11th October 2016

hardman&co

UK Housebuilding Sector: Q3 2016

Autumn 2016

"I am Steve McQueen"

Source: Jaguar PS / Shutterstock.com

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Prologue: the 'King of Cool'

The Magnificent Seven…Then & Now

Source: Creative Commons

As that interloper, the re-make of 'The Magnificent Seven' tanks at our local Odeon, we at Hardman paused to remember The King of Cool, Steve McQueen. And, yes, it was his role as Vin Tanner in the peerless original movie from 1960 that put him on the celluloid map. During filming, too, McQueen constantly (and very effectively) showboated so as to upstage the leading man at that time, Yul Brynner. Steve went on to become the World's highest paid movie star in the early 1970s.

But he kept his friends and Robert Vaughn, who's still hanging in there, was a life-long chum of McQueen and co-starred with him in both 'The Magnificent Seven' and 'Bullitt'; and is in possession of a prize anecdote.

At the height of Steve's stardom, he hosted a hip Hollywood party at his ocean front house in California. Out on the deck, Vaughn said to McQueen: "did you ever think it would turn out like this?" McQueen looked at him blankly and replied: "who said it was going to turn out like this?"

Steve was street savvy, but he was not the smartest knife in the drawer, which makes his Delphic comment to Robert Vaughn all the more surprising.

What Steve was saying is that "it's not over yet"; that there is still a lot more to come (sadly for McQueen, who died in 1980 aged 50, it was a future that was not his).

The same is true of Brexit and the collateral undulations that it has riven in the UK Housebuilding Sector. Immediately post-the-Brexit-vote, the UK Housebuilding Sector tanked 36% in value in two trading days (24 and 27 June with a weekend in between); and at one stage was off almost 40%.

As at 30 September, however, the deficit was 15% (and 18% from the 24 May all-time high): "who said it was going to turn out like this?"

Near term, we believe there is greater latitude for bad news than good (for which apologies) and the Mayor of London's proposed inquiry into the impact of foreign investment in the Capital's housing market has also set the cat amongst the already ruffled pigeons. At the same time, the Government is taking away i.e. the Help to Buy mortgage guarantee scheme will close at the end of this year. But it is also giving with a new £5 billion allocation to speed up building on public land and to offer loans to smaller developers. Don't hold your breath on the latter though and, nearer term, with the current beneficent dividend flows from the housebuilders, we suggest treating their shares like bonds until the broad sunny uplit lands emerge once more.

Share prices in Q3

The Magnificent Brexit

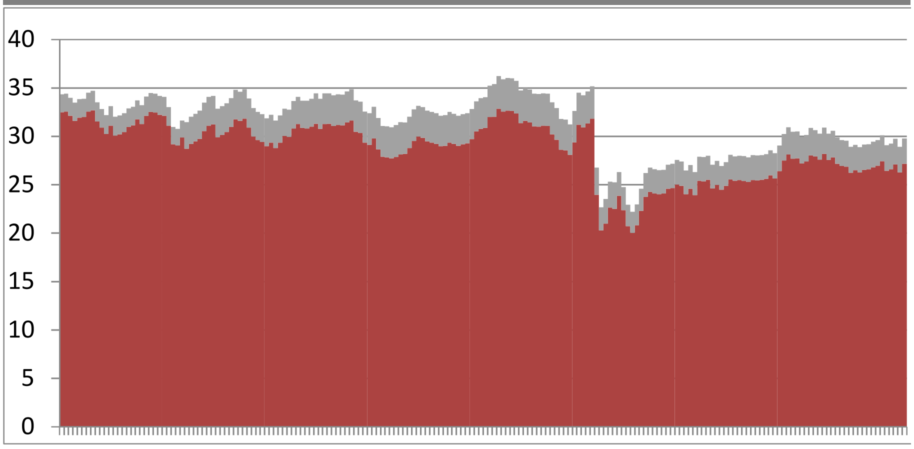
The Brexit vote on 23 June caused Calvera -like havoc in the UK Housebuilding Sector and it palpably delineated the share price and value performance in the year-to-date.

Okay, there was a wholly predictable patellar reflex on 24 and 27 June, in particular, but since then the Sector's gait has been more straight-legged and share prices rose 15% in Q3 against Q2 (and 18% weighted).

In Q3, comprising 65 trading days, the Sector rose on 36 and fell on 29; and it moved up to 7% in either direction on a number of single days.

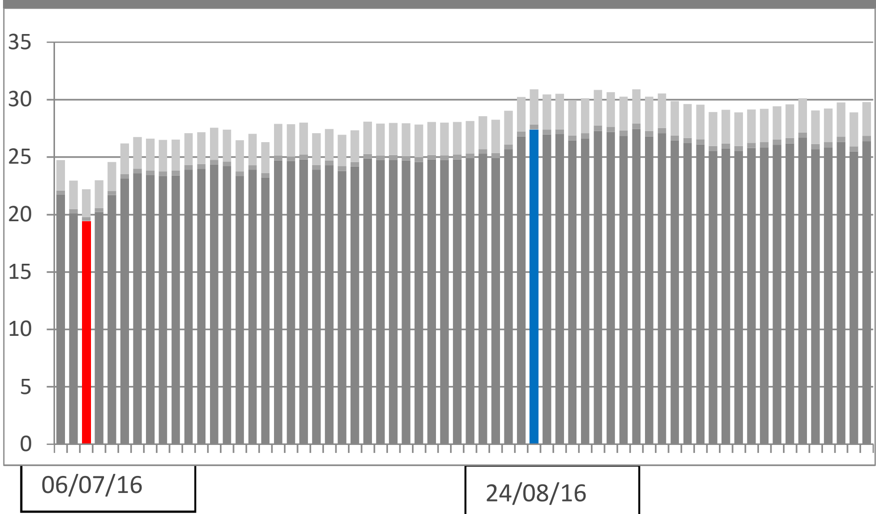
Month by month, too, July (+12%) and August (+7%) were up but September (-1%) was down.

UK Housebuilding Sector stock market value - daily - 2016 YTD (£billion)



Source: Hardman & Co Research
Light grey is newly listed; priced to 30 September

Housebuilding Sector stock market value – daily – in Q3 (£billion) *



**Newly listed (light grey), Inland Homes and Gleeson (medium); low is red; and high is in blue)*
Source: Hardman & Co Research

The Sand Pebbles

In Q3, all but one housebuilder rose in value led by Gleeson's outstanding +41%; the laggard was McCarthy & Stone which fell by 3% after a candid and exceedingly chary trading update. The plot is not so clever, however, in the year-to-date with a deficit of 18% (19% weighted) and only a single stock (Gleeson with +10%) positive; once more McCarthy & Stone's performance is poor with an average deficit of 34%.

It is the same moving picture when comparing end June 2016 with a year ago i.e. minus 10% and an astonishing minus 15% weighted; albeit Gleeson (+45%) was once more in the spot light while Telford wasn't at minus 26%.

Looking at the last 27 quarters (since Q1 2010), the Sector is negative in seven (including two of the last three) and positive in 21 (see over).

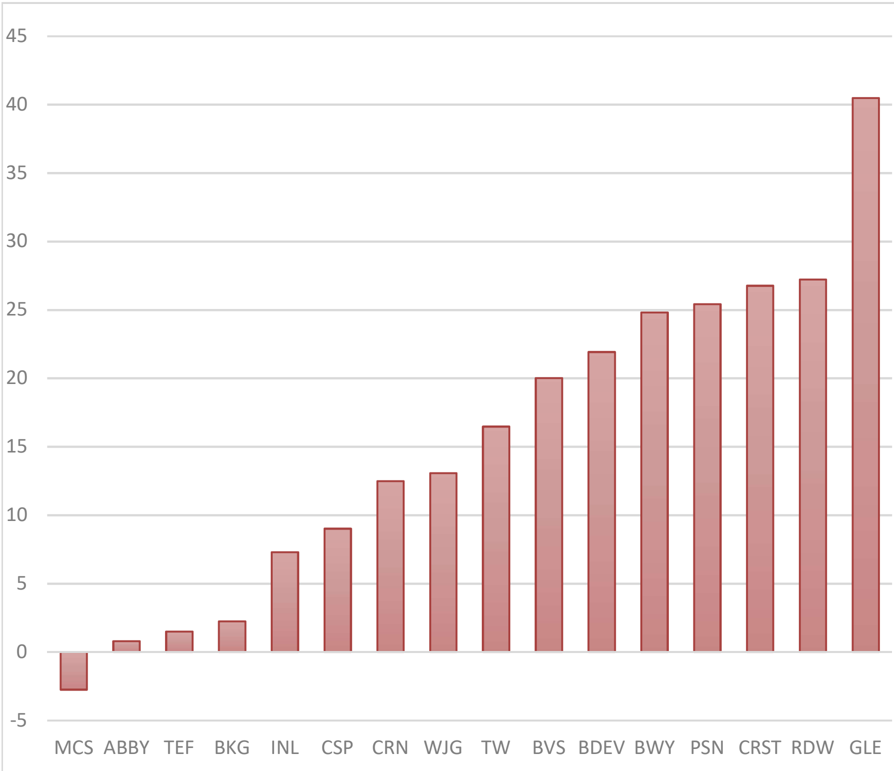
Executive producer

We have also tardily welcomed Cairn Homes plc to the cast that is our *sui generis* UK Housebuilding Sector; okay, it is an Irish housebuilder but has been listed in London since June last year (see Appendix). Cairn is capitalised at £645million despite being profitless to date after exceptional items.

For the record, the Sector hit a new all-time high on 24 May 2016 (cum Cairn) of £36.2billion.

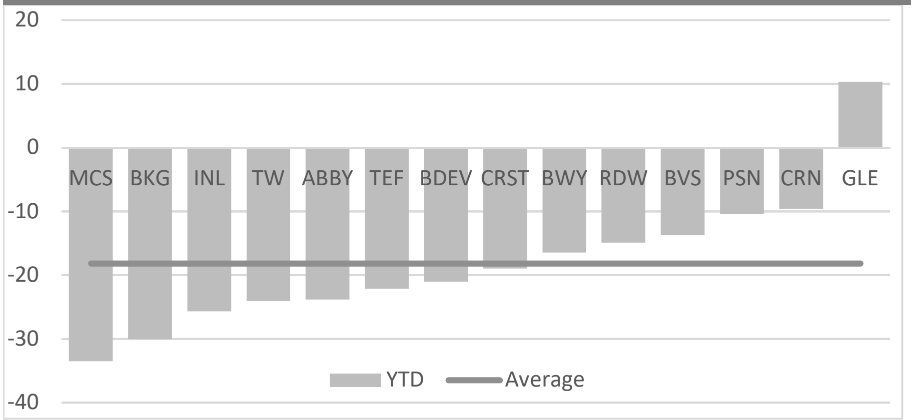
On 30 September, it was capitalised at £29.8billion including all recent IPOs (*sans* these the tally was £26.7 billion) having bounced off £22.7m on 27 June.

Share prices in Q3 2016 versus Q2 2016 (% change)



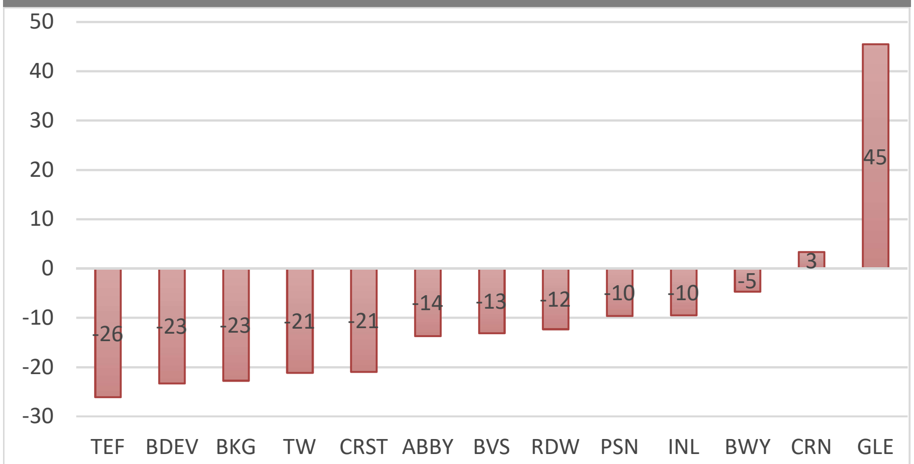
Source: Hardman & Co Research

Share prices in year to date (YTD) to 30 September 2016 % change



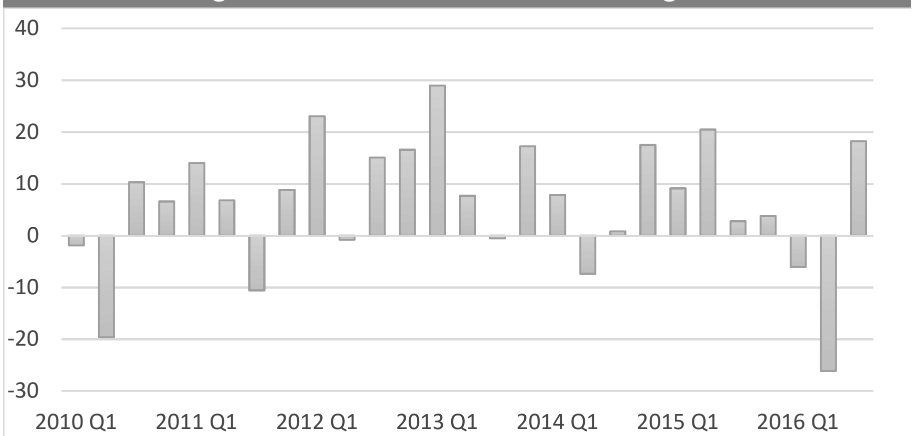
*Ex Countryside and Watkin Jones
Source: Hardman & Co Research

Share prices on year ago as at 30 September 2016 (% change) *



*ex McCarthy & Stone, Countryside and Watkin Jones
Source: Hardman & Co Research

UK Housebuilding Sector: Q1 2010 – Q3 2016* % change



*weighted % change in share prices quarter by quarter
Source: Hardman & Co Research

Co-stars

The Housebuilders were the best relative performers in Q3 with a gain of 18% in weighted share prices, albeit they had support from a polished 'Construction & Building Materials Sector' on +17% (it has proved to be something of a sleeper).

The equity market in Q3, however, was in positive territory with rises of 6% for the FTSE 100 and All Share Index - and 10% for the more domestically-orientated FTSE 250.

Unsurprisingly, the Housebuilders fail to qualify for bit parts in terms of their performances in the year-to-date and against a year ago.

Note, too, that the FTSE 100 is within 3% of its all-time high on 27 April 2015.

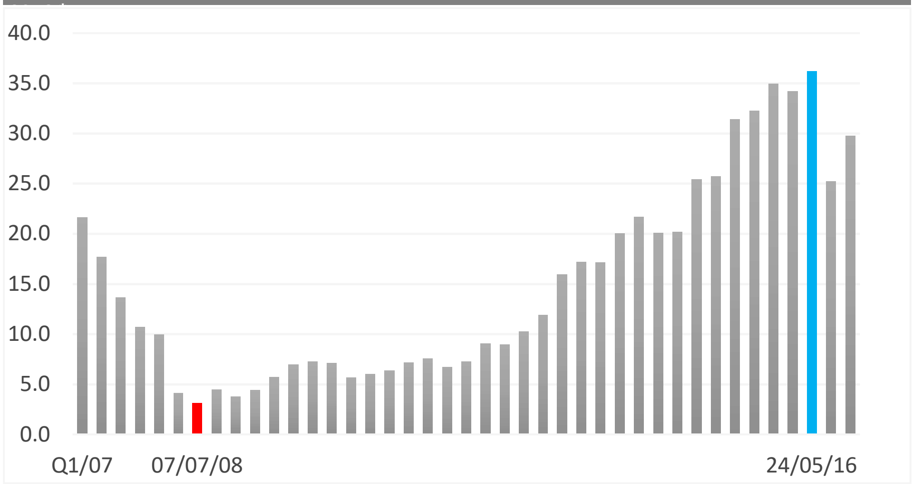
Peaks and values

Housebuilders' share prices are, on average, 14 times above the lows of 2008; and 37% up on very recent 52 week lows (weighted these numbers are 22x and 31% respectively). But they are also some 28% below their 2007 peaks (31% weighted); and 22% off 52 week highs (the same weighted).

Since Berkeley's relegation, too, there are now only three housebuilders in the FTSE 100: Barratt (88 at 30 September); Taylor Wimpey (86); and Persimmon (76); together, these three account for 36% of the UK Housebuilding Sector value

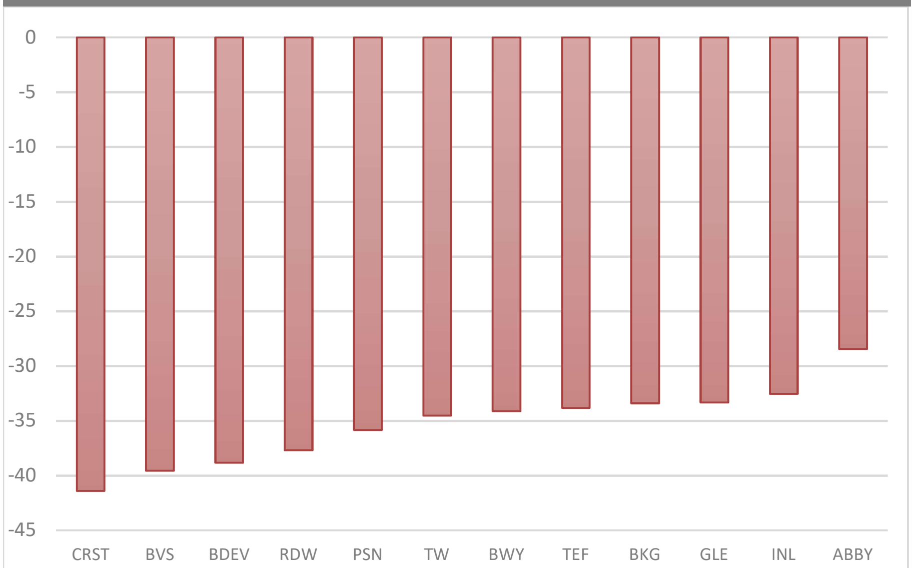
Note, too, McCarthy & Stone (November 2015), Countryside (February 2016) and Watkin Jones (March 2016) are all newly listed or re-listed on the London Stock Exchange; and Cairn Homes (June 2015) is also now included in our cinematics.

UK Housebuilding Sector - market value (£billion): quarterly from Q1 2007 to Q3



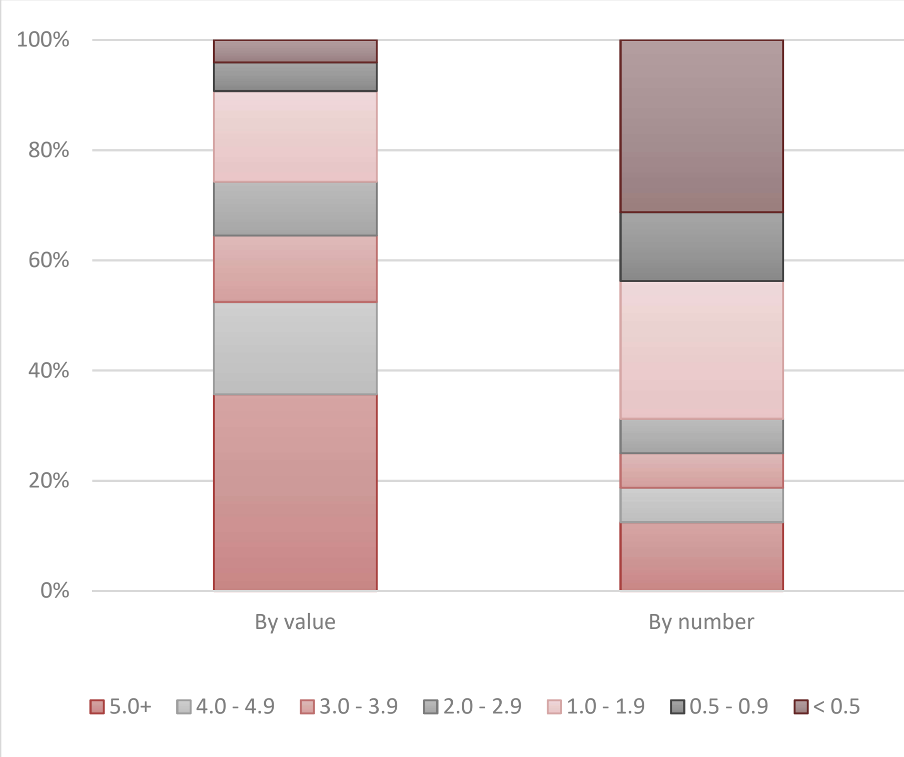
**7 July2008 (low); 24 May 2016 (high)*
Source: Hardman & Co Research

Share price deficits from 52 week highs at 30 June 2016 *(%change)



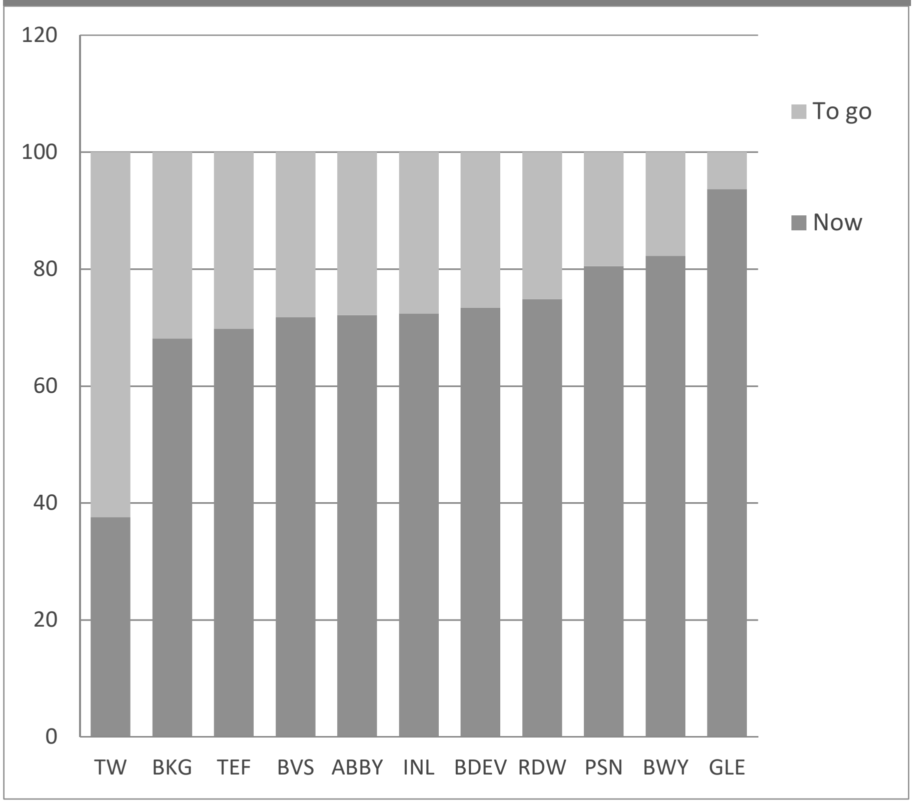
**ex-newcomers*
Source: Hardman & Co Research

Sector structure by stock market value (£29.8 billion at 30/09/16) 16 companies *



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

Current share price as % of all-time peak level at 30/09/16



**except Abbey in Euro cents; and ex Cairn, Crest, McCarthy & Stone, Countryside & Watkin Jones*
Source: Hardman & Co Research

Price-to-book and Total Return

The Housebuilders' latest average Price-to-Book valuation was 1.69 at 30 September 2016 and 1.86 weighted.

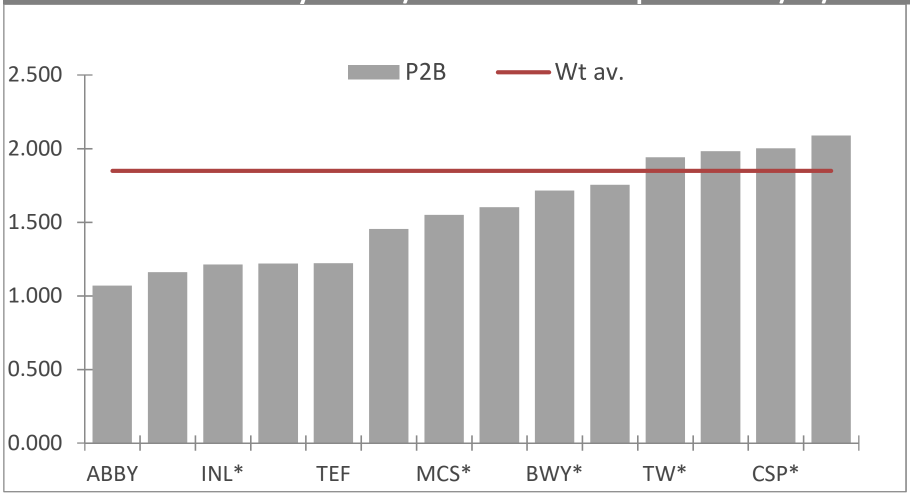
A year ago they were 2.16 and 2.36 respectively.

Five out of 16 companies, too, are better than 2.0.

Total Shareholder Return (TSR) for the Sector over the past 12 months is a negative 9% (with Gleeson and Cairn the only positives); and in the year-to-date (YTD) it is minus 18% with Gleeson again the leading man (+10%).

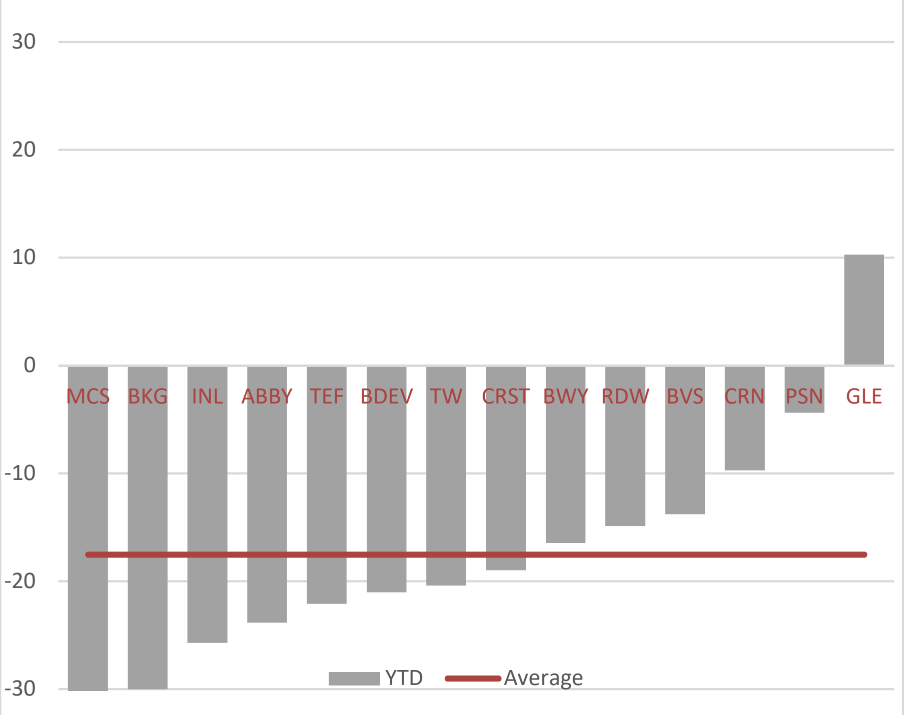
In calendar 2015 average TSR was 49%, preceded by 16% in 2014 and an 82% Oscar winner in 2013.

Price-To-Book-Value at year end/latest interim * & priced at 30/06/16



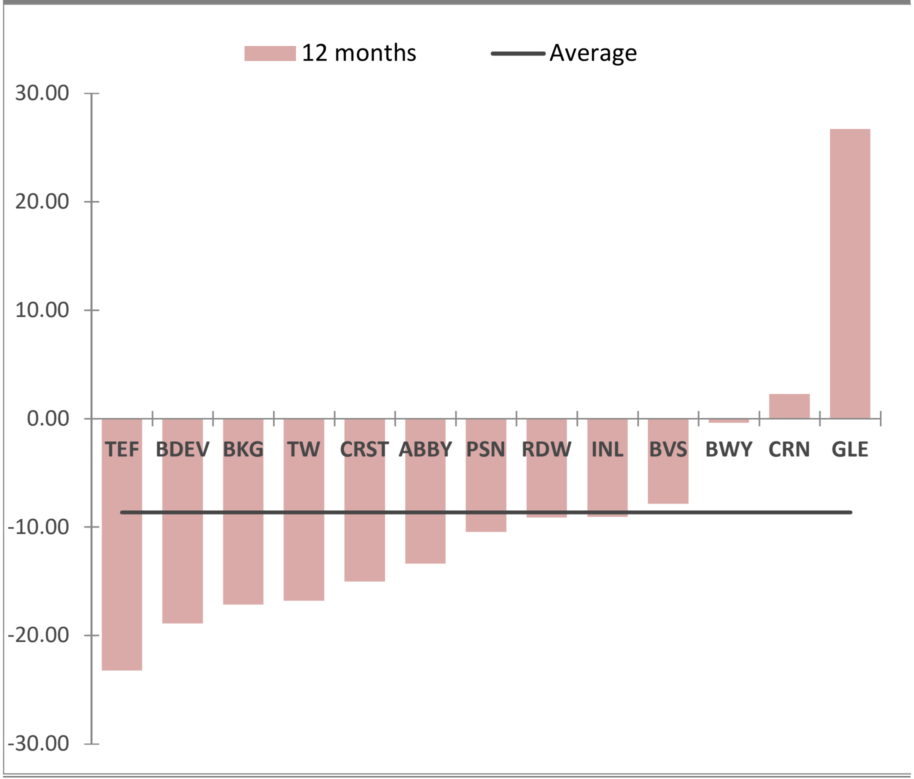
weighted average is 1.86; actual average is 1.69
Source: Hardman & Co Research

Housebuilders TSR in YTD to 30 September 2016 (%)*



** Includes Cairn and McCarthy & Stone but not Countryside and Watkin Jones*
Source: Bloomberg

Housebuilders TSR in 12 months to 30 September 2016 (%)*



** includes Cairn but not McCarthy & Stone, Countryside & Watkins Jones*
Source: Bloomberg

Valuation

The Sector's PER for 2016 part historic/part forward is 9.3x dipping to 8.8x in 2017 and 8.4x in 2018 based on consensus forecasts.

After 36% earnings growth in 2015, the current year is at +8% followed by +5% and +6% in 2017 and 2018 respectively. Such growth, however, is marginal and could become more marginal. For example, nine from fifteen companies in 2017 are already forecast to see a dip in earnings; and in 2018 it is two from six.

For the record, historic PERs for the FTSE 100, All Share Index and FTSE 250 range from 20 to 36x.

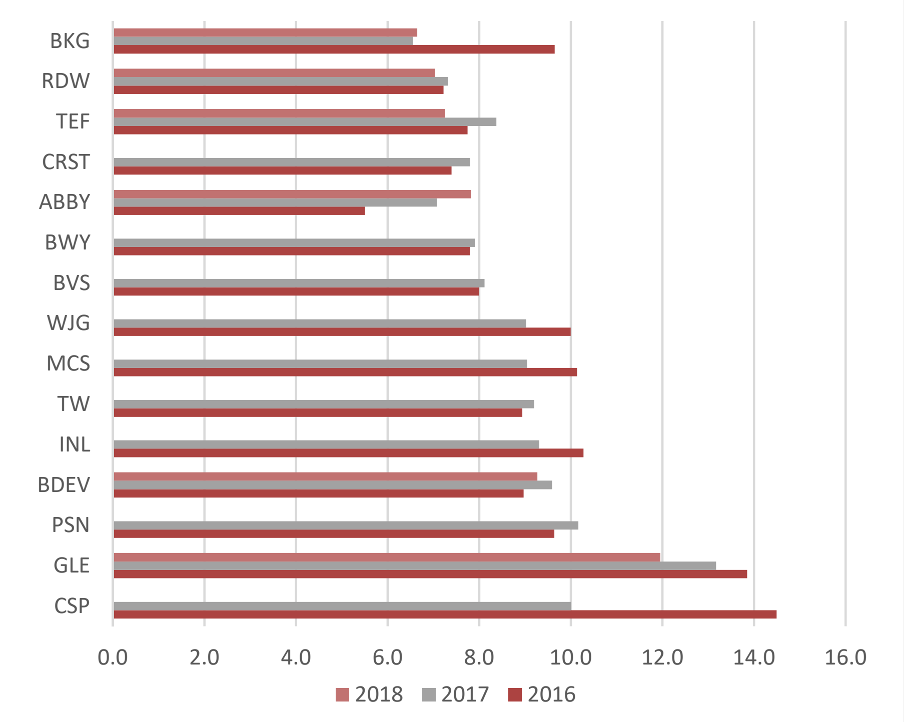
Turning to dividends, the Housebuilding Sector (including specials) is awarded an average yield in 2016 of 4.1% covered 4.0 times; once again this is based on consensus forecasts and is both part historic and part forward looking - depending on fiscal year-ends.

In 2017 and 2018 the yield is 4.8% and 4.7% respectively which is covered 3.2x and 3.5 x.

Similarly, a number of companies has committed to paying enhanced dividends which means Persimmon, Crest, Barratt, Berkeley and Taylor Wimpey are yielding 6 to 9%.

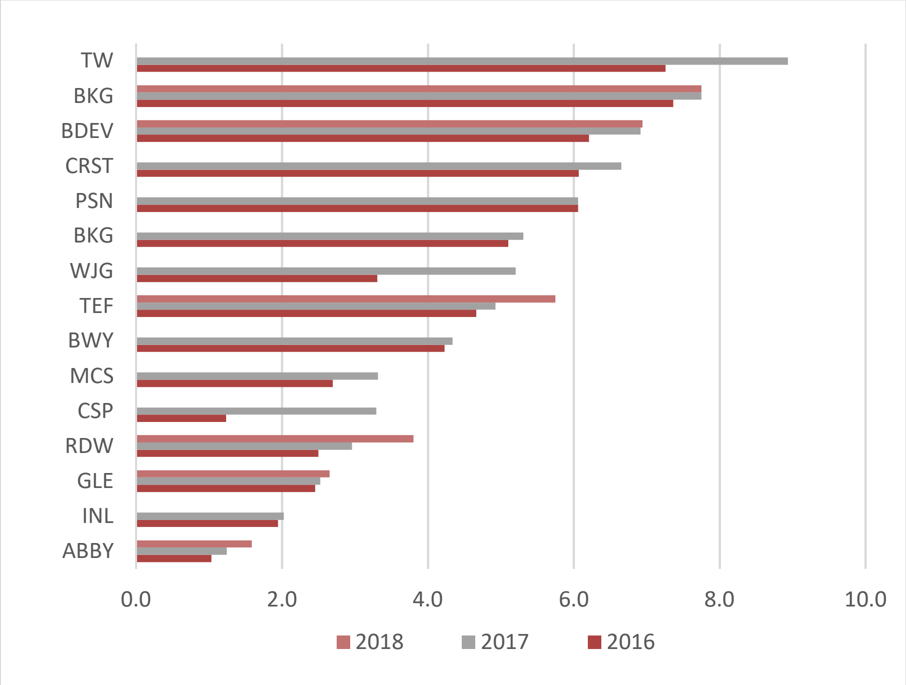
For the record, the UK equity market yields between 2.7 and 3.6% historic with lean cover of 1.2x; all calculations are made at the London Stock Exchange close on 30 September

PER: 2016 (av. 9.3x); 2017 (8.8x); and 2018 (8.4x) at 30 September



Source: consensus forecasts from Digital Look; Hardman & Co Research

Yield: 2016 (av. 4.1%); 2017 (4.8%); and 2018 (4.7%) at 30 Sept. 2016



Source: consensus forecasts from Digital Look; Hardman & Co Research

Results and trading in Q3

In Q3 there were four sets of final results and three interims plus a baker's dozen of trading updates (and no IPOs).

Average individual pre-tax profits rose 20% whilst average individual EBIT margins nudged up from 19.4% to an excellent 20.1% on revenue larger by 14% at £18.6 billion.

Earnings per share rose 20% on average (in a band from 10 to 25%) and with them dividends were raised by an average 27% on an individual basis; and, in turn, average individual cover was static at a husky 7.1x.

The average increase in orders was 17% (four companies).

And, finally, average individual ROCE rose from 19.1% to a tip top 20.9% in Q3 with Capital Turn little changed at 1.05 (versus 1.00) - both are very good indeed.

Profit & Loss

Date	Company	Event	Period ending	PBT (£m)		PBT (% chge)	EBIT margins		*Revenue % chge*	*Orders % chge*	*DPS % chge*	DPS cover (x)	
				Old	New		*Old (%)*	*New (%)*				*Old*	*New*
12-Jul	Abbey (Euros)	Full Year	30-Apr	49	61	*23*	*26.9*	*27.5*	*28*	*na*	*8*	*15.3*	*17.6*
	Abbey (GBP)			*38*	*45*	*17*			*22*		*3*		
27-Jul	Taylor W.	Half Year	03-Jul	232	262	*13*	*19.2*	*19.2*	*9*	*12*	*8*	*12.0*	*12.3*
15-Aug	Bovis	Half Year	30-Jun	54	62	*15*	*15.5*	*15.5*	*18*	*na*	*9*	*2.3*	*2.4*
24-Aug	Persimmon	Half Year	30-Jun	277	356	*29*	*20.5*	*23.8*	*12*	*2*			
06-Sep	Redrow	Full Year	30-Jun	204	250	*23*	*18.5*	*18.9*	*20*	*51*	*67*	*7.4*	*5.5*
07-Sep	Barratt	Full Year	30-Jun	566	682	*21*	*15.3*	*15.8*	*13*	*4*	*22*	*1.8*	*1.8*
26-Sep	Gleeson	Full Year	30-Jun	23	28	*21*	*19.8*	*19.8*	*21*	*na*	*45*	*3.4*	*2.9*
TOTAL (£m)				1394	1686								
Individual average change (%)								*20*			*16*	*17*	*26*
Sector average change (%)								*21*			*13*		
Individual average margin (%)									*19.4*	*20.1*			
Sector average margin (%)									*17.5*	*18.3*			

Source: Company announcements and Hardman & Co Research

Notes:

(i) Pretax profit numbers are adjusted where necessary and are net of exceptionals

(ii) EBIT is Earnings Before Interest & Tax; DPS is dividend per share

(iii) Abbey plc is Irish domiciled and reports in Euros

(iv)Taylor W. returned an additional 7.68 pence (£250 million) in July 2015 and plans a further 9.20 pence (£300.2 million) in July 2016

(iv) Persimmon made its third payment of surplus capital in April (110 pence per share) from proposed decade tally of £9.00 by June 2021

(v) Barratt's dividend in fiscal 2016 includes a 12.4 pence per share (£125 million) special payment

(vi) Cairn Homes is an embryonic business and is excluded from the averages

Balance Sheets

Date	Company	Event	Period ending	Net Assets (£m) Old	Net Assets (£m) New	Net (Debt)/Cash (£m) Old	Net (Debt)/Cash (£m) New	*Gearing Old %*	*Gearing New %*	*ROCE^ Old %*	*ROCE^ New %*	*Capital Turn (x)*
12-Jul	Abbey (Euros)	Full Year	30-Apr	247	281	82	105	*-33*	*-37*	*18.7*	*21.5*	*0.78*
	Abbey (GBP)			180	220	60	82					
27-Jul	Taylor W.	Half Year	03-Jul	2,417	2,592	88	117	*-4*	*-5*	*19.8*	*19.9*	*1.04*
15-Aug	Bovis	Half Year	30-Jun	895	965	-59	-8	*7*	*1*	*11.0*	*12.9*	*0.83*
24-Aug	Persimmon	Half Year	30-Jun	2,162	2,344	278	462	*-13*	*-20*	*27.8*	*33.0*	*1.29*
06-Sep	Redrow	Full Year	30-Jun	849	1,017	-154	-139	*18*	*14*	*20.0*	*20.1*	*1.07*
07-Sep	Barratt	Full Year	30-Jun	2,819	3,118	184	581	*-7*	*-19*	*19.3*	*20.3*	*1.40*
TOTAL (GBP)				9458	10409	412	1118					
Individual average change (%)				*13*								
Sector average change (%)				*10*					*19.1*	*20.9*	*1.05*	
Individual average ROCE (%) adjusted										*20.2*	*21.4*	*1.05*
Sector average ROCE (%) adjusted								*-6*	*-12*			*1.17*
Individual average gearing (%)								*-4*	*-11*			
Sector average gearing (%)										*19.1*	*20.9*	

Source: Hardman & Co Research

Notes:

(i) ^ ROCE is return on capital employed - and this is adjusted where required for half year, goodwill and other intangibles etc.

(ii) Abbey's net cash includes UK gilts (Euro 12.7 million) and restricted cash (Euro 1.7 million); 2014: Euro 13.5 and 1.3 million

(iii) Cairn Homes is an embryonic business and is excluded from the averages

Performance and outlook

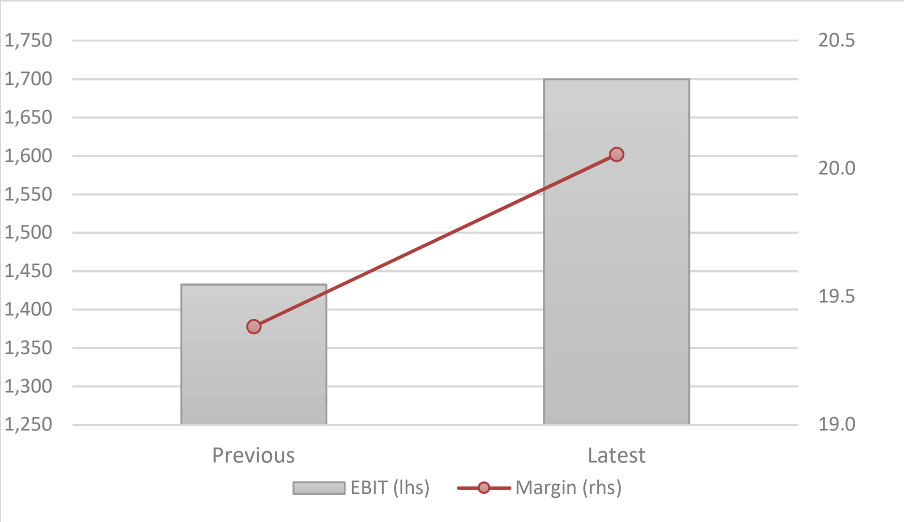
Abbey (Finals – I2 July)

Abbey plc saw pre-tax profits rise (to Euro 61.3 million) and earnings soar by 25% as ROCE moved clear of 20% in the fiscal year to 30 April 2016.

"However, the outlook is now clouded by Brexit. A slowdown in the UK economy is now being forecast and in particular a correction in the housing market after its strong performance in recent years. Prospects for the short, medium and long term are now very unclear.

"A prolonged period of gradual relative decline for London and South East England is possible if the withdrawal of London from its role in Europe is carried through. In Ireland, still recovering from last decade's financial crisis prospects seem brighter, however, Brexit casts a considerable shadow".

Sector EBIT (£million) and EBIT Margin (%): Reported in Q3 2016



Source: Hardman & Co Research

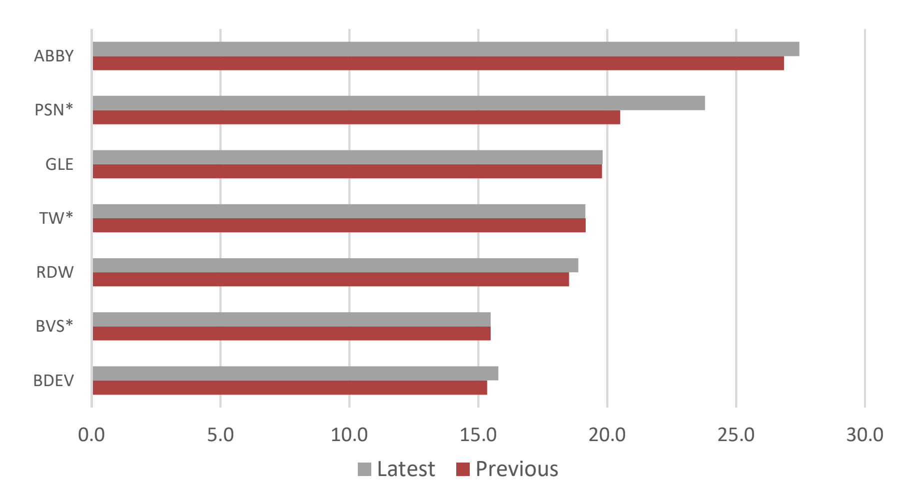
Taylor Wimpey (Interims - 27 July)

Taylor Wimpey saw half year pre-tax profits rise by 12% to a net £266.6 m with EPS ahead 10% on a 3% rise in completions to 60,129 (ex JVs). Operating margins were held at 19.2% and the Group's net order book is up 16% (ex JVs) at £2.12 billion.

The interim maintenance dividend was up 8% at 0.53 pence bringing the 2016 tally 10.91 pence per share. And then from 2017, there will be an enhanced ordinary dividend worth around 5% of net assets plus a special dividend of circa 9.20 pence to be paid in July 2017

CEO Pete Redfern said *"one month on from the EU Referendum, current trading remains in line with normal seasonal patterns. Customer interest continues to be high, with a good level of visitors both to our developments and to our website".*

EBIT profit margins (%) reported in Q3 2016 *



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

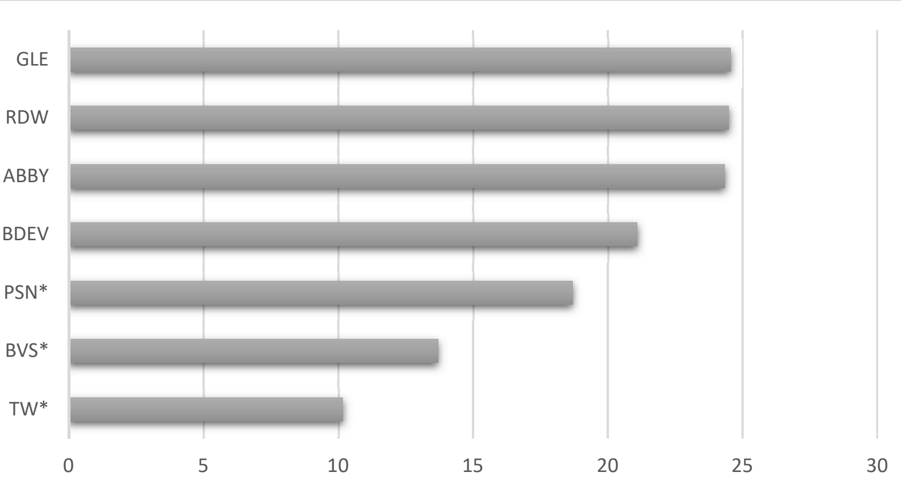
Berkeley (AGM - 6 September)

Berkeley (AGM – 6 September) provided an update at its AGM for the period from 1 May to 31 August which reiterated its guidance for the delivery of £2.0 billion of pre-tax profit over the three years to 30 April 2018

"Pricing has remained resilient and above business plan levels with reservation cancellation rates at normal levels, following a temporary and expected increase after the UK Referendum result"

"What is increasingly clear is that Government policy, which has been helpful outside London, has had a negative effect on the capital. Transaction taxes are now too high and this is restricting both mobility in the second hand market and the pace of supply and delivery of new homes in London and the South East".

EPS growth (% change) reported in Q3 2016 *



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

McCarthy & Stone (Trading Update – 2 September)

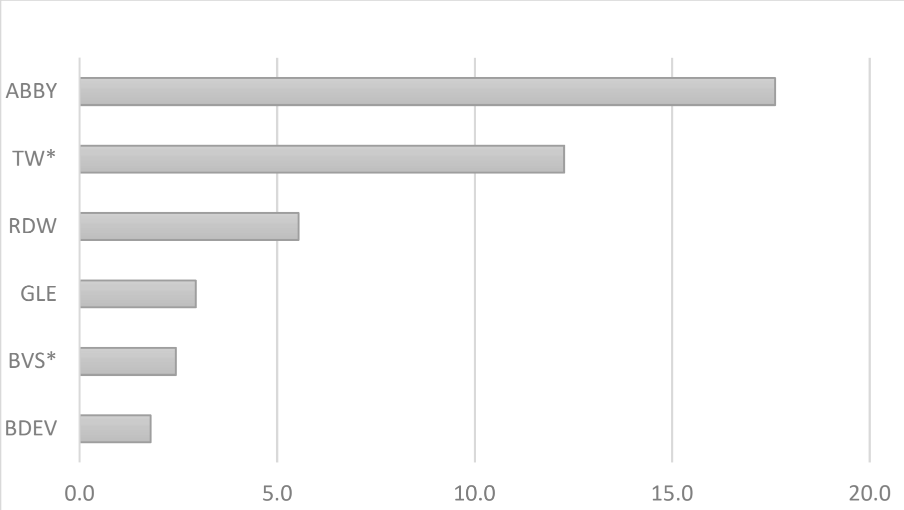
McCarthy & Stone was expected to issue a routine report but when a share price falls 11.7% (to 185 pence) on the day - it is anything but.

"There has been evidence of some weakness in the secondary housing market since our trading update on 29 June…".

"Whilst it is too early to judge what medium term impact we will see from the EU Referendum result and the Bank of England's subsequent changes to monetary policy, prolonged housing market weakness, particularly in the secondary market, could affect our ability to deliver our targeted 15% volume growth previously indicated for the financial year ending 31 August 2017".

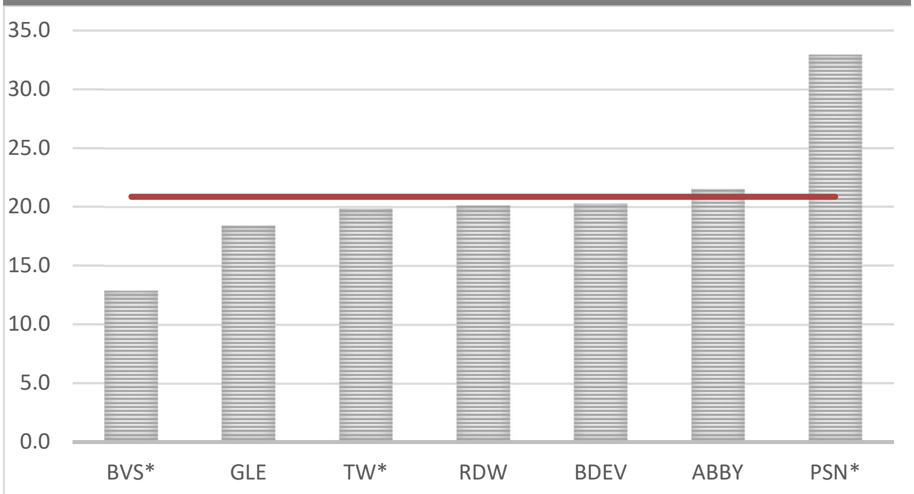
At 30 September, McCarthy & Stone shares were 166.9 pence.

Dividend Cover (x) reported in Q3 2016 *



**Average = 7.1x after a 26% increase)*
Source: Hardman & Co Research

Latest reported and average ROCE (%) reported in Q3 2016 *



**ROCE is return on capital employed; * denotes interim results*
Source: Hardman & Co Research

Persimmon (Interims - 23 August)

The numbers here were first class with underlying EBIT margins rising from 20.5 to 23.8% and pre-tax profit soaring by 29% to £352.3 million (although EPS rose only 19%). Similarly, since 1 July the private sales rate has been 17% ahead of the same period last year

CEO Jeff Fairburn said: *"while the result of the EU Referendum has created increased economic uncertainty, customer interest since then has been robust with visitor numbers to our sites around 20% ahead year on year".*

"It is likely that uncertainty around the potential impact of the EU Referendum result on the UK economy will persist for some time. In this environment, we will remain cautious with respect to new land investment…".

Barratt (Finals - 7 September)

Barratt fired on all cylinders in fiscal 2016 (to 30 June) with a 13% rise in revenue to £4.2 billion, EBIT margins nudging from 15.3 to 15.8% and pre-tax profit including JVs (£682 milllion), earnings and dividends at +21 to 22%.

"Whilst we have seen an increase in the supply of skilled sub-contractors over the past year, there remains an industry shortage in the UK, with increases in labour costs remaining the largest driver of overall build cost inflation"

"We are also seeking to increase efficiency through the use of timber frame on over 1,300 plots during FY17 and through the use of alternative offsite manufacturing options".

Build cost inflation for fiscal 2017 will be circa 2 to 3%The numbers here were first class with underlying EBIT margins rising from 20.5 to 23.8% and pre-tax profit soaring by 29% to £352.3 million (although EPS rose only 19%). Similarly, since 1 July the private sales rate has been 17% ahead of the same period last year.

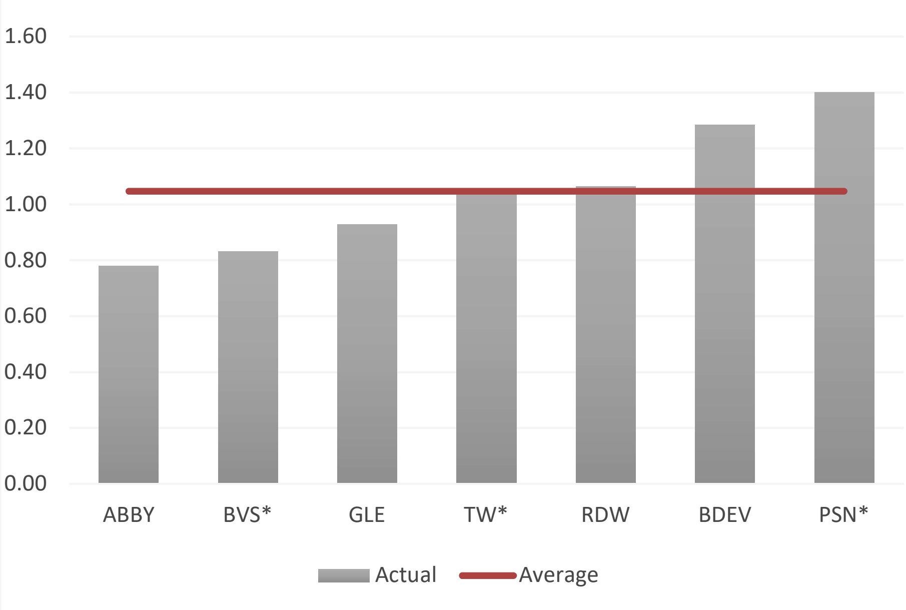
Gleeson (Finals - 26 September)

Gleeson was in good heart with its full year results to end June: revenue, EBIT and pre-tax (£28.2 million) all rose by 21% ex-exceptionals; while earnings did even better at +25%; and the dividend was fattened by 45%.

"Gleeson Homes has not seen any change in customer enquiries or sales due to the 'Brexit' vote. Our mortgage advisors and other organisations…. also report that there has been no drop in enquiries or demand for new homes"

Gleeson Strategic Land has seen two major housebuilders try to renegotiate purchase terms unlike their mid-range rivals who "continue to bid competitively on all our land sales"; overall too, the Brexit vote has not had a material effect on the Group's expectations - it says it is very much 'business as usual'.

Capital Turn (x) reported in Q3 2016 *



**i.e. revenue dividend by capital employed *denotes interim results*

Source: Hardman & Co Research

Macroeconomics

GDP in Q2 is estimated to have increased by 0.6% (Q1 2016: 0.4%) which is also 2.2% higher than Q2 2015; construction, however, was negative in the quarter (-0.7%) and the year (-1.4%).

CPI is creeping up and in August was +0.6% year-on-year albeit unchanged on July; and the main upward contributors were food prices and air fares; a year ago, the CPI was zero.

Unemployment is at a parsimonious 4.9% for the three months to end July; two years ago it was 6.2%.

Retail Sales in August by volume increased 6.2% year-on-year and 0.2% versus April; and the underlying pattern is still one of growth with the quarter-on-quarter movement at +1.6%.

Mortgages

The Council of Mortgage Lenders (CML) said that gross mortgage lending in August was £22.5 billion, which was 7% up on July and 15% better than a year ago; and the best August since 2007. For the record, CML members account for some 97% of the UK's residential lending.

Meantime, the British Bankers Association published mortgage approvals (36,997) in August which were 21% lower than in August 2015; although the first eight months of 2016 saw a dip of just 2% annualised (data are ex-building societies i.e. almost a third of all mortgages).

And finally, the Bank of England's mortgage approvals in August (60,058) dipped 1.4% month-on-month and 15% year-on-year; the August tally was also the lowest since November 2014.

Volumes and prices

With my forecasting cap on, too, I can tell you that Experian (where I am advisor) is forecasting that Private Housing Output will grow by 5, 2 and 1% in 2016, 17 and 18 respectively.

Elsewhere, on the house price front, the Nationwide recorded +0.3% in September with the quarterly at +1.3% and the annualised at +5.3% (versus 5.6% in August).

In addition, Rightmove said its national average asking prices rebounded 0.7% in September (to £306,499); and, annualised, the rise was 4%; it is a *"broadly positive picture overall as the market continues to shake off post-Brexit vote uncertainty"* with seven out of 10 regions see asking price rises or standstills this month, compared with eight falls last month.

Finally, Hometrack which posted a 7.4% annualised increase in August across the UK with its 20 city composite index slowing at +8.2%; and quarter-on-quarter, the latter index was at +1.9% which is the lowest for six months as *"weaker demand post Brexit and the March Stamp Duty change reduce the upward momentum of house price growth".*

New Government housing initiative

At October's Conservative Party Conference in Birmingham, Chancellor Philip Hammond set out details of a Home Building Fund using £3 billion of previously-announced cash to provide loans to stimulate projects, as well as a £2 billion Accelerated Construction scheme to make publicly-owned brownfield land available for swift development.

The Home Building Fund will provide £1 billion of short term loans for small builders, custom builders and innovative developers to deliver 25,500 homes by 2020-21, while a further £2 billion of long term funding for infrastructure will unlock up to 200,000 homes over the longer term, they said.

In addition, the Accelerated Construction scheme will use £2billion of new public sector borrowing to make public land with outline planning permission available to builders, including small new companies which can build at twice the rate of established construction firms. Where needed, too, the Government will take on the cost of remediation work to reduce the risk of building on brownfield sites.

Meanwhile, a plan for urban regeneration will aim to "radically" increase development on derelict and disused sites in urban areas, including turning abandoned shopping centres into new communities and increasing the density of housing around transport hubs.

Planning policy will adopt a "de facto" presumption in favour of building homes on suitable brownfield land and drive up density levels in high-demand areas. Similarly, a new scheme to encourage the conversion of unused office buildings into homes will be extended to allow for demolition of office blocks to be replaced by housing, which could provide 4,000 homes by the end of 2021. And, local planning authorities will be allowed to grant "permission in principle" on sites suitable for housing-led development identified in new brownfield registers.

Bullitt conclusion

Steve McQueen in Bullitt

Source: Creative Commons

As we know, Steve McQueen was not noted for his intellect or Delphic comments, which makes his riposte to Robert Vaughn all the more surprising: "who said it was going to turn out like this?"

What Steve was saying, is that "it's not over yet"; that there is still a lot more to come (sadly for McQueen, who died in 1980 aged 50, it was a future that was not his).

It is the same with Brexit; "it's not over" either - not by a long chalk.

In the meantime, the UK economy, its currency, ability to do business and the like remain decumbent to premise and postulation; as do the housebuilders - both as listed companies and salesmen.

What we do know is that economic growth forecasts are now clustered around marginal GDP percentage gains in 2017 (Experian, for example, is on +0.4%) which could easily tip negative.

Similarly, Carlos Ghosn, CEO of Nissan (owner of the UK's largest car factory) has also said there may be a need for compensation for any new EU tax barriers; "and we can't wait around until the end of Brexit".

Inflation is rising and, as noted here before, a weak British Pound is a doubled-edged sword.

At the same time, consensus earnings forecasts for nine from 15 housebuilding companies in 2017 are already showing a fall year-on-year and, in 2018, it is two from six; it is also the case that revisions come daily - and none of them is up.

Culturally, too, there are intramural issues because the vote was so close; and this will have a long tail. For example, just 1.3 million more people voted (17.4 against 16.1 million) to Leave than Remain; and there are aciculate regional and socio-economic divisions plus ones of age with 73% of 18 to 24 year olds voting Remain.

In other news, London's neoteric Major, Sadiq Khan, says he will launch a full inquiry into the impact of foreign investment in London's housing market (the Housebuilders' shares lost 3% on the day). Perhaps, Khan took his lead from Canada, where in Vancouver, on 2 August, a new 15% tax was introduced on house purchases by non-Canadians and non-permanent residents. It also now joins Singapore and Hong Kong which have acted similarly with other nations choosing non-financial barriers; these include Australia, China, Denmark, Mexico, New Zealand, The Philippines and Switzerland.

However, Savills' Yolande Barnes said foreign buyers accounted for only 7% of property purchased across Greater London (albeit higher in inner-London hotspots); and that investment has helped bring forward nearly all the affordable housing built in London since the 2008 financial downturn.

Brexit, its apologue and other machinations (like Khan's inquiry) mean that the UK Housebuilding Sector is resupine to negativity over the near term; and the earnings forecasts are telling you this too.

At the same time, the Government is taking away i.e. the Help to Buy mortgage guarantee scheme will close at the end of this year (and, to date, it has supported 86,000 households). But it is also giving with a new £5 billion allocation to speed up building on public land and to offer loans to smaller developers (as above). Don't hold your breath on the latter though and, nearer term, with the current beneficent dividend flows from the housebuilders, we suggest treating their shares like bonds until the broad sunny uplit lands emerge once more.

Quote:

"….It's like a fellow I once knew in El Paso. One day, he just took all his clothes off and jumped in a mess of cactus. I asked him why? To which he said, it seemed to be a good idea at the time…."

Source: Vin Tanner

Appendix: Cairn Homes plc

Cairn Homes is an Irish housebuilder founded in 2015 by Michael Stanley and Alan McIntosh and, in June 2015, it completed an Initial Public Offering (IPO) on the London Stock Exchange. The business is “design-led” and builds new houses and apartments on both greenfield and brownfield sites in Ireland. Regionally, it has a focus on Dublin and the Dublin commuter belt, but also other major urban centres.

The IPO took place on 10 June 2015 at Euro 1.00 per share and a market capitalisation of Euro 429.7 million. Since then the number of shares in issue has increased 60% (to 689million) by way an over-allotment option, two placings and the conversion of Founder Shares. This means that the market capitalisation of Cairn (at 30 September 2016) was Euro 741 m at Euro 1.08 per share.

The Company has been loss-making but crept into profit in the half year to end June 2016 (promulgated on 25 August) when it declared Euro 511,000 pre-tax profit pre-exceptionals, on Euro 16 million of revenue. Pre-exceptional operating margins were also respectable at 17.8%. Note, too, that there was a net asset value of Euro 666m at 30 June 2016 which was ungeared. Similarly, the “core land bank portfolio” now consists of 27 separate sites, on which the Company will develop in excess of 11,500 units, with 90% of those units located in Dublin and the Dublin commuter belt.

Glossary

Abbey (ABBY)

Barratt Developments (BDEV)

Bellway (BWY)

Berkeley Group Holdings (BKG)

Bovis Homes Group (BVS)

Cairn Homes (CRN)

Countryside Properties (CSP)

Crest Nicholson Holdings (CRST)

M J Gleeson (GLE)

Inland Homes (INL)

McCarthy & Stone (MCS)

Persimmon (PSN)

Redrow (RDW)

Taylor Wimpey (TW)

Telford Homes (TEF)

Watkin Jones Group (WJG)

Note:
Share prices at 30 September 2016
Adjustments have been made to share prices where required
Selected stocks are excluded from charts and Sector averages due to extreme movements or for structural reasons

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