

# WATKIN JONES

## HOME CONSTRUCTION

23 January 2025

### WJG.L

19.8p

Market Cap: £50.8m

#### SHARE PRICE (p)



12m high/low

56p/18p

Source: LSE Data (priced as at prior close)

#### KEY DATA

Net (debt)/cash	£83.4m (at 30/09/24)
Enterprise value	£32.6m
Index/market	AIM
Next news	AGM, 4 March
Shares in issue (m)	256.2
Chairman	Alan Giddins
CEO	Alex Pease
CFO	Simon Jones

#### COMPANY DESCRIPTION

Watkin Jones develops large-scale residential-for-rent properties in the build-to-rent & student accommodation markets.

[www.watkinjones.com](http://www.watkinjones.com)

WATKIN JONES IS A RESEARCH CLIENT OF  
PROGRESSIVE

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## FY24 profits and cashflow beat expectations

A resilient performance in the face of multiple sector headwinds has resulted in profits and net cash for FY24 beating our expectations. Looking forward, the residential rental group is seeing signs of recovery in the investment market and has built a significant pipeline of potential new rental properties. These should translate into revenue and profit once there is clearer visibility on rate cuts, and we believe greater clarity on timing should emerge at the half-year results.

- Sales mainly from previously sold projects.** Revenue declined 12% to £362m, lower than our estimate of £462m, but adjusted PBT of £9.2m beat our £7.0m forecast. Revenue was predominantly from previously sold developments during the year and a successful first year from the Refresh business, which refurbishes existing student accommodation. Improved profits reflected: two sold schemes, including the innovative **Stratford JV**, announced in July; the completion of six schemes, with gross margins in line with guidance; and costs savings undertaken in FY23.
- Focus on cashflow.** A continued focus on cash generation led to net cash, before leases, rising from £43.9m to £83.4m, beating our estimate of £65.5m. The net provision for building safety works has decreased by £6.7m to £48.0m, reflecting: a cash outflow of £16.2m, in line with expectations, including completion of remediation works on three buildings; and an additional provision of £7.0m, covering certain additional properties and changes in scope on several already covered. The £50m banking facility with HSBC was extended by two years.
- Healthy pipeline.** The group has achieved planning for a further c.2,600 purpose-built student accommodation (PBSA) beds across two schemes and secured two further developments, subject to planning.
- Strong long-term outlook; adapting to current challenges.** The group has yet to issue guidance for FY25E, but we envisage it doing so at the HY results. The low transactions in FY24 will affect FY25E results by delaying revenue from building schemes it had expected to forward sell. On a more positive note, there appears to be significant appetite among investors to deploy capital – but only when the trajectory for rates becomes clearer. We believe that, once visibility improves, there could be a marked uplift in sales, development and profitability. In the medium term, there is huge demand for new rental property (page 5). In the meantime, the group has adapted by innovative transactions and diversifying its offering.

FYE SEP (£M)	2020	2021	2022	2023	2024
Revenue	354.1	430.2	407.1	413.2	362.4
Fully Adj PBT	45.8	51.1	48.8	-2.9	9.2
Fully Adj EPS, dil (p)	14.7	16.3	14.8	-0.6	3.5
Dividend per share (p)	7.4	8.2	7.4	1.4	0.0
PER (x)	1.4x	1.2x	1.3x	N/A	5.7x
Dividend yield (%)	37.0%	41.3%	37.3%	7.1%	N/A
EV/EBITDA (x)	-0.5x	-0.5x	-0.5x	-4.6x	-1.9x

Source: Company Information and Progressive Equity Research estimates.

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

*Revenue edges up; margin suppressed by lack of land sales*

*Gross margins recover towards historical norms*

## Build To Rent

Revenues rose by 1.7% to £211m, generated by the build-out of forward sold developments and a development partnership scheme in Cardiff. During the year, practical completion was reached on schemes at Hove and Lewisham, and the first phase of the Sherlock Street development in Birmingham was handed over. A lower gross margin of 8.5% (FY23: 9.5%) reflected the lack of land sales in the period, with the build margins of certain in-year schemes being lower than typical land margins.

During the year, the business submitted planning on a site in Leeds with the potential to deliver around 230 units, which was approved just after year-end. The pipeline has an estimated future revenue value to WJG of £0.5bn (FY23: £0.6bn), of which £232m is currently forward sold (FY23: £447m).

## Student Accommodation

Three purpose-built student accommodation (PBSA) developments were delivered, as planned, in Nottingham, Bristol and Bath. A 260-bed scheme was forward sold in Bristol and the group also sold the 397-bed development in Stratford, East London, to a new joint venture (25% WJG share) created with the Housing Growth Partnership (HGP), a social impact investor and part of Lloyds Banking Group. The JV is expected to sell the completed scheme once it is stabilised, and the group has the opportunity to receive a further cash payment if the returns exceed agreed hurdle rates.

Divisional revenues fell by a third, in part because the HGP transaction was accounted for as the disposal of a subsidiary rather than a land sale. The gross margin of 11.6% (FY23: 6.5%) 'reflects a recovery towards the margins we have historically earned in this sector'. The margin in FY23 was suppressed by additional build costs on a scheme in Exeter where the third-party main contractor went into liquidation.

In FY24, the division secured sites subject to securing planning in Belfast (c.1,000 beds) and Bristol (358 beds). It also obtained planning consent on three more, with the potential to deliver around 2,275 beds. The pipeline has an estimated future group revenue of £0.8bn (FY23: £0.9bn), of which £60m is currently forward sold (FY23: £60m).

## Other divisions

- **Single Family Homes.** The affordable-led business completed 20 sales in the year (FY23: 36). The business has continued to make progress at its Crewe site but delays to house sales have increased holding and management costs, eroding the margin on completed transactions. The business has revised its planning application at Crewe to reduce the number of four-bed units and provide more two- and three-bed units, which will increase the potential for selling to single-family housing funds. In December 2024, it signed a partnership with Torus to build 295 new affordable homes in St Helens.
- **Refresh.** Having performed a soft launch of the business in the first half, it successfully completed three refurbishment projects on PBSA assets for an existing institutional client. The completed projects renovated 800+ bedrooms and more than 660sqm of amenity space over an 11-week period. With a dedicated team in place to deliver these projects and an active pipeline, the business anticipates good growth in FY25. The PBSA sector currently has the greatest potential given the large proportion of outdated stock, but there could be opportunities to improve older private rented sector homes.
- **Accommodation Management.** Revenues in Fresh fell 14.7% to £8.1m, resulting from the 6,800 student beds that left in October 2023, with the majority being managed by

a new in-house client platform. This was partially offset by Fresh taking over the management of an existing 250-bed PBSA scheme and mobilising a 120-bed BTR (affordable) scheme, as well as contract wins to take on the management of 366 student beds in FY25 and FY26. Fresh also mobilised 1,866 student beds ahead of the 2024/25 academic year, which will contribute to revenue in FY25. At the end of FY24, Fresh had 18,656 units under management across 58 schemes (FY23: 23,064 and 71).

**Figure 1: Watkin Jones – Key performance highlights (£m unless stated)**

Year-end September	2020	2021	2022	2023	2024	H1 2023	H2 2023	H1 2024	H2 2024
<b>Revenue</b>									
Student accommodation	226.0	259.9	180.0	175.7	117.6	48.4	127.3	61.0	56.6
Change (%)	-8.2%	15.0%	-30.7%	-2.4%	-33.1%	-38.2%	25.1%	20.0%	-55.6%
Build-to-rent	94.0	138.6	191.2	207.7	211.3	93.0	114.7	99.8	111.5
Change (%)	21.4%	47.4%	38.0%	8.6%	1.7%	-0.8%	17.7%	13.0%	-2.8%
Affordable-led Homes	26.3	22.7	14.5	19.6	12.9	7.8	11.8	8.9	4.0
Change (%)	-23.4%	-13.7%	-36.1%	35.4%	-34.2%	43.8%	30%	-25.0%	-66.4%
Accommodation management	7.6	7.8	9.1	9.5	8.1	4.7	4.8	4.1	4.0
Change (%)	1.7%	2.3%	16.9%	4.5%	-14.6%	0.1	(0.0)	(0.2)	(0.2)
Refresh	-	-	-	-	10.9	-	-	-	10.9
Corporate	0.3	1.3	12.3	0.7	1.6	-	0.7	1.3	0.3
<b>Group revenue</b>	<b>354.1</b>	<b>430.2</b>	<b>407.1</b>	<b>413.2</b>	<b>362.4</b>	<b>153.9</b>	<b>259.4</b>	<b>175.1</b>	<b>187.3</b>
Change (%)	0.0%	0.0%	0.0%	0.0%	12.4%	-20.3%	21.1%	13.8%	-27.9%
<b>Gross profit</b>									
Student accommodation	54.3	50.5	26.4	11.4	13.6	4.8	6.6	7.1	6.5
Margin (%)	24.0%	19.4%	14.6%	6.5%	11.6%	9.8%	5.2%	10.4%	11.5%
Build-to-rent	14.9	29.8	32.8	19.8	18.0	8.3	11.6	9.3	8.7
Margin (%)	15.8%	21.5%	17.2%	9.5%	8.5%	8.9%	10.1%	9.7%	7.8%
Affordable-led Homes	4.0	2.6	1.9	1.9	(0.2)	0.9	1.0	0.4	(0.6)
Margin (%)	15.4%	11.3%	13.2%	9.8%	-1.6%	11.9%	8.4%	10.0%	-15.2%
Accommodation management	4.5	4.1	5.9	6.0	4.4	3.2	2.8	2.3	2.1
Margin (%)	59.8%	52.6%	65.1%	63.2%	54.3%	67.1%	59.3%	65.0%	50.9%
Refresh	-	-	-	-	1.5	-	-	-	1.5
Margin (%)	-	-	-	-	13.8%	-	-	-	13.8%
Corporate	(1.8)	(2.1)	0.6	(4.3)	(3.5)	(1.1)	(3.2)	(0.7)	(2.8)
<b>Gross profit</b>	<b>75.9</b>	<b>84.8</b>	<b>67.6</b>	<b>34.9</b>	<b>33.8</b>	<b>16.1</b>	<b>18.8</b>	<b>18.4</b>	<b>15.4</b>
Margin (%)	21.4%	19.7%	16.6%	8.4%	9.3%	10.4%	7.2%	10.5%	8.2%
Group admin	(24.2)	(27.5)	(31.2)	(30.1)	(29.5)	(14.3)	(20.4)	(14.4)	(15.1)
Profit on sale of I-back props	-	-	18.3	(4.6)	6.3	-	-	-	6.3
<b>EBIT, group only</b>	<b>51.7</b>	<b>57.3</b>	<b>54.7</b>	<b>0.2</b>	<b>10.6</b>	<b>1.8</b>	<b>(1.6)</b>	<b>4.0</b>	<b>6.6</b>
Share in op profit of JVs	0.2	(0.1)	-	(0.0)	(0.0)	-	(0.0)	-	(0.0)
<b>Total operating profit</b>	<b>51.9</b>	<b>57.2</b>	<b>54.7</b>	<b>0.2</b>	<b>10.6</b>	<b>1.8</b>	<b>(1.6)</b>	<b>4.0</b>	<b>6.6</b>
Exceptionals	(20.4)	-	(30.4)	(39.6)	(9.5)	(1.1)	(38.5)	(1.3)	(8.3)
Net interest	(6.1)	(6.0)	(5.9)	(3.0)	(1.3)	(1.5)	(1.5)	(0.6)	(0.7)
<b>PBT</b>	<b>25.3</b>	<b>51.1</b>	<b>18.4</b>	<b>(42.5)</b>	<b>(0.3)</b>	<b>(0.8)</b>	<b>(41.7)</b>	<b>2.1</b>	<b>(2.4)</b>
Add back exceptionals	20.4	-	30.4	39.6	9.5	1.1	38.5	1.3	8.3
<b>Adj PBT</b>	<b>45.8</b>	<b>51.1</b>	<b>48.8</b>	<b>(2.9)</b>	<b>9.2</b>	<b>0.3</b>	<b>(3.2)</b>	<b>3.4</b>	<b>5.8</b>
<b>EBITDA</b>	<b>61.1</b>	<b>65.9</b>	<b>63.1</b>	<b>7.1</b>	<b>17.5</b>	<b>4.8</b>	<b>2.3</b>	<b>7.5</b>	<b>10.0</b>
<b>Adj EPS, dil (p)</b>	<b>14.7</b>	<b>16.3</b>	<b>14.8</b>	<b>(0.6)</b>	<b>3.5</b>	<b>0.1</b>	<b>(0.8)</b>	<b>1.3</b>	<b>2.2</b>
<b>DPS (p)</b>	<b>7.4</b>	<b>8.2</b>	<b>7.4</b>	<b>1.4</b>	<b>-</b>	<b>1.4</b>	<b>-</b>	<b>TBC</b>	<b>TBC</b>
Net cash/(debt), post-IFRS 16	(39.6)	(4.9)	33.5	(1.3)	42.6	(2.1)	(1.3)	(1.0)	42.6
<b>Net cash/(debt), pre-IFRS 16</b>	<b>94.8</b>	<b>124.3</b>	<b>82.6</b>	<b>43.9</b>	<b>83.4</b>	<b>45.3</b>	<b>43.9</b>	<b>44.0</b>	<b>83.4</b>

Source: Company Information and Progressive Equity Research estimates. <sup>1</sup> £0.1m Corporate profit minus £0.8m impairment of inventory

*Group addresses growing private and student rental markets, backed in long term by Fresh accommodation management business*

## WJG in brief: capital-light model in growth markets

The group, admitted to AIM in 2016, in our view offers a unique capital-light development and asset management model for private and student rental. It develops BTR and PBSA schemes, largely forward funded by institutions, which acquire sites from WJG with the benefit of planning and then pay for construction monthly as development progresses, thus reducing capital tie-up for WJG. The group also provides an accommodation management service through its Fresh Property Group (FPG) business, which manages both WJG and third-party developed assets. We believe the group should benefit from continuing growth opportunities in new student accommodation, has 'early mover advantage' in BTR, and this is all tied together by FPG in what we have defined as a 'virtuous circle'. For more information, see the [Watkin Jones section](#) of Progressive's website.

### Key current themes: addressing growing rental markets

- **Capital-light investment model.** Institutional investors have underpinned the group's capital-light growth model by acquiring developments on a forward-sales basis, in which they pay for the land and the development works as they progress. The current elevated interest rates have led to a partial slowdown in investment, but we believe both BTR and PBSA remain attractive due to long-term visibility of rental income.
- **Build-to-rent.** As we have argued in our research, we expect long-term growth in BTR, fuelled by demand from renters, either economically or for 'lifestyle', and from investors, attracted by income prospects while other sources of yield are diminishing.
- **Student demand remains high.** Despite past worries that Brexit and then Covid might have deterred university entries, particularly from overseas students, UCAS continues to register new records for applications from both home and abroad.
- **Opportunities in land market – boosted by strong balance sheet.** Any slowdown in investment decisions could, in our view, open up new opportunities for WJG to buy land at reduced prices, given the group's net cash of c.£65m. We believe WJG could exploit significant opportunities from landowners in challenged sectors such as retail and leisure. WJG could also benefit from recent changes to planning rules, allowing vacant office and retail properties to be fast-tracked for residential use.
- **Fresh accommodation management: tying the group together.** We see Fresh as not only providing a stable income stream from its regular management fees but also using its insight and 'brand' to tie together student accommodation, BTR and possibly co-living as graduates move into work.

**Financial Summary: Watkin Jones**

**Year end: September (£m unless shown)**

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>PROFIT &amp; LOSS</b>					
Revenue	354.1	430.2	407.1	413.2	362.4
Adj EBITDA	61.1	65.9	63.1	7.1	17.5
Adj EBIT	51.7	57.3	54.7	0.2	10.6
Reported PBT	25.3	51.1	18.4	(42.5)	(0.3)
Fully Adj PBT	45.8	51.1	48.8	(2.9)	9.2
NOPAT	42.5	47.0	42.6	0.1	10.4
Reported EPS (p)	8.2	16.4	5.2	(12.7)	0.7
Fully Adj EPS (p)	14.7	16.3	14.8	(0.6)	3.5
Dividend per share (p)	7.4	8.2	7.4	1.4	0.0
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	54.9	76.3	(19.6)	(17.2)	27.5
Free Cash flow	38.0	61.3	(15.3)	(16.5)	30.1
FCF per share (p)	14.9	23.9	(6.0)	(6.4)	11.7
Acquisitions	0.8	0.1	0.0	0.0	16.8
Net cash flow	18.9	1.8	(25.5)	(38.4)	24.5
Overdrafts / borrowings	174.1	141.2	77.4	73.7	54.4
Cash & equivalents	134.5	136.3	110.8	72.4	97.0
Net (Debt)/Cash, pre-IFRS 16	94.8	124.3	82.6	43.9	83.4
IFRS 16 Lease liabilities	(134.5)	(129.3)	(49.1)	(45.2)	(40.8)
Net (Debt)/Cash post-IFRS 16	(39.6)	(4.9)	33.5	(1.3)	42.6
<b>NAV AND RETURNS</b>					
Net asset value	167.8	184.8	176.5	128.8	130.7
NAV/share (p)	65.5	72.1	68.8	50.2	51.0
Net Tangible Asset Value	154.6	172.1	164.3	117.2	119.6
NTAV/share (p)	60.3	67.2	64.1	45.7	46.7
Average equity	164.5	176.3	180.9	153.5	131.3
Post-tax ROE (%)	25.5%	7.6%	(18.0%)	1.2%	0.0%
<b>METRICS</b>					
Revenue growth	(5.5%)	21.5%	(5.4%)	1.5%	(12.3%)
Adj EBITDA growth	(5.7%)	7.9%	(4.3%)	(88.7%)	145.5%
Adj EBIT growth	(7.1%)	10.8%	(4.5%)	(99.7%)	6115.9%
Adj PBT growth	(9.3%)	11.7%	(4.6%)	(105.9%)	(422.0%)
Adj EPS growth	(8.5%)	11.2%	(9.7%)	(104.4%)	(638.6%)
Dividend growth	(12.0%)	11.6%	(9.8%)	(81.1%)	(100.0%)
Adj EBIT margins	14.6%	13.3%	13.4%	0.0%	2.9%
<b>VALUATION</b>					
EV/Sales (x)	-0.1	-0.1	-0.1	-0.1	-0.1
EV/EBITDA (x)	-0.5	-0.5	-0.5	-4.6	-1.9
EV/NOPAT (x)	-0.8	-0.7	-0.8	-329.2	-3.1
PER (x)	1.4	1.2	1.3	N/A	5.7
Dividend yield (%)	37.0%	41.3%	37.3%	7.1%	N/A
FCF yield	75.0%	120.5%	(30.0%)	(32.5%)	59.2%

Source: Company information and Progressive Equity Research estimates

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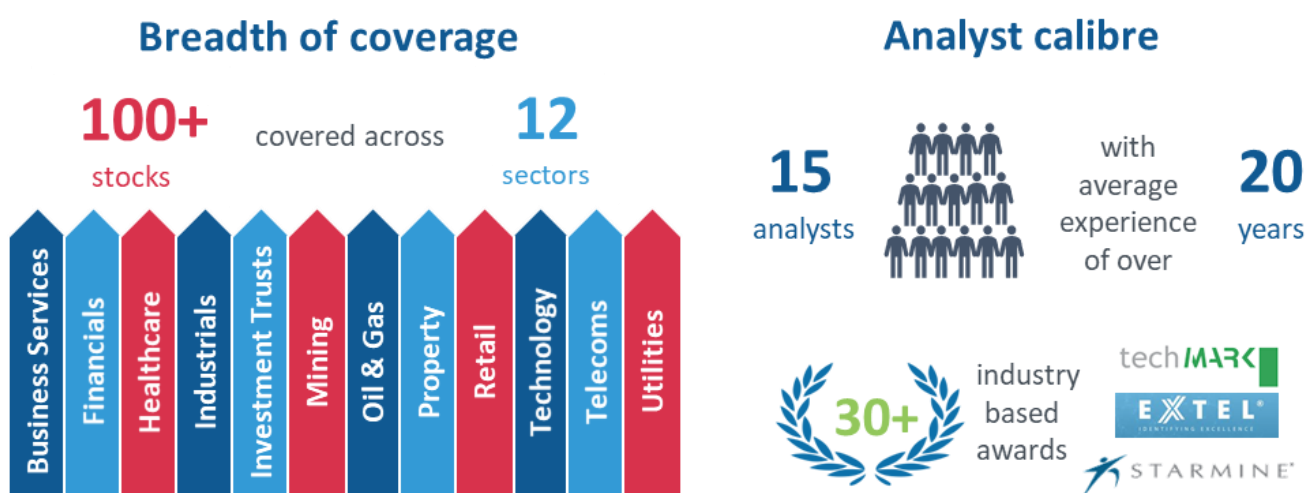
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