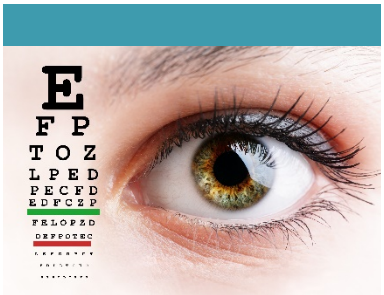
UK Housebuilding Sector: 2020 vision

Sharpness and clarity for industry prospects

By Tony Williams, Hardman & Co Analyst

Table of contents

20/20 vision



Source: Shutterstock

For fighter pilots, it is a minimum requirement.

But having 20/20 'visual acuity' (correct term) does not necessarily mean you have perfect vision (as convention assumes); instead, it indicates sharpness and clarity of vision at a distance.

It is measured by a Snellen Chart, which displays letters of progressively smaller size and whereby 20/20 means that the test subject sees the same line of letters at 20 feet that a person with normal vision sees at 20 feet (or 6 metres; but 6/6 simply didn't catch on).

20/20 and similar (e.g. 20/200 is legal blindness) are called Snellen fractions, named after Herman Snellen, the Dutch ophthalmologist who developed the measurement system in the mid-19th century.

In turn, 20/15 is even better than 20/20; the former, perhaps, having the benefit of hindsight…

In 20/19, a sharp-eyed UK Housebuilding Sector saw a 42% rise in value acuity; and generated a weighted and bright-eyed TSR or Total Shareholder Return of 56%.

There were blurred lines of Brexit letters along the way but, in 4Q (+18%), the bifocals were discarded – and the quarter included the sector's best ever daily rise in value, its best ever week and a new all-time high (on 16 December).

No, 2020 will not yield perfect vision and there will be HOAs or 'higher-order aberrations'; however, there will also be clarity, scale and distance for the industry this year.

Good eyesight is not taken for granted but it will prevail.

P.S. Hardman & Co operates a side-line in industrial goggles and lorgnettes.

20/19: optical value and sharp share prices

4Q included a record rise in value in one day, same for a week and a new all-time high

In 2019, the stock market value of the UK Housebuilding Sector rose £13.6bn or 42.4% (2018: minus 27.2%).

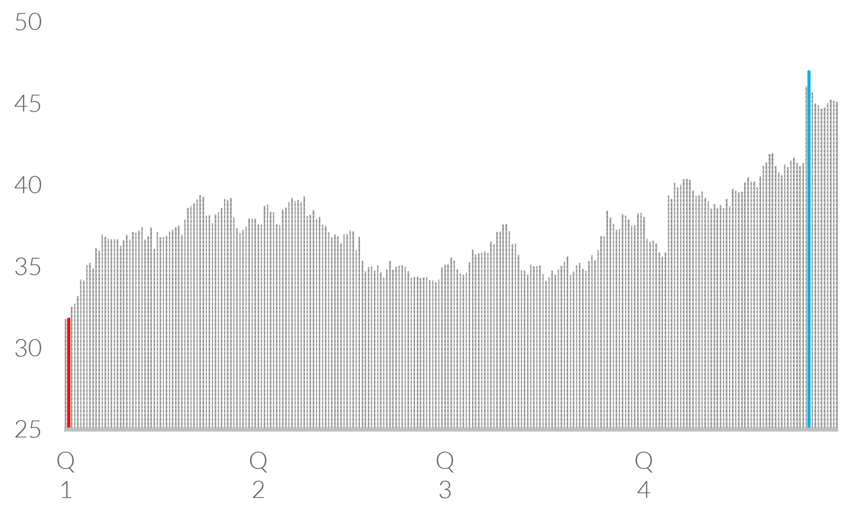
It also hit a new record high on 16 December of £47bn (one of only two goggle-free peaks); and it closed the year, 4% off the top (the previous zenith was £44.3bn on 24 October 2017).

Day-by-day, the sector rose lens-like on 52% of 253 days and declined on the balance (48%); this included a record day on 13 December (+11.4%) post the General Election.

Month-by-month, too, the Sector was up in nine and down in three (March, May, August); meanwhile, quarterly, Housebuilders rose on three from four (the Luddite optician being 2Q) with 4Q (+17.8%) the best performer.

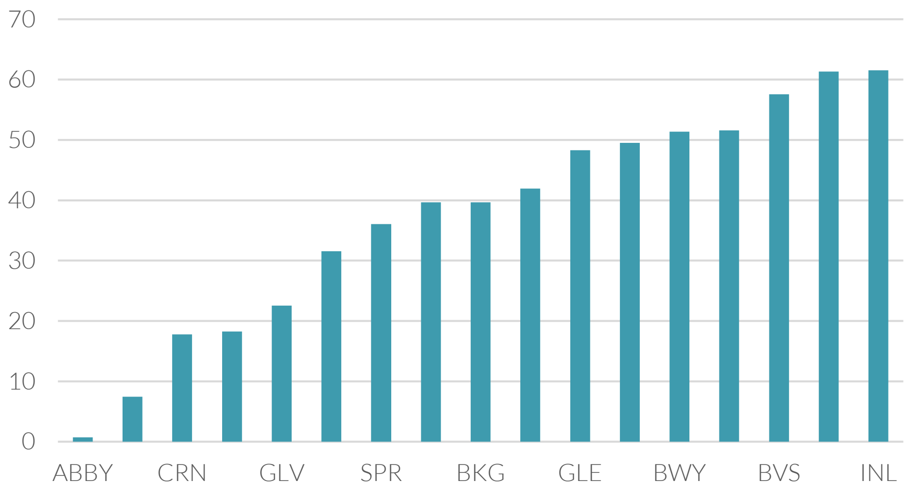
Finally, week-by-week saw 27 up and 25 down; and Week 50 showed a visual acuity record, encore, of 11.0%.

UK Housebuilding Sector market value – daily: 2019 (£bn)



Note: low (RED) was on 2 January and high (BLUE) on 16 December
Source: Hardman & Co Research

Share prices in 2019 (% change)



Source: Hardman & Co Research

In the calendar year 2019, share prices of the UK Housebuilders rose by an average 35.4% actual and 45.0% weighted by market capitalisation (in 2018, these values were legally blind at minus 23.1% and minus 26.7%, respectively).

In 2019, housebuilders share prices rose by an average 35%

Top of the chart were Inland (+61.5%) and Barratt (+61.3%), with little to separate them; the former on a major planning decision and the latter on being a household *(sic)* name.

A rejuvenated Bovis, together with Redrow, Bellway (both Steady Eddies) and Gleeson (low-cost ophthalmic specialist) were no slouches either rising by 48% to 52%.

Irish opticians Cairn (+17.8%) and Glenveagh (+22.5%) did better, too, as expectations of an orderly Brexit increased; albeit the third one, Abbey, paid the price of lower interim results (note, too, that ex-the family and Fidelity, the free-float here is little more than 6%).

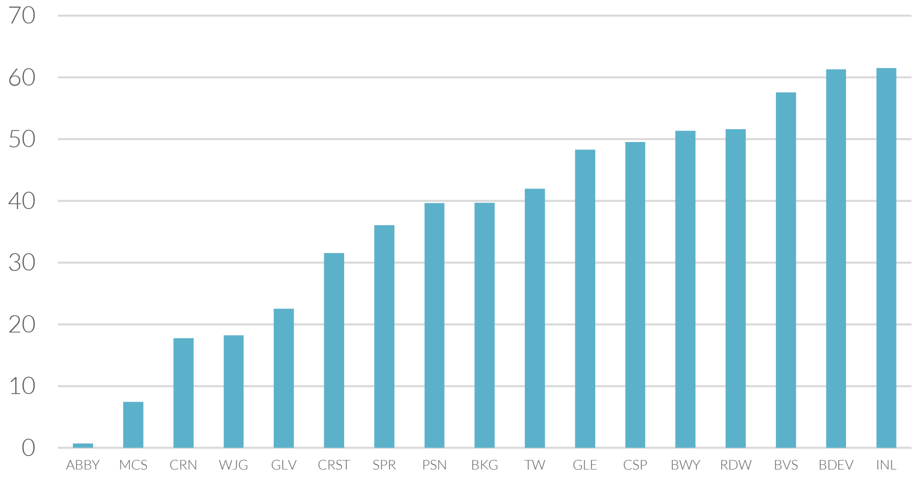
The Sector's trough was 7 July 2008 and the rise since then has been more than 1,300% (i.e. £42bn). The Sector is also 79% above where it was amid the immediate myopia following the Brexit referendum in June 2016.

From the past 14 years, too, the Sector has risen in nine – especially so in 2009 (+86%) and fallen in five – especially so in 2008, i.e. minus 64%.

Similarly, the Sector has risen in value in 24/35 quarters.

In 2018, all four quarters were negative, while last year three-from-four were positive, i.e. 1Q, 2Q and 4Q when no eye-tests were needed.

UK Housebuilding Sector share prices: 4Q vs. 3Q 2019 (% change)



Source: Hardman & Co Research

4Q/4Q share prices

Housebuilders' share prices rose by almost 19% on a weighted basis in 4Q

Housebuilders' share prices rose smartly by an average 15.2% actual or 18.7% weighted in 4Q.

Countryside led from the front with a rise 35.5% on the back of a sparkling set of finals and a burgeoning orderbook.

Worst were Abbey (+0.7%), McCarthy & Stone (+2.7%) and Watkin Jones (+8.0%) on the back of poor interims, a geriatric outlook and a big family share seller, respectively.

Earlier, too, we highlighted the match between the value of Housebuilders and the **€** vs. the British £, i.e. the exchange rate continues as a line of sight to the election result and prevailing Brexit vision. Note, too, the sector and sterling's 4Q low and high were on the same days, i.e. 9 October and 16 December. No lorgnettes needed.

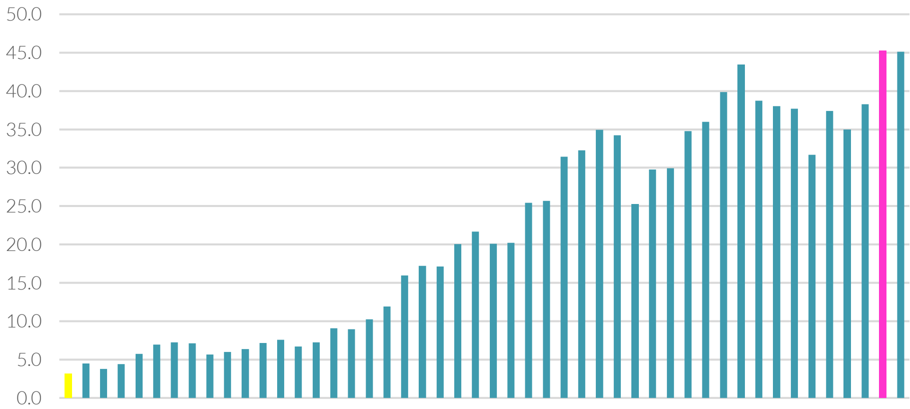
Quarter on quarter, the Housebuilders were the best relative performer on the London Stock Exchange with a 45% rise; and the Sector also led in 4Q (+19%).

A recovering (from a beleaguered base) Construction and Building Materials were next best with +42% and +14%, respectively.

The real estate sectors (REIS/REIT) and the FTSE 250 all increased in the year, too, by around 25%; and 11% to 18% in 4Q.

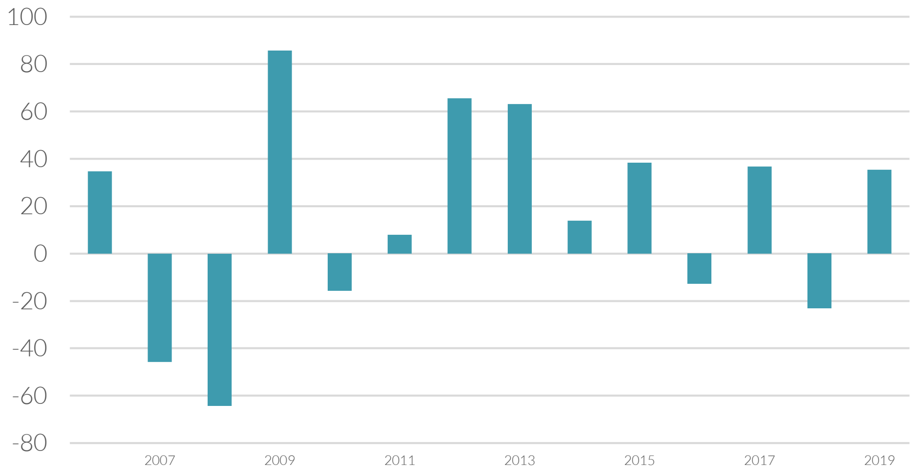
The All Share Index and the FTSE 100 were at the bottom of the table, however, at +14% and +12%, respectively, in 2019; and +3% and +2% in 4Q.

UK Housebuilding Sector market value: 3Q 2008 to 3Q 2019 (£bn)



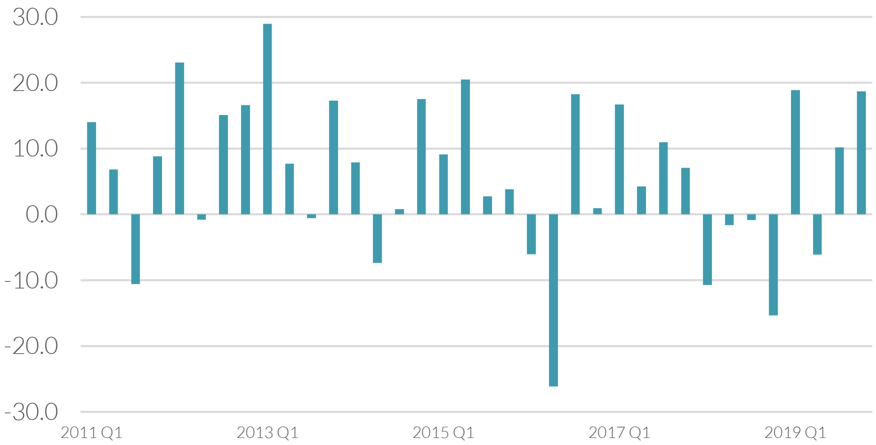
Note: low (Yellow) was on 7 July 2008 and high (Pink) was on 16 December 2019; Brexit Vote (PINK)
Source: Hardman & Co Research

Housebuilding Sector 2006-19 (% change in share prices pa)



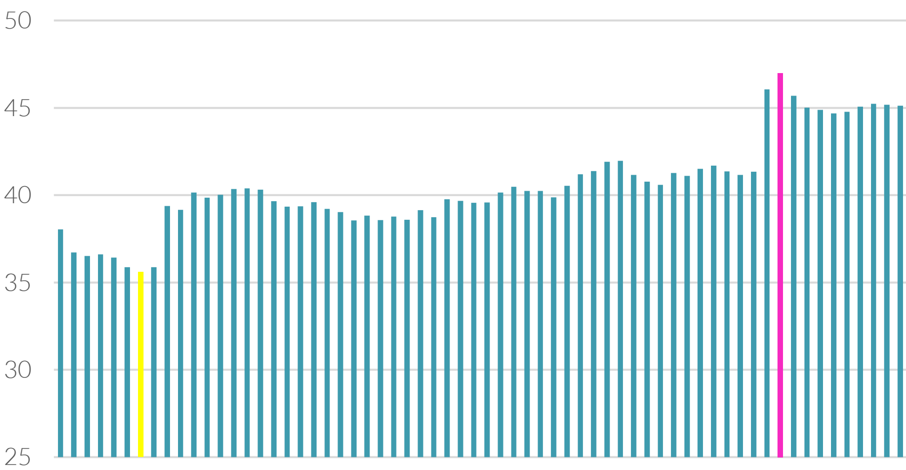
Source: Hardman & Co Research

Housebuilding Sector 1Q 2011 to 4Q 2019 (% change in share prices each quarter)



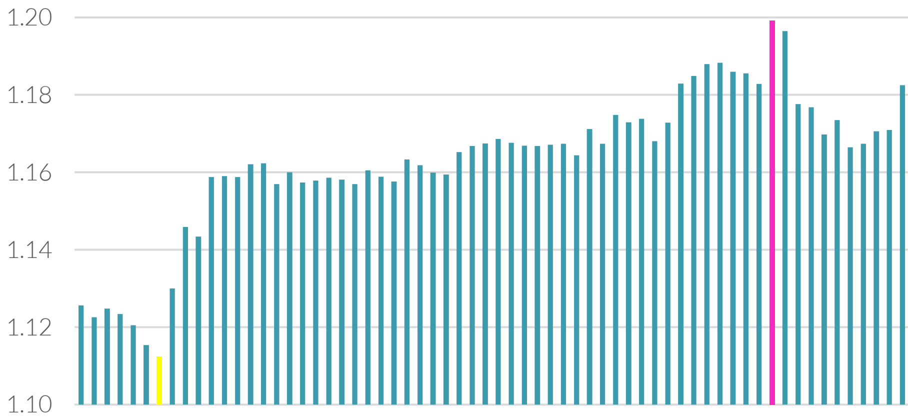
Source: Hardman & Co Research

Housebuilding Sector 4Q 2019 daily value (£bn)



Source: Note: low (yellow) on 9 October; high (pink) on 16 December. Source: Hardman & Co Research

€ to £ daily 4Q 2019 (€)



Note: low (yellow) on 9 October; high (pink) on 16 December. Source: Hardman & Co Research

Peaks and values

At 31 December 2019, Housebuilders' share prices were, on average, some 1,900% above the lows of 2008; and 44% up on more recent 52-week lows (weighted these viewing numbers are 2,869% and 33%, respectively).

Four players account for 63.5% of Sector value

The Housebuilders were also now just 9% below their 2007 peaks (13% weighted); plus, they are only 5% and 6% off 52-week highs on actual and weighted bases, respectively.

'The Big Four' housebuilders also continue in the FTSE 100 and, on 2 January 2020, they placed as follows: Berkeley (number 77); Taylor Wimpey (75); Barratt (61); and Persimmon (53).

Together, these four players account for 63.5% of the Sector's optical value.

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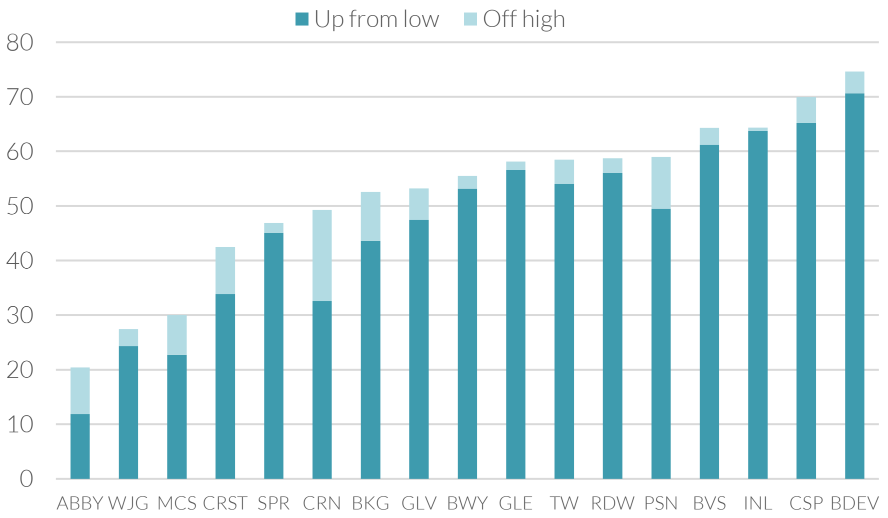
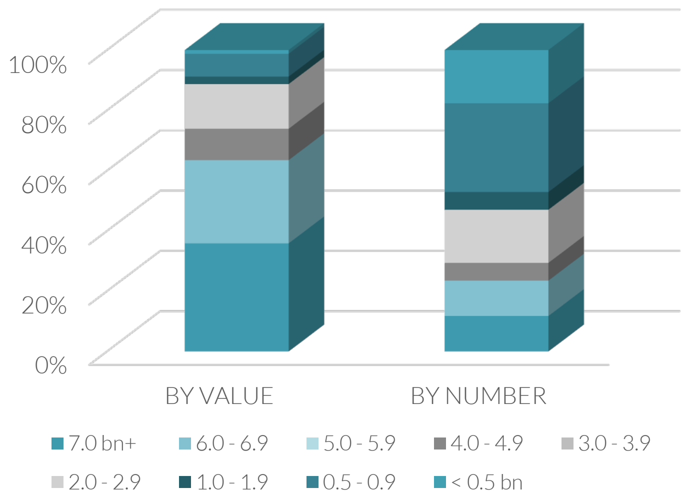
Movement against 52-week lows and highs as at 31 December 2019 (% change)



Source: Hardman & Co Research

Sector structure by stock market value: 17 firms worth £45.1bn at 31 December 2019



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

Price-to-Book and Total Shareholder Return

The Housebuilders' latest average Price-to-Book valuation was 1.75 on 31 December 2019 and 2.13 weighted.

This included 6/17 companies at 2.0 or better including Watkin Jones with a long-sighted 3.86.

The average TSR in 2019 was 45.0% or 55.5% weighted by market capitalisation

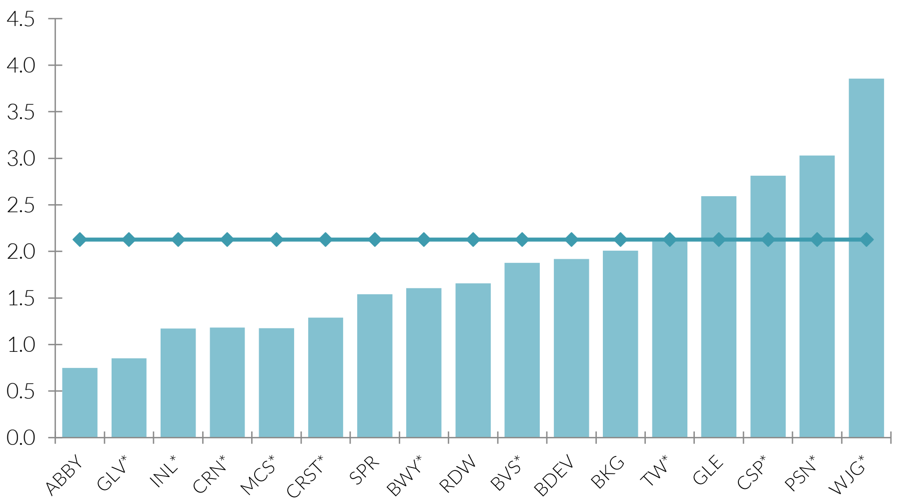
A year ago, the core ratios were, shorter-sighted, at 1.46 and 1.60.

Total Shareholder Return (TSR) for the Sector in calendar 2019 was a staggering 45.0% actual and 55.5% weighted by market capitalisation.

Barratt led the field with a TSR of 74.1% with close support from Bovis (71.2%), while Abbey (9.1%) and McCarthy & Stone (11.8%) were the laggards. None was negative.

In calendar 2018, the Sector's TSR was minus 19.3% actual and minus 21.9% weighted.

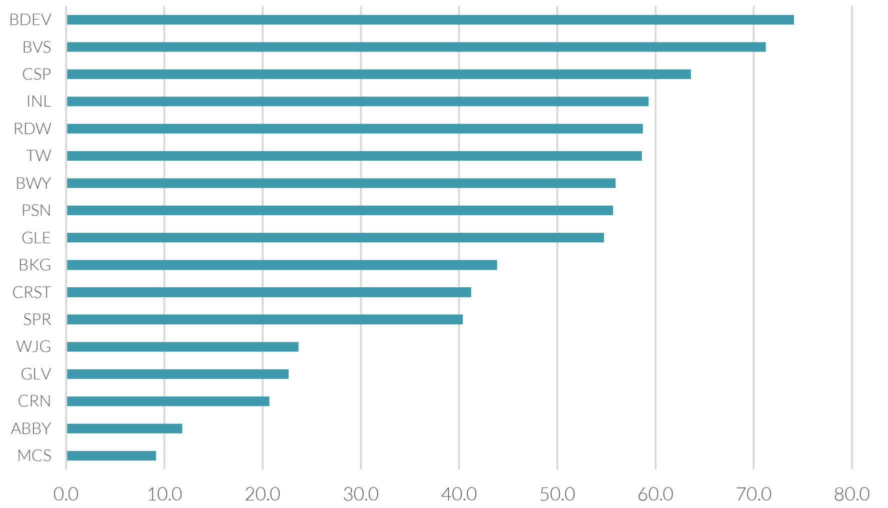
Housebuilders' P/B at year-end/latest interims – priced at 31 December 2019 (x)



**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 December 2019 (annual %)



Source: Bloomberg, Hardman & Co Research

Valuation

The consensus earnings growth forecast in 2019 is 1.7% followed by minus 0.3% in 2020 before a return to growth in 2022 with +8.7%

The Housebuilding Sector's prospective PERs are 11.1x in both 2019 and 2020 followed by 10.1x in 2021 (sample of eight) based on consensus forecasts.

Average earnings growth is forecast at 1.7% in 2019 and at minus 0.3% in 2020; and, based on eight forecasts in 2021, earnings growth is 8.7%.

Berkeley has proffered guidance for a sharp prospective drop in PBT of one third in fiscal 2020 (i.e. the consensus is minus 30%), which affects the average.

For the record, trailing 12-month PERs for the FTSE 100, All Share Index and FTSE 250 range from 17.6x to 22.6x; which compares with the Sector's 11.2x on same basis.

Note, too, Cairn and Glenveagh are excluded due to losses or minimal earnings at this point; and Telford has been taken over and is excluded (and a significant dip in earnings current year was expected here).

In 2020, the Sector yields a prospective 5.1%

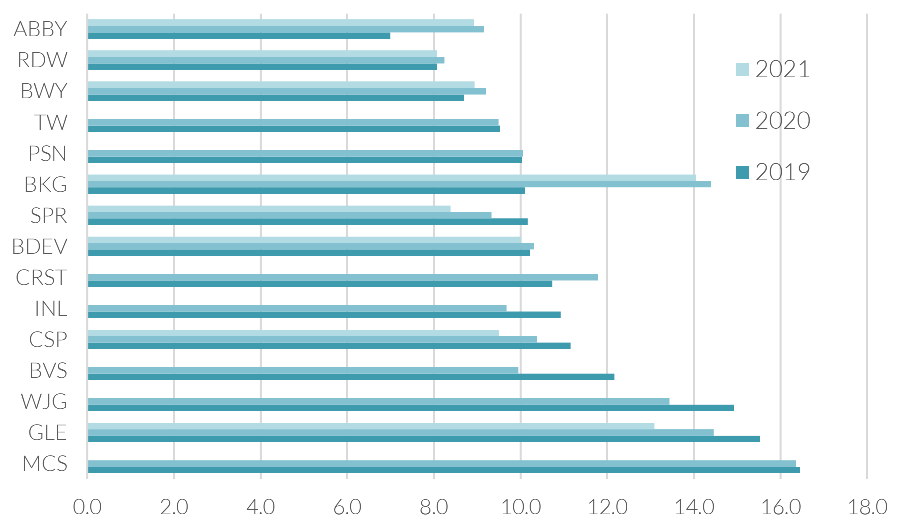
In 2019, the UK Housebuilding Sector average prospective yield is 4.9% followed by 5.1% in 2020 and 4.3% in 2021 (sample of eight) – with dividend cover at 2.6x, 2.3x and 2.7x, respectively.

A number of companies has committed to enhanced dividend payments, which means that there are two companies with prospective yields between 8% and 10% (see chart).

For the record, the UK equity market yields between 3.0% and 4.4% historic with average cover of 1.4x; this compares with 4.7% and 2.8x for the Housebuilders.

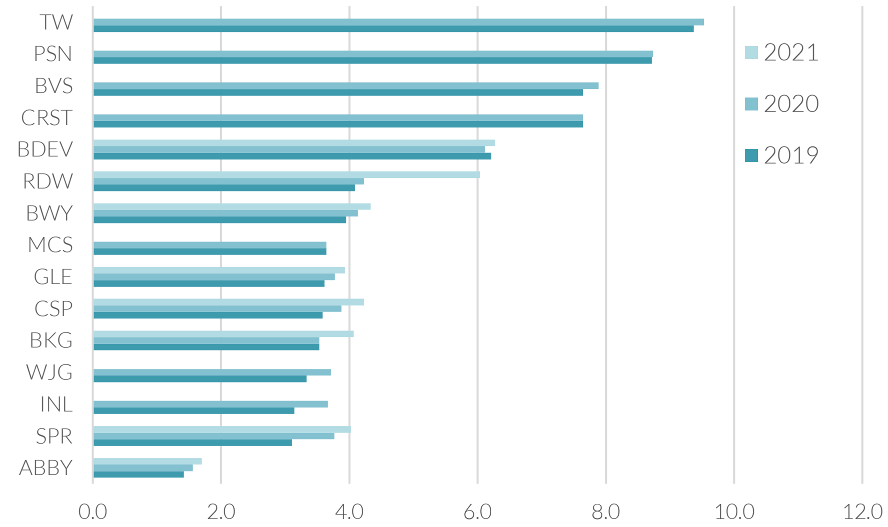
Here the FTSE 100, 250 and All Share represent the UK equity market and all calculations are made at the London Stock Exchange (LSE) close on 31 December 2019.

Housebuilding Sector PER: 2019E (11.1x), 2020E (11.1x) and 2021E (10.1x)



Source: consensus forecasts from ShareCast and priced at 31 December 2019; Hardman & Co Research

Housebuilding Sector yield: 2019E (4.9%), 2020E (5.1%) and 2021E (4.3%)



Source: consensus forecasts from ShareCast and priced at 31 December 2019; Hardman & Co Research

Test results/trading updates 4Q

In 4Q, there were two sets of final results and two interims plus more than a dozen trading updates from 17 Sector companies (note, too, Telford was taken over by CBRE).

EBIT margins eased from 21.7% to 20.9%

Average individual PBT for the 4Q reportees dipped 7% together with average individual EBIT margins off 80bps from 21.7% to 20.9% – on revenue 5% lower at £5.7bn.

EPS decreased 5.1% on average while dividends were raised 17% (or 5% ex-Countryside) with average individual cover easing from 2.9x to 2.6x.

Orders were unchanged from a sample of two comprising Bellway off 11% and Countryside up 12%.

RoCE declined from 24.8% to 20.5%

Average individual RoCE was reduced by 430bps to 20.5% (vs. 24.8% last time); with Capital Turn reduced a touch or two at 1.03x (vs. 1.21x).

Profit & Loss data

Date	Company	Event	Period ending	PBT (£m)		PBT	EBIT margin (%)		Orders	DPS	DPS cover (x)	
				Previous	Latest	% chg.	Previous	Latest	% chg.	% chg.	Previous	Latest
06-Dec	Abbey (Euro)*	Half Year	31-Oct	24	22	-10	21.6	20.7	-	11	10.1	8.2
06-Dec	Abbey (GBP)*	Half Year	31-Oct	21	19							
15-Oct	Bellway	Full Year	31-Jul	647	663	2	22.1	21.0	-11	5	3.0	2.9
06-Dec	Berkeley*	Half Year	31-Oct	401	277	-31	24.3	27.5	0	0	2.3	1.6
21-Nov	Countryside	Full Year	30-Sep	201	224	11	17.2	16.5	12	51	3.3	2.5
Total (£m)				1,270	1,182							
Individual average change (%)						-7			0	17	2.9	2.4
Sector average change (%)						-7				17	2.9	2.6
Individual average margin (%)							21.3	21.4				
Sector average margin (%)							21.7	20.9				

Notes: (i) PBT numbers are net of exceptional items and subject to adjustments where required
(ii) EBIT is Earnings Before Interest and Tax; DPS is dividend per share
*(iii) *Abbey is Irish-domiciled and reports in € but only GBP included in PBT column; it also paid 100 cents special DPS in H1 2018*
*(iv) *Abbey's DPS cover is excluded from averages*
(v) Bellway metrics are ex-£5.9m Grenfell exceptional in 2018
Source: Hardman & Co Research

Balance sheet data

Date	Company	Event	Period ending	Net assets (£m)		Net (Debt)/Cash (£m)		Gearing (%)		RoCE (%)		Capital
				Previous	Latest	Previous	Latest	Previous	Latest	Previous	Latest	turn (x)
06-Dec	Abbey (Euro)*	Half Year	31-Oct	356	375	95	108	-27	-29	13.4	11.9	0.6
06-Dec	Abbey (GBP)*	Half Year	31-Oct	316	323	84	93					
15-Oct	Bellway	Full Year	31-Jul	2,557	2,921	99	201	-4	-7	25.5	23.1	1.1
06-Dec	Berkeley*	Half Year	31-Oct	2,671	3,047	860	1,061	-32	-35	26.3	14.9	0.5
21-Nov	Countryside	Full Year	30-Sep	614	728	45	74	-7	-10	34.0	32.0	1.9
Total (GBP)				6,158	7,019	1,088	1,428					
Individual average change (%)					10							
Sector average change (%)					14							
Individual average RoCE (%, adjusted)										24.8	20.5	1.03
Sector average RoCE (%, adjusted)										26.4	21.3	1.0
Individual average gearing (%)								-17	-20			
Sector average gearing (%)								-18	-20			

Notes: (i) ROCE is return on capital employed; and adjusted where required for half year, goodwill, etc.
(ii) Abbey is Irish-domiciled and reports in € but only GBP included in asset and net debt columns
Source: Hardman & Co Research

Performance and outlook

Inland Homes (trading update – 15 October)

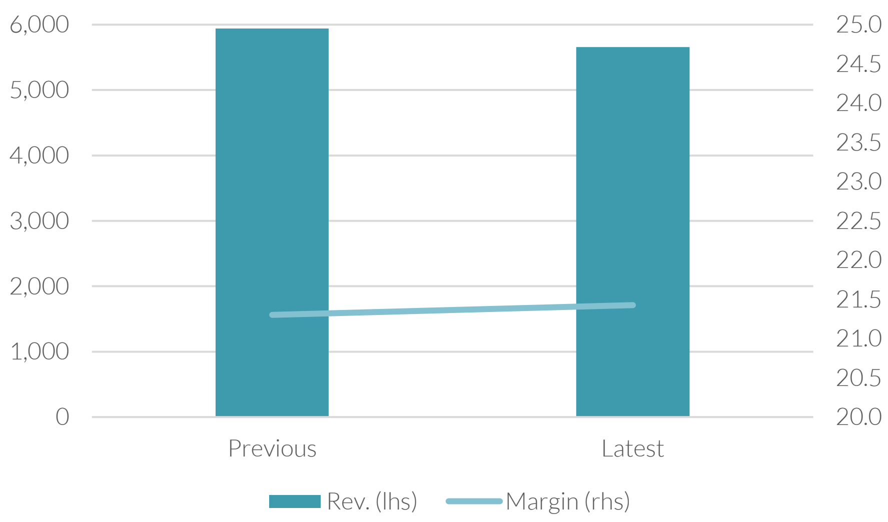
Inland Homes announced that it is shifting its year-end from June to September and issued a simultaneous trading update ahead of final results in January, before the 31st. Inland rarely gives an actual date for is announcement.

In any event, in the 15 months to 30 September 2019 (presumably vs. the 12 months to 30 June 2018) revenue was flat at £151m with open market completions off 27% at 220 (ASP or average selling price £250,000) and "partnership housing equivalents" soaring from 82 to 339. Plots sold are also off sharply (minus 31%) at 577 (split 37:63 private/housing associations). No mention of profit was made, though. Meanwhile, as for EPRA asset value, it is said to be in for a "considerable increase". Similarly, forward sales have doubled to £41.6m (split broadly 68:32 between the private and partnership sectors). However, net debt has also doubled (i.e. +94%) from £80 to £155m.

Forward sales have doubled to £41.6m but so has net debt to £155m

This was followed in December by the announcement of planning permission being granted at Wilton Park, Beaconsfield now that it is through the judicial review period and is free from any legal challenge. The company has also appointed Adam Architecture to design and submit a detailed planning application for phases one and two, which comprise 146 houses, including 26% affordable. Inland also plans to submit the reserved matters applications in the early new year. Wilton Park is the company's flagship development, with an estimated GDV or gross development value of £350m, which will comprise 350 houses, 1,730 square metres of commercial space and leisure facilities.

Sector revenue (£m/LHS) and EBIT margin (%/RHS) reported in 4Q 2019



Source: Hardman & Co Research

Bellway (final results – 15 October)

The orderbook in the first nine weeks of the new fiscal year was off 40%

When a share price falls more than 5% on an announcement, it is rarely whimsical. In the event, Bellway's share price actually closed 3.5% lower at £33.70 on the day of the group's full-year announcement on Tuesday. The rub was twofold, i.e. the words "more pronounced" when attached to a comment about lower profitably and a lower orderbook (minus 11% in cash at £1.31 bn; and minus 3.5% in volume at 5,190 units). In fact, if one is prepared to dig deep on the orderbook (as is our wont), the first nine weeks of the new fiscal year (since 1 August) saw a drop of more than 40% in both cash order and units. Note, too, we confirmed this with Bellway.

Turning to the scores on the doors, revenue rose 9% to £3.21bn with the sale of 10,892 units at an average private selling price 3.1% higher at £333,500 (bolstered by Nine Elms). EBIT was struck 3% higher at £674.9m, which meant profitability was lower by 101bps at 20.6% (and this includes a Nine Elms tail wind). PBT was also 3% to the good at £662.6m as were EPS with the dividend being raised 5% to 150.4p with cover at 2.91x (2018: 2.96x). The group also spoke positively, albeit non-specifically, about higher dividends in fiscal 2019-20.

RoCE, however, was significantly lower at 23.1% (2018: 25.5%), although Bellway's exemplary capital efficiency mean that Capital Turn was 1.1; and it has been above 1.0 for at least the past five years. Remember, too, that the capital employed includes £201m of net cash (2018: £99.0m).

"In the new financial year, the one-off benefit to the operating margin from Nine Elms [214 completions at an ASP of £820,467] will not be repeated and in addition, in the absence of house price inflation, industrywide build cost pressures will continue to have a moderating effect. As a result of these combined influences, the reduction to a consistent, underlying operating margin will be more pronounced".

At the same time, with a reducing proportion of revenue generated in London, the group should achieve an ASP in the current year ahead in "excess of £285,000 (2019: £291,968)". Note, too, that, in fiscal 2019, The Residence at Nine Elms contributed 214 completions at an ASP of £820,467; also, from a total of 514 units, Bellway has 168 to go.

Bellway also underlined its capacity to deliver up to 13,000 homes p.a. over the medium term from the current divisional structure and a longer-term ability to expand beyond this. It "remains well placed to continue its long-term growth strategy and this, together with its strong financial position, should result in further value creation for shareholders".

The shares closed Week 42 off 4.4% at £33.79. However, they closed 2019 at £38.07.

Barratt (trading update – 16 October)

Cash orders were up 2.4% at just over £3bn

At its AGM, the group promulgated a well-crafted trading update. Okay, it included an orderbook wrinkle, i.e. the UK's largest housebuilder said cash orders were off 2.4% at £3.07bn while the unit-order-count was flat (i.e. +0.5%) at 12,903. Drilling down, too, private orders were off 3.8% in cash terms and minus 5.0% in units, while affordable orders were +7.7% (cash) and +3.8% (units), respectively. This is a familiar pattern.

The group also promulgated a 'forward order roll', which includes reservations and completions; and, on a brighter note, private unit completions YTD are up 12.2% at 2.577 units with reservation over the same period up 1.1% at 3,922.

Barratt also said that like-for-like the rate of 'net private reservations per active outlet per average week' was 0.72 against 0.69 a year ago. In addition, the group's new product range is also now 'in build' on 74% of its active outlets and it continues to work towards its target of 25% MMC or Modern Methods of Construction by 2025. It also continues to buy land at a minimum of 23% gross margin.

"Based on current market conditions, we continue to expect to grow volume towards the lower end of our medium- term target range this year [i.e. +3 to 5%]". Similarly, "whilst there is increased economic and political uncertainty, the Group is in a strong position. We recognise that the economic outlook will depend on the form of the UK's EU withdrawal in the medium term. We have a substantial net cash balance, a well-capitalised balance sheet, a healthy forward sales position, a continued focus on delivery of operational improvements across our business and an ongoing commitment to deliver high quality homes across the Country. The Board will continue to monitor the market and economy and believes that our strong financial position provides us with the resilience and flexibility to react to potential changes in the operating environment in fiscal 2020 and beyond".

In Week 42, Barratt's shares closed up 3.0% at 674.2p. On 31 December, they were 746.6p.

Crest Nicholson (trading update – 31 October)

'Bus bunching' is a mathematical inevitability. More commonly it works like this: "you wait ages for a bus and then three come along at once". Crest Nicholson's trading update cum 'profit warning', however, was *'tout seul'* in the autumn reporting season.

At Crest, too, it is also a function of new CEO, Peter Truscott (ex-Galliford Try), who has looked at the route-master and taken action. Peter joined the business (from Galliford Try) on 9 September 2019 and soon decided that there should be "a change in the Company's expectations for PBT for the current financial year" (year-end 31 October 2019). In turn, this was driven by a volatile sales environment in H2 in some of Crest's regional businesses, "driven largely by ongoing customer uncertainty relating to Brexit and the economic outlook in the UK. This has been felt most acutely in some of the legacy London sites and accordingly an adjustment will be made to some of the carrying values of those developments to reflect current market conditions of approximately £10m".

PBT "is expected to be in the range £120m to £130m", which compares with the previous consensus forecast of £151m

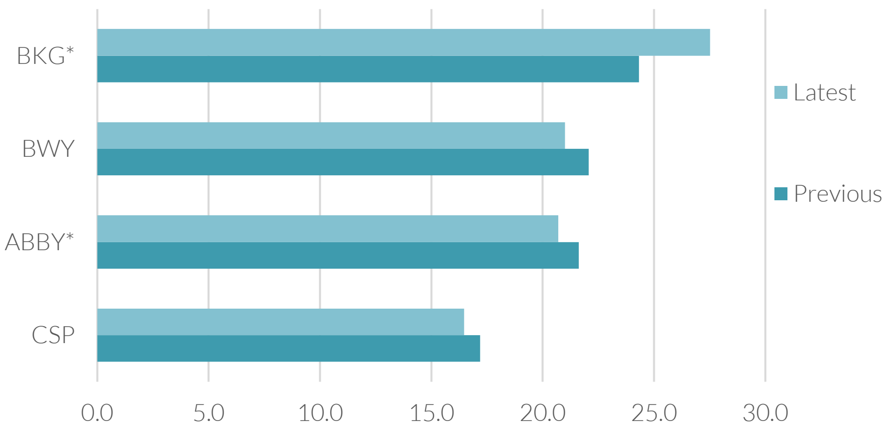
This meant that PBT "is expected to be in the range of £120m to £130m", which compares with the previous consensus forecasts of £151m.

"In addition to this, the leadership team has also considered the latest Government guidance notes in respect of combustible materials, fire risk and protection and regulatory compliance on completed developments. As a result, it is considered it appropriate to record an exceptional charge in the year of approximately £17m".

"Whilst the political and economic backdrop remains uncertain, Crest Nicholson expects consumer confidence and open market sales rates to continue to be impacted. Given this trading outlook, coupled with a lower level of land sale contribution in the year, the Company anticipates fiscal 2020 PBT excluding exceptional charges to be in the range of £110 to 120 m". The prior consensus forecast was £151m (i.e. unchanged year-on-year). That said, Crest expects maintain its dividend at 33p per share going forward (as it was in fiscal 2017 and 2018).

At the end of Week 44, Crest shares closed 8.9% down at 380p. However, they closed 2019 at 431.8p.

Individual EBIT profit margins reported in 4Q 2019 (%)



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

Watkin Jones (CMD/trading update – 4 November)

The group hosted a Capital Markets Day (CMD) in Stratford, East London on 4 November and simultaneously issued a sparkling trading update for its latest fiscal year just gone; and beyond. In the 12 months to 30 September 2019, the group enjoyed a strong final quarter with annual revenues/earnings in line with its expectations (no mention of 'Market'?); plus, a good cash performance. The six Purpose Built Student Accommodation (PBSA) developments (2,723 beds) scheduled for delivery in the year were successfully completed, while good progress was also made in Build to Rent (BTR), its management unit, Fresh Property Group, and Residential businesses.

All seven of its developments (2,609 beds) for delivery in fiscal 2020 are forward sold plus 1,928 beds across four schemes for delivery in 2021

The beauty of being Watkin Jones (WJG), the UK's number one PBSA developer is its forward-sold position. For example, the group has now forward sold all seven of its developments (2,609 beds) scheduled for delivery in fiscal 2020 and forward sold 1,928 beds across four schemes for delivery in fiscal 2021 – with a further 448 beds currently 'in-legals-for-sale'. In sum, WJG's current pipeline of forward sold and secured PBSA development sites totals cca.6,670 beds across 17 sites, for delivery over the period fiscal 2020 to fiscal 2024, of which 13 sites (5,447 beds) have planning.

In addition, the group has a burgeoning BTR business that has a forward sold and secured pipeline comprising around 1,750 apartments across eight sites for delivery through fiscal 2020 to 2023.

WJG also has a number of other PBSA and BTR opportunities in advanced stages of negotiation, which if satisfactorily concluded would add a further ca.2,025 student beds and 1,150 BTR apartments to the pipeline for delivery over the fiscal period fiscal 2021 to 2023. "The pipeline of forward sold and secured development sites ensures that the Group continues to maintain good visibility over future revenues and earnings, whilst the fundamentals supporting the PBSA and BTR markets remain strong".

A matter of days later in an announcement dated 8 November, the Watkin Jones family said that it had sold 25m shares (9.8%) at 210p by way of an accelerated bookbuild to institutional investors raising gross proceeds of £52.5m. Following the completion, of this transaction, the family, including Mark Watkin Jones, will hold 45.6m shares representing 17.8%. Jefferies and Peel Hunt did the business.

Redrow (trading update – 6 November)

A record orderbook, which was also 8% upon an annualised basis

What more could Redrow say at its AGM? It was honest, pragmatic and confident; *viz* a record orderbook up 8% and expectations of "another set excellent set of results". How often, do you see the word 'excellent' in a forward-looking statement? The shares, however, dipped 1% on the day to 605p. Why?

If '8%' and 'excellent' are green-for-go words, the statement also included a number of amber words or phrases. For example, "encouragingly resilient", "2% ahead", "delays", "cautious" and "constrained". Plus, some red ones: "uncertainty" (three times); "relatively weak"; "unceasing"; "unpredictable state"; and "turbulent political times".

In our view, Redrow is telling it like it is; and, in relative terms, it is doing very well as a business. The stock market, though, is unforgiving – and especially so in November 2019. We believe the shares should have risen not fallen.

In any event, in the first 18 weeks of the current financial year, "trading has remained encouragingly resilient despite ongoing Brexit uncertainty and relatively weak demand in the wider housing market". Over the same period, the value of net private reservations to 1 November, excluding a £119.5m PRS sale at Colindale Gardens, was 2% up year-on-year at £598m. Including this sale, the value of private reservations is up 22% at £717m. Note, too, that the sales rate per outlet per week on a like-for like basis (excluding the PRS sale) was 0.67 compared with 0.64 last year.

ASP of private reservations for the first 18 weeks was virtually the same as last year (excluding the PRS sale) at £389,000 (2019: £388,000).

"Outlet growth continues to be affected by planning delays and the cautious approach to land acquisition we have adopted during this unceasing period of economic and political uncertainty".

"The group is well-positioned and focused to deliver in these turbulent times."

"As highlighted in September, the combination of constrained outlet growth and the timing of block completions in London, will result in revenue, profit and cash generation being considerably more weighted than usual to the second-half. This, together with the strength of current trading, has positively resulted in a record overall order book of £1.3bn, an 8% increase on this time last year".

"The further uncertainty created by the General Election and the impact this will have on the terms of the UK's withdrawal from the EU, leave the prospects for the economy and housing market in an unpredictable state. However, the group is well-positioned and focused to deliver in these turbulent political times".

Chairman John Tutte concluded with: "I am confident that, providing trading conditions remain stable, Redrow is on course to achieve another set of excellent results".

For the record, too, there were 18 resolutions proposed at the group's AGM and all were passed with the average split of the vote 97.3% for and 4.7% against based on votes cast; and approximately 79% (ex-those withheld) of the shares eligible to vote did so. However, on two resolutions, where there were sizeable numbers against, i.e. 31.4% voted against John Tutte as Chairman; and 30.4% voted against the Directors Remuneration Report.

McCarthy & Stone (trading update – 7 November)

The UK's largest retirement homebuilder is shifting its year-end

The group is the largest supplier of residential retirement units in the UK and its latest trading update was for 14 months, because it moved its year-end from 31 August to 31 October. For the record, final results will be issued on 28 January.

Revenue for the latest period was £720m (14 months), which compares with £672m in the previous one (12 months). So, let's call it flat. Average selling prices, however, were 3% better at ca.£308,000. Like revenue, though, underlying operating profit was also flat at £64m to £71m (which is what the market expects, too) compared with £67.5m last time.

Turning to the commentary, this was bleak: "underlying trading conditions remained challenging during the period due to the impact of ongoing political and economic uncertainty on the secondary housing market. Additional uncertainty over potential stamp duty changes dented transaction levels, particularly in the South East, resulting in higher discount and incentive levels compared to the prior year. These tougher market conditions are expected to continue throughout the new financial year".

£90m of cash savings is targeted

McCarthy & Stone is knee-deep in a very necessary strategic initiative and the words optimise/optimisation were used six times plus 'optionality'. That's a new one on us. In terms of detail, the group is now offering rental properties at 70 developments nationwide and is knocking out seven per week. The group has also stepped up its in-house part-exchange but is also knocking out these units after some 12.5 weeks (down from 13.1). Finally, through 2023, it expects to generate £90m of cash savings together with a 15% return for both its RoCE and operating margin.

On a qualitative note, too, credit goes to McCarthy & Stone as being the sole developer of any size or type to receive the full Five Star rating from the HBF for 14 consecutive years.

"The Group's new strategy has driven a solid trading performance in a difficult market. These challenging market conditions, created by the continued political and economic uncertainty, are now expected to continue throughout the new financial year. The impact is expected to be evident in the Group's underlying operating margin through an ongoing need for increased levels of part-exchange and a lower mix of sales from the South East. We expect this to be partially mitigated, however, by the decisive actions which management has taken in executing the Group's new strategy, particularly the increased opportunity for multi-tenure, which has made a positive start and is expected to become a more substantial part of the Group's overall volumes in fiscal 2020 and beyond".

Finally, a word about catchment, i.e. there are currently 12.2m people aged 65 or over, rising to 17.4m by 2043, representing a 43% increase. For those aged 85 or over, the increase will be larger, from 1.6m to 3.0m, representing an 87% increase (all sourced from ONS data). However, Knight Frank estimates that only ca.162,000 retirement units have been built. Finally, 57% of those aged 65 or over live in an under-occupied property, corresponding to an estimated 3.9m homes across all tenures, according to the English Housing Survey, Home Ownership, 2017-18.

Bovis (acquisition and trading update – 7 November)

Bovis appears to be paying no premium for control of Galliford's housing units

The tall poppy syndrome is a double edged-sword: it means that you have done well enough to command attention while, simultaneously, attracting potential envy and derision. Greg Fitzgerald, CEO of Bovis (and former CEO of Galliford Try) is the UK housing industry's tall poppy right now, having breathtakingly acquired his former employer's housebuilding units (with no obvious premium for control, i.e. 5.5x historic EBIT).

In addition, the current Galliford CEO (Graham Prothero) is crossing the field to join his former boss. Inevitably, not all commentators will laud Greg – and some already have their scythes out saying that this deal is à-la-2007 and, thus, a tipping point from peak bloom to no petals. I contend, however, that few residential florists are talking about burgeoning flower heads right now – quite the opposite, which means it is a good time to be a buyer of bulbs or assets.

Turning to deal specifics, Bovis has now formally agreed to acquire Galliford Try plc's Linden Homes and Partnerships & Regeneration businesses for a consideration of £1.075bn. The consideration is comprised of a combination of shares in Bovis Homes and cash resulting in Galliford Try Shareholders receiving a stake of 29.3% in the enlarged group upon completion.

Bovis has also said that the new entity can achieve recurring run-rate synergies worth of £35m p.a. at the PBT line by the end of the second full financial year following completion. Similarly, it is anticipated that the acquisition will be low double-digit EPS enhancing in the first full financial year post-completion with further significant EPS enhancement in the second full financial year.

Bovis will be catapulted into the top five national housebuilder bracket

The deal will catapult Bovis into the top five of national housebuilders with the capacity to deliver more than 12,000 homes per year over the medium term, thus enabling it to compete more effectively against the established major housebuilders; with dual branding in Bovis and Linden, It also provides a leading position in the high-growth, more resilient partnerships market with Galliford Try.

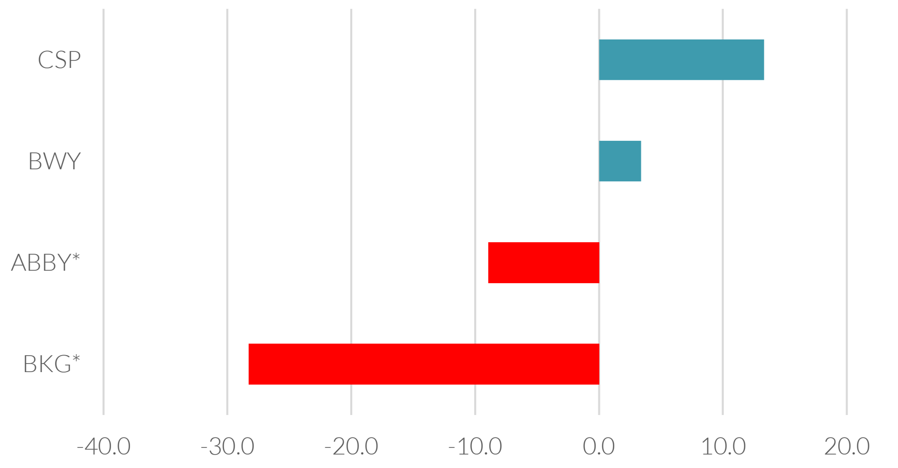
As is well documented, too, Bovis CEO Greg Fitzgerald – man and boy at Galliford Try and CEO for 11 years, and then Chairman added: "I am very focused on successfully integrating these businesses in early 2020 with strong management across all business areas, and on delivering the clear benefits from the combination including at least £35 m of synergies as quickly as possible".

As for Galliford Try, the proceeds will help it to create a cash-backed independent contractor employing around 3,400 people and generating revenue of ca.£1.4bn; with an average daily net cash balance of ca.£150m. It also has a 29.3% stake in the new Bovis, which was renamed Vistry on 3 January (see the final pages of this note).

The new name for Bovis is Vistry

In addition, the group commented on current levels of business and said that it has "traded well during the second half of 2019 to date maintaining an average sales rate per outlet per week of 0.6". It is also fully sold for its targeted fiscal 2019 completions. "Uncertainty surrounding Brexit in recent weeks has resulted in some increased pressure on pricing" and in 2H to date, Bovis has seen a ca.1% to 2% reduction in underlying sales prices. However, this has been offset by a reduction in build cost inflation and the group's own initiatives. "Looking to 2020, the Group has all the land it requires, has already secured more than 20% of private sales, a higher proportion than in previous years, and all of its affordable units".

Individual EPS growth reported in 4Q 2019 (% change)



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

Persimmon (trading update – 7 November; independent review)

Forward sales were 4% lower

The group's 3Q Trading Statement covered the period from 1 July to 6 November. "Trading has continued to be resilient through the second half of the year with the Group's average weekly private sales reservation rate per site of circa 0.67 being in line with last year". It had also sold out for calendar 2019 and held ca.£950m of forward sales reserved beyond 2019, which is just 4% lower year-on-year. Sales prices are also said to remain firm in 1H. However, the year the group's approach of releasing homes for sale only at a more advanced stage of construction resulted in total legally completed sales volumes reducing by 6% year-on-year to 7,584 homes. This is part of Persimmon's enhanced customer care initiative (including a retention scheme) on which it spent ca.£140m in 1H. "Whilst we currently expect our consistent application of this approach to result in a similar situation in the second half of the year, we anticipate that second half volumes will be greater than for the first half, reflecting the normal seasonality of the market". In calendar/fiscal 2018, the group sold 16,449 units (+3% annualised).

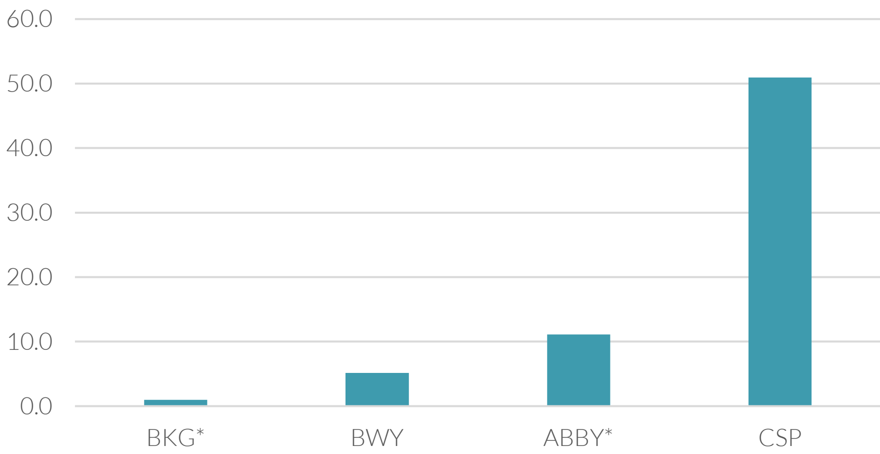
"Consumer confidence has remained resilient despite the continued uncertainties around the timing and nature of the UK's withdrawal from the EU and the broader challenges surrounding the UK economy. The resilience of the housing market continues to reflect the strong levels of employment in the UK and some real wage growth, together with low interest rates and a competitive but disciplined mortgage market".

The FT called the Independent Review "devastating"

P.S.: After the controversy of a huge bonus for – subsequently departed – CEO Mike Fairburn plus other critical externalities, the group commissioned an independent review of the business in April. The review was led by Stephanie Barwise QC who has also represented some of the victims of the Grenfell Tower tragedy and has now been published. The FT called the review "devastating" and that it "lays bare a litany of failings". Almost as many column inches have been used up here in December, as for the anticipation of the Queen's Speech.

First, I would say "you can't job backwards". Also, Persimmon acknowledged that it had problems, albeit these may have turned out more numerous and deeper than expected. Thirdly, it commissioned the Report. Fourth, the wind of change was already sweeping through the business led by a new team and the Report will provide further prime momentum. The shares closed Week 51 lower by 7% at 2,610p before closing 2019 at 2,695p.

Individual DPS increases reported in 4Q 2019 (%)



*denotes interim results
Source: Hardman & Co Research

Taylor Wimpey (trading update – 17 November)

The orderbook was up 6% by volume and 12.5% in cash

The group showed how to do a trading update/statement properly. It was erudite, pragmatic and confident and included a total orderbook 6% better in volume and 12.5% better in pound notes at £2.7bn. Okay, if we want to be picky, we would have liked to have seen reference to 'results in line with market expectations' rather than 'our expectations', but there you go. Similarly, the market took fright at "we have seen some increasing customer caution, particularly in the higher-priced markets of London and the South East, as a result of the ongoing political and economic uncertainty".

Otherwise, "the UK housing market remained resilient through the second half of 2019, continuing to benefit from strong underlying demand, low interest rates, a competitive mortgage market and the Government's Help to Buy scheme. Forward indicators for sales have remained at healthy levels…".

Sales rates for the year to date, too, have remained strong at 0.96 sales per outlet per week against 0.81 for the comparable period last year. Note, too, that in 2H to date, the sales rate was 0.92, which compares with 0.77 a year ago. In addition, the group has seen a softening in the cost pressure experienced earlier in the year and expects that cost inflation to reduce as it enters 2020.

"We are on track to deliver full year 2019 results in line with our expectations, albeit with slightly higher volumes and slightly lower operating margins than we guided at the half year. We are operating in a market environment where economic and political uncertainty has increased as the year has progressed. We are focused on the core drivers of value for customers and our investors. We believe the Group is well positioned for all potential market outcomes due to our strong balance sheet, high-quality landbank, healthy cash generation and strong order book. As we move into 2020, we will continue to prioritise these, in addition to increasing our focus on costs".

Countryside (final results – 21 November)

Okay, the CEO is retiring (see below) and it had to write off £7.4m due to some employee-led jiggery-pokery accounting in Manchester. Nonetheless, these were sparking figures from the UK's prime partnerships and housing-for-sale exponent. In the year to 30 September, total revenue rose 16% to £1.42bn from the sale of 4,425 units (+47% and wind-assisted by acquired Westleigh); and this tally included 1,336 private units (+18%).

EBIT was struck 11% higher at £234.4m, albeit that there was a 70bps dip in profitability to 16.5% (which is still very, very god for a mixed business). Clean PBT, at £223.5m, was also up 11%, while EPS grew 13% and the dividend was hiked 51% to 16.3p. Cover dipped from 3.3x to 2.5x.

The orderbook was up 30% at almost £1.2bn

Mention should also go its balance sheet, where (BVL adjusted) RoCE was 32% (2018: 34%) with a capital turn of 1.94x (2018: 1.98x) plus a quick ratio of 0.90 (2018: 0.63).

Even better, though, was the orderbook, which was up 30% to £1.166bn of which £241m (+12%) was for private units.

The shares rose 1% in Week 47 to 375.2p before closing the year at 455.2p.

Cairn Homes (trading update – 28 November; plus, share buyback)

The company announced that it had sold 150 multi-family PRS units in Mariavilla, Maynooth, Co Kildare for €53.5m to Urbeo. At the same time, it bought 97 acres of development land at Clonburris Strategic Development Zone Dublin 22 from NAMA. Cairn already owns an adjacent 174 acres of development land within the Clonburris SDZ.

Cairn has spent €22.2m buying back its own shares

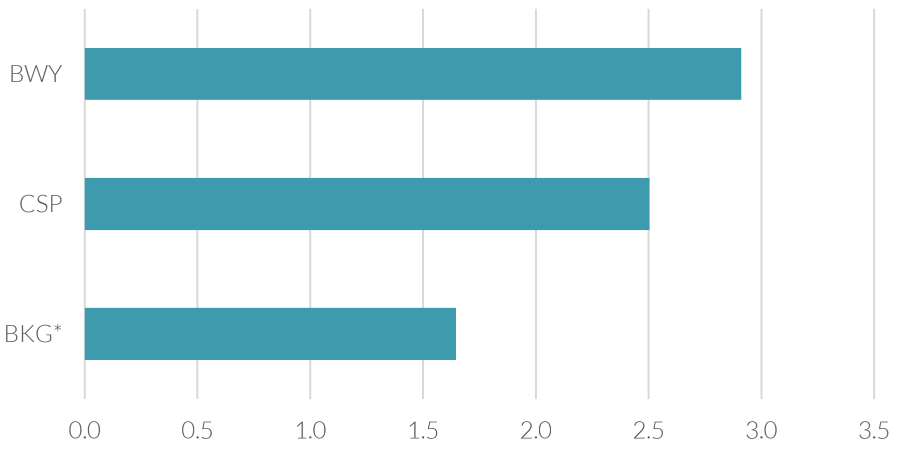
Note, too, that in Cairn's share buyback continues apace and, in the 16 weeks through 3 January 2020, it has bought back 18.7m shares at an average price of €1.19, spending €22.2m of its targeted £25m in the process. The shares bought, too, are equivalent to 2.37% of the original share capital. Cairn shares closed on 3 January at €1.28.

Glenveagh (trading update – 29 November; plus, EGM)

The company has completed the construction and subsequent sale of a 90-unit apartment development at Herbert Hill, Dundrum, Dublin 14 to an institutional investor for a gross price in excess of €55m. Herbert Hill is situated close to the Dundrum Town Centre with a range of amenities and services including the Luas light rail system.

In addition, in the week before Christmas, the resolution proposed at an EGM to approve an increase of the distributable reserves of the company was unanimously passed. It involves the transfer of up to €700m from the company's share premium account.

Individual DPS cover reported in 4Q 2019 (x)



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

Gleeson (AGM – 5 December)

Net reservations were up 10% on an annualised basis

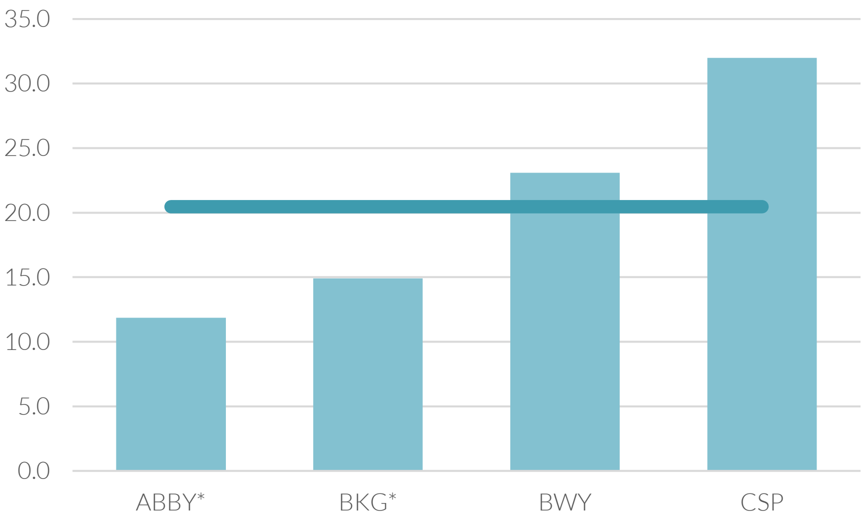
The company held its AGM on 5 December and said that net reservations since the start of the current financial year to 30 June 2020 are up more than 10% year-on-year. "Land continues to be available at sensible prices and the pipeline remains strong"; and Gleeson has "a pipeline" of 13,042 plots. "Strong demand, good mortgage availability and our ability to offer attractive levels of affordability to our customers, means the outlook for the division remains very positive".

At the same time, land sales at Gleeson Strategic Land (which the group tried to divest) will be weighted to 2H, which means 1H will see lower profits. However, "the division's land pipeline currently consists of 64 sites which have the potential to deliver approximately 22,175 plots".

"Against this background the Board remains confident that the Group's results for FY2020 will be in line with expectations".

Finally, there were 20 resolutions out to the Gleeson AGM and 19 of these were voted for by between 93.1% and 100% of those shareholders who voted. The odd one out was the re-election of Christopher Mills, which was voted for by just 81.5%; and Mr Mills controls 11.05% of Gleeson.

Individual RoCE reported in 4Q 2019 (%)



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

Abbey (interim results – 6 December)

It was not a banner half year (to 31 October) for the group. Good or bad, though, Abbey keeps it concise (of which we are fans); and this latest missive was a net 466 words. And, if you report on the same day as Berkeley (see below), not too many people take notice. In the event, revenue was off 6% at €103.6m with EBIT margins dipping from 21.6% to 20.7%; and EBIT, itself, was minus 10%.

PBT declined 10% in the half year to €21.5m

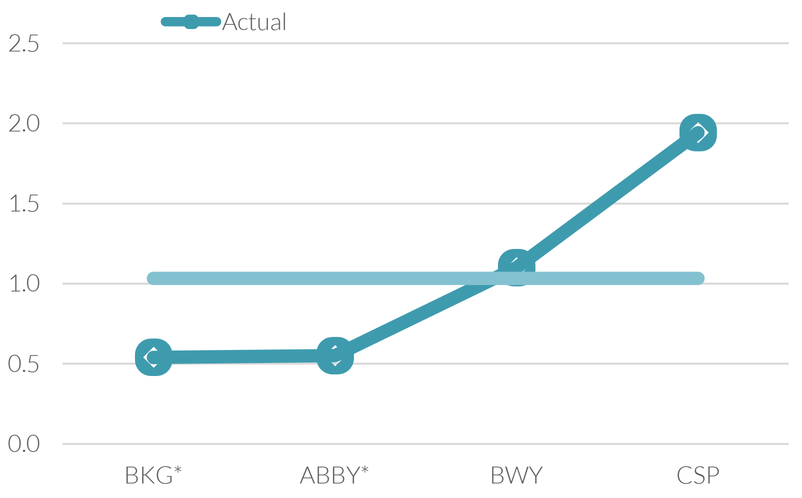
At €21.5m, PBT declined 10% to €21.6m and EPS by 9%. However, the dividend was increased 11% to 10 cents with still luxuriant cover of 8.2x (2018: 10.1x). Note, too, the group is sitting on ca.£108m of net cash, which was up 14% annualised.

Abbey sold 293 units in the UK (+6%), 36 in Ireland (+89%) and 24 (+26%) in Czechia; and the latter we believe is a sort of historical accident. UK EBIT was 12% at €17.7m, although margins rose 60bps to 23.4%. Meantime, in Ireland, EBIT more than trebled to €1.9m on the back of a surge in margins from 10.0% to 16.7%. Elsewhere, the combined contribution from Czechia and plant hire halved to €1.3m with rents virtually unchanged at €535,000.

"Trading in the UK has been satisfactory over the past six months. Margins have held up well on a reduced turnover reflecting a higher proportion of affordable homes in our sales mix. Forward sales are at a level consistent with our year end targets. Market conditions are patchy with lower priced homes proving most saleable".

The group is planning "significant investments in land in the year ahead" and remains on course for "a fair outcome for the year". However, "there is still considerable uncertainty in the outlook and trading conditions can change quickly. The Group is working hard to increase its activity in Ireland".

Individual reported capital turn in 4Q 2019 (x)



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

Berkeley (interim results – 6 December)

In the phenomenon that is this group, there were few surprises (as expected), save for higher margins. The shares firmed 7p on the day but had already drifted, closing 30p off or 0.7% (i.e. neither here nor there) in Week 49. This reflects Berkeley's unique advance notice of undulation in profits. What other company could report a 44% drop in revenue (to £930m) and 36% lower EBIT (at £256m) and maintain its share prices.

In more detail, the group sold, 1389 units (down from 2,027 last time at an average price 13% lower at £644,740. And, wouldn't you know, EBIT margins actually rose 320bps to 27.5%: "reflective of the mix of properties sold in the period". After finance and JVs (up from £2.3m to £19.4m), PBT was struck at £276.7m (minus 31%). Note, too, that Berkeley is "on target to deliver £3.3bn of PBT in the six years to 30 April 2025, with the profit in any one year ranging between £500m and £700m, depending upon the timing of delivery, generating pre-tax RoE of at least 15% p.a. from long-term regeneration activities". In 1H 2019-20, it was 14.9% (1H 2018-19: 26.3%).

Cash due on forward sales was unchanged at £1.9bn

By the end of the same six-year period, Berkeley will also have increased its annual housing delivery (including JVS) by as much as 50%, with the majority of its sales from these regeneration sites, which are at a lower average selling price than properties taken to sales in recent accounting periods.

At the same time, cash due on forward sales, at £1.9bn, is unchanged on a year ago. This will be collected over the next three financial years – and it excludes affordable units and JVs. Similarly, Berkeley's sales continue to be split broadly evenly between owner occupiers and investors, "with overseas customers continuing to see value in the London market".

Then, there is the estimated future gross margin in land holdings (57,122 plots including JVs) is at £6.3m, which compares with £6.0m a year ago. At the half year, too, net cash on the balance has soared from £860m to £1,061m. Unsurprisingly, then, Berkeley is on track to deliver last year's extended Shareholder Returns commitment of £280m p.a. (£2.23 per share) to 2025, including share buy-backs.

"This has been a good start to the year for Berkeley". Yes, "We remain alert to market risks with a General Election next week and the delay to the UK's proposed exit from the European Union prolonging the uncertain operating environment of the last three years. This is damaging to our economy and London where fewer developers are prepared or able to accept the high operational risk of bringing forward new homes, with supply.

"Berkeley's unique operating model equips it with the expertise and capital required to operate at scale in London which remains a fantastic, vibrant, global city; rich in its diversity and opportunity".

Berkeley's share closed 2019 up 40% at £48.59

Berkeley share closed 2019 at £48.59, up 40% annualised.

Springfield (trading update – 17 December)

The company provided a trading update for the half year to 30 November in which revenue growth and an improvement in gross margin have been in line with management's expectations (no mention of market expectations though). Acquistees Walker Group and Dawn Homes also traded "in line with management's expectations" and the company is pleased with the progress made to date in embedding these acquisitions. Springfield also expanded its geographical presence with a strategic land acquisition in Inverness. In addition, it is working with Sigma PRS Management to acquire and develop sites in Scotland for PRS. Interims are to be announced on 25 February 2020.

And then, the day after its Trading Update, the company announced that its 3,042-unit village development at Durieshill, Stirling, has been granted planning consent, subject to completing a Section 75 agreement with Stirling Council. GDV is said to amount to some £650m over 20 years; and it is the fourth of its kind for Springfield.

Macroeconomics

Consensus GDP forecasts for the UK are in a band from 1% and 2% p.a. in 2019 through 2021 (2018: 1.4%)

GDP (revised) growth in volume terms was 0.1% better in 3Q 2019 at 0.4% quarter-on-quarter. Similarly, year-on-year, growth was 1.1% in 3Q 2019 vs. 3Q 2018, which compares with the previous estimate of 1.0%. At the same, consensus forecasts run in a band between 1% and 2%.

Meantime, unemployment was 3.8% in the October Quarter – unchanged on 3Q and 0.3% lower than a year ago. At the same time, though, job vacancies fell below 800,000 for the first time in two years. That said, average earnings growth slowed in October to 3.5% for regular pay which, in real terms, translated to 1.8%.

General inflation, however, as measured by the CPI was 1.5% on a 12-month basis in November 2019, which was unchanged from October 2019 and off from 2.3% a year ago.

Turning to retail sales, they eased back in November 2019, as the quantity dipped 0.4% quarter-on-quarter and 0.6% month-on-month; albeit these data exclude Black Friday (29 November).

Mortgages and transactions

UK Finance said that mortgage approvals in the first 11 months of 2019 are running 7.1% ahead of 2018

UK Finance (UKF) represents the high street banks and two thirds of the UK mortgage market. Its data show new mortgages up 7.1% in the first 11 months of 2019 (to 475,338) vs. the same period in 2018. At the same time, and on the same basis, re-mortgages are up 8.5%. Way to go.

Bank of England data were less robust as they showed new mortgages in the first 11 months of 2019 up 0.7% with re-mortgages similar at +0.6%. Meantime, in November on its own, new mortgages (64,994) were 1.4% higher year-on-year and +0.5% to the good month-on-month; re-mortgages, however, were at minus 0.8% and minus 5.0%, respectively.

Residential transactions in the first 11 months of 2019 are up 1.9% at 105,050

Better news came from residential transactions, which were up 3.2% in November 2019 (105,050) against October and 1.9% year-on-year on a seasonally basis (no blurring).

Volumes and prices

The National Housebuilding Council (NHBC) says the number of new house registrations in November increased 7% to 16,175 units; and within this tally private registrations eased back 3% to 16,175 – with affordable/rental units soaring 34% to 5,513.

Turning to the November quarter, total registrations in the three months September-October-November 2019 also rose, this time by 2% to 44,361 vs. the same period 2018. Again, though, there was a push/pull with private units 7% lower at 30,416 while affordable/rental were again bright-eyed at plus 28% to 13,945.

Regionally, too, there was more positive news from London, where total registrations in the November Quarter leapt by 34%; note, too, the West Midlands and Eastern regions jumped by 53% and 30%, respectively.

NHBC CEO Steve Wood said that resilience in new home numbers should give some confidence going into the New Year.

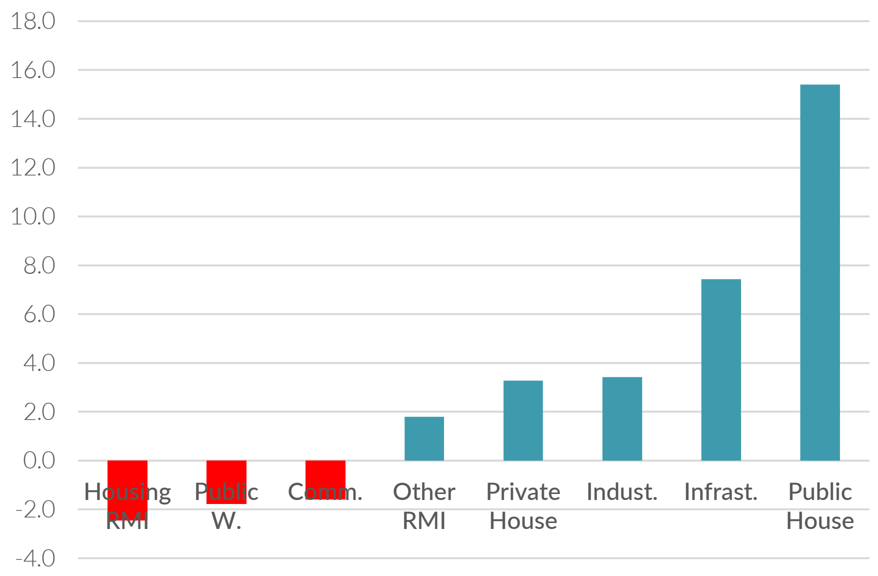
The Reuters Poll points to 2% growth in house prices in 2020; followed by 2.3% in 2021

Next up house prices, where the Nationwide reported that prices in 2019 rose 1.4% to an average of £215,282; and this is the first time for 12 months that inflation has been above 1% (in November, the annualised gain was 0.8%). In 2020, it expects prices to be broadly flat compared with RICS at 2% and the Halifax at 1%-to-3%.

Over at Rightmove, it is predicting 2% house price inflation in 2020 (2019: +0.8%) "as majority government gives home-movers a window of certainty for an active spring moving season". At the same time, demand for property remains resilient as the year turns, although lack of supply is a concern.

Similarly, Reuters said in its November poll that UK house prices would rise 1.5% in 2020 and 2.3% in 2021. This is based on the ruminations of 27 contributors, including me, and incorporates negative growth in London this year (minus 1.5%) and a flat year in 2020.

UK Construction Output annualised % change in value in first 10 months of 2019



**Commercial; Industrial; Public Works; Repair, Maintenance & Improvement; Private Housebuilding; Infrastructure; and Public Housebuilding. Seasonally adjusted*
Source: ONS; Hardman & Co Research

Output, orders and a longer line of sight

Private Housing Output rose 3.3% in the first 10 months of 2019

Total UK Construction Output in the first 10 months of 2019 was 1.8% higher than the same period last year (including a weather-affected October). This also included gains from both Private (+3.3%) and Public Housing (with visual acuity, here, rising by an astonishing 15.4%).

Unsurprisingly, too, the latest (3 January 2020) IHS Markit CIPS UK Construction Total Activity Index for December last year pointed to another sharp reduction in construction output, i.e. it reduced from 45.3 in November to 44.4 in December (data were gathered from 5 through 20 of the month).

Note, too, that the current period of falling business activity across the construction sector is the longest recorded by the survey for almost a decade. Civil engineering was by far the worst-performing category with commercial work also off. Housebuilding dropped for the seventh month running, albeit the rate of decline was only modest.

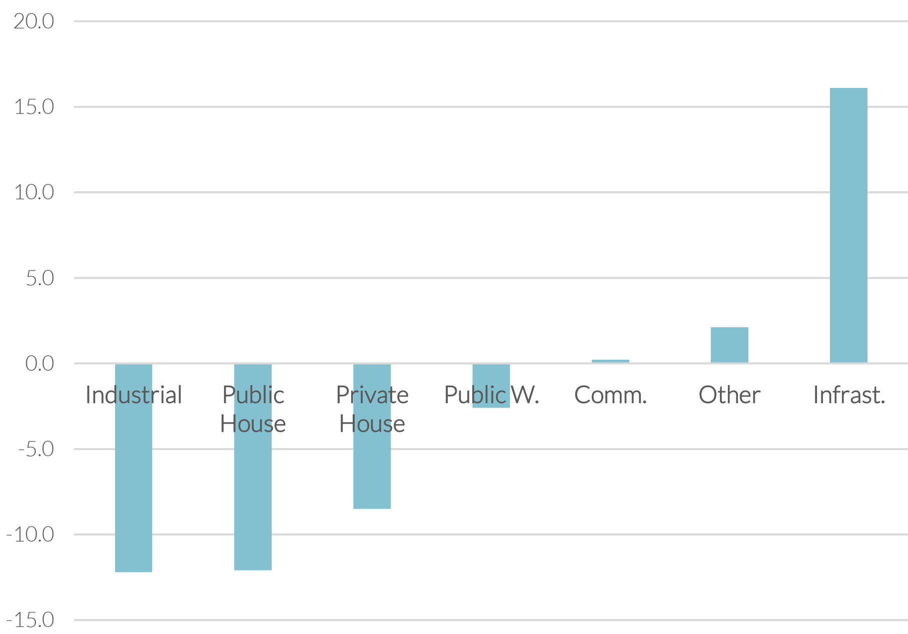
However, there was one vision of sunshine, i.e. construction companies indicated that their optimism towards the year-ahead business outlook rebounded to a nine-month high. And, "a number of firms suggested that greater clarity in relation to Brexit had the potential to boost orderbooks in 2020".

Private Housing Orders declined 8.5% in the first three-quarters of 2019

Turning to new orders, for first three-quarters of 2019, they actually dipped 1.6% year-on-year with only 3/4 of sectors positive. Here, too, the dip in orders from both Private (minus 8.5%) and Public Housing (minus 12.1%) are 'high order aberrations'.

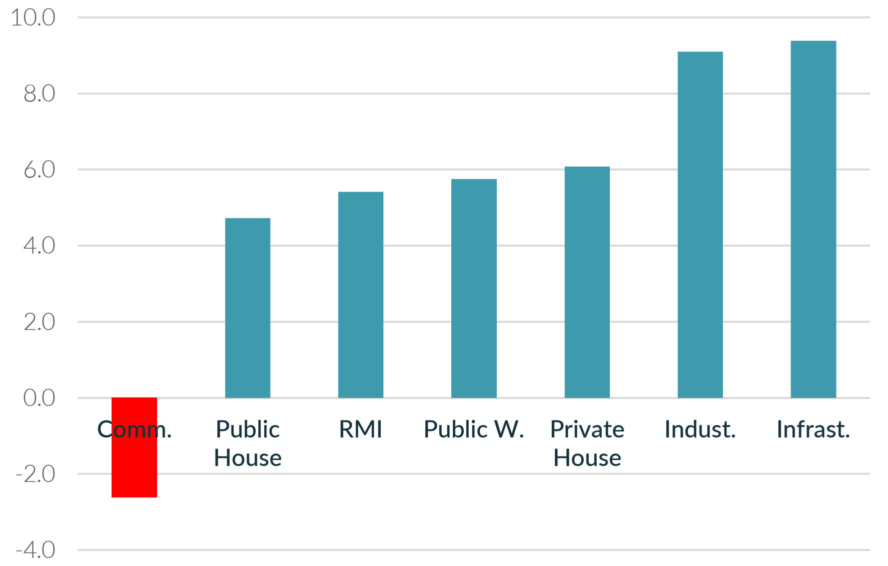
Experian (where I am adviser) says that Private Housing Output is forecast to rise 8.2% over the three years 2020, 21 and 22, while the much-smaller Public Sector is set to grow 13.4% over the same three years (see over). Other Sectors also rise (especially Infrastructure) although not Commercial.

Construction orders annualised % change in value first 3/4 of 2019



**Commercial; Industrial; Public Works; Private Housebuilding; Infrastructure; and Public Housebuilding. Seasonally adjusted*
Source: ONS; Hardman & Co Research

Forecast Total UK Output growth in 2019-22 (% change in real terms) – Experian



**Commercial; Repair, Maintenance & Improvement; Industrial; Private Housing; Public Works; Public Housing; and Infrastructure. Seasonally adjusted*
Source: HMRC; Experian and Hardman & Co Research

Vision

Source: Shutterstock

From 1862, the eponymous Snellen Chart to study visual acuity rapidly became the global standard; and, since its inception has sold more copies (in the US, for example) than any other poster.

As noted, too, 20/20 is a Snellen fraction, calculated by the chart, in which the numerator refers to distance and the denominator refers to size (these two are always important).

And, 20/20 is popularly regarded as perfect vision. It is not, of course, but it is pretty damned good; and good enough to fly jets in combat.

The UK Housebuilding Industry's visual acuity developed in 20/19.

In 20/20, it will be even better and it can already clearly see the sunny uplit lands of earnings growth nudging double digits in 20/21.

In the spring of last year, though, Housebuilders still had their goggles on. And yet, on 28 May, a clear-eyed Greg Fitzgerald and Bovis announced they were interested in buying Galliford Try's Linden Homes and its Partnerships & Regeneration unit.

"Be greedy when others are fearful".

On 3 January, the £1.1bn share-and-cash deal was consummated at no obvious premium for control, i.e. 5.5x historic EBIT. Vision Express.

Simultaneously, Bovis's market capitalisation rose £911m on new shares being issued; note, too, that Galliford retains a 29.3% stake in Bovis.

As is well documented, too, Greg was man and boy at Galliford Try and CEO for 11 years – and then Chairman. And, for good measure, current Galliford CEO (Graham Prothero) has removed his spectacles to join his former boss as COO.

And the final lens polish, is a change of name. Bovis and Linden will remain the same in the marketplace but the Topco will morph from Bovis to Vistry: enigmatic; secular; and possessing 20/20 vision.

Quote:

"In 2020, the year of perfect vision, the old will outnumber the young"

Source: Maggie Kuhn

Glossary

Name (ticker): share price; market value

Abbey (ABBY): 1,410 cents; €296m

Barratt (BDEV): 746p; £7,602m

Bellway (BWY): 3,807p; £4,690m

Berkeley Group (BKG): 4,859p; £6,117m

Bovis Homes (BVS): 1,358p; £2,014m

Cairn (CRN); 126 cents; €970m

Countryside (CSP): 455.2p; £2,048m

Crest Nicholson (CRST): 431.8p; £1,109m

M J Gleeson (GLE): 955p; £528m

Glenveagh (GLV): 87 cents; €741m

Inland Homes (INL): 84p; £173m

McCarthy & Stone (MCS): 149p; £801m

Persimmon (PSN): 2,695p; £8,594m

Redrow (RDW): 745p; £2,624m

Springfield (SPR): 141.5p; £136m

Taylor Wimpey (TW): 193.4p; £6.343m

Watkin Jones (WJG) 243p; £621m

Note: Share prices at 31 December 2019
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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The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

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