including being a Member of the Advisory Board of Kleinwort Hambros private bank, Trustee of Project Scotland and Director of Edinburgh Arts Festival. Matthew was also the founding chair of bio-tech businesses EctoPharma Limited and Ryboquin Limited.

### Nick Cooper, Non-Executive Director

Nick is a qualified solicitor with over 20 years' board experience with UK-listed and private companies. Between 2020 and 2023, he was General Counsel and Company Secretary and a member of the Group Management Committee of Johnson Matthey plc. From 2010 to 2015 he was Corporate Services Director at Cable & Wireless Communications plc, which he joined from Cable & Wireless plc, where from 2006 to 2010, he was General Counsel and Company Secretary. His previous in-house legal and corporate experience includes roles at Energis Communications Ltd, JD Wetherspoon plc, The Sage Group plc and Asda Group plc.

### Colin Rae, Non-Executive Director

Colin is a Chartered Quantity Surveyor with significant experience in the construction and housebuilding industries. From 2002 to 2019 he held leadership positions at Places for People, one of the largest development, regeneration, property management and leisure companies in the UK. Most recently he was Group Executive Development Director responsible for a UK-wide mixed tenure development programme of c.£200 million. Previous experience includes project management roles at The EDI Group and Woolwich Homes Ltd as well as surveyor positions at Millar Brown Associates and Gibson & Simpson. Colin is a director of Homes for Scotland, he is a Member of the Royal Institution of Chartered Surveyors (MRICS) and holds a BSc in Quantity Surveying from Napier University.

## Contacts

**Andy Edmond**
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

**Hannah Crowe**
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk



Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690