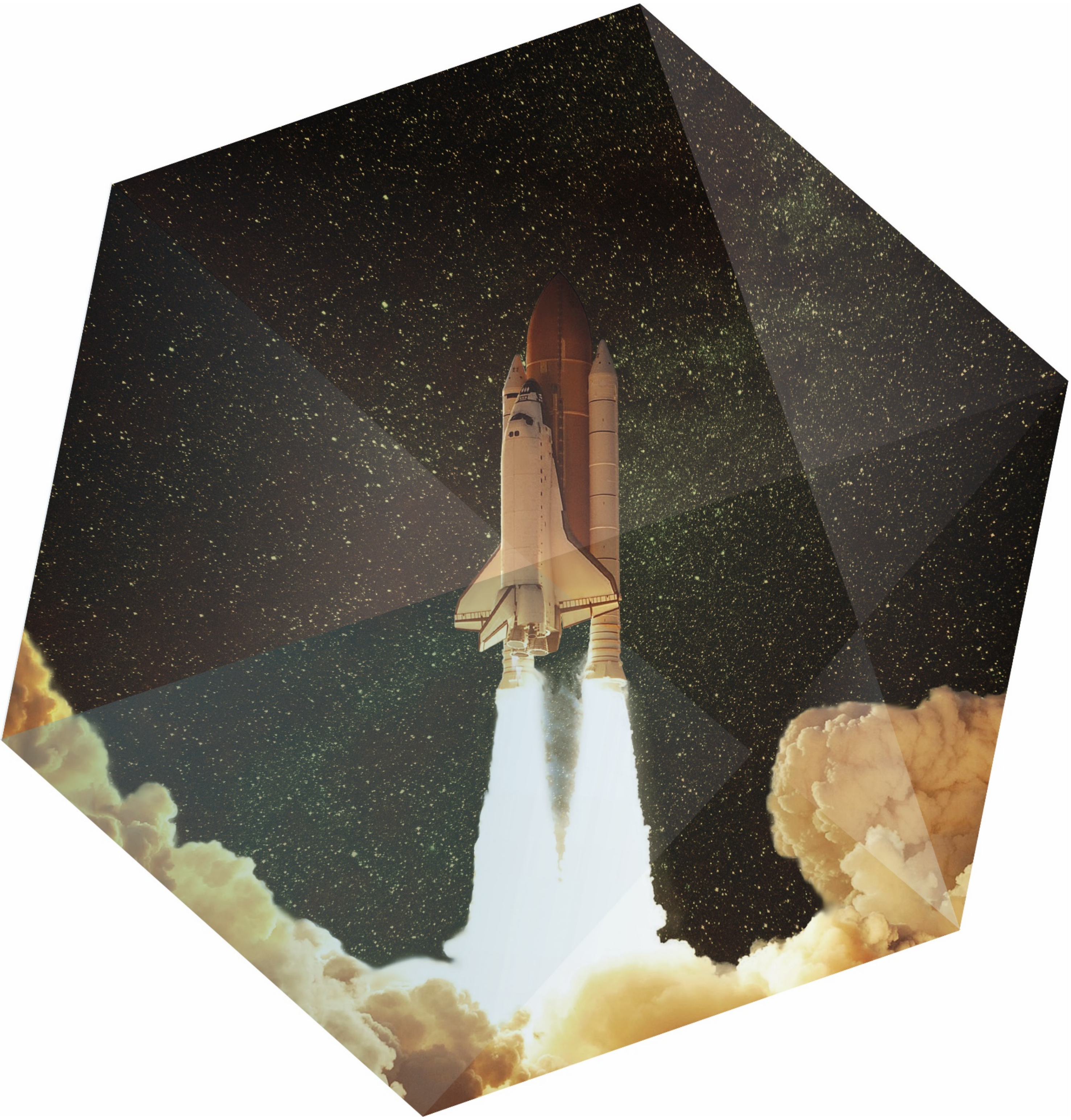

UK Housebuilding Sector 1Q 2020

The Promised Land

By Tony Williams, Hardman & Co Analyst

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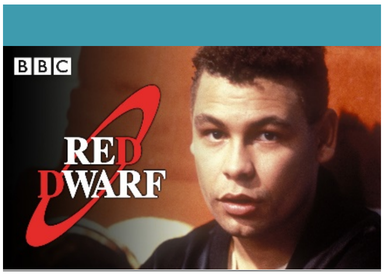
The Promised Land



Source: BBC

Red Dwarf, the very British sci-fi comedy franchise, ran for 11 seasons – most recently in 2017; and *The Promised Land* is a feature-length TV movie – out this year.

Yes, the programme is an acquired taste.

Strangely, too, many episodes are impacted by a virus or three (physiological, not main-frame).

More practical right now, and a veritable Canaan, would be *Reverse Flu Virus*; and, even better, the *Luck Virus*.

The former infects the individual with a feeling of well-being and happiness - whilst the latter morphs the host into the luckiest person alive and allows him or her to, very easily, do things which are considered almost impossible.

As the contagion – medical and financial – of COVID-19 spreads, the Red Dwarf viruses would be the ones to have.

But science fiction has an empiric habit of becoming reality.

As a close relative of *Red Dwarf* once said: "let us think the unthinkable, let us do the undoable, let us prepare to grapple with the ineffable itself, and see if we may not eff it after all".

1Q 2020: "phew"

On 19 February, the tall UK Housebuilding Sector hit a record-high valuation of £53.5bn.

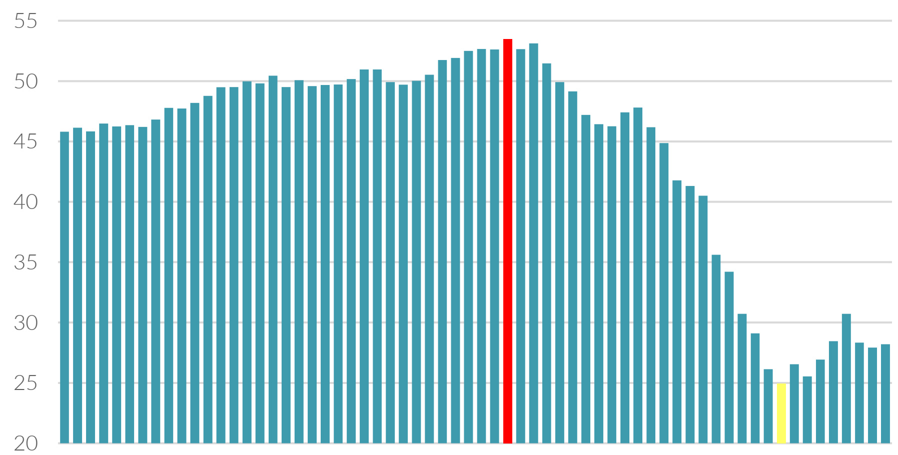
1Q dropped almost £17bn in value

In 1Q 2020, however, the Sector dropped 37.5%, or a short £16.9bn, to close at £28.2bn, which means this is the worst quarter on record – 2Q 2016, post the Brexit vote, saw minus 26.3%.

March, on its own, was the worst-ever month, too, with a collapse of 39.3%, and Week 11 was the worst week at minus 23.8%.

But the Sector avoided the worst day, i.e. 12 March at minus 12.1%, whereas 24 June 2016 was at a negative 24.2%. Strangely, from 64 trading days in 1Q, 32 were up and 32 were down; while, from 14 weeks, seven were up and seven were down.

UK Housebuilding Sector market value – daily: 1Q 2020 (£bn)



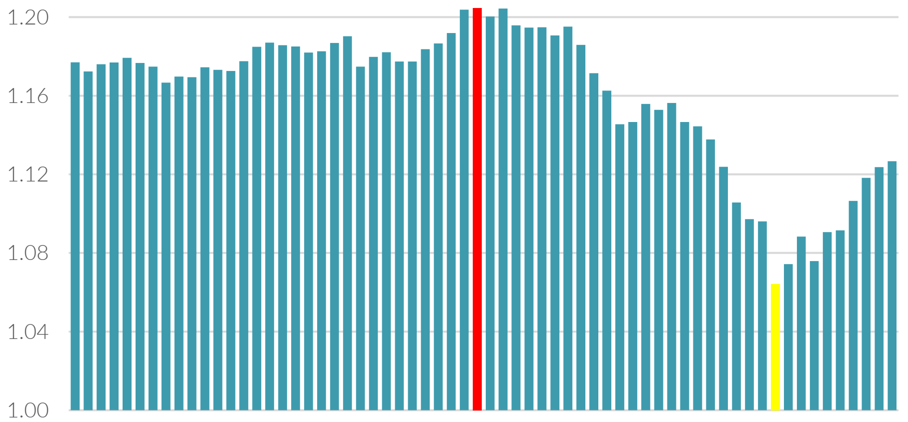
Note: high (red) was on 19 February and low (yellow) was on 19 March
Source: Hardman & Co Research

You would be forgiven for thinking that the same chart has been used twice – above and overleaf. But, no, it is simply that there is a very strong correlation between the value of Housebuilders and the Euro versus the British Pound.

In 1Q, their respective heights were 19 and 14 February, while the short lows were within 24 hours of each, on 19 and 18 March, respectively.

That said, in the last few days of 1Q, the Euro/Sterling exchange rate went unilateral as issues of economic stress and disharmony within the EU percolated.

Euro to British Pound – daily: 1Q 2020 (€)



Note: high (red) was on 14 February and low (yellow) was on 18 March
Source: Hardman & Co Research

In the first quarter of 2020, the share prices of UK Housebuilders fell by an average 39% or, weighted by market capitalisation, the loss was 37%.

The best performer (*sic*) was a lofty Abbey with a dip of 6%, while, at the other end, four companies saw their share prices halve: Redrow, McCarthy & Stone, Vistry and Crest Nicholson.

Share prices fell by an average 39%

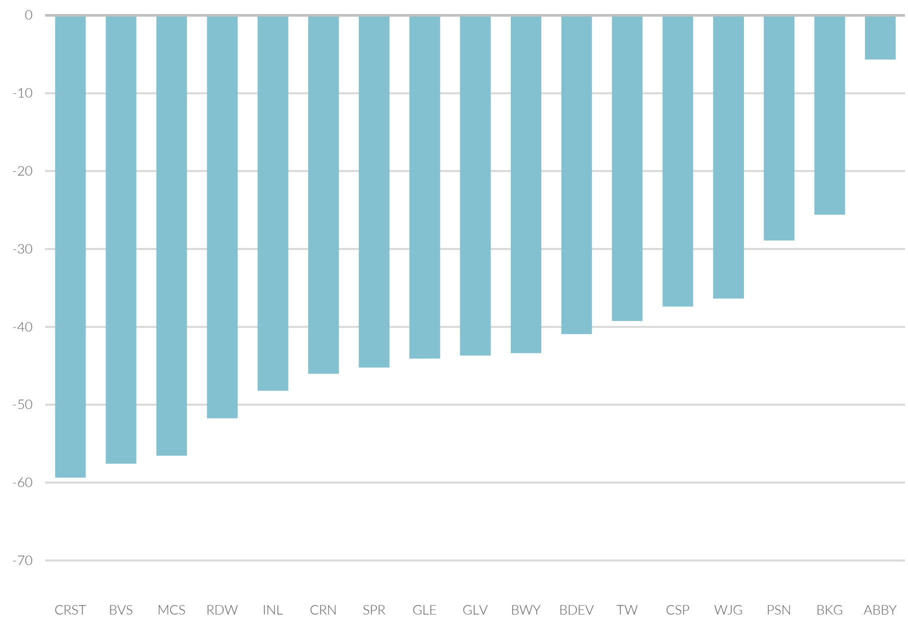
Similarly, when looking at a year ago, the average demise of share prices is 30%, or 27% weighted. In this context (31 March 2020 versus 31 March 2019), Berkeley is off just 2%, while Crest Nicholson was vertically challenged, again, at minus 53%.

The Sector's trough was on 7 July 2008, and the rise to February's peak was more than 1,600%, or £50bn.

After 1Q's fall-out this year, the gain is a mere £25bn; and the Sector is just 11% above where it was in the immediate aftermath of the Brexit referendum in June 2016.

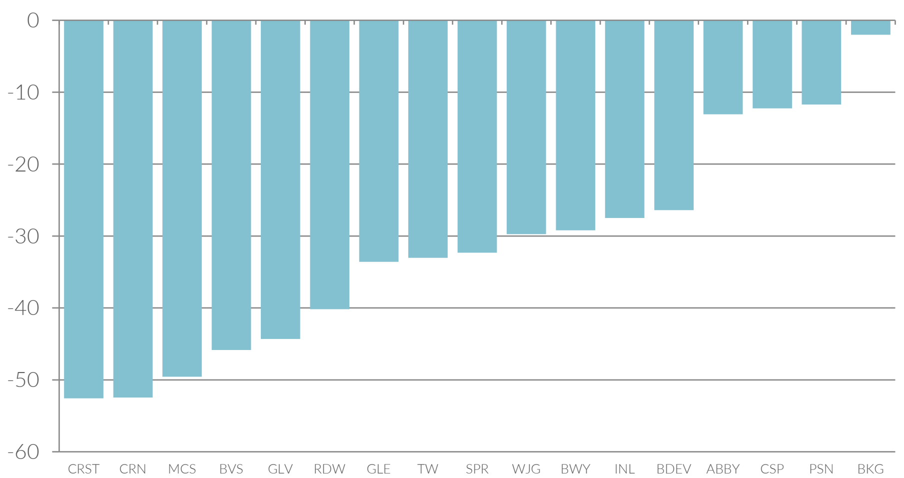
Over the past 37 quarters, too, the Sector has risen in 25 and fallen short in 12, i.e. since 1Q 2011.

Share prices in 1Q 2020 (% change), i.e. year-to-date through 31 March



Source: Hardman & Co Research

UK Housebuilding Sector share prices: 31/03/20 vs. 31/03/19 (% change)



Source: Hardman & Co Research

1Q relatively

Housebuilders were among the worst performers

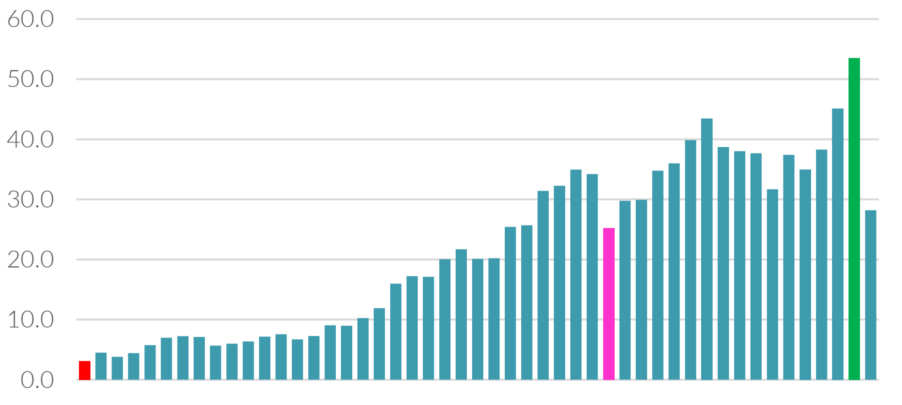
In 2020 to date (through 31 March), the Housebuilders were among the worst performers on the London Stock Exchange, with a 37% share price fall (weighted); the same is true versus 31 March 2019, i.e. minus 23%.

Construction and Building Materials also did badly, with a 29% drop in 2020 so far and 12% year-on-year.

The real estate sectors (REIS/REIT), meanwhile, have declined by around 28% each in 2019 (less so annualised).

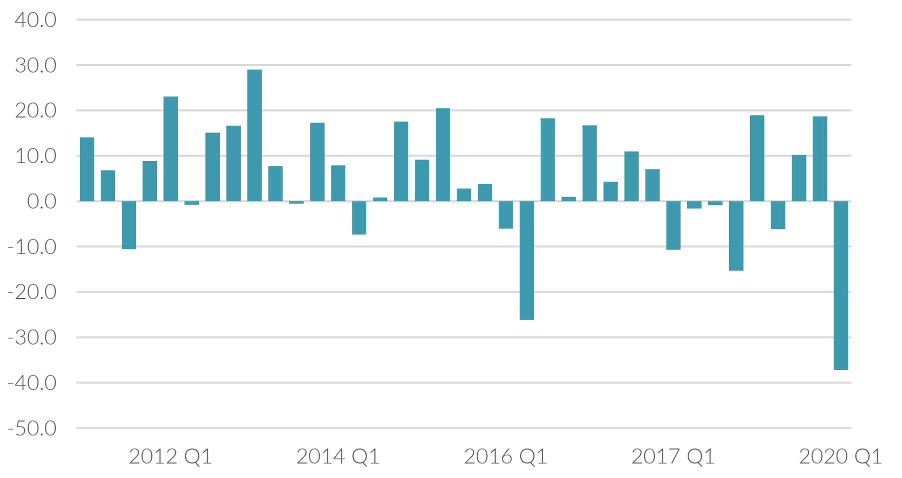
Finally, the FTSE 100 is down 25% in 2020 (to 31 March) and 22% on a year ago, while the FTSE 250 is reduced by 31% and 21% on the same basis; and the All Share Index was diminutively similar.

UK Housebuilding Sector market value: 3Q 2008 to 1Q 2020 (£bn)



Note: low (red) was on 7 July 2008 and high (green) was on 19 February 2020; Brexit Vote (pink)
Source: Hardman & Co Research

Housebuilding Sector: 1Q 2011 to 1Q 2020 (% change in share prices each quarter)



Source: Hardman & Co Research

The long and short

At 31 March 2020, Housebuilders' share prices were, on average, some 1,125% above the lows of 2008; and 21% up on more recent 52-week lows (weighted, these viewing numbers are 1,675% and 25%, respectively).

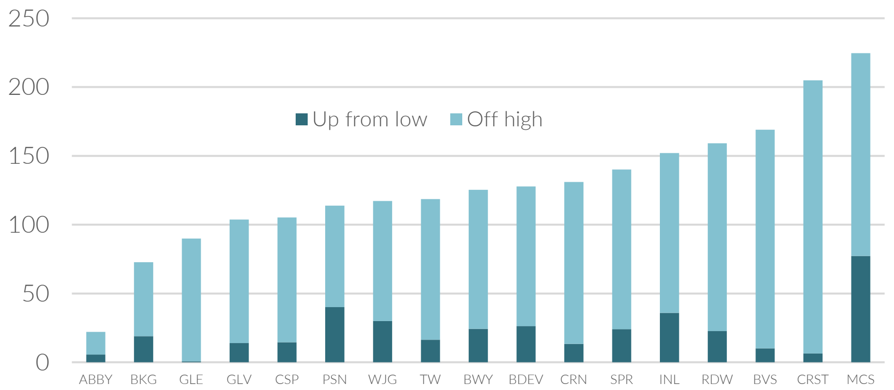
Four players account for 67% of Sector value

The Housebuilders are also now 43% below their 2007 peaks (49% weighted); plus, they are also 47% off 52-week highs, on both actual and weighted bases, respectively.

"The Big Four" housebuilders also continue in the FTSE 100 and, on 31 March 2020, they placed as follows: T. Wimpey (87), Barratt (76), Berkeley (72) and Persimmon (54).

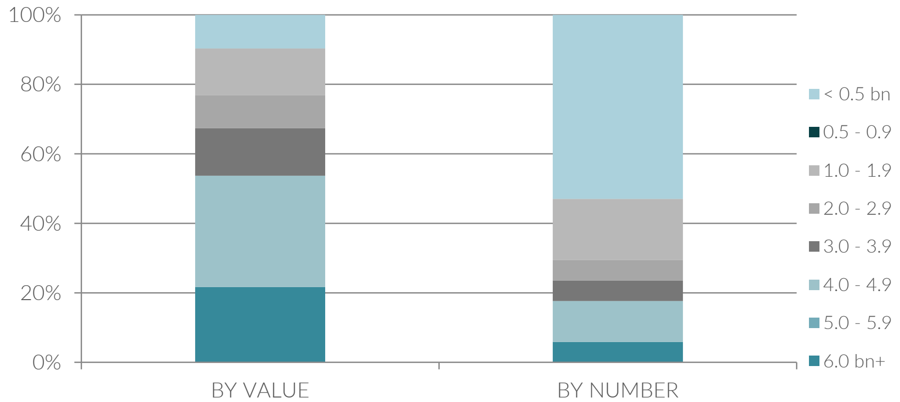
The FTSE 100 four account for 67% of the Sector's screen value; and there are now nine companies (from 17) worth less than £500m – and accounting for just 10% of the value.

Movement against 52-week lows and highs as at 31 March 2020 (% change)



Source: Hardman & Co Research

Sector structure by stock market value: 17 firms worth £28.2bn at 31 March 2020



Note: Legend is in £bn
Source: Hardman & Co Research

Price-to-Book and Total Shareholder Return

The average TSR was minus 29% in the 12 months to 31 March 2020

The Housebuilders' latest average Price-to-Book valuation was 1.07 on 31 March 2020 and 1.32 weighted.

This includes, too, just a single company north of 2.0 (Watkin Jones).

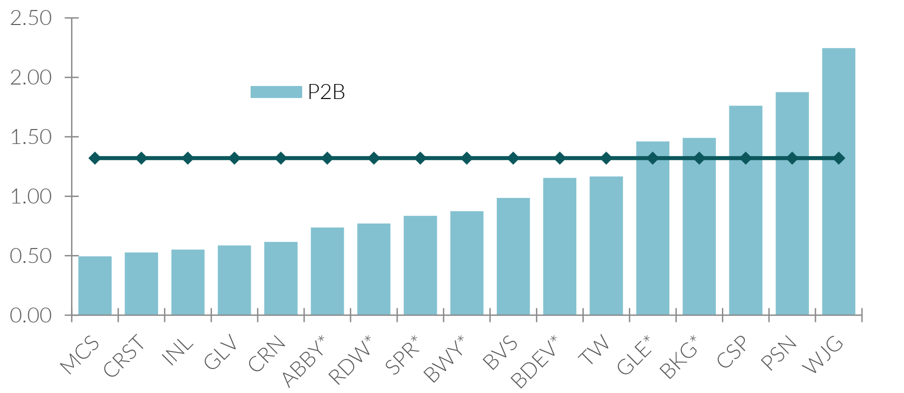
A year ago, these core ratios were 1.57 and 1.77, respectively; and four companies were over 2.0.

Total Shareholder Return (TSR) for the Sector for the 12 months to 31 March 2020 was minus 28.7% actual and minus 18.1% weighted by market capitalisation.

Berkeley was the only one positive at 1.5%, while the worst were Cairn and Crest Nicholson, both north of minus 50%.

In calendar 2019, the Sector's TSR was a staggering 45.0% actual and 55.5% weighted.

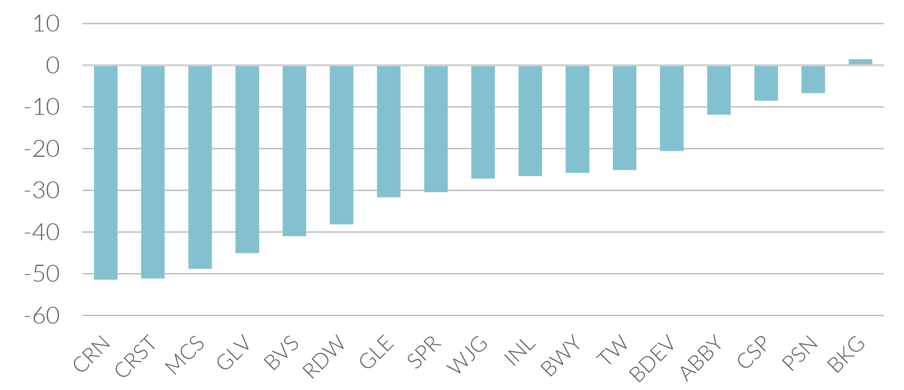
Housebuilders' P/B at year-end/latest interims: priced at 31 March 2020 (x)



*denotes interim results; weighted average is 2.13x (line on chart), and actual average is 1.75x

Source: Hardman & Co Research

Housebuilders' TSR in 12 months to 31 March 2020 (annual %)



Source: Bloomberg, Hardman & Co Research

1Q results/trading updates

In 1Q, there were seven sets of final results and five interims, plus more than a dozen trading updates from 17 Sector companies. See section on COVID-19 too.

EBIT margins eased from 17.4% to 15.9%

Average individual PBT profit for the 1Q reportees dipped 9%, together with average individual EBIT margins off 150bps, from 17.4% to 15.9% – on revenue 2.2% higher at £16.3bn.

EPS decreased 8.3%, on average, while dividends collapsed, as 13 companies passed on ordinary pay-outs (see over), due to COVID-19, i.e. the average decline was 61%, with average individual cover rising 2.7x to 4.2x.

Orders were unchanged from a sample of five, comprising Crest off 22% and Taylor Wimpey up 20%.

Average individual RoCE was reduced by 300bps to 17.4% (versus 20.4% last time); capital turn reduced a touch to 1.07x versus 1.18x.

Profit & Loss data

Date	Company	Event	Period ending	PBT (£m) Previous	PBT (£m) Latest	PBT (% chg.)	EBIT margin (%) Previous	EBIT margin (%) Latest	Revenue (% chg.)	Orders (% chg.)	DPS (% chg.)	DPS cover (x) Previous	DPS cover (x) Latest
14-Jan	Watkin J.	Full Year	30-Sep	50	52	5	13.7	14.0	3	-	10	2.1	-
28-Jan	Crest	Full Year	31-Oct	169	121	-28	16.2	12.2	-3	-22	-66	1.6	-
28-Jan	McCarthy & S.	Full Year	31-Oct	62	63	2	10.1	9.4	8	0	-65	1.7	-
31-Jan	Inland	Full Year	31-Dec	19	11	-41	15.3	11.4	0	-	-61	3.5	-
05-Feb	Redrow*	Half Year	31-Dec	185	157	-15	19.3	18.3	-10	0	-100	4.2	-
05-Feb	Barratt*	Half Year	31-Dec	404	441	9	19.0	19.4	6	0	-100	3.4	-
13-Feb	Gleeson*	Half Year	31-Dec	22.3	13.3	-40	18.7	12.7	-11	-	-100	2.9	-
25-Feb	Springfield*	Half Year	31-Dec	6	6	3	8.4	9.2	5	-	-100	4.3	-
26-Feb	T. Wimpey	Full Year	31-Dec	857	822	-4	21.4	19.4	6	20	-77	1.3	-
27-Feb	Persimmon	Full Year	31-Dec	1,091	1,041	-5	29.2	28.4	-2	-2	-47	1.2	-
27-Feb	Vistry	Full Year	31-Dec	168	188	12	16.4	17.0	7	-	-64	1.8	-
25-Mar	Bellway*	Half Year	31-Jan	314	292	-7	21.5	19.3	4	2	-100	4.1	-
Total (£m)				3,347	3,208								
Individual average change (%)						-9			1	0	-73	2.7	-
Sector average change (%)						-4			2	4	-61	1.9	-
Individual average margin (%)							17.4	15.9					
Sector average margin (%)							21.3	20.0					
EXTRA:				€m	€m								
28-Feb	Glenveagh	Full Year	31-Dec	-3.6	27.8	881	-	10.7	238	-	-	-	-
			in GBP	-3.2	24.4								
03-Mar	Cairn Homes	Full Year	31-Dec	41.5	58.6	-41	15.8	15.6	29	32	-	-	-
			in GBP	36.7	51.4								

*Notes: (i)*denotes half-year or interim results*
(ii) PBT numbers are adjusted where necessary and are net of exceptional items; DPS is dividend per share and includes specials where relevant
(iii) McCarthy & Stone's latest "full year~" is for 14 months, prior is for 12 months and includes £5.9m revaluation profits, which are recurring (2018: nil)
(iv) Inland's latest is for 14 months vs. 12 months, and is ex-JV sale (£12.6m) and revaluation profit (£1.1m)
(v) Glenveagh and Cairn are listed in London and Dublin, and report in Euros; and are ex-the averages
(vi) five interim dividends have been passed [see minus 100% in DPS (% chg.) column] plus six finals where % chg. is interim DPS vs. previous year's final
Source: Hardman & Co Research

Balance sheet data

Date	Company	Event	Period ending	Net assets (£m)		Net (Debt)/Cash (£m)		Gearing (%)		RoCE (%)		Capital turn (x)
				Previous	Latest	Previous	Latest	Previous	Latest	Previous	Latest	
14-Jan	Watkin J.	Full Year	30-Sep	153	176	80	77	-52	-44	29.6	25.6	1.83
28-Jan	Crest	Full Year	31-Oct	873	854	14	37	-2	-4	17.9	13.6	1.11
28-Jan	McCarthy & S.	Full Year	31-Oct	696	703	6	27	-1	-4	9.0	9.6	1.02
31-Jan	Inland	Full Year	31-Dec	142	162	-80	-152	56	94	8.6	5.2	0.45
05-Feb	Redrow*	Half Year	31-Dec	1,560	1,642	101	14	-6	-1	23.8	18.4	1.01
05-Feb	Barratt*	Half Year	31-Dec	3,660	3,891	379	427	-10	-11	21.0	21.4	1.10
13-Feb	Gleeson*	Half Year	31-Dec	194	202	28	31	-14	-15	22.8	13.2	1.04
25-Feb	Springfield*	Half Year	31-Dec	82	91	-25	-56	31	62	11.6	9.1	0.99
26-Feb	T. Wimpey	Full Year	31-Dec	3,227	3,308	644	546	-20	-16	25.1	23.9	1.23
27-Feb	Persimmon	Full Year	31-Dec	3,195	3,259	1,048	844	-33	-26	36.4	33.7	1.19
27-Feb	Vistry	Full Year	31-Dec	1,061	1,272	127	362	-12	-28	15.8	15.1	0.89
25-Mar	Bellway*	Half Year	31-Jan	2,694	3,039	-27	5	1	0	23.2	19.4	1.01
Total (GBP)				17,535	18,599	2,295	2,160					
Individual average change (%)					8							
Sector average change (%)					6							
Individual average RoCE (%, adjusted)										20.4	17.4	1.07
Sector average RoCE (%, adjusted)										18.6	16.8	0.84
Individual average gearing (%)								-5	0			
Sector average gearing (%)								-13	-12			
EXTRA:				**€m**	**€m**							
28-Feb	Glenveagh	Full Year	31-Dec	843	867	132	55	-16	-6	-	3.4	0.31
			in GBP	758	733	119	46					
03-Mar	Cairn Homes	Full Year	31-Dec	757	764	-134	-92	18	12	5.6	7.5	0.48
			in GBP	680	646	-121	-78					

Notes: (i) ROCE is return on capital employed and adjusted where required for half years where appropriate
(ii) Glenveagh and Cairn are listed in London and Dublin, and report in Euros; and are ex-the averages
Source: Hardman & Co Research

Performance and outlook

Watkin Jones (final results – 14 January)

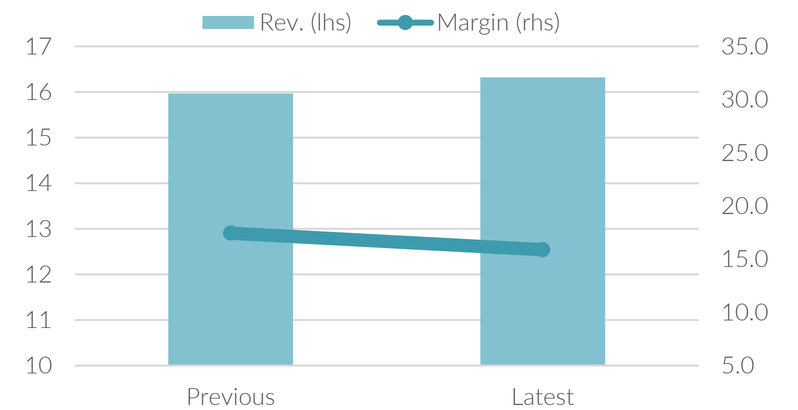
The company's final results covered the 12 months to 30 September 2019 – and comprised 9,947 words (net of the main tables and notes). Perhaps, this prolixity is justified by such was the quality of last year's performance, the cogent analysis of its businesses and market-places plus its extraordinary forward-sold position. Few people, though other than saddos like me would have made it to page 29.

Cogent analysis and an extraordinary forward-sold position

In the year, revenue rose 3% to £375m despite its core activity (PBSA or purpose-built student accommodation) dipping by a fifth to £246m (Brexit-related caution). To the rescue, though, came Build-to-Rent (BTR) which generated £74m (2018: £3.8m) with the balance coming from accommodation management and a small but tidy housebuilding unit. EBIT (ex-exceptional items) was struck 5% to the good at £52.3m with margins steady at 14.0% (2018: 13.8%). PBT (on same basis) was also up 5% at £52.3m (as were EPS) with the dividend for the year raised 10% to 8.35p with cover at 2.00x (2018: 2.10x).

In terms of the balance sheet, net cash was little changed at £76.9m (2018: £80.2m). Other metrics declined, too, with adjusted RoCE down from 29.6% to 25.6% and capital turn dipping from 2.0x to 1.8x. Yes, I am being picky because the 2019 performance, even though reduced, is still first class.

Sector revenue (£m/LHS) and EBIT margin (%/RHS) reported in 1Q 2020



Source: Hardman & Co Research

Turning to the wonder that is Watkin Jones' order book, in PBSA, total forward-sold and secured student beds numbered 6,670 across 17 sites for delivery between the current fiscal year and 2024. In addition, BTR sports total forward sales of nine sites (approximately 2,300 apartments) for delivery between this year and fiscal 2023. Finally, there is accommodation management in the name of Fresh Property Group, or FPG, which, by fiscal 2022, will be managing 20,448 student beds and BTR apartments, across 66 schemes (and it knows this now).

Forward-sold and secured 6,670 student beds across 17 sites out to 2024

CEO Richard Simpson said: "We are positive about the outlook for both the student accommodation and BTR sectors. There is continued investor appetite in those markets and we are confident in our ability to expand our position as market leader. We therefore expect to continue to grow the business, in line with our strategy, and believe that the Group has a bright future". How often do you see the word "bright" in a CEO's outlook statement? Okay, Crest Nicholson used it too (see below).

Watkin Jones (COVID-19 trading update – 27 March)

The Board expects revenue and earnings in 1H to be in line with its expectations

Watkin Jones has enacted a range of COVID-19 actions, and will provide a further update after completion of its first half i.e. 31 March

Watkin Jones and its office-based staff are successfully enrolled in managed flexible working programmes, enabled by the company's technology platforms. The company has also decided to close its active development sites temporarily, with the exception of a small number of sites that will remain open while essential services works are completed. Within FPG, where it manages student and BTR tenants on behalf of institutional owners, the focus is on ensuring the safety and welfare of its tenants and staff. Enhanced cleaning regimes and adjusted social interaction arrangements are in place. Watkin Jones is also working closely with its university partners, international agents and other key stakeholders, in respect of the impact on this summer term and potentially further ahead. A further update will be offered shortly after completion of the first half of its fiscal year i.e. 31 March.

Watkin Jones (COVID-19 trading update 2 – 1 April)

Group will take a £10m to £15m provision to cover remedial work on cladding

The Board expects to report revenues and earnings for 1H 2020 in line with its expectations. At this time, too, the Group's forward-sold and secured PBSA development pipeline comprises over 7,000 beds, across 19 sites, with 12 sites (4,985 beds) forward-sold. On the same basis, the Group's BTR pipeline stands at over 2,600 apartments, across 10 sites, with five developments (1,012 apartments) forward-sold.

However, it has begun to experience significant disruption as a result of the COVID-19 outbreak. Non-site-based staff are currently working from home and all non-essential work on-site has ceased. This will inevitably impact financial performance, to the extent that Watkin Jones has withdrawn financial guidance at the current time. Nor will it pay a 1H dividend. Executive Directors will also waive a pay rise, and NEDs will waive 20% of their fees. At this time, too, Watkin Jones has net cash of ca.£36m and a £90m Revolving Credit Facility (RCF), which has been just half utilised.

Finally, the Group is to take a £10m to £15m provision at the year-end to cover potential remedial work on certain cladding utilised on buildings. "All of Watkin Jones' developments have been constructed in compliance with prevailing building regulations at the time but, given the change to guidance, the Group believes it is right to engage with building owners proactively to ensure any changes are made as expediently as possible".

Berkeley (trading update – 14 January)

Berkeley said it would return an extra £1bn to shareholders over the next two years through March 2021 (i.e. £4 per share p.a.), which is an increase of £455m. It also said that it would crank up its production and delivery over the next six years by 50%; and this is underpinned by a portfolio of "25 large, complex, long-term regeneration sites". The majority of its sales, too, will be at a lower average selling price than properties completed in recent years. More lyrically, the Group spoke about a "unique blend of expertise and financial strength to deliver a lasting contribution to society, the economy and natural world from these sites".

Berkeley expected to crank up production and delivery over next six years by 50%

Cleverly, too, Berkeley jumped off the annual earnings growth charabanc some time ago and, with this statement, reiterated the following: "Berkeley has always focused on long-term value creation, as opposed to annual profit targets. Over the six years to 30 April 2025, we are targeting the delivery of £3.3bn of PBT, with the profit in any one year ranging between £500m and £700m, depending upon the timing of delivery". For the record, too, at its last balance sheet date, Berkeley was sporting £1bn in net cash.

Berkeley (COVID-19 trading update – 12 March)

On 17 December 2019, Tony Pidgley sold just over 1m shares at £50.40, and the price closed on Friday 27 March at £36.41 (okay, it did bounce off £55.62 along the way). Tony did not know anything about COVID-19 in December; nobody did. However, did his renowned sixth sense tell him that now was a good time to sell some stock?

Berkeley is on track to meet its longer-term target to deliver £3.3bn of PBT to 2025

On 12 March, the Group issued a "Trading Update", as noted in the text, albeit that it was headed "Trading Statement". This covered the three months to end-February, and Berkeley said that it had experienced a continuation of the good trading environment, with underlying demand maintained. Accordingly, the business remains on track to meet market expectations for the year-ended 30 April 2020. Similarly, Berkeley is also on track to meet its longer-term target to deliver £3.3bn of PBT profits in the six years to 30 April 2025, "assuming a measured outcome to the effect of Coronavirus".

"There is no recent historical precedent"

"Today's announcement is made in the context of the current increased macro uncertainty, which has been uniquely impacted by the global spread of Coronavirus. While there has been no noticeable impact on Berkeley's business to date, the ultimate impact on UK business is unknown. There is no recent historic precedent and for this reason it is absolutely right for any responsible business to approach the next six months with a reduced risk appetite and heightened sense of caution. This in no way alters the Board's view of the long-term value of the business. Indeed, Berkeley's business model is set up for the cyclicality of the housing market; to withstand downside scenarios and be well placed to take opportunities as they arise. Berkeley has net cash of in excess of £1.0bn at the date of this statement with a further £750m of bank facilities available. However, on balance, the Board has decided to postpone the increase in the Shareholder Returns" i.e. £445m "until there is greater clarity of operational impact of Coronavirus (COVID-19) on UK economic activity".

The Group will also undertake a share consolidation on the basis of 92.69 for 100, based on the share price of £54.70 on the latest practicable date (being 21 February 2020). However, its revamped remuneration policy will be re-visited later in the year.

Berkeley 2 (COVID-19 trading update – 27 March)

Berkeley has offered a second COVID-19 update, in which it has said that it is "progressively managing the safe, temporary suspension of work on developments". The Group is also in the final six weeks of its fiscal year to 30 April, and anticipates profits for the year to be in the region of £475m (2019: £775.2m). It is suspending future guidance too.

£1bn of net cash on the balance sheet

However, "our priority is to maintain the dividend and deliver a PBT return on equity of 15% over the next six years, which the Board believes is the appropriate risk-adjusted target return across the cycle for Berkeley". In turn, the dividend of 99.32p per share (£125m), announced in the company's 12 March trading update, will be paid to shareholders on 31 March 2020. The Board also confirms its intention to make the next £140.1m shareholder return by 30 September 2020 through a combination of share buybacks and dividends (£6m of which has already been met through share buybacks), and that it will reassess the position with regard to the postponed enhanced capital return when the company announces its full-year results for the year-ended 30 April 2020.

The Group currently has in excess of £1bn of net cash, after payment of the £125m dividend to be paid on 31 March 2020 and, including bank facilities, Berkeley has total potential liquidity of £1.75bn.

HARDMAN&CO.

Countryside (AGM – 23 January)

"Total forward orderbook up 65%"

One phrase was enough at the Group's AGM trading statement for its 1Q (i.e. 4Q calendar 2019): "total forward orderbook up 65% at £1.57bn". In terms of composition, private orders were 46% better at £314m, and Partnerships were up 71% at £1.25bn. In 1Q, however, total completions were flat at 1,097 homes (1Q 2019: 1,094 homes), with the private ASP also flat at £394,000. That said, the net-reservation-rate-per-site-per-week increased 29% from 0.63 to 0.81. "With some of the political uncertainty now having eased and sales levels in line with expectations for this point in the year, we remain on track to deliver our full year plans", including plans for a second modular panel factory.

Countryside (COVID-19 trading update – 25 March)

On 25 March, Countryside issued an update in respect of the impact of COVID-19 on its business. Like all businesses, Countryside has been monitoring closely the rapidly evolving COVID-19 situation. The safety and well-being of the Group's employees, sub-contractors, customers and communities in which it operates is its foremost priority, and the Group continues to follow the advice issued by the Government.

The Group is withdrawing financial guidance

Having considered the Government's latest advice, the Group has decided to close and suspend all construction works on its sites. Sales offices have also been closed. While these measures will inevitably impact the Group's financial performance, it is unclear how long they will remain in place or the extent to which they will impact the Group. As a result, the Group is withdrawing financial guidance for the current financial year and is suspending dividend payments until further notice.

At the time of its 2019 results (to 30 September), Countryside had net cash of £73.4m, or 10% of NAV. It now has "available cash of £110m and a good liquidity position". The Group has a current £300m revolving credit facility in place until May 2023, provided by a syndicate of four banks. Given the current uncertainty around COVID-19, the Board has taken the prudent decision to commence discussions in respect of additional financing facilities, should they be required.

Up until mid-March, the Group continued to trade well and in line with its expectations, and experienced similar trends to those in the first quarter, with improving visitor levels and strong reservation rates, and a strong order book for affordable and Private Rented Sector homes.

The Group is due to report its half-year results on Thursday 14 May 2020.

Crest Nicholson (final results – 28 January)

Peter talked about the prospective odyssey to the sunlit uplands of 2022

When you deliver bad news, and your share price rises 7.5% on the day (to 472.6p), you are doing something right. And, so it is with new broom CEO Peter Truscott. Indeed, he alerted the market that all was not well a matter of days after putting his feet under his new desk (for the record, too, Peter hails from Galliford Try). He has now comprehensively delivered these messages i.e. "step two" and, with his next stride, Peter talked about the prospective odyssey to the sunlit uplands of 2022.

In the year to 31 October, total revenue was off 3% at £1.09bn, with unit completions also down (by 4.5%) to 2,912, comprising open-market completion units of 2,171 (minus 8%) and affordable of 741 (+9.5%). For the record, too, the open-market ASP was 2.0% lower at £388,000.

Turning to EBIT, it fell 27% to £133m (pre-exceptionals but net of a £3.4m impairment charge). Unsurprisingly, profitability followed, with a drop from 16.1% to 12.2%. In turn, adjusted PBT was £121.1m (or £102.7m net of exceptionals), which was down 28%. EPS pretty much followed suit, although the dividend was announced as being maintained at 33p (but see below), with cover falling from 1.62x to 1.15x.

In terms of the balance sheet, adjusted RoCE was just 13.5% (2018: 17.9), although capital turn, on the same basis, was sustained at 1.1x. There was also £37.2m of net cash, up from £14.1m last time.

“We will rebuild trust”

A new, three-year strategy has been enacted too, with an emphasis on reputation, quality, value, efficiency and a range of good-citizen aspirations. Crest says “we will rebuild trust in our performance”. It also quantified this with a range of financial targets running out to fiscal 2022:

- unit completions to increase to 3,500 units (2019: 2,912) split 60% private, 20% to 25% affordable and 15% to 20% bulk purchase;
- outlets to grow to a minimum of 70 (2019: 59);
- administrative expenses to be 5% of sales (2019: 6.0%);
- adjusted operating profit margin up by minimum of 250bps (2019: 122 bps);
- RoCE to a minimum of 20% (2019: 13.5%), with focus on cash/ capital allocation;
- a maintained dividend of 33p this year – and then plus RPI from fiscal 2021.

Note, too, that Crest holds a 16,960-plot short-term landbank (5.8 years’ supply), plus 20,169 strategic plots; and it estimated that the short-term landbank has a GDV, or gross development value, of £5.41bn, and an embedded gross profit of some £1.3bn; which implies an estimated gross margin of 24.0% (2019: 18.7%).

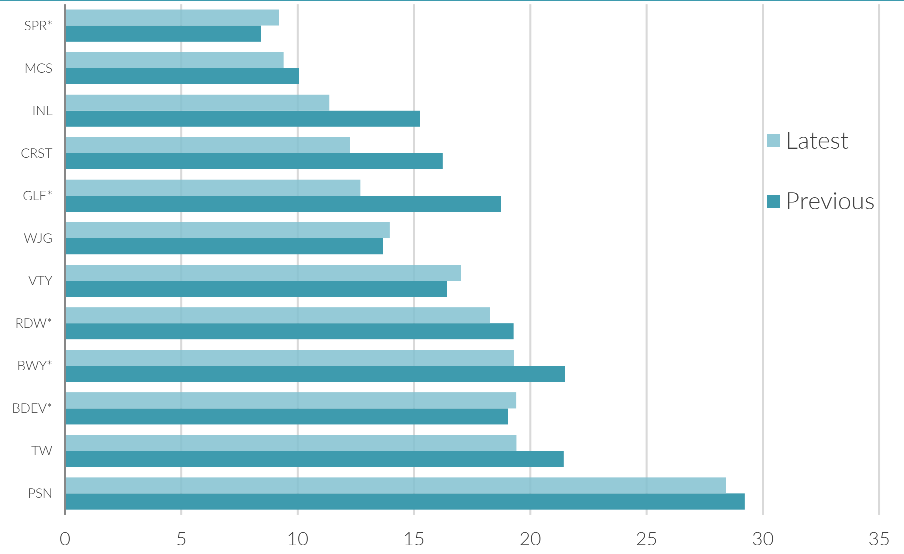
Peter said: “today I am pleased to announce the details of our updated strategy and new financial targets. We have already taken decisive action in reducing our sales-related costs and overheads, launched an enhanced house type range including a full specification review, and have made organisational changes to realise our ambitions in our partnerships’ division”.

“Crest is a resilient business with a bright future”; and this is the second time that the word “bright” has appeared in this roundup of results (see Watkin Jones)

“We have assembled an experienced new leadership team with the necessary skills and capabilities to take Crest Nicholson forward. In 2020 we will continue to work quickly in implementing further changes to improve performance and to create value for shareholders. I look forward to updating you on progress in future communications. Crest Nicholson is a resilient business with a bright future. I am confident that our updated strategy will restore Crest Nicholson to being one of the UK’s leading house builders”.

Then, in terms of outlook, forward sales at mid-January were down 22% at £503.5m, but with a brave face: “We believe the decisive political outcome should provide support for the sector in the near term. While it is too early to form a view on the impact for fiscal 2020 trading, we are seeing some encouraging signs. Footfall and visitor numbers on our developments have increased and traffic on our website is up. We remain confident in our ability to deliver on our previous guidance and reiterate our expectations for fiscal 2020 adjusted PBT at £110m to £120m (2019: £121.1m)”.

Individual EBIT profit margins reported in 1Q 2020 (%)



**denotes interim results*
Source: Hardman & Co Research

Crest Nicholson (COVID-19 trading update – 19 March)

Crest has abandoned its final dividend in the light of COVID-19

Ahead of its AGM on Monday 24 March, the company has abandoned its final dividend in the light of COVID-19. In a dignified statement, Crest said the following: "since the start of the calendar year, up to and including 16 March 2020, we have traded in-line with our expectations and have seen continued improvements in website traffic, footfall and reservations…….However, the Board has carefully considered this week's rapidly evolving Government guidance in respect of COVID-19 and expects this to have a significant impact on visitor levels, production capability and trading performance over an unclear timeline". Hence no final dividend of 21.8p for 2019.

The company also announced that it is "suspending all existing financial guidance until both the severity and duration of the COVID-19 impact becomes clearer". The Board recognises that these are significant steps to take, but. when faced with this unprecedented and unpredictable situation, considers it to be prudent to protect the company's cash position and maintain a robust balance sheet.

"The Executive Leadership Team has also moved quickly in identifying further measures that will increase cash generation, and reduce cash outflow, enabling the business to trade through this period of prolonged uncertainty. The company has made arrangements to fully draw its £250m revolving credit facility, resulting in available cash of £185m. In the ordinary course of business, the company has a strong balance sheet and has made good progress in reducing levels of capital employed in the current financial year. The Board has only considered it necessary to take such decisive action because of the anticipated impact from COVID-19".

McCarthy & Stone (final results – 28 January)

If I tell you that the words "strategy" and "strategic" appeared 51 times in its final results announcement, you get the picture. Equally illustrative, "solid" appeared eight times in reference to the Group's results and "challenging" on 11 occasions – to do with the market – in this 7,865-word communication (net of risk analysis and tables).

The company has shifted its year-end from August to October

McCarthy & Stone also shifted its year-end from end-August to end-October, which meant that the latest numbers covered 14 months versus 12. But even then, two extra months were not too flash. Legal completions nudged up 8% to 2,301m, with an ASP of £308,000 (+3%). Underlying operating profit was pretty much flat at £68.1m for the 14 months of fiscal 2019, versus £67.5m over 12 months in fiscal 2018. Unsurprisingly, profitability drifted from 10.1% to 9.4% (the Group's target is "greater than 15%"). However, the 2019 operating profit included a maiden £5.9m (2018: zero) revaluation uplift related to rental units (and, without it, 2019's margin was 8.6%).

Underlying PBT ex-brand amortisation and a £17.3m exceptional restructuring debit (2018: £2m) came in 2% higher at £63.1m, versus £62.1m; albeit, on a pro-rata monthly basis, it was down 13%. Earnings were also flat, with the proposed dividend for the year unchanged at 5.4p (but see below encore), and underlying cover of 1.8x (2018: 1.7x). Note, too, it is the Board's intention to grow the ordinary dividend cover to around 2x earnings over the medium term.

Turning to the balance sheet, it sported £27.1m of net cash (2018: net cash of just £5.6m), with adjusted RoCE of 9.6% and, although paltry, it was up from 9.0% in 2018 (the Group's target is also "greater than 15%"). For the record, too, adjusted capital turn was 1.0x (2018: 0.9x).

CEO John Tonkiss said: "the Group's new strategy has driven a solid FY19 trading performance in a difficult market. We have a strong balance sheet, a continued focus on delivery of operational improvements across our business and an ongoing commitment to delivering high quality developments and five-star customer satisfaction. We are also making excellent progress across our key strategic initiatives as set out in September 2018, particularly rental, where our initial pilots have confirmed strong demand for renting in later life. This is a hugely positive step for the business as it enables our business model to become more resilient and ensures we are in a strong position to capitalise on future market recovery".

Price inflation is expected to remain subdued

In terms of outlook, there was no order book data forthcoming. However, total volume expectations remain unchanged at ca.2,100 (2019: 2,301), at an ASP of £300,000 (2019: £308,000). Also, an increased proportion of its targeted volume is expected to come from rental offerings. This means that a proportion of the Group's balance sheet will continue to be allocated to rental until an investment partner is secured. For the record, house price inflation is expected to remain subdued, with build cost inflation at ca.3%-4%. There will also be further exceptional costs of £6m to do with the new strategy (although not all in the current year). Full-year 2020 results remain in line with market expectations, but the first half will be lower.

McCarthy & Stone is the nation's largest retirement housebuilder, and the catchment is burgeoning, i.e. the ONS says the number of people aged 65 or over will rise by 43% to 17.4m and those aged 85 or over is set to rise 86% to 3m by 2043. And, yet, just ca.8,000 new retirement units came to the market across all tenures in 2019, against an estimated demand of up to 30,000 units per year, according to EAC (2019) and Knight Frank (2016) reports. Can McCarthy & Stone join the dots?

McCarthy & Stone (COVID-19 trading update – 19 March)

"We do anticipate an inevitable materials impact on trading"

The UK's leading developer and manager of retirement communities issued a COVID-19 update concerning its business. It said that "It is too early to speculate on the full extent of the resulting impact on our financial performance for the full year and beyond. However, we do anticipate an inevitable material impact on trading in the coming months".

"The Board would like to reiterate that the business continues to maintain a strong balance sheet and it has taken action to fully draw down its £200m revolving cash facility, resulting in a current available cash balance of £127m. The Board is currently evaluating a number of actions to balance the preservation of cash with the long-term needs of the business". One of these is to not pay the final dividend of 3.5p per share for last year. Its AGM on 25 March was changed to a private meeting.

McCarthy & Stone 2 (AGM/COVID-19 trading update – 25 March)

McCarthy & Stone had already passed on its final dividend for the fiscal year just gone (which, at 3.5p per share, saves some £19m) – in light of the potential fall-out from COVID-19. On 25 March it went further: "the business would be able to operate with no sales revenue for a period of circa 2.5 years". Generously, too, more than 300 newly completed apartments in unoccupied developments have been offered to help Government and local authority care providers to address the acute shortage of beds for older people.

Focused care of its homeowners has also been ratcheted up, with even more strict hygiene practices across all developments, visitor limits and a response operation to rapidly manage suspected COVID-19 cases. McCarthy & Stone has also established regular two-way communication with homeowners and set up a "buddy system".

All members of the Board and wider leadership team will take a voluntary 20% reduction in basic salary

Meanwhile, on the cash front, the company has implemented a range of initiatives, including all build activity being paused (with the exception of certain specific sites that are close to completion), no further land-spend and no marketing activity. Reservations, rentals and completions can still be taken in cases of need, but on-site sales offices are now temporarily closed. In addition, all members of the Board and wider leadership team are taking a voluntary 20% reduction in basic salary, from 1 April until further notice. "These immediate steps result in a cash saving of circa £230m in fiscal 2020 compared to the Board's pre-COVID-19 expectation".

At the last published balance sheet date, 31 October 2019, McCarthy & Stone had net cash of £27.1m, or 4% or NAV. At 28 February 2020, net debt was ca.£55m. "At the end of February, the main liquid assets on the Group's balance sheet were circa £350m of finished stock, a total portfolio of greater than £50m of rental and shared ownership assets (at attractive yields) and greater than £50m of part exchange assets". And, "negotiations regarding the sale of our rental assets are ongoing".

"The Group has no long-term debt and has already fully drawn on its £200m Revolving Credit Facility (RCF) resulting in an available cash balance of circa £127m as reported on 18 March 2020".

Inland Homes (final results – 31 January)

Back in October, Inland said its final figures would appear in January; and, they did, on the final day of the month. Other companies give an actual date for their announcing numbers. Okay, Inland will say it couldn't this time, because it moved the company's year-end from 30 June to 30 September. But then, McCarthy & Stone (see above) moved its year-end and still committed to a reporting date well in advance.

As to the numbers, revenue was barely changed at £147.9m against £147.4m; and remember, this is 15 months plays 12. Statutory PBT was some 30% better at £25.0m, but this included, in the latest period, a £12.6m profit on a JV sale in Cheshunt (2018: 0); and without it, PBT declined 36%. Inland, however, has also chosen to measure its performance by EPRA asset valuations and, here, the EPRA NAV per share rose 11.2% to 113.7p. The company also proposed raising its total dividend for the year by 41% to 3.1p, which was notionally covered 2.5x by stated EPS (2018: 3.6x). But see below. However, Inland paid less than 2% tax in the latest 15-month period.

In terms of the balance sheet, RoCE was in single digits i.e. 5.2%, versus 8.6% last time. Note, too, that net debt was at £152.3m, or 94% of net assets (2018: £80m and 56%), although "this is expected to fall as a number of realisations are achieved".

RoCE of 5.2% and £152m of net debt (94% of NAV)

Turning to trading, Inland's land bank is at a record 7,795 (2018: 6,870), including major schemes in Buckinghamshire and Hertfordshire. However, only 38% of the land bank has planning permission.

At the same time, private house completions were down more than a quarter at 202 (with its ASP off 15% to £250,000). However, Inland has "892 homes under construction". Land sales were also sharply lower (i.e. minus 31%) at 577 plots. However, in Partnership housing, revenue has ballooned from £12m to almost £63m, and here it has 921 homes currently under construction (2018: 220).

Chairman Terry Roydon said: "We have some very lucrative land opportunities in the pipeline which we are seeking to acquire with a capital light structure, in which the bulk of the capital is provided by investors. This will increasingly be a strategic focus for the Group".

Inland Homes (COVID-19 trading update – 19 March)

After its share price fall of more than 60% in 2020 to date (in early March), the company figured it was time to speak; hence an unscheduled trading update. "current trading remains in line with the Board's expectations [Ed: no mention of "market expectations"].

"The Group has in place a wide range of business continuity plans to mitigate potential disruption to the business from the spread of COVID-19 and to ensure the maintenance of operational continuity whilst protecting the health and wellbeing of our colleagues and customers. Inland Homes has a well-structured and flexible business model comprising a number of independent income streams, a high-quality asset base and a highly experienced management team. The Group has borrowing facilities with well staggered maturity dates and has significant headroom for its house building activities".

Inland has a number of independent revenue streams

In terms of detail, too, it says that the current forward sales of houses "reserved and exchanged" stands at ca.£47.2m, including a hotel under construction in Bournemouth, which is forward-sold to Aviva for £13.3m. At the same time, Partnership housing holds a forward order book of £86m. Plus, Inland generates rental income in excess of £3m p.a. Finally, a planning application at Hillingdon Gardens for 500 houses has been "called in" by the Mayor of London. Inland says this is "very welcome".

Inland Homes 2 (COVID-19 trading update – 30 March)

The company has cancelled its latest announced dividend of 2.5p, which was due to be paid on 12 June 2020; and which saves £4.6m. Inland is also suspending all existing financial guidance, save to say that the overall disruption will now inevitably have a material impact on the half year to 31 March. In terms of detail, too, all office-based staff are now working from home, and all sales centres are closed. Similarly, construction works on most of its sites are suspended. As at 19 March 2020, Inland had five significant land sales at an advanced stage of documentation with solicitors, three of which were to major national housebuilders. All have been aborted. Net debt at 31 March 2020 will be similar to that at 30 September 2019 i.e. £152.3m.

Five significant land sales have been aborted

Barratt (interim results – 5 February)

Yes, the UK's largest housebuilder can walk on water and, if you want proof, read its half-year statement. First off, the Group is very, very good at what it does; and it has a head of steam up. Transparency is also a touchstone, and the word "excuse" has been scrubbed from the lexicon. Barratt has also embraced Modern Methods of Construction or MMC (20% of output), and it is working studiously on being a better citizen. Housekeeping is good too; and it is generous. Okay, if I wanted to be picky, the order book was flat (but this was clearly not a source of worry for management), and a 6,934 statement would have been better had it been at least 10% shorter.

Transparency is a touchstone

Turning to the numbers for the half year to 31 December 2019, unit sales rose 9.1% to 8,314, bolstered by affordable and JV output. And, with a private ASP off 1.7% at £312,000, revenue nudged up 6% to £2.27bn. Adjusted EBIT was 8% to the good, with profitability better by 40bps at 19.4%. Adjusted PBT, including JVs (credit) and net interest (debit) was struck at £440.8m (+9%), with EPS up 8% and the proposed ordinary dividend for the year 2% ahead at 9.8p. However, Barratt had also embarked on a programme of special dividends, which should have meant a tally for the year of 46.3p; but see below.

In terms of the balance sheet, net cash was at £427m (ex-pre-paid fees), which is equivalent to 11% of NAV (2018: 10%). Our definition of RoCE puts it at 21.4% (2018: 21.0%), with capital turn sustained at 1.1x.

As for the order book, it was at 13,043 units at 2 February 2020 and, in Pound notes, £3.03bn (at 3 February). However, units were slightly off at minus 1.1%, while, in cash, they were flat, i.e. +0.2%. That said, net private reservations per-active-outlet-per-average-week (that's a mouthful) from 1 January to 2 February 2020 were up from 0.74 to 0.83. And the Group is on record as saying that it expected to deliver 3% to 5% growth in wholly-owned completions in the current fiscal year to 30 June – and beyond.

Barratt has an order book of over £3bn

CEO David Thomas said: "We have achieved a strong first half performance, delivering continued volume growth and making good progress against our medium-term targets. We have made a good start to our second half and with substantial net cash, a well-capitalised balance sheet and strong forward sales, the outlook for the full year is in line with our expectations. The customer continues to be at the heart of everything we do. In 2019 we were proud to become the only major housebuilder to be awarded a 5 Star rating by our customers in the HBF survey for ten consecutive years and look forward to extending that record. We will continue to lead the industry in quality and service as we deliver the high-quality homes and developments the country needs, creating jobs and supporting economic growth across England, Scotland and Wales".

Barratt (COVID-19 trading update – 25 March)

The UK's largest housebuilder says that "given the uncertainties caused by the impact of COVID-19, the Board believes it is appropriate to cancel the interim dividend of 9.8p per share (circa £100m), which was due to be paid on 11 May 2020". At the same time, it is closing all of its sales centres, construction sites and offices as quickly and safely as possible. Similarly, it has enacted a four-point plan "to manage the Group's cost base and cash-flows to ensure resilience": suspending all land-buying activity, ceasing all recruitment activity, postponing all non-essential capital expenditure, and actively managing cashflows.

Net cash of some £380m

The Group continues to have a very strong balance sheet and, at 20 March 2020, had ca.£380m of cash. The Group has total committed facilities and private placement notes of £900m, comprising a £700m undrawn revolving credit facility and fully drawn £200m US private placement notes.

Barratt started the calendar year well and delivered 10,364 home completions (2019: 9,437 home completions) including JVs (here and elsewhere) in the period to 22 March 2020 – of which 2,050 homes (2019: 1,815 homes) have been completed in the period since 1 January 2020. The Group's total forward sales remain strong at 13,836 homes and a value of £3,298.2m. "However, as COVID-19 has gathered pace in the UK and since the introduction of increased social distancing guidelines, there has been a reduction in reservations and site visitors and an increase in cancellations".

Finally, Barratt said that it was unable to quantify the impact of COVID-19 on its financial and trading performance at this stage. "Accordingly, the Group is suspending all existing financial guidance".

Redrow (interim results – 5 February)

The Group scored 10 out of 10 for being succinct in its half-year report, coming in at less than 1,800 words. But, for us, that's where the plaudits end. Five minus signs out of seven on the facing page did not help, including PBT off 15%; and it mattered little that Redrow had spoken of this ahead of time. The prose was also unexciting.

Unit sales declined 14% to 2,554

As for the numbers, unit sales declined 14% to 2,554, with a private ASP off 1% at £387,000. This resulted in revenue being down 10% at £870m. EBIT also declined, by 15%, to £159m and, with it, margins dropped 100bps to 18.3%. PBT was £159m (minus 15%), with EPS 10% lower, but the proposed interim dividend was up 5% at 10.5p, which meant cover of 3.5x plays 4.2x. But like many others this was later cancelled. See below.

RoCE was 18.4%, compared with 23.8% last time, a big drop. Capital turn remained above 1.0x (2018: 1.2x). The Group still holds net cash, too, of £14m (1% of NAV), albeit down from £101m last time (6%).

Looking to the future, Redrow says that "balance of homes turnover" is weighted to 2H, with a 40:60 split (fiscal 2018-19: 46:54). At the same time, total reservations are at a record of £936m, up 18% year-on-year. However, ex-the Colindale PRS deal, the value of reservations was just 3% ahead. Similarly, at the end of December 2019, the total order book was flat at £1.2bn. On a brighter note, though, 2H private net reservations to date are up 15% at £180m.

In terms of people, too, Executive Chairman John Tutte is to go Non-Executive from July and retire ahead of the AGM in 2021. Incumbent COO Matthew Pratt will be appointed CEO from 1 July and the search for a new NED Chairman will commence towards the end of the year.

John added: "this will be yet another year of progress for Redrow and our expectations for the full year remain unchanged".

Redrow (COVID-19 trading update – 24 March)

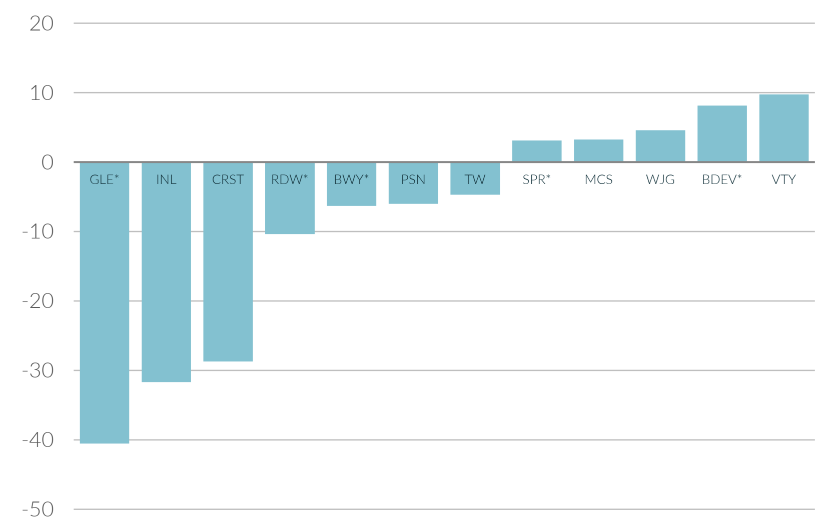
The Group also joined the pack with a COVID-19 update, and it will cancel its 10.5p interim dividend (worth £37m), which was due to be paid on 9 April 2020. "Once we have more certainty over the impact on the industry and our business, we will make an announcement over future dividend distributions together with an update on trading".

Interim dividend cancelled

In terms of right now, trading has remained resilient in the first 12 weeks of Redrow's fiscal 2H to 20 March 2020, with the value of net reservations up 30% at £525m annualised. Similarly, the weekly reservation rate per outlet has averaged 0.86, against 0.72 last year, over the same 12-week period. "Our order book is very strong, currently standing at over £1.4bn" (no comparative offered, though). "Last week net private reservations were in line with the previous year at 95 plots, but visitors to site were substantially down and the cancellation rate increased. As the Government's escalating measures to contain the spread of the virus take effect, it is inevitable our sales rate will be seriously impaired over the coming weeks and build output will be significantly affected by labour and material shortages. We also expect outlet openings to slip as local authorities delay planning committee meetings".

"We have a strong balance sheet together with £250m of committed facilities and we are working proactively to protect our cash flow. Net debt currently stands at £116m and we expect this to reduce substantially over the coming month as a high volume of homes legally complete. We have put on hold activity in the land market and we are working to actively reduce our work in progress levels across our sites".

Individual EPS growth reported in 1Q 2020 (% change)



**denotes interim results*
Source: Hardman & Co Research

Redrow 2 (COVID-19 trading update 2 – 27 March)

Redrow is seeking additional borrowing facilities

The Group is to commence, with immediate effect, an orderly and safe closure of all of its sites and offices. It has also commenced discussions with its syndicate of six banks in respect of additional committed banking facilities over and above the current £250m revolving credit facility. Additionally, Redrow intends to increase the "accordion" facility from £50 to £100m. Plus, it has submitted an application to the Bank of England for eligibility for the Government's COVID-19 Corporate Financing Facility. "We are continuing to work proactively to protect our cash flow, and in addition to the measures we announced earlier in the week, we will immediately commence 'furloughing' a significant proportion of our employees under the Government's Job Retention Scheme. When there is a return to normality in the supply chain, and we are satisfied it is safe for our workforce to return to work, we will reopen sites and recommence production with an initial focus on fulfilling our substantial order book that stands at £1.4bn of which £0.9bn is contracted".

Gleeson (interim results – 12 February)

40% fall in PBT in 1H

Gleeson reported its 1H results, and we couldn't take our eyes off the 40% fall in PBT for the six months to 31 December to £13.3m. Yes, the company forewarned the market twice: once on 5 December ("results for the first half are expected to be lower"), and again on 9 January ("the overall result for the first half will be significantly down"). And, no, they weren't kidding. The issue was no land sales out of its Strategic Land unit (which was briefly up for sale), compared with £30.3m last time. At the EBIT level (stated before "group activities"), there was also a £705,000 debit for the land unit (2018: £9.0m). In 2H, to date, the company has sold three sites already (one unconditional), with four more "in a sales process". Combined, these have the potential to deliver 1,894 plots (2018: 1,454). Gleeson also notes that it invests "intelligently" here – interesting word.

Turning to housebuilding, Gleeson sold 17% more units at 811, with an ASP 0.5% higher at £128,000, which meant divisional revenue 19% to the good at £105m. At the EBIT line (gross of "group activities"), housing profitability edged down by the same amount from 16.0% to 15.1%. Actual EBIT in housebuilding was struck at £15.9m, which was 13% up 1H on 1H.

As for its balance sheet, Gleeson has excellent liquidity (quick ratio of 1.45) and £31m of net cash. However, power-couple RoCE and RoNA were poor – both at 13.2% (because there's no debt), which compares with ca.23% last time.

"The strong performance of Gleeson Homes and anticipated deal flow in Strategic Land for the second half underpin the Board's confidence that the Group's results for the full year will be in line with expectations".

Gleeson (COVID-19 trading update – 25 March)

On 25 March Gleeson said that given the ongoing uncertainty around the duration and potential impact of Covid-19, the Board believes it would also be prudent to cancel the payment of the interim dividend of 12p per share due to be paid on 3 April 2020. This equates to £6.6m.

The Board believes it is prudent to cancel the payment of an interim dividend

"Following recent guidance from the Government, we have taken the decision that all sites will cease build activity and that we will temporarily close our development sites in the coming days".

Gleeson has "cash balances of £67m, including £60m drawn down from the company's committed bank facility, in addition to a £10m committed overdraft facility. The Board believes that the company is in a resilient position.

Springfield (interim results – 25 February)

In its *Interim Results Outlook*, the company said: "we remain confident of achieving growth for the full year in line with management expectations". It went on to say: "the Board of Directors remains confident of achieving growth for full year 2019-20 in line with market expectations". Are these the same things (one of which we cannot verify)? Or is it just belt and braces? As for the results themselves, they were okay, with a 3% rise in PBT and, yes, 17% more on the proposed dividend (but see below). However, Springfield is not very profitable, generating a single-digit RoCE and offering no order book data. Its net debt is also an issue.

Are management's expectations and market expectations the same thing?

The period under review is for the six months to 30 November 2019, which showed revenue up 5% at just under £80m. EBIT was ahead 15% at £7.3m, with the margin nudged up 80bps to 9.2%, while PBT was struck at £6.3m (+3%), with EPS rising by the same percentage amount. The proposed interim dividend, however, was 17% to the good at 1.4p with cover dipping from 4.3x to 2.8x; but sadly, not for long (see below). Balance sheet-wise, annualised RoCE dropped sharply from 11.6% to 9.1%

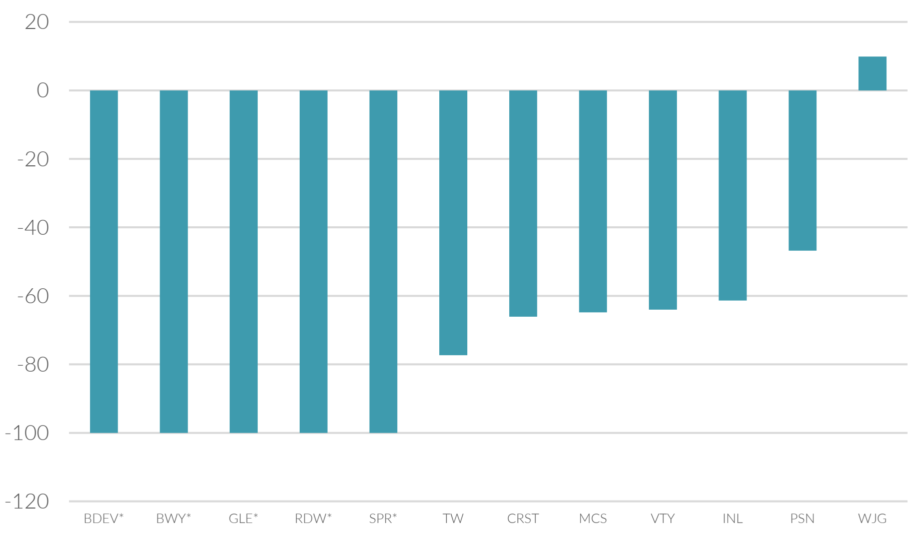
and net debt, as a percentage of NAV, doubled to 62% (i.e. £56m, of which £20.9m is related to the acquisition of Walker Group).

The company operates exclusively in Scotland, and its revenue is a composite, with private sales rising 7% to £57m from 258 units (+10%), at an ASP of £234,000 (minus 0.4% net). At the same time, Affordable Housing revenue increased 16% to £22m from 180 completions (+24%) at an ASP of £136,000 (+2.3%).

No order book data are made available

In the private sector, Springfield continues with its "Village developments" concept and highlights include a recent planning consent for its largest development at Durieshill, Stirling (subject to completing a Section 75 agreement), i.e. 3,042 units. Meanwhile, at its Bertha Park site in Perth, the first entirely new secondary school in Scotland for more than 15 years has opened. Bertha Park is also the first "Village" where Springfield will offer both private and affordable houses for sale. The company has also entered the private rented sector with Sigma PRS Management Ltd. No order book data are made available. However, the total land bank of 15,862 plots (down from 15,938) is claimed to have a GDV of £3.2bn (unchanged since the year-end) but this is a 16-year view at current rates of output.

Individual DPS increases reported in 1Q 2020 (%)



**denotes interim results*
Source: Hardman & Co Research

Springfield (COVID-19 trading update – 24 March)

The Scottish Government has advised the closure of building sites and Springfield has withdrawn its interim dividend

The company added its voice to the COVID-19 legacy following the Scottish Government's advice to close building sites across the country. As a first step then, the company was to withdraw its proposed interim dividend of 1.4p per share (amounting to a saving of £1.4m), which would have been paid on 26 March 2020. "The Board recognises the importance of the dividend to shareholders, but believes that this is an appropriate and prudent measure to preserve liquidity in these uncertain times. The Board will consider the quantum of any final dividend for 2019-20 in light of the position and outlook of the Group at that time".

As noted in February 2020, Springfield entered 2H of fiscal 2019-20 with a strong (but unspecified) order book of contracted revenue for the period to 31 May 2020. "The COVID-19 outbreak has not negatively impacted the Group's completions or reservations to date. However, the COVID-19 situation is rapidly evolving. Net debt as of 30 November 2019 was £56m. The Group has a £67m credit facility with Bank of Scotland, with whom it has an excellent relationship and has maintained a very constructive dialogue over the past few weeks regarding the bank's support and availability of additional funding if required".

Taylor Wimpey (final results – 26 February)

Pre-Week 9 of 2020 and the Coronavirus fall-out, the reason that UK housebuilders' share prices had risen to new record heights had very little to do with 2020, which we expected to be a fallow year for earnings, i.e. it has everything to do within 2021, which is most likely to see double-digit growth in said earnings.

In its full-year results statement, Taylor Wimpey said this too, albeit not in so many words, i.e. it expected volumes in 2020 to be lower, along with the 1H margin; and this despite a truly breath-taking order book (in 2019, too, a lot of very useful housekeeping was undertaken).

One wrinkle for us, though, was the 12,150-word statement, including "The Taylor Wimpey Difference", KPIs, the lot. The shares fell too – not on the length of the communication but due to the comments above, plus a bit of "head above the parapet" in a dreadful week.

Record unit sales of 16,042

Calendar 2019 saw revenue rise 6% to £4.34bn generated from the sale of a record 16,042 units (including 323 in Spain), of which a just over a fifth were affordable. For the record, too, the private average ASP was £305,400 (+1.2%). There were also a number of adjustments to the Group's figures – positive and negative (e.g. a £30m ACM cladding provision on high-rise buildings), but we have plumped for a clean analysis. On this basis, EBIT was struck 4% lower at £842.5m, with corresponding profitability off 200bps at 19.4%. In turn, PBT was £821.6m (also minus 4%), with EPS easing down 5%. The proposed ordinary dividend for the year, however, was raised 22% to 7.64p, which was covered 2.7x (2018: 3.4x). A 10.99p special dividend was set be paid too (2018: 10.70p). Sadly, this did not come to pass. See below.

In terms of the balance sheet, RoCE was 23.9% (2018: 25.1%), with a truly meritorious capital turn at 1.23x (2018: 1.17x) for such a big business. Finally, the company closed 2019 with £546m of net cash (2018: £644m), equivalent to 16% of NAV (2018: 20%). Note, too, that these net cash figures are net of dividends worth £600m (2019) and £500m (2018).

The order book had risen 22% to £2.2bn

For us, though, the real action was in the order book. At the year-end (31 December 2019), unit orders were 9,725 (+17.1%), with the value of these at £2.18bn (+22.1%). And, then, at 23 February, unit orders were 10,901 (+13.2%), with the value at £2.61bn (+20.1%). Note, too, that the quantum in each period (numbers and cash) is higher, albeit the percentage gains are lower.

In terms of current trading, "a positive start" has been made to 2020, with "a clearer political outlook", plus "customer confidence has improved". Similarly, the underlying net private sales rate for the year to date (excluding bulk deals) has improved from 0.90 to 0.92 per outlet per week, with selling price growth of ca.+1.5% against budget. "The easing in build cost pressures seen in late 2019 has been maintained, and we expect build cost inflation in 2020 to be around 3%". However, volumes for 2020 are expected to be slightly lower, and the Group seeks to capture value; also, EBIT margins for the year are expected to be maintained, albeit lower in 1H due to "pressure from 2019 build cost inflation and selling prices and long-term investment in quality and business". Medium term, too, the company expects to deliver EBIT margins of ca.21%-22% (2019: 19.4%).

Taylor Wimpey (COVID-19 trading update – 24 March)

Taylor Wimpey also issued a "Response to COVID-19", in which it, too, abandoned both its normal final dividend of 3.80p per share (ca.£125m in quantum), due to be paid on 15 May, and the planned special dividend payment of 10.99p per share (ca.£360m) due to be paid on 10 July (both are subject to shareholder approval).

Taylor Wimpey has abandoned both its final dividend per share and a scheduled special dividend payment

"In light of the significantly changed circumstances, we also suspend our previous guidance for 2020. We will assess our medium-term targets when there is greater clarity on the length and impact of the current crisis. We remain an inherently cash generative business and will revisit the payment of dividends and the resumption of guidance when there is more certainty on the outlook".

In addition: "In the interest of customer and employee safety, we have taken the decision to close all of our show homes, sales centres, and construction sites for all work except that needed to make the sites safe and secure. Sales offices were closed with effect from the evening of Monday 23 March 2020. We will continue to support new and existing customers and will conduct all business by telephone or digitally. Construction sites will begin the close down process today".

"As we enter a period of uncertainty that may last for several months, we have been putting contingency plans in place to respond to the likely potential changes in customer behaviour and reduced productivity. In addition, we have taken the prudent step of drawing down our previously unutilised Revolving Credit Facility (RCF) of £550m, resulting in a gross cash position of £807m and net cash of £165m as at 23 March 2020".

"We are likely to face weeks or months of uncertainty"

"We have taken rapid proactive measures to protect the balance sheet in the short term. However, we are likely to face weeks or months of uncertainty, including periods of inactivity which will limit our ability to complete on homes and therefore generate cash. Until the extent and duration of the disruption is better understood, the Board believes conserving cash is in the best interests of the long-term sustainability of the business. Whilst our ordinary dividend of at least circa £250m per annum, has been stress tested and is payable though a 'normal' downturn, the global COVID-19 pandemic goes beyond normal and even severe cyclical swings and represents an exceptional case".

The Group's AGM on 23 April will also be a closed affair.

Taylor Wimpey 2 (COVID-19 trading update – 01 April)

Taylor Wimpey had already temporarily closed all show homes, sales centres and construction sites. In addition, Executive Directors will waive an annual 2% salary increase (from 1 April), cancel bonuses for 2020 and take a voluntary 30% reduction in base salary and pension for the duration of the Government lockdown (at least until 30 June). NEDs will also take a 30% reduction in their fees for the same period of time.

Persimmon (final results – 27 February)

In an 11,108-word 2019 results statement, there was again a lot of management and strategic talk (not to mention repetition). Earlier, we highlighted the same from Taylor Wimpey. However, in the case Persimmon, it had been publicly found wanting in the quality and delivery departments, to the extent that it commissioned an Independent Review of process, and also recruited a team of independent quality inspectors. It is both *mea culpa* and dynamic all at the same time.

Chairman Roger Devlin (June 2018) has been front and centre in the Group's renaissance, as has CEO Dave Jenkinson, who – famously – took over from Jeff Fairburn in November 2018. This month, too, a new NED was appointed in the person of Joanna Place, who is COO at the Bank of England no less. Together with its annual results, though, it was also announced that Dave Jenkinson wants to step down (he has been at Persimmon for 23 years), but he is to go gracefully, which means the Board has adequate time to find a successor. In terms of the "nouveau" Persimmon, this future appointment is a dramatically significant one.

The incumbent CEO is to step down

In calendar 2019, Persimmon generated revenue of £3.65bn, which was down a touch year-on-year i.e. 2%. It included 15,855 units (minus 4%), which were split 12,463 private (minus 7%) and 3,392 affordable (+9%). For the record, too, the average private ASP was £241,985 (+1.5%). At the same time, it manufactured 40% of its own bricks last year.

Adjusted EBIT was off 5% at £1,037m, with profitability only off 80bps at 28.4% (which is still extraordinary). PBT was also 5% lower at £1,041m (after an impairment charge but including interest received). Adjusted EPS was down 6% and the gross dividend was announced as being held at 235p, i.e. ordinary of 110p plus 125p special. For the record, ordinary cover was 2.4x (2018: 2.6x). But, once more, see below.

As for the balance sheet, adjusted RoCE was 33.7% (2018: 36.4%) – again extraordinary. Capital turn was equally remarkable at 1.19x (2018: 1.25x). The Group also closed the year with £844m of net cash (2018: £1,048m).

The order book was 3% lower at £1.36bn

In terms or the order book, this was 7,692 units (minus 3% year-on-year) and £1.36bn (also minus 3%) at 1 January 2020. After eight weeks of the year, too, these numbers were 10,473 and £1.98bn; and, respectively, minus 4% and minus 3%. Putting this into context, though, Persimmon's average private sales rate per site in the first eight weeks of the year was 0.88, i.e. up around 7% annualised. In its rejuvenation, though, the Group is not chasing volume and, in fact, expected 2020's physical output to be similar to that of 2019. It also described the current market as resilient.

Persimmon is a phenomenon, and a phenomenon that had lost its way consumer- and quality-wise. It is in rehab right now, but it is remorselessness and it will return. Ignore it at your peril.

Persimmon (COVID-19 trading update – 25 March)

Persimmon has also abandoned both its final (110p per share) and special (125p) dividends, which will save ca.£750m. Note, too, that, as at 20 March, the Group held £610m of net cash (prior to 2020's deferred land commitments of £195m). Persimmon also closed all sales offices from Thursday 26 March until further notice. Similarly, its regional offices will close, with only a skeleton staff to facilitate the wider workforce working from home. Meanwhile, construction sites are commencing an orderly shutdown, with only essential work taking place, which will be focused on making partly built homes safe and secure, and where failure to complete the build could put customers in a vulnerable position.

Persimmon will save £750m from not paying dividends

"Persimmon entered this period of uncertainty with a robust operational performance in the year to date and a strong forward order book. Despite this encouraging start to the financial year we are preparing for a significant delay in the timing of legal completions, a rise in cancellation rates and a material slowdown in new sales, the extent and duration of which is uncertain".

However: "the decisions taken by the Board today in no way diminishes its confidence in the long-term outlook for the company and the strength of the through-the-cycle model, which is set up to withstand reasonable downside scenarios and to take advantage of opportunities as they arise".

That said: "at this stage, given the level of continued uncertainty around economic and business activity, it is not possible to provide financial guidance for the fiscal 2020 financial year".

Persimmon's AGM on 29 April will also be a closed affair with a trading update to be made in advance.

Vistry (aka Bovis) (final results – 27 February)

We think the Bovis/Galliford deal to create Vistry is a humdinger

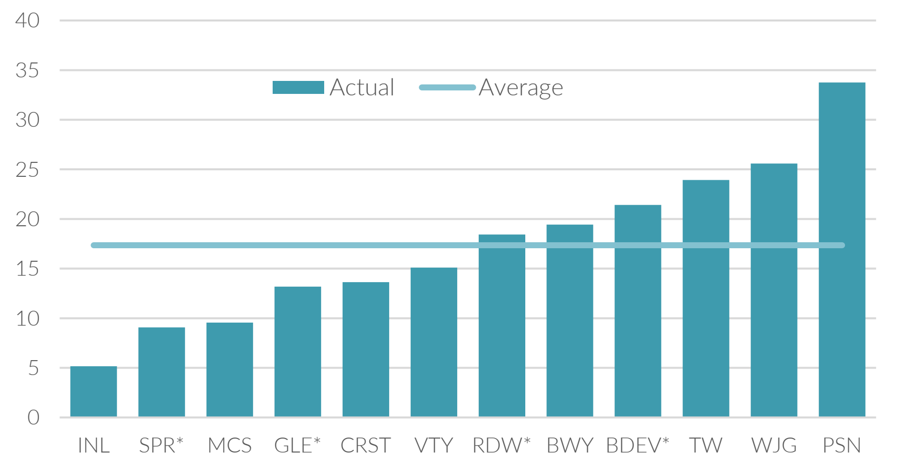
This 2019 results' announcement (at 6,313 words) was thankfully around half the length of the same communications from Taylor Wimpey and Persimmon. Equally good, too, was the fact that the words "controlled", "disciplined" and "optimise" (all variations thereof) were used sparingly, i.e. 15 in total, rather than a more liberal profusion. In fact, the prose was well-judged. We also think the Bovis/Galliford deal is a humdinger (with no premium paid for control) and that Vistry is going gangbusters. It may be, too, that CEO Greg Fitzgerald can walk on water. In fact, the sole wrinkle is the continued non-promulgation of order book data for private sales.

In calendar 2019, revenue generated was 7% higher at £1.13bn, comprising a near 3% increase in unit output to 3,867. In turn, this comprised 2,278 private units (+4%) and 1,189 partnerships (off three units year-on-year). For the record, too, the private ASP was £341,700, up 1.3%.

EBIT margin increased 60pbs to 17.0%

At the EBIT level (and excluding a £13.5m exceptional item), it came in 11% higher at £192.6m and, with it, margins were 60bps better at 17.0%. After interest (negative) and JVs (positive), PBT was 12% higher at £188.2m with EPS 10% better and the dividend was set for an 8% increase to 61.5p, with cover a touch improved at 1.81x (2018: 1.78x). Sadly, this did not happen. See below. Balance sheet-wise, RoCE remains pedestrian at 15.1% (2018: 15.8%), albeit capital turn was okay at 0.89 (2018: 0.96). Liquidity, though, was excellent, with a quick ratio of 1.22 (2018: 0.76), and the Group is sitting on placing-assisted net cash of £362m (2018: £127m) at 31 December 2019 i.e. 28% of NAV.

Individual RoCE reported in 1Q 2020 (%)



**denotes interim results; solid line is the average*
Source: Hardman & Co Research

The results statement refers to the "transformational acquisition" of Linden Homes and the Galliford partnerships/regeneration unit – which is no exaggeration. The newly monikered Vistry is also on track to generate PBT cost synergies of at least £35m p.a. by the end of fiscal 2021 (with £12m expected this year). It is also now one of the UK's top five housebuilders, with the capacity to deliver up to 14,000 new units p.a. over time. Specifically, too, the now eponymous Vistry Partnerships is expected to accelerate growth to 6,000 units p.a., with an EBIT margin in excess of 10%.

A new Bovis housing range, called the Phoenix Collection, will deliver some 1,400 completions this year

Vistry also launched a new Bovis Homes housing range, the Phoenix Collection, in 2018, and expected some 1,400 private completions in this genre in 2020 (2019: 358). Here, too, the housebuilding business (trading as Bovis and Linden) has reduced its operating regions from 17 to 13. In turn, each of these has the capacity to deliver ca.550 to ca.625 new housing units p.a., giving the housebuilding business the potential to grow and deliver more than 8,000 units p.a. Interestingly, the Group is, on average, targeting slightly smaller units "to maximise demand and output which we expect to result in a reduced average selling price in the land bank in the medium term".

2020 has started strongly, "with increased levels of consumer demand seen across all operating regions". Similarly, the "underling average sales rate per site per week is up 15% with some positive momentum on underlying pricing". Meanwhile, in Partnerships, mixed-tenure forward sales are up more than 50% to £244m, although the contracting order book is 7% lower at £890m.

Vistry (COVID-19 trading update – 25 March)

Vistry has taken the decision to postpone the second interim dividend payment of 41.0p per ordinary share, totalling ca.£60m, payable on 29 May 2020. "Whilst the Board recognises the importance of dividends to shareholders, in the current circumstances, it feels that it is not appropriate to continue with this payment at this time".

The Group has reservations of £1.35bn, of which £0.9bn is contracted

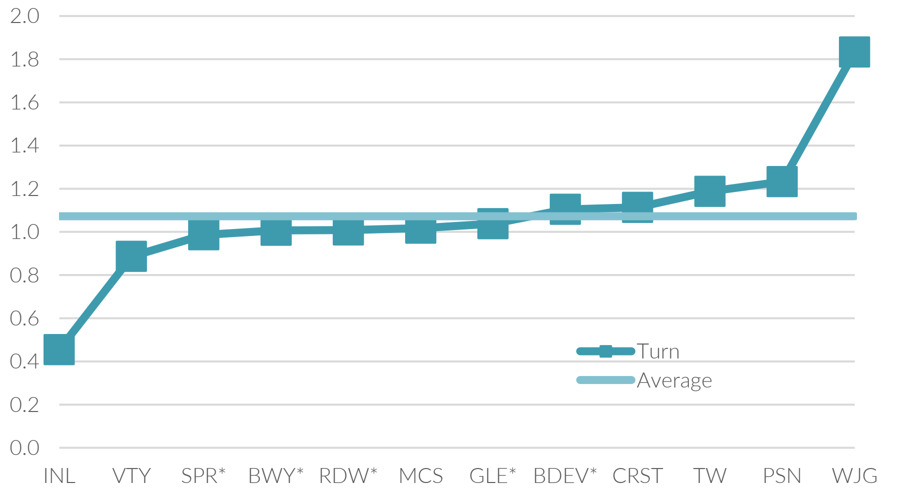
"We have been very encouraged by the trading performance of the Group during 2020, with increased levels of consumer demand and positive momentum on underlying pricing. However, in the last week we have seen a negative impact on performance as a result of COVID-19. The Group has a strong forward sales position, with housebuilding reservations totalling £1.35bn of which £0.9bn is contracted. In addition, Vistry Partnerships' contracting forward order book totals £0.8bn".

"Excellent progress has been made with the integration of Linden Homes and Vistry Partnerships and we are ahead of where we expected to be at this time. As such, we are in a good position to manage the impact of COVID-19 and the rapid, co-ordinated response internally demonstrates how well the newly integrated business is working together".

"However, Vistry has closed our sales offices and commenced the process of closing our construction sites. All discretionary land spend has also topped and working capital is being very tightly managed. In addition, the Group is submitting valuations totalling circa £95m for work we have completed in March to our contracting clients, mainly local authorities and registered providers of affordable housing, noting that the Government has issued guidance for payment".

Vistry is also suspending all existing financial guidance until both the severity and duration of the COVID-19 impact become clearer. "The Group has committed banking facilities totalling £750m including £100m of private placement notes, with well spread maturities out to 2027. As at 24 March the Group had £435m of net debt including the private placement notes, in line with our expectations at the time of the acquisition of the Linden Homes and Vistry Partnerships businesses. The Group holds cash of £90m with a further £225m of undrawn facilities available".

Individual reported capital turn in 1Q 2020 (x)



**denotes interim results; capital turn is revenue divided by capital employed*
Source: Hardman & Co Research

Glenveagh (final results – 28 February)

The company was mercifully concise at 3,658 words in its 2019 results announcement; and on the money – *viz* a share price that dipped less than 1% to 76 cents in what was a dreadful Week 9 of 2020. Clearly, 2019 was a watershed year, as it added €200m, and the company moved into the black. The outlook is also extraordinarily positive, and described without hyperbole or management-speak.

In 2019, revenue increased more than three-fold to €285m

In the 2019 calendar year, revenue increased more than three-fold from €84m to €285m, and moved from loss to profit, with EBIT of €30.5m (2018: minus €2.2m). This meant an EBIT margin of 10.7% – very good to be getting on with. PBT was €27.8m (2018: minus €3.6m), with EPS at 2.74 cents; all excluding a modest exceptional item of just over €1m (2018: €0.4m). Okay, the balance sheet returns are still not that flash, but it is a work in progress (figuratively and literally). For example, RoCE was 3.4%, with a capital turn of 0.3x. But check out the liquidity – with a quick ratio of 1.1. The company is also sitting on €54.6m of net cash, which is equivalent to 6% of NAV, and which was €867m at 31 December.

Glenveagh operates three distinct business segments: Suburban, Urban and Partnerships. In the year, too, it sold 844 units from 14 sites (2018: 275 from seven sites) at an ASP of €332,000, which was up 16%.

Looking forward, some 475 units that are due for delivery in 2020 are now sold, signed or reserved, substantially underpinning the Group's delivery target for 2020 of 1,000 units. Note, too, existing open sites are capable of delivering in excess of 4,800 units. In sum, too, its landbank runs to 14,500, with a per plot net development value of €43,000. In turn, this supports Glenveagh's confidence in its longer-term output targets, from 1,000 this year to 3,000 units in 2024. Interestingly, it has also signed a long-term timber frame open-book supply agreement.

"Positive momentum has been maintained during the first two months of the current year where customer demand has been solid. The Group has substantially de-risked its 2020 delivery targets with costs largely fixed and strong forward sales in place.

The market backdrop remains favourable with significant institutional and private demand for housing. The company is well-positioned to deliver a successful outcome for 2020 and the Board remains confident that the results will be in line with its expectations".

Glenveagh (COVID-19 trading update – 26 March)

Glenveagh does not have a dividend to pass but, in the wake of COVID-19, it is "suspending all existing fiscal 2020 guidance until both the severity and duration of the COVID-19 impact becomes clearer". The company's sales performance in the current financial year has been in line with the Board's expectations, with over 475 units sold, signed or reserved at the time of its full-year results for 2019 (28 February). This reflects "continued strong demand across our starter-home focused portfolio". That said, "reservations, signings and closings have continued in recent weeks albeit the pace of new reservations has slowed as the restrictions have widened".

Further out, Glenveagh is confident in its ability "to take advantage of the significant medium- and long-term opportunity that exists". Net debt at 25 March was just €4m, and "current cash resources and available committed facilities total €121m (plus a further €125m of uncommitted facilities)".

Glenveagh is confident in its ability "to take advantage of the significant medium- and long-term opportunity that exists".

"We are in a rapidly evolving environment and will update the market in due course. Glenveagh will issue a trading update on 19 May 2020 in advance of the AGM".

Glenveagh 2 (COVID-19 trading update – 30 March)

The company followed up on its 26 March announcement by saying that, in line with updated Government guidance, it had "affected an orderly and safe closure of all our construction sites. The Group will reopen these sites when the Government confirms that it is appropriate to do so".

Cairn Homes (final results – 3 March)

Cairn promulgated splendid figures for the 2019 calendar year, particularly given its four-year life span as a corporate, i.e. revenue rose 29% to €430m, with the sales of 1,080 units at an ASP of €372,000 (+1.6%). Meanwhile, both PBT and earnings soared through 40%. Debt was reduced, too, and there was a maiden dividend, plus a cash order book 32% to the good at €266m. Okay, if I wanted to be picky, margins were off a bit. This aside, though, we liked the measured tone, concinnity and a-less-than 5,250-word report, including a 20-word outlook statement: "With strong market demand for our product and delivery pipeline, the company looks forward to the full year with confidence".

Cairn operates exclusively in Ireland, and is listed in Dublin and London. In the year to 31 December 2019, revenue rose 29% to €435.3m, with EBIT ahead 28% at €68.1m, albeit profitability eased 20bps to 15.6%. PBT was struck at €58.6m and was 41% ahead, with earnings up 45%. The maiden annual dividend was 5.25 cents, with lean cover of 1.2x. This comprised a first-ever interim dividend (2.5 cents) plus a final (2.75 cents). Subsequently (see below), the final dividend was cancelled.

RoCE was just 7.5% (2018: 5.6%), given its burgeoning assets, with capital turn at 0.48x (2018: 0.35x). Liquidity was good, though, with a quick ratio of 1.3 (2018: 0.7), and net debt reduced from €134m to €92m, or 12% of NAV (2018: 18%). Note, too, that this net debt reduction came after a €19.7m interim dividend and €22.2m of share buybacks.

Orders are up 32% at €266m

As for the order book, this was up 32% at €266m, or 853 units, which is an increase of 81%. In turn, Cairn expected 1,250 to 1,300 sales completions in 2020 (2019: 1,080) and was targeting a gross margin of ca.20.0% (2019: 19.6%), albeit with a heavy 2H weighting. Further out, the Group expected1,500 to 1,600 sales completions in 2021 and 1,700 to 1,800 sales completions in 2022. Note, too that build cost inflation in the last 12 months was around 2.5%; and 86% of the current year's build costs and 60% of 2021's is fixed.

Cairn has also embraced PRS and notes that, in 2019, 44% of all property investment transactions were in this popping sub-sector. For the record, too, Cairn owns some 17,000 plots (98% with planning) of land across 35 sites, over 90% of which are located in the Greater Dublin Area (GDA). The carrying cost per plot is also just €42,000, and "our total land cost as a percentage of net development value is 11.5%".

The Group rounded off its results on the Irish economy, which grew at 6.1% last year, and is forecast to grow 4.8% in 2020 and 4.2% in 2021, according to the Central Bank of Ireland (CBI). Employment was good, too, and wages were growing. Consumer sentiment also improved, as the threat of a hard-Brexit receded, and Cairn believed that the positive economic outlook underpinned the medium-term annual demand for new homes in Ireland, estimated by CBI at 34,000 units until 2040. In 2019, a total 21,241 new homes were built.

Cairn Homes (COVID-19 trading update – 27 March)

Cairn has abandoned both its second-ever dividend of 2.75 cents and existing guidance for fiscal 2020, as the impact and duration of COVID-19 remains uncertain. The company is also suspending its current share buyback programme, of which ca.€46m of the €60m programme has been completed to date.

"The situation in respect of COVID-19 continues to evolve rapidly, as does Government guidance in relation to it. Footfall and face to face enquiries have slowed significantly over the last two weeks, although online engagement has increased. The Board is monitoring this carefully and while there remains considerable uncertainty, the company expects sales activity to be negatively impacted over at least the near term and possibly for an indeterminate period of time". That said, construction activity continues across each of Cairn's active sites.

The company had net debt of €92.4m as at 31 December 2019, or 12% of NAV, together with some undrawn facilities under its revolving £200m credit facility.

Cairn Homes 2 (COVID-19 trading update – 30 March)

Cairn has proforma net debt of €138.4m

Cairn followed up its 27 March COVID-19 trading update with another one on 30 March. It said that it was closing all of its residential construction sites for the next two weeks, until 12 April 2020, in line with Irish Government guidelines. In doing so, the company has acted immediately to implement the necessary health and safety measures required.

At 31 December, Cairn's net debt was €92.4m, including €148m drawn from "the available" €194m from its €200m revolving credit facility (RCF), and it had net cash of €56.8m. In recent weeks, it has drawn the balancing €46m of the RCF, which puts proforma net debt at €138.4m, or 18% of NAV (as at 31 December 2019).

Abbey plc (COVID-19 trading update – 24 March)

Abbey has always favoured saying something in as few words as possible – and its COVID-19 trading update (105 words net) was no exception.

"At this stage it is not possible to estimate the full impact of our year end performance except to note that it will be material".

"Abbey plc announces an update on recent COVID-19 developments and the impact on the business. Recent Government restrictions in all our operating regions, the UK, Ireland and Czechia are having a very significant impact on our business. At this stage it is not possible to estimate the full impact on our year end performance except to note it will be highly material. Trading for the foreseeable future will be very reduced. Abbey had a good net cash position as of 23 March 2020 however inevitably cash flow will be stressed and in the circumstances the dividend declared at the Interim will not now be paid". The interim dividend was 10 cents per share, payable on 30 April.

Bellway (interim results and COVID-19 update – 25 March)

Timing is everything, and it was unfortunate for the "Steady Eddie" of the Sector to report half-year figures on 25 March in a week dominated by COVID-19 and its fall-out, i.e. housebuilders passing dividends hither, thither and yon. Understandably, Bellway joined this club, saving ca.£62m, assuming the payment had been held.

"Significant risk to production capability and customer demand in weeks and months ahead"

At the same time, page one of this announcement, covering the six months to 31 January, was dominated with COVID-19 stuff. It spoke of "significant risk to production capability and customer demand in weeks and months ahead". Thus, the Group has enacted a pause in new site acquisitions and "a re-prioritisation of production expenditure to focus on plots which are in the later stages of construction programmes".

In the six weeks since 1 February, Bellway's reservations had increased by 7.3% to 278 per week. However, reservations have fallen in the past two weeks, as the introduction of measures to delay the spread of COVID-19 has inevitably affected demand. "Given the risks presented by COVID-19, it is difficult to predict the effect that they will have on completion numbers in the foreseeable future, although output for the full financial year will reduce compared to previous guidance. The Group has a strong balance sheet with net cash at 31 January, low land creditors and committed bank facilities of £545m, placing it in a strong position to withstand the likely disruption. Beyond the present uncertainty, industry fundamentals remain positive, with continued underlying demand for affordably priced new homes".

As for the 1H scores on the doors, Group revenue rose 4% to £1.54bn, with unit sales 6% higher at 5,321. Note, too, that this tally was split 4,007 private (+4%) and social 1,244 (+15%). The private ASP was off 2.1% at £326,800, which reflected fewer sales at Nine Elms in London (this site is now totally sold). Interestingly, the private ASP in the North was up 7.5% at £280,300, which meant the South was at minus 8.0% at £384,300.

The order book was worth £1.5bn, up 2.1% annualised

EBIT margins reduced 220bps to 19.3%, with EBIT of £297.2m. Remember, though, that the Group recognised other revenue of £16.6m (2019: £16.8m), which principally includes the disposal of freehold reversionary interests on apartment schemes (and we assume that this flowed pretty fully to profit). "As the legislative outlook evolves, this is unlikely to form a recurring source of other income in the years ahead". PBT came in at £291.8m, or minus 6.3%, with earning behaving similarly; and there is to be no dividend (2019: 50.4p per share).

In terms of the balance sheet, RoCE was sharply lower at 19.4% versus 23.2% last time. Capital turn, however, remained above 1.0x, which is creditable for a business of this scale. The half-year closed, too, with a marginal £5.4m of net cash (2019: net debt of £26.6m).

Turning to the order book, this was worth £1.516bn at 8 March and was 2.1% to the good. It also represented 5.722 units (+0.8%).

COVID-19 trading updates

24 trading updates have been made, with eight companies issuing two each

There have been 24 such statements from the 17 listed housebuilders, including two each from Berkeley, Cairn, Glenveagh, Inland, McCarthy & Stone, Redrow, Taylor Wimpey and Watkin Jones; plus, there were interim results from Bellway on 25 March (and all these are included in the previous pages).

All companies have wisely preached caution, 13 have formally suspended financial guidance, and 14 said they would not pay their next dividends (three special dividends have been postponed, too, and remain under review).

In the table below, we also highlight indebtedness, or otherwise, as a key variable, with the range from net cash of £1bn+ (Berkeley) to net debt of £435m (Vistry).

In our view, also, two updates stand out:

- McCarthy & Stone: "the business would be able to operate with no sales revenue for a period of circa 2.5 years"; plus, all members of the Board and wider leadership team are taking a voluntary 20% reduction in basic salary from 1 April, until further notice. It also offered more than 300 newly completed apartments in unoccupied developments for Government and local authority care providers; and, in Week 13, its share price rose 43% (to 73.9p);

Erudition at its best

- Abbey: it displayed erudition at its best (which it generally does) and, in 105 words, said everything that needed to be said; and said so with, relatively, more candour. "Recent Government restrictions in all our operating regions, the UK, Ireland and Czechia are having a very significant impact on our business. At this stage it is not possible to estimate the full impact on our year end performance except to note it will be highly material. Trading for the foreseeable future will be very reduced. Abbey had a good net cash position as of 23 March 2020 however inevitably cash flow will be stressed and in the circumstances the dividend declared at the Interim will not now be paid".

COVID-19 trading updates

Company	Date	Latest dividend passed	Special dividend passed	COVID-19 caution	"Financial guidance suspended"	Net debt (£m) **
Abbey	24-Mar	X		X		
Barratt	25-Mar	X		X	X	380
Bellway	25-Mar*	X		X	X	5
Berkeley	12+27-Mar		X	X	X	1,000
Cairn Homes	25+30-Mar	X		X	X	-81
Countryside	25-Mar			X	X	73
Crest Nicholson	19-Mar	X		X	X	37
Gleeson	25-Mar	X		X	X	31
Glenveagh	26+30-Mar			X	X	-4
Inland	19+30-Mar	X		X	X	-152
McCarthy & Stone	19+25-Mar	X		X		-55
Persimmon	25-Mar	X	X	X	X	610
Redrow	24+27-Mar	X		X		116
Springfield	24-Mar	X		X		-56
Taylor Wimpey	24 Mar+1-Apr	X	X	X	X	546
Vistry	25-Mar	X		X	X	-435
Watkin Jones	27-Mar+1-Apr	X		X	X	36

**Results announcement; **net debt/net cash is number either in trading update or last balance sheet*
Source: Hardman & Co Research

Valuation

In normal times, we reproduce graphs of consensus forecasts for each of the constituents of the Housebuilding Sector, and their prospective earnings and subsequent PERs.

These are not normal times

But these are not normal times – see earlier analysis of COVID-19 trading updates, in which 14 companies have officially abandoned financial guidance.

Forecasting earnings intramural or extramural is impossible. For the record, though, prospective earnings growth in 2020/21 was already negative at minus 7%, with an increase of 11% pencilled in for 2021/22.

At 31 March, the Sector was on an historic PER of 11.4x (10.1x weighted); and this easily could more than double.

The Sector was on an historic PER of 11.4x

As for yields, which we also used to show graphically, times have also changed, and, in March 2020, it was announced that 13 ordinary dividends and three special dividends have been passed or will be.

Prior to this, the Sector was yielding 7.6% historic (which assumed announced dividends would be paid). This yield has now shrunk to 3.3% and will, most likely, trend to zero.

Economics: "news from another planet"

The volume of GDP in 4Q 2019 is now confirmed as having been flat versus 3Q. On an annualised basis, too, 4Q was 1.1% up on 4Q 2018 (again, there was no revision). Services were up and production was down. Year-on-year, too, UK GDP grew 1.4% in calendar 2019 versus 2018.

GDP rose 1.4% in 2019 year-on-year

As already reported, UK construction output rose 2.3% last year (revised down from 2.5%).

Unemployment in the three months to January 2020 was estimated at 3.9%, largely unchanged on an annualised basis and 0.2ppts higher than in the previous quarter. As for the employment rate, it was at a joint record-high of 76.5%.

Vacancies were at 817,000 in the UK in the February quarter (i.e. December, January and February), which is 19,000 more than in the previous quarter, but 30,000 fewer than a year earlier.

Job vacancies in the February quarter were at 817,000

Inflation in the UK, as measured by the CPI in February, was 1.7%, which is down from 1.8% in January, and compares with 1.9% in February 2019.

Finally, retail sales rose 0.7% year-on-year in February but dipped 0.5% versus January. Similarly, the February quarter was up 0.6% annualised but off 0.6% versus the November quarter. The movement of retail sales by volume is similar, save for February being flat on an annualised basis. Pre-COVID-19, rainfall was a factor.

Mortgages and transactions

UK Finance (UKF) said that the number of new mortgages advanced by the high-street banks rose 8.1% in 2019 to 507,769, while repurchases were up 8.0% at 367,590 (on the same basis, these numbers for December alone were up 24% and 31%, respectively, versus December 2018).

UK Finance said that mortgage approvals in 2019 rose more than 8%

Bank of England data run through February and, in the month, mortgage approvals hit a six-year high of 73,546, prior to the impact of COVID-19. This was 3.1% higher than January and 12.5% better than February 2019. The residential market clearly had its dander up.

Meanwhile, residential transactions in February were 103,870, 4.5% higher than in January and 6.0% up on February 2019. Note too that the average monthly tally last year was 97,921. All data are seasonally adjusted.

What a pity.

Volumes

The National Housebuilding Council insures 80% of all new homes in the UK and, in 2019, 161,022 new homes were registered, up 1% year-on-year, which was (narrowly) the best level achieved since 2007, and 81% up on 2009.

Residential transactions in February 2020 rose 6% year-on-year

In total, 112,086 homes were registered to be built in the private sector in 2019, which was down 3%. However, 48,936 homes were registered in the affordable and rental sectors i.e. up 13% in 2019.

New private home registrations for new build in London rose 33% last year

Meanwhile, in London, 21,726 potential new homes were registered in 2019, which was a 38% increase on 2018, with both the capital's affordable and rental market (+42%) and the private housebuilding market (+33%) soaring.

Red Dwarf on house prices

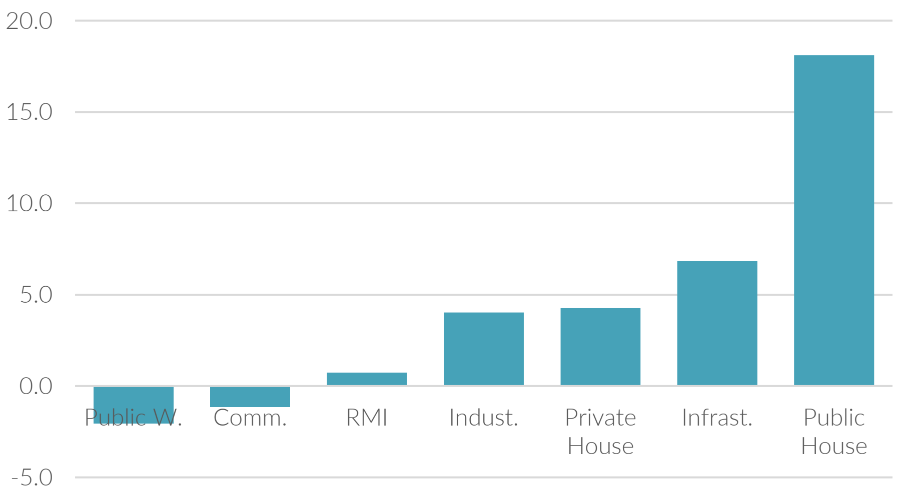
"The housing market is now grinding to a halt", says Nationwide

Nationwide said that house prices in March rose 0.8% to £218,583, with annual growth at 3.0% (February: 2.3%), which was the highest level since January 2018. Of course, the sample excludes the recent COVID-19 disruption. "But housing market activity is now grinding to a halt as a result of the measures implemented to control the spread of the virus, and where the government has recommended not entering into housing transactions during this period. Indeed, a lack of transactions will make gauging house price trends difficult in the coming months".

Rightmove said that the average asking price of property coming to the market hit a new all-time high of £312,625 in March. At the same time, prices rose 1% in the month of March and 3.5% year-on-year (February: +2.9%), which is the highest annual rate of price growth since December 2016.

Reuters said UK house prices would rise 2.0% this year, 2.8% next year and 3.1% in 2022, according to a poll of 26 housing experts (including Building Value) in the period 17 February through 28 February. COVID-19 was only just on the horizon back then.

UK construction output annualised: % change in value, 2019 vs. 2018



Commercial, Industrial, Public Works, Repair, Maintenance & Improvement, Private Housebuilding, Infrastructure and Public Housebuilding Data are in 2016 prices seasonally adjusted
Source: ONS, Hardman & Co Research

Construction output and new orders

Private housing output rose 4% in 2019

UK construction output rose 2.3% in calendar 2019 against 2018 in real terms. Here too there was 18% growth in Public Housebuilding and 4% growth in Private Housebuilding. Note, however, that public sector housing (**'Public House'** in the chart above) is less than a fifth the size of Private Housebuilding. At the same time, Infrastructure Work and Private Industrial Construction soared. Public Works and

Repair, Maintenance & Improvement were also in the blue zone, but Commercial Building declined last year.

New orders in 2019 dipping 1.2% year-on-year in real terms and seasonally adjusted. Infrastructure and Industrial did particularly well; and the latter had an absolute surge in 4Q. Commercial is also in the blue zone (+1.3%). However, Public Housebuilding and Private Housebuilding were awful i.e. new orders fell 8.7% and 7.6%, respectively, in 2019.

Pre-COVOID-19, Experian (where I am an advisor) said that private housing output was forecast to rise 8.2% over the three years 2020, 2021 and 2022, while the public sector is set to grow 13.4%. Other sectors were set to rise too (especially Infrastructure) but not Commercial Construction.

Construction orders annualised: % change in value, 2019 vs. 2018

* *Commercial, Industrial, Public Works, Private Housebuilding, Infrastructure and Public Housebuilding.*
All data are in 2016 prices and seasonally adjusted
Source: ONS; Hardman & Co Research

Life, liberty and the pursuit of happiness

Source: Grant Naylor Productions

It is like we are living in a disaster movie when Dwayne Johnson is on holiday (or, for older readers, Bruce Willis). Perhaps it is a box set, and no one told us?

It could be called *Global Financial Crisis 2* – the scary sequel, which comes with a categoric health warning.

Leading actors, such as the banks, insurance and oil companies, are having a torrid time, but the supporting cast of housebuilders is being whacked too.

And, if there were a plot synopsis, IMDb would be telling us that very few houses are to be built or sold ever again; and there will be significantly fewer thespians treading the boards.

In a long career covering this industry (starting in the 1980s at "Building"), I have not seen anything like this – in either the scale of the share price declines or their sustained frequency.

The Crash (and hurricane) of 1987 was over in the blink of an eye compared with 2020. Same goes for Week 25 of 2016, which included the Brexit referendum, when the UK Housebuilding Sector fell the most ever in a single day (minus 24%). But this, too was isolated and fleeting.

The sole precedent is the GFC, or Global Financial Crisis, over 2008 to 2012, when the UK Housebuilders had a torrid time, as did the entire globe. And, on 7 July 2008, the total stock market value of the UK housebuilders was less than £4bn; remember, it peaked this year at £53.5bn (19 February).

They were dark days and the likes of Barratt and Taylor Wimpey became penny stocks. It seemed that normal life would never return. The industry's reaction, however, was business school text book.

Over three calendar years, 2008 through 2010, the publicly listed UK Housebuilding Sector wrote off £5.2bn in provisions against asset-carrying values or 40% of the total i.e. at 31 December 2007, the Sector's NAV was £12.8bn. The Sector also raised fresh cash of some £1.7bn from shareholders. From top to bottom, too, the Sector added £50bn to its stock market value, or 1,600%, in less than a dozen years.

The industry has learned empirically and, a decade or so later, it is spectacularly better managed and spectacularly more solvent i.e. the likes of Barratt, Berkeley, Persimmon and Taylor Wimpey hold net cash of some £500m to £1bn.

In fact, only Inland and Vistry have any significant net debt.

In March, it is noteworthy, too, that 14 companies passed on their next dividends and three have waived specials (i.e. Persimmon saves £750m) – fair enough.

Similarly, all have preached caution and 14 companies have formally waived "financial guidance" – fair enough encore, especially when the Government has shut the housing market shop.

Yes, the future is indeterminate. And, yes, there will be pain. Volumes will fall, prices will fall (although quantifying this with no mortgage market and few transactions will be an issue). The housebuilding industry does not possess an off/on button either.

Profits will fall and, as a rule of thumb, the industry's PER will at least double (or may not be relevant) as earnings plummet. Land and work-in-progress on balance sheets will need to be adjusted and there will be a re-run of the provisioning from a decade or so back; and why wouldn't it be 40% of NAV?

At the same time, there will be fewer publicly quoted (and private housebuilders) than there are today.

But remember what happened post-the GFC. Remember how the Sector reacted; and remember that it is starting from a better place.

But we go on. We go on because we must. And, the closing credits will emerge.

For sure, the box-office price is steep and many of us, and many governments, will need to adopt an instalment plan going forward.

But real life will return, and it will be the same; but different.

PS

This is that last time that Hardman and I will be writing the Housing Quarterly for the time being.

Quote:

"Faith is taking the first step even when you don't see the whole staircase"

Source: Martin Luther King Jr

Glossary

Name (ticker): share price; market value

Abbey (ABBY): 1,330 cents; €278m

Barratt (BDEV): 441p; £4,491m

Bellway (BWY): 2,156p; £2,659m

Berkeley Group (BKG): 3,615p; £4,544m

Cairn (CRN); 68 cents; €510m

Countryside (CSP): 285p; £1,283m

Crest Nicholson (CRST): 175.5p; £451m

M J Gleeson (GLE): 534p; £296m

Glenveagh (GLV): 49 cents; €427m

Inland Homes (INL): 43.5p; £90m

McCarthy & Stone (MCS): 64.75p; £348m

Persimmon (PSN): 1,916p; £6,111m

Redrow (RDW): 359.5p; £1,266m

Springfield (SPR): 77.5p; £76m

Taylor Wimpey (TW): 117.5p; £3,858m

Vistry, aka Bovis (VTY): 576p; £1,254

Watkin Jones (WJG) 154.6p; £395m

Note: Share prices at 31 March 2020
Adjustments have been made to share prices and metrics where required
Selected stocks are excluded from charts and sector averages due to extreme movements or for structural reasons

About the author

Tony Williams leads the Building and Construction team at Hardman & Co.

He has followed the building industry for more than 30 years, working as an analyst and corporate financier at UBS, Morgan Stanley and ING Barings. His industry roles have included Director of Corporate Planning and Strategy at Tarmac plc and Director of Public Affairs at AMEC, as well as a number on Non-Executive Directorships. He is also the founder and CEO of Building Value Ltd.

Tony joined Hardman & Co in 2013. He holds an MSc in Economics from the University of Manchester.

Notes

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