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## UK Housebuilding Sector: Q1 2017

Spring 2017

**“Births, Brexit, Bovis bids”**



*Source: iStock, Shutterstock, Creative Commons*

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## Prologue - Births, Brexit, Bovis bids

Mervyn King



Source: Clip Art

Baron King of Lothbury, also known as Mervyn King former Governor of the Bank of England, is married to Barbara, a Finnish lady. She was his girlfriend in 1970 but distance and steam-driven telecoms conspired to keep them apart. Barbara went on to marry someone else and divorce - before being reunited with King in the late 1990s. They married in 2007 and King, who had never had children, was presented with two step-children and four grandchildren; and, in a Sunday Times interview, he quoted the Finnish apothegm "Grandchildren are the dessert of life".

I very recently joined this rather large club and my Granddaughter, Phoebe, was one month old in March. The month also marked the 60th anniversary of The Treaty of Rome and it was the same one in which the UK invoked Article 50. Until the Treaty of Lisbon in December 2007, there was no legal means for a member state to leave the EU. The Rome convention sired the Lisbon accord which, in due course, begat third generation Article 50.

In the two trading days following the Brexit vote i.e. 24 and 27 June last year (with a weekend in between), the UK Housebuilding Sector lost 36% of its value and at one stage was discounted by almost 40%. But investors in UK housebuilders are clearly familial and, after a lengthy gestation, through 23 March 2017, the Sector nudged back above its 23 June 2016 level with an average gain of 81% in share prices across 16 companies.

Okay, two competing, putative offers for on-the-back-foot Bovis from Redrow and Galliford Try helped but only at the margin - and this brace of bids is now abandoned. But, in essence, the aspiration of the offerors spoke volumes about long term confidence in the UK and its demand for new housing.

In the same interview, King who would not say which way he voted in the Brexit referendum, did add the following: "30 or 40 years down the road, if you give people a chart of British GDP and ask them to point where we left the EU, they won't be able to see it".

Short term, though, the UK - like Phoebe - will learn to talk and walk in a new World and this is neither easy nor without risk; and it takes time (there may also be a dearth of international family support). If you are buying housebuilding shares for a granddaughter, no worries; but the easiest money you will ever make i.e. buying on the Brexit collapse has been made. Redrow, for example, bounced off £1 to more than £5 - and the average leap was 81%. Bank the gains.

## Share prices in Q1 2017

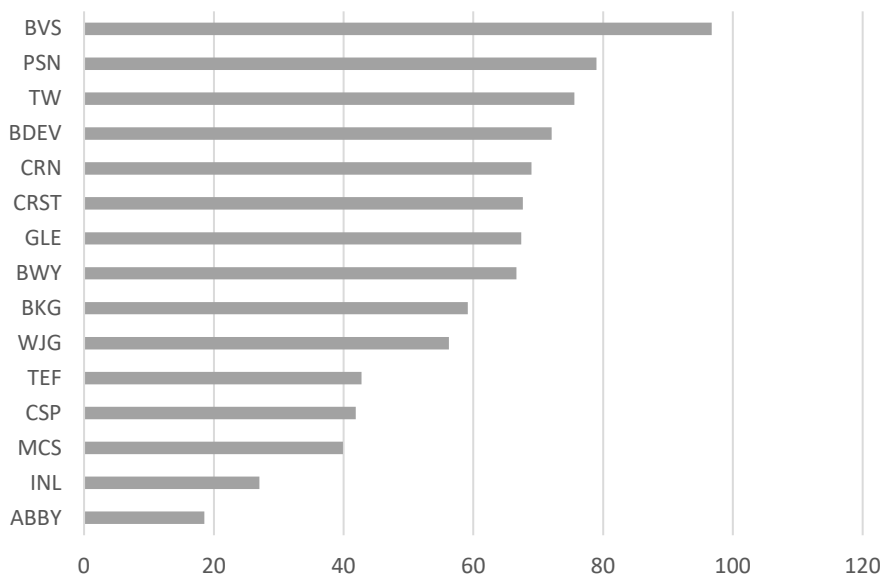
Housebuilders' share prices rose by an average 13% in Q1 2017 on an actual basis and 17% weighted by market capitalisation (in 2016 these numbers were minus 6% on both counts).

Watkin Jones was the most successful family member with +27% albeit supported by relative Taylor Wimpey at +26%.

Eight others rose by between 14% (Berkeley) and 20% (Crest) with Bellway and Cairn both on +9%.

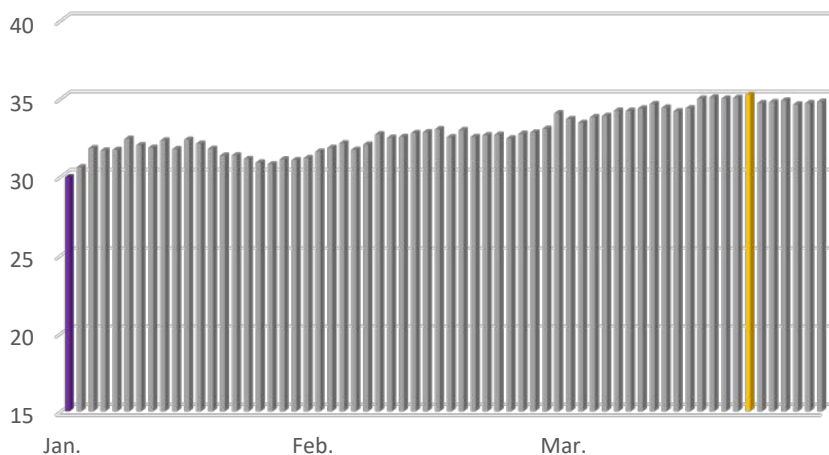
A bid assisted Bovis could only add 3% whilst Countryside (large shareholder sale) and Inland (complex interims) were in negative territory.

### Post Brexit % change in prices: 31/03/17 versus 52 week lows (ex-RDW)



Source: Hardman & Co Research

UK Housebuilding: Sector stock market daily value in in Q1 2017 (£ bn)



Source: Hardman & Co Research

In Q1 2017, there were 64 trading days and on 59% the Sector rose in value (as measured in Pound notes) versus 41% when it fell.

The best daily performance was +4% on 5 January and the worst was 16 February with minus 2%.

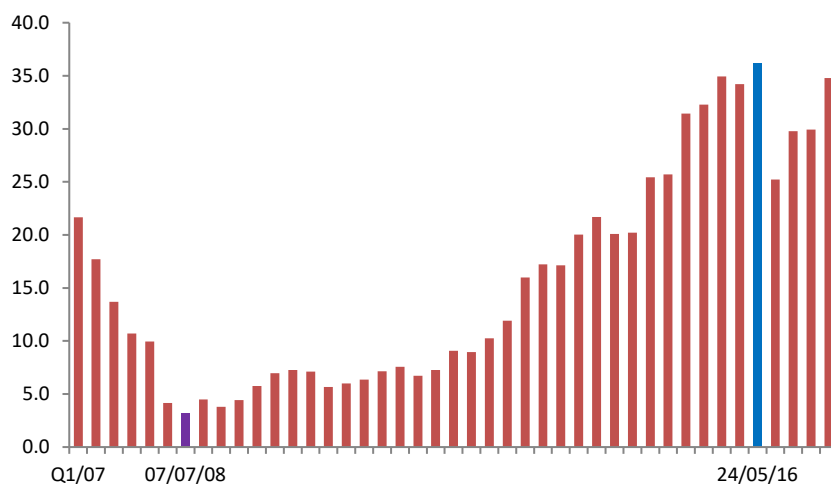
Week 1 (+6%) saw the best five day gain with Week 3 worst (minus 3%).

Month by month, all three were positive with January up 4%, February +6% and March +5%.

The lowest Sector value was recorded on 3 January (£30 billion) and is shown in purple with the highest 23 March at £35.2 billion (in yellow); and the Sector closed Q1 at £34.8 billion.

The Sector has also risen in 21 of the last 29 quarters.

UK Housebuilding Sector: Market value (£ billion): Q1 2007 to Q1 2017 \*



\*Low was 7 July 2008 and (purple) and high on 24 May 2016 (blue)  
Source: Hardman & Co Research

## Quarter by quarter

Year-on-year, share prices rose 3% between 31 March 2016 and 31 March 2017; and on a weighted basis by +2%.

Watkin Jones was once more the patriarch with +47% with attendance from Redrow and Cairn Homes which were both on +27%.

At the other extreme, both McCarthy & Stone and Inland Homes dropped 26 and 27% respectively.

Five others were on the naughty step, too, in a band from Bovis (-9%) through Berkeley (just at -0.3%).

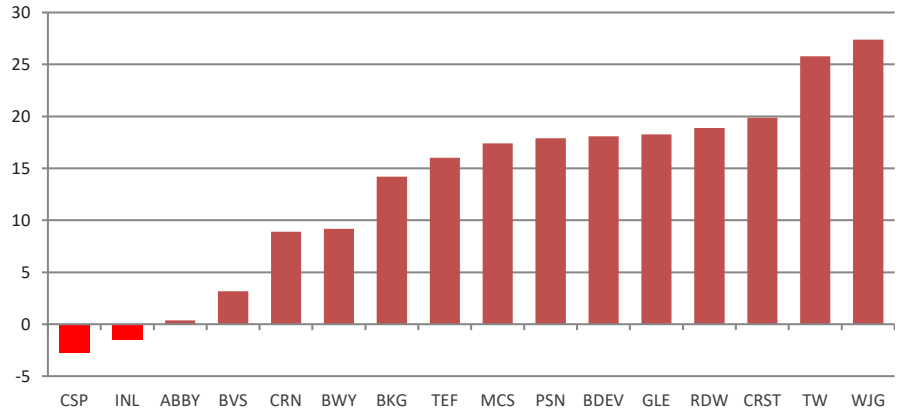
Best of the rest was Telford on +8%.

In relative terms, the Housebuilders led other clans by example in Q1 with a 17% weighted rise in share prices, albeit all were in positive territory save for one of two real estate sectors.

At the same time, the UK equity market's three main indices (FTSE 100, 250 and All Share) all broke new ground and exhibited Q1 gains of 3, 5 and 6% respectively.

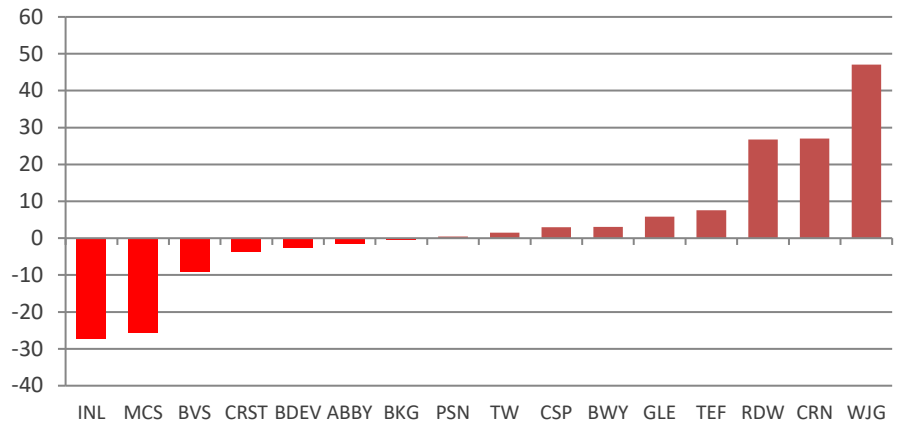
Against a year ago, Housebuilders are worst with minus 18% while construction and building materials issues - which exclude Housebuilders - added 38% to its value over the 12 months to end March 2017.

Share prices in Q1 2017 (% change)



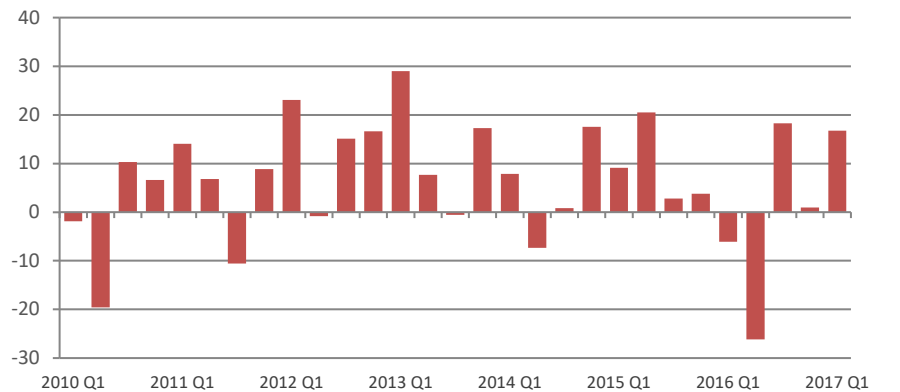
Source: Hardman & Co Research

UK Housebuilders: Share prices 31/03/17 vs 31/03/16 (% change)



\*weighted % change in share prices quarter by quarter

UK Housebuilding Sector share prices: Q1 2010 - Q1 2017\* % change



\*weighted % change in share prices quarter by quarter

Source: Hardman & Co Research

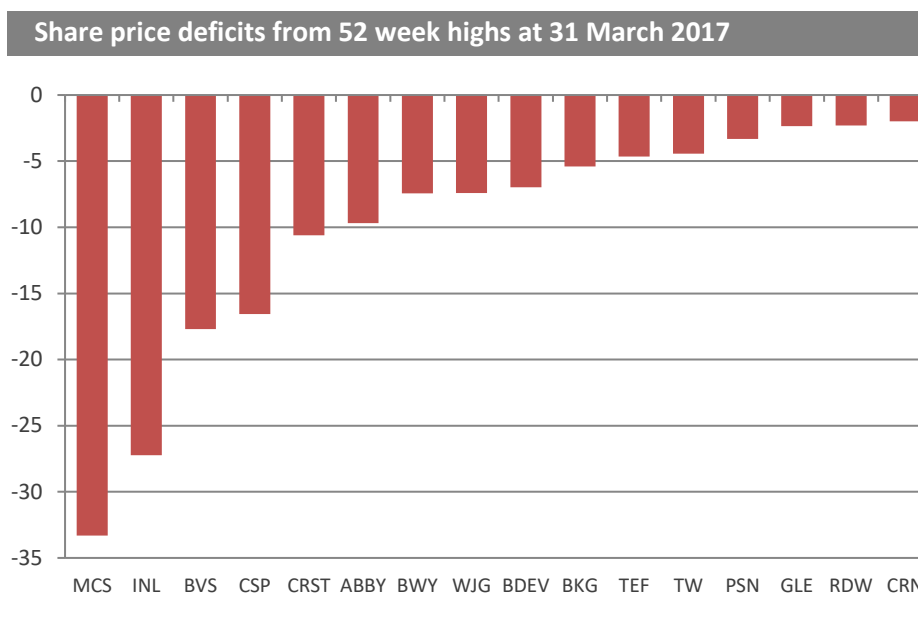
## Peaks and values

Housebuilders' share prices are, on average, 17 times above the lows of 2008; and 81% up on more recent 52 week lows (weighted these numbers are 27 times and 87% respectively).

But they are also some 17% below their 2007 peaks (20% weighted); and 10% off 52 week highs (7% weighted).

Three household members are also very comfortably constituents of the FTSE 100: Barratt (82 at 31 March); Taylor Wimpey (68); and Persimmon (64).

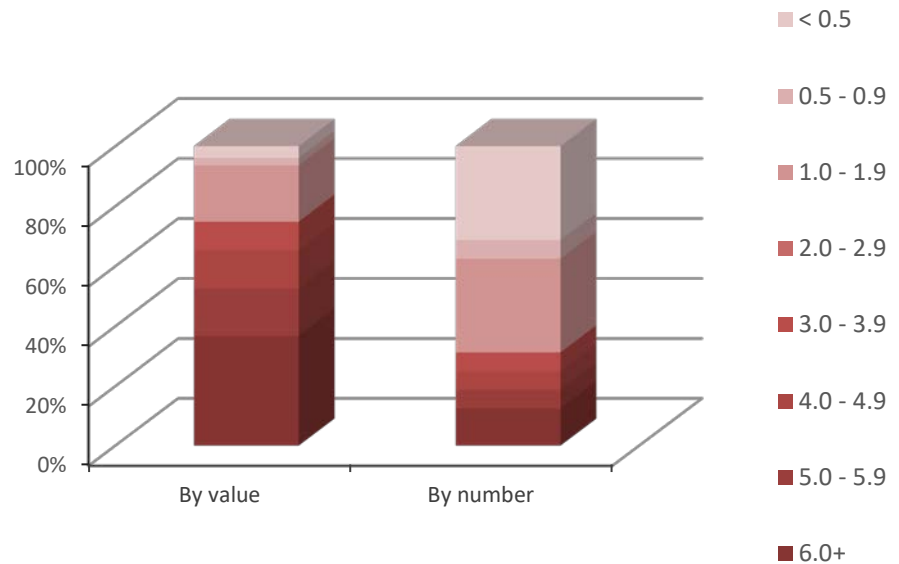
Together, these three FTSE stocks account for 53% of the UK Housebuilding Sector value.



Source: Hardman & Co Research

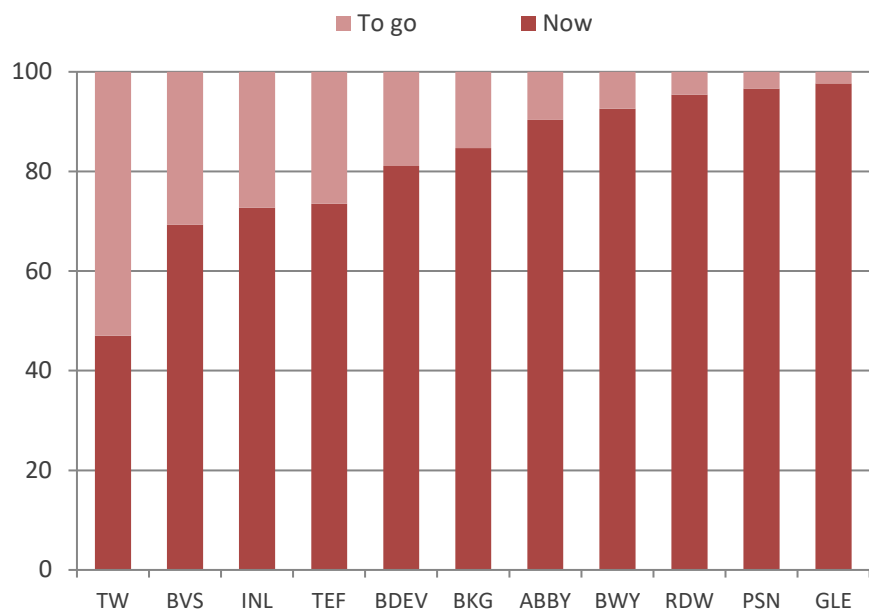


Sector structure by stock market value: 16 firms worth £34.8 billion at 31/03/17\*



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

Current share price as % of all-time peak level at 31/03/17 (in dark red)



\*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 1.73 at 31 March 2017 and 1.99 weighted (and a year ago they were 1.99 and 2.13 respectively).

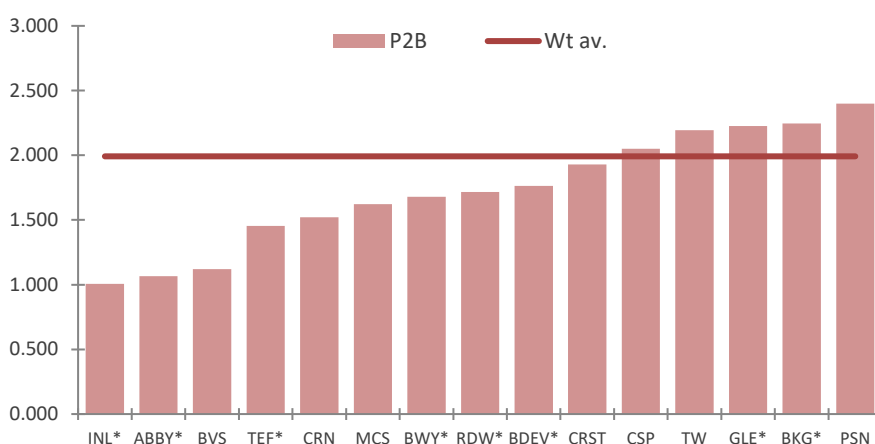
Five out of 15 companies are at 2.0 or better (with Watkin Jones at over 4.39 excluded from the chart).

Total Shareholder Return (TSR) for the Sector in Q1 was an excellent 12.9% actual and, significantly, 16.7% weighted.

Watkin Jones and Taylor Wimpey were on 27.4 and 25.8% with only two negative kith and kin (Countryside and Inland).

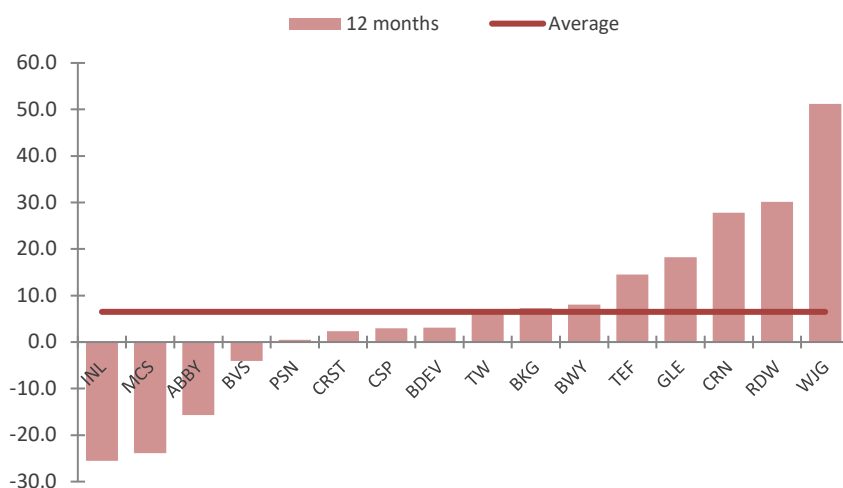
Over the 12 months to 31 March 2017, TSR was 6.5% actual and 5.9% weighted with super gains for Watkin Jones, Redrow, Cairn and Redrow; plus four in the red - with the worst Inland Homes (minus 25.6%).

**Price-to-Book-Value at year end/latest interim \* & priced at 31/03/17**



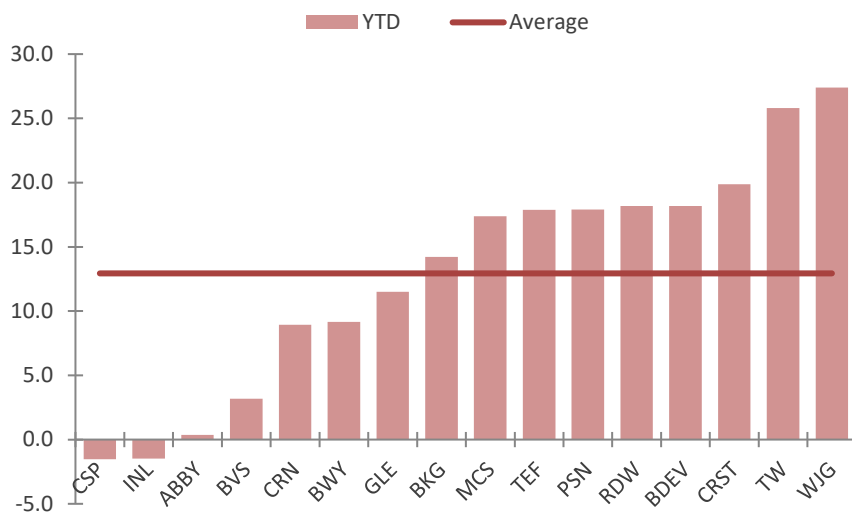
\*denotes interims; weighted av. is 1.99 is shown as a line; actual av. is 1.73; and is ex-Watkin Jones  
Source: Hardman & Co Research

**Housebuilders TSR in 12 months to 31 March 2017**



Source: Bloomberg

Housebuilders TSR in Q1 2017



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

## Valuation

The Sector's PER for 2016 is a trailing 12 month 10.4x with a prospective 9.5x in 2017 and 8.5x in 2018 based on consensus forecasts (15 companies are included in all years i.e. ex-Cairn which is currently loss-making).

After earnings growth of 35% in 2015, last year was at +10% followed a forecast +9% in 2017 and +11% in 2018 respectively.

Consensus forecasts have also firmed with only 4 from 15 companies set to see earnings dip in 2017 and, in 2018, only one.

For the record, trailing 12 month PERs for the FTSE 100, All Share Index and FTSE 250 range from 20 to 31x.

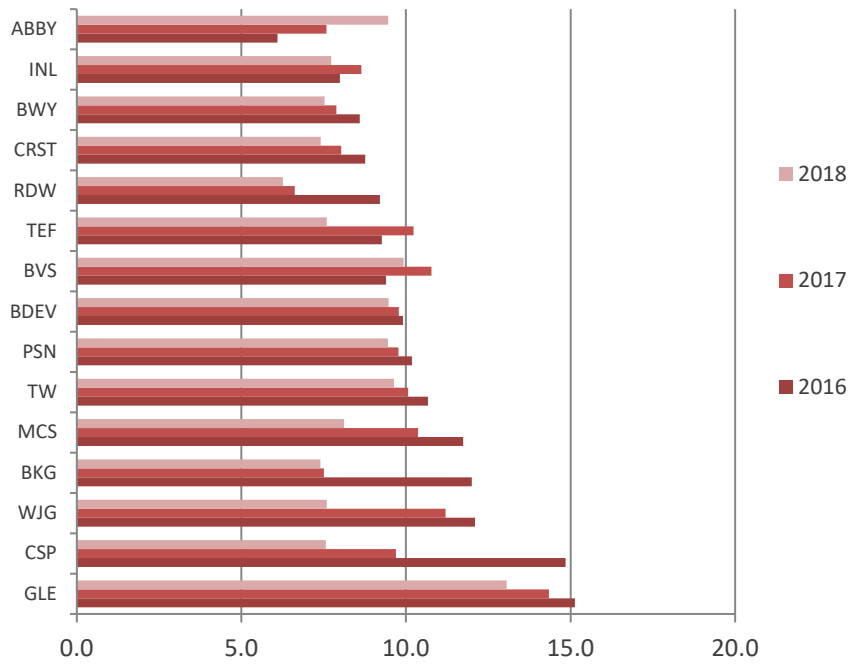
Turning to dividends, the Housebuilding Sector (including specials) had an historic average yield of 3.6% in 2016 covered 3.9 times (15 stocks).

In 2017 and 2018, the prospective yield is 4.3 and 4.7% respectively which is set to be covered 3.2 and 3.1 times.

Similarly, a number of companies have committed to paying enhanced dividends which mean Persimmon, Crest, Barratt, Berkeley and Taylor Wimpey are yielding 6 to 8%.

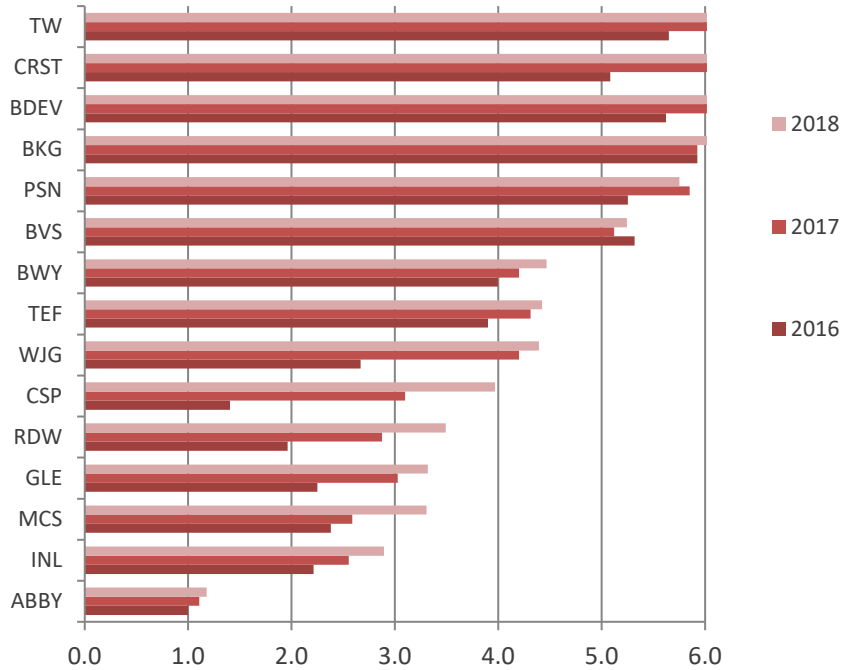
For the record, the UK equity market yields between 2.7 and 3.7% historic with lean average cover of 1.3x; all calculations are made at the close on 31 March 2017.

PER: 2016 (av. 10.4x); 2017 (9.5x); and 2018 (8.5x) at 31 March 2017



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

Yield: 2016 (av. 3.6%); 2017 (4.3%); and 2018 (4.7%) at 31 March 2017



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

## Results and trading in Q1

In Q1 there were more than 30 trading related announcements including six finals and five interim results (note, too, Inland is excluded from the average and Cairn is excluded from the tables).

Average individual pretax profits for the nine reportees in Q4 rose 16% whilst EBIT margins, on the same basis, moved up from 18.4 to 19.3% on revenue larger by 11% at £13 billion.

Earnings per share also rose 16% on average (with Bovis the sole negative) and with them dividends were raised by an average 27%; in turn, average individual cover remained comfy at 2.9x (down from 3.2x).

The average increase in orders was 16% (seven companies).

Average individual ROCE rose from 20.2 to 23.5% with Capital Turn little changed at 1.06 (versus 1.07).

## Profit &amp; Loss

Date	Company	Event	Period ending	Pretax profit (£m)		PBT (% chge)	EBIT margins		Revenue % chge	Orders % chge	DPS % chge	DPS cover (x)	
				Old	New		Old (%)	New (%)				Old	New
18-Jan	Watkin J.	Full Year	30-Sep	33	40	21	13.3	14.2	9	-	-	-	3.1
24-Jan	Crest	Full Year	31-Oct	154	195	27	20.3	20.4	24	4	40	2.5	2.2
08-Feb	Redrow	Half Year	31-Dec	104	140	35	18.2	19.5	23	35	50	5.7	5.2
20-Feb	Bovis	Full Year	31-Dec	160	162	1	17.3	15.8	11		13	2.4	2.1
22-Feb	Barratt	Half Year	31-Dec	295	321	9	16.1	17.8	-3	17	22	4.0	3.5
27-Feb	Gleeson	Half Year	31-Dec	11	12	2	17.4	18.3	-3	30	44	3.7	2.6
27-Feb	Persimmon	Full Year	31-Dec	638	783	23	21.9	24.8	8	9	23	1.6	1.5
28-Feb	T. Wimpey	Full Year	31-Dec	604	733	21	20.1	20.8	17	-3	15	1.6	1.7
21-Mar	Bellway	Half Year	31-Jan	227	248	9	21.4	22.0	6	18	10	4.4	4.4
28-Mar	Inland	Half Year	31-Dec	7	-2	-122	20.0	8.6	-41	52	25	9.1	-1.9
<b>TOTAL (£m) ex-Inland</b>				2225	2633								
Individual average change (%)/Cover (x)						16			5	16	27	3.2	2.9
Sector average change (%)						18			11		23		
Individual average margin (%)							18.4	19.3					
Sector average margin (%)							19.6	20.8					

Source: Company announcements and Hardman & Co Research

Notes: (i) Pretax profit numbers are adjusted where necessary and are net of exceptional items  
(ii) Inland Homes pretax profit and EBIT margins exclude exceptional positives of £14.0 and £6.0 million respectively  
(iii) DPS is dividend per share includes specials where appropriate

## Balance Sheets

Date	Company	Event	Period ending	Net Assets (£m)		Net (Debt)/Cash (£m)		Gearing		ROCE	ROCE	Capital Turn (x)
				Old	New	Old	New	Old %	New %	Old %	New %	
18-Jan	Watkin J.	Full Year	30-Sep	113	87	-39	-32	35	37	23.9	36.3	2.60
24-Jan	Crest	Full Year	31-Oct	631	719	-31	77	5	-11	19.1	21.9	1.10
08-Feb	Redrow	Half Year	31-Dec	909	1,099	-183	-56	20	5	18.7	23.7	1.03
20-Feb	Bovis	Full Year	31-Dec	958	1,016	30	39	-3	-4	17.0	16.3	1.03
22-Feb	Barratt	Half Year	31-Dec	2,881	3,118	18	180	-1	-6	19.8	19.6	1.10
27-Feb	Gleeson	Half Year	31-Dec	142	157	10	26	-7	-17	26.2	28.9	0.80
27-Feb	Persimmon	Full Year	31-Dec	2,418	2,694	570	913	-24	-34	26.2	28.9	1.16
28-Feb	T. Wimpey	Full Year	31-Dec	2,703	2,879	223	365	-8	-13	22.3	25.5	1.23
21-Mar	Bellway	Half Year	31-Jan	1,694	1,977	-59	-175	3	9	12.4	23.2	1.05
28-Mar	Inland	Half Year	31-Dec	107	118	-55	-78	51	66	23.9	2.6	0.30
<b>TOTAL (£m) ex-Inland</b>				12556	13865	486	1258					
Individual average change (%)					8							
Sector average change (%)					10							
Individual average ROCE (%)+Turn (ex-WJG)										20.2	23.5	1.06
Sector average ROCE (%)+ Turn (ex-WJG)										18.9	20.2	0.97
Individual average gearing (%)								7	3			
Sector average gearing (%)								-4	-9			

Source: Hardman &amp; Co Research

Notes: ROCE is return on capital employed; and adjusted where required for half years where appropriate



## Performance and outlook

### *Watkin Jones (Finals - 18 January)*

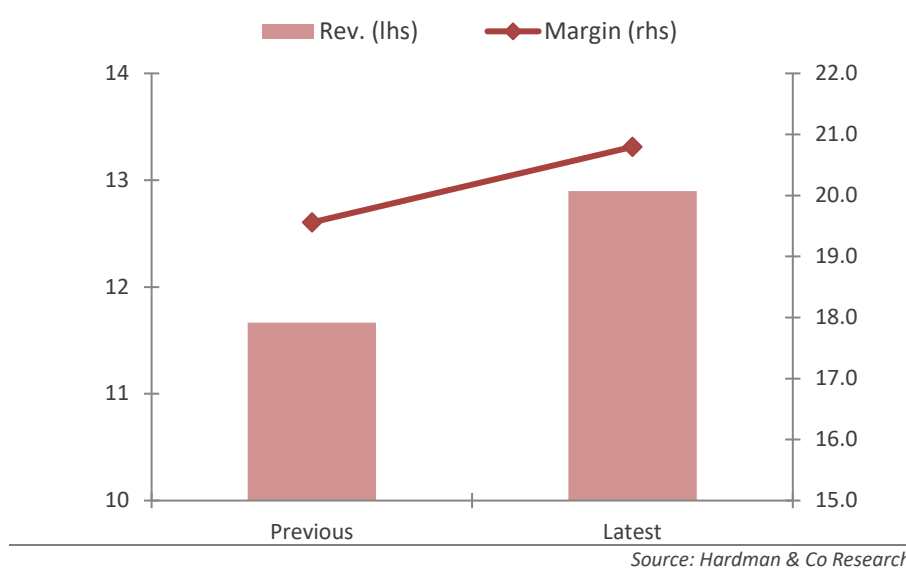
The Group, which has a core expertise in developing student accommodation, has recorded its maiden full year results as a listed company (which it has been since 23/03/15).

These were also a first class set with a 21% rise in adjusted pretax profit to £39.9 million on revenue ahead 9% at £227 million in the year to end-September 2016.

Operating margins were sound too at 14.2% (2014-15: 13.3%) while ROCE was breath-taking at 36.3% ex-intangibles.

It has also forward sold £164.0 million worth of developments across five student accommodation schemes (1,893 beds) since the year-end; and was in “legal negotiations” on a further £185.0 million or so comprising seven student developments (2,166 beds) at the time of reporting.

### Sector Revenue (£million) and EBIT Margin (%): reported in Q1 2017



### *Crest Nicholson (Finals - 24 January; AGM - 23 March)*

In “a landmark year”, Crest hit £1 billion of sales (including JVs) while generating a 20.4% EBIT margin and a 21.9% ROCE; with profit before tax struck at £195 million which was 27% to the good.

The Group’s annual dividend was also hiked 40% (to 27.6 pence) with cover at 2.25x and a 2017 target of 2.0x.

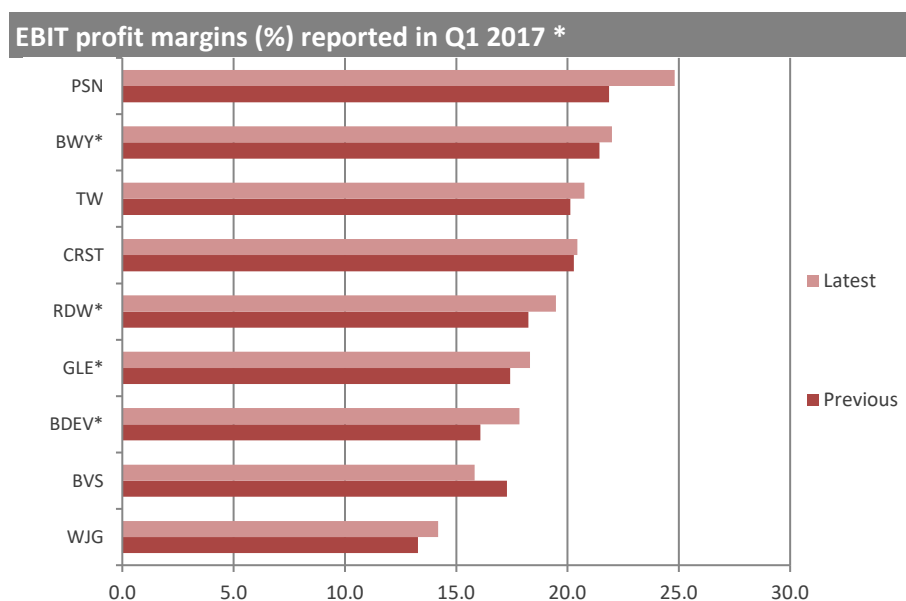
Forward sales at mid-January were 4.3% ahead at £534 million; and Crest says it is on target to deliver £1.4 billion sales and 4,000 homes by fiscal 2019 (fiscal 2016: 2,870).

CEO Stephen Stone said “the long-term implications of the EU vote are still unknown, and we could experience a slower rate of growth in 2017 and 2018”; but “the fundamentals of the market are encouraging and the five year prospects for the sector remain strong”.

Then, last month, the Group update again at its AGM: “the trading environment has remained generally robust, with good sales across our areas of operation. Purchasers continue to benefit from strong levels of employment and wide mortgage access; modest levels of sales price inflation in line with earnings growth are also helping to maintain affordability.

“Cumulative open-market forward sales revenues (excluding PRS) of £312 million are broadly level with the £311 million achieved at the same point last year; total forward sales at £506 million are 5% higher”.

After the hitting “landmark sales of £1 billion” (and 2,870 units) in its last fiscal year, the Company has re-iterated its target of 4,000 homes and £1.4 billion of sales in 2019. Crest is also engaged “with key partners in examining approaches to off-site manufacture”.



\*denotes interim results  
Source: Hardman & Co Research

**Redrow Interims - 8 February; plus Updates on 22 and 28 March)**

There were exemplary first half numbers to end December last with completions up 13% (to 2,459) and a 35% rise in both earnings and pretax profit (to £144 million) - plus an ROCE nudging 24%; the dividend was also hiked 50%.

Straight shooter Chairman Steve Morgan called it “a robust performance”, lauded the Group’s recent acquisition of Radleigh Homes (in East Midlands) and underlined a record private sector order book of £897 million which is up 35%.

As is his wont, he also took a swipe at the planning system which he said “unfortunately remains as ponderous as ever”.

Redrow also updated its medium term guidance to fiscal 2019 (end June) and expects to deliver turnover of £1.9 billion (fiscal 2016: £1.4 billion), an operating margin of 19.5% (2016: 18.9%) and EPS of 77 pence (2016: 55.4 pence). More was to follow.

The Group further updated the market and forecast full year profits on 23 March (and this was part and parcel of its uninvited bid for Bovis announced on 12 March at 812 pence: part paper; part cash; and part the Bovis final dividend).

“Trading and performance continues to be robust, as a consequence of a record order book..... with better than anticipated increases in average selling prices”; and this underpins confidence that pretax profit will rise 22% to £306 million in the fiscal year to end June 2017.

On 28 March, Redrow announced that it had thrown in the Bovis towel having determined that it was not in its shareholders’ best interests to increase its proposal to Bovis above the level which had been rejected.

**Bovis (Finals - 20 February)**

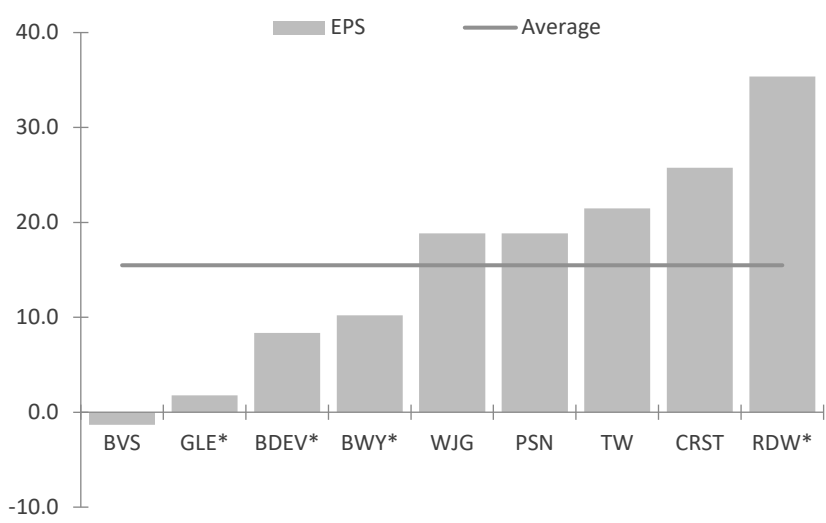
Following a virtual profit warning (28/12/16) and the departure of its CEO (announced 09/01/17), the Company was probably still sporting a hair shirt.

But, there were some positives in the full year numbers including an 11% rise in revenue and, excluding “a customer care provision” (£7million), pretax profit nudged ahead 1% to £161.7 million. The dividend was also raised 13%.

EBIT margins, however, were 145 basis points lower at 15.8% and target completions in calendar 2017 are “re-set” 10 to 15% below last year’s 3,977 units.

Since then, the Company has been the subject of unsolicited bids from Redrow (814 pence) and Galliford Try (886 pence then - all in paper) which were promulgated on 13 March; Redrow has since walked.

**EPS growth (% change) reported in Q1 2017 \***



\*denotes interim results  
Source: Hardman & Co Research

**Barratt (Interims - 22 February)**

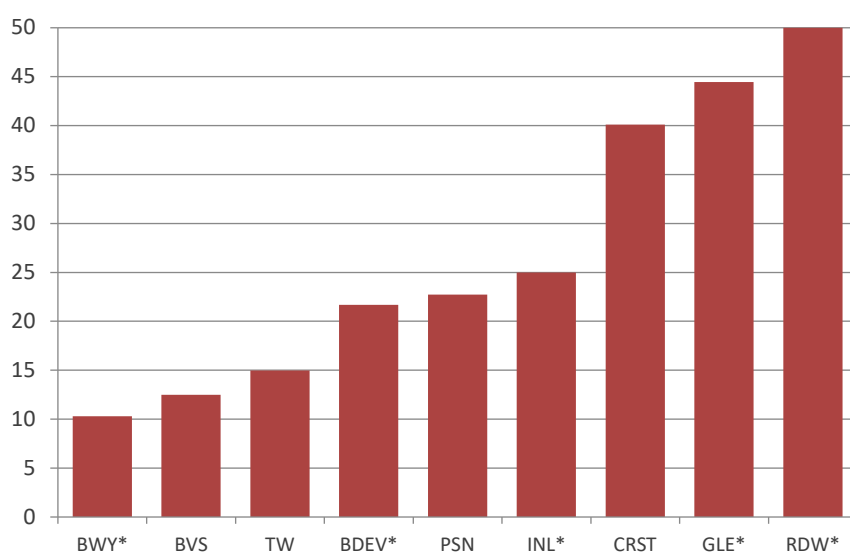
This was a robust H1 performance with higher EBIT margins (16.1 to 17.8%), a 9% rise in pretax profit (to £321 million) and a 22% hike in the interim dividend (with specials to come this year and next).

Revenue, however, was 3% lower (at £1.82 billion) as were completions: off 6% at 7,180 units. That said, forward sales as at 19 February were 17% ahead at just over £3 billion.

Completions outside of London in H1 were at their highest level for nine years, whilst in the Capital, completions were “in line with planned build programme” - and “significant uplift” is expected on wholly owned sites in H2.

Consensus earnings estimates, promulgated by Barratt and sourced from Reuters, show a dip in the current fiscal year of almost 1% followed by marginal growth of 3.1% in fiscal 2018.

**Dividends per share reported in Q1 2017\* (% change)**



\*denotes interims; average = 4.6x after a 22% increase  
Source: Hardman & Co Research

**Gleeson (Interims - 27 February)**

Revenue was little changed at £63 million due to lower land sales, although EBIT rose 13% to £10.7 million and pretax profit - up 2% - to £11.5 million (ex-discontinued); and the dividend was hiked a staggering 44% as the Group bristles with confidence.

Gleeson Homes operates in the North of England with an H1 average selling price of £121,400 and unit sales of 451 (up from 400). Revenue was £54.7 million and EBIT margins 15.5% (last time 15.4%) while H1 reservations soared 30%. Gleeson Strategic Land continued to see strong demand from medium and large housebuilders in the South of England; and, in H1, three sites were sold (down from four) comprising 265 plots with both revenue and EBIT (minus 15% to £4.0 million) lower; but it has an active pipeline in excess of 21,200 plots.

*Persimmon (Finals - 27 February)*

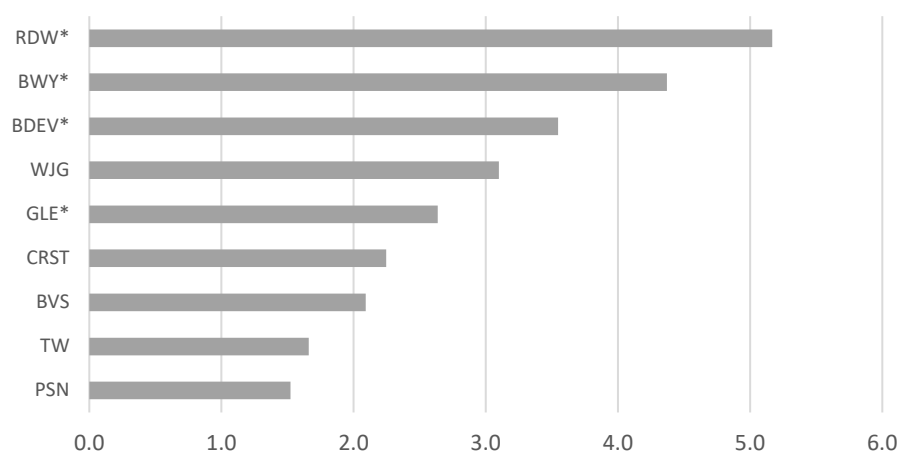
Persimmon is a great company, viz a near 29% ROCE last year. But why persist with spectacularly over-long announcements? 2016's ran to more than 20,000 words including a 13,019 word treatise on strategy. No one reads it; and, in the cold heart light of day, housebuilding is not rocket science.

In 2016, the Group generated revenue of £3.14 billion (+8%) and an EBIT margin of 24.8%; plus proposed total dividends (including capital return) of 135 pence per share (+23%).

The Group also held more than £900 million or net cash at the calendar and fiscal year end.

Current forward sales were an annualised 9% better at £1.89 billion (including early 2017 completions); and drilling down private reservations are 6% ahead - despite the first eight weeks private sales rate per site being 4% lower.....

**Dividend Cover (x) reported in Q1 2017\***



\*denotes interims  
Source: Hardman & Co

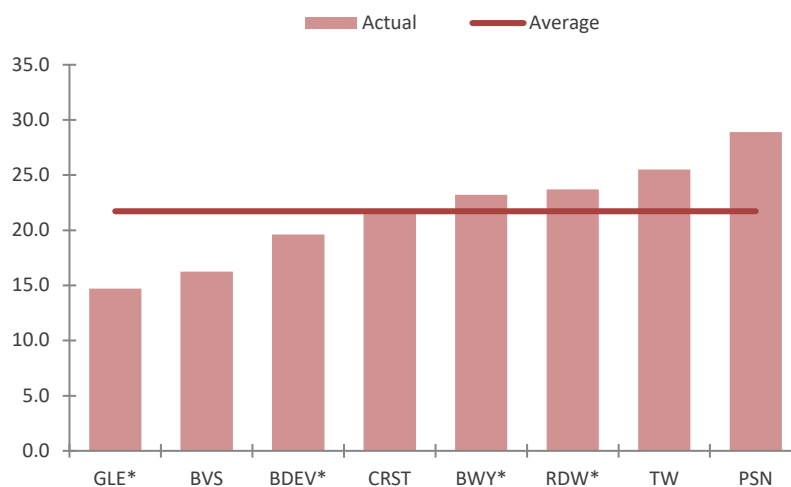
*Taylor Wimpey (Finals - 28 February)*

These were a robust set of figures with revenue up 17% to more than £3.6 billion, an EBIT margin/ROCE above 20% and pretax profit up by a fifth to £733 million. At the same time, 2016's total dividend was also up 15% with a further £300 million to come in July; and net cash is still £365 million.

But was there a gypsy's warning in the order book? At 19 February it was almost 3% lower at just over £2 billion albeit, in terms of units, these were 2% to the good at 8,573 - which is not huge and comes despite an improved sales rate per site.

The legacy business in Spain also had a very good year with a more than doubling of EBIT to £20.6 million after selling 304 units (+21%) at an average price of Euro 358,000 (+14%); and the unit order book is 9% to the good.

## Latest reported and average ROCE (%) reported in Q1 2017\*



\*denotes interims; ROCE is return on capital employed  
Source: Hardman & Co Research

**McCarthy & Stone (Finals - 9 March)**

The UK's largest retirement housebuilder said H1 "trading conditions remained stable" but both H1 revenue (minus 5% to around £238 million) and completions (minus 6.2% to 866) were lower.

Of similar concern, net reservations (minus 4.2% to 1,084) and the total forward order book (minus 5% to circa £418 million) were also both off.

There were some positives: a "rapidly aging population"; "high levels of customer satisfaction"; a surge in planning consents (+69% to 1,314 units); and a medium term target of more than 3,000 units per annum (in 2015-16 the Group built and sold a net 2,296).

But it was a clumsy communication (on which the shares fell) and not one to engender great confidence.

**Cairn Homes (Finals - 9 March)**

Since its IPO in London in June 2015 at Euro 1.00, the shares touched Euro 1.50 in March of this year - despite the fact that the Group has not returned a pretax profit. For the record, it operates exclusively in the Greater Dublin Area - and it intends to seek a primary listing on the Irish Stock Exchange during 2017.

In calendar/fiscal 2016, the Group generated revenue of Euro 40.9 million (£33.4 million) which was more than 10-fold up on the previous year (and relates principally to 105 completions); its gross margin was 17.3% with 8.9% at the EBIT level pre-exceptional items (versus a loss last time).

Forward sales numbered 301 units with a gross sales value of Euro 121 million as at 9 March 2017; and the majority of these is expected to complete in 2017.

CEO Michael Stanley said: "2017 will be a transformative year".

*Berkeley Group (Trading Update - 17 March)*

“The housing market in London and the South East has now stabilised. Overall, underlying reservations in the seven months since the immediate Brexit referendum effect (August to February) are down 16% on the comparable period last year, with the last two months ahead of last year.

“Enquiry levels remain robust, cancellation rates are at normal levels and pricing continues to be resilient and above business plan levels.

“When coupled with the planning environment and increased demands from the combination of affordable housing, CIL, Section 106 obligations and review mechanisms, this has resulted in new starts in London falling by some 30%.

“Berkeley is in a strong position and remains on target to meet its ambition to deliver at least £3.0 billion of pretax profit over the five years ending 30 April 2021. Forward sales are expected to be in excess of £2.6 billion at 30 April 2017 at the prevailing sales rate” and remains ungeared.

“Pre-tax profits for the year ended 30 April 2017 are expected to be at the top end of analysts’ expectations, with the actual outturn dependent upon completion timing on Berkeley’s larger developments. A similar level of profitability is anticipated for the year ending 30 April 2018”.

The shareholder return programme and share buy-back, which commenced on 27 June 2016 immediately after the Brexit vote, has hoovered up 2.2 million shares at a cost of £58.6 million.

*Bellway (Interims - 17 March)*

The Group, as we have come to expect, produced an exemplary set of half year results, to 31 January, with pretax profit rising 9% to £248 million and operating margins nudging from 21.4 to 22.0%; both earnings and the dividend rose 10% too.

ROCE, however, fell from 25.9 to 23.2% although the Group sold a record number of units in a half year with completions at 4,462 (+7%).

The forward order book as at 12 March was a sturdy 18% ahead at £1.42 billion and the average selling price for the full year is expected to rise to around £260,000 (i.e. +3%) with annual volumes up 5% to circa 9,157 houses.

“Beyond this financial year, Bellway still has scope to expand, provided that customer confidence remains strong and current market conditions prevail”; not the most confident of statements.....

*Inland Homes (Interims - 28 March)*

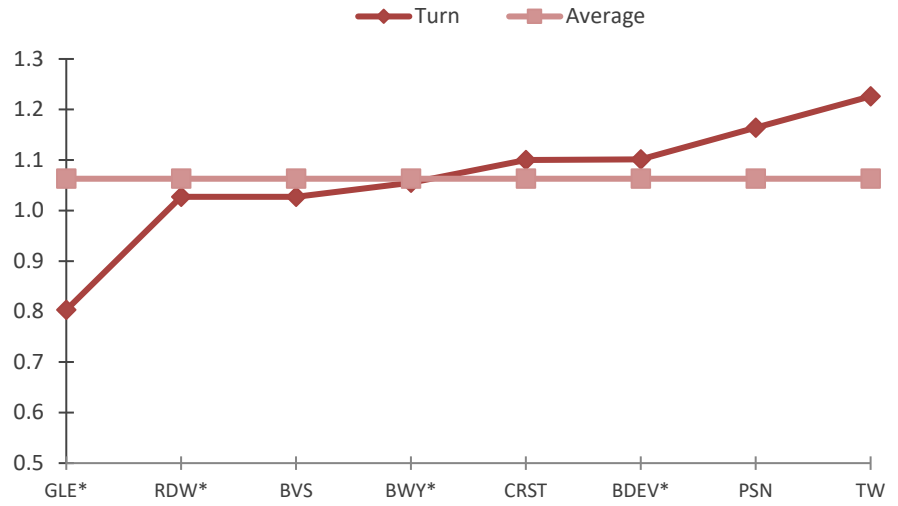
The Group is “the leading brownfield regeneration specialist and housebuilder with a focus on the south and south east of England” and asset value is its metric of choice.

Here, and based on EPRA measurement, it showed that adjusted NAVPS (Net Asset Value per Share) rose 9.1% to 84.38 pence (EPRA or European Public Real Estate performance analysis measures “unrealised value” in the land bank).

The half year was also one of “repositioning” with revenue down 41% at £33 million and a pretax pre-exceptional items loss of almost £2 million; the dividend, however, was increased 25%.

It is also the case that Inland sports a record land bank of 7,151 plots (+26% annualised) and its home sales' order-book is up 52% at £32 million.

Capital Turn (x) reported in Q1 2017\*



\*denotes interims; Capital Turn is revenue divided by capital employed  
Source: Hardman & Co Research



## Macroeconomics

GDP in the UK in 2016 rose 1.8% in volume terms (albeit this was revised down from 2.0%); and in Q4 the rise was 0.7% in Q4 - which was also the best quarter of the year, despite a 1.0% fall in business investment; note, too, consumer expenditure accounted for a majority of all gains: annual or quarterly.

Consumer Price Inflation (CPI) continues to rise and, at 2.3% annualised in February, was the highest since September 2013.

At the same time, unemployment was a slim-line 4.7% in the January quarter (down from 5.1% a year ago and near enough 'full employment'). This is the lowest rate since August 1975.

Retail Sales in February, by volume, increased 3.7% year-on-year and by 1.4% versus January; but the three month trend is negative (-1.4%) for the second time in a row which has not happened since December 2013.

## Mortgages

CML (Council of Mortgage Lenders): gross mortgage lending in February was £18.2 billion, which was 8% down on January but within 1% of February 2016; it also spoke of the continued supply/demand imbalance i.e. too few houses for sale.

BBA (British Bankers Association): mortgage approvals in February of 42,613 were 3.5% lower than January and 4.6% off from February 2016 but above the 2016 monthly average of 41,287 (data are ex-building societies i.e. almost a third of all mortgages).

BoE (bank of England): mortgage approvals in February (68,315) dipped 1.2% in January and were off 5.6% against February last year.

## Volumes and prices

Experian (where I am an advisor) remains positive on housing volumes and its forecast for UK Private Housing Output growth are 6, 3 and 2% in 2017, 18 and 19 respectively (all percentages are in real terms).

As for house prices, my preferred supplier the Nationwide reported a 0.3% fall in March which also softened the annualised run rate by a full percentage point to 3.5%. Note, too, this is the first monthly fall since June 2015.

However, the more colourful Rightmove reported a rise in the national average asking price of 1.3% (i.e. £3,877) in March which has only once been better than this at the-time-of-the-year since 2007. That said, annual growth moderated from 7.6% in March 2016 to 2.3% in March this year.

Meantime, the Halifax said that prices in February rose 0.1% (5.1% annualised) but the quarterly trend at 5.1% is the lowest since July 2013.

Finally, Reuters and its Housing Market Poll (which I also contribute to) expects a median +2% for UK house price inflation in 2017 (including minus 0.5% in London) with +2.7% scheduled in 2018 (with London at +2.0%).

## BBB conclusion

Prime Minister Theresa May



Source: Shutterstock

Chief Project Manager, Theresa May, was on time with invoking Article 50 before the end of March but there is no guaranteed maximum price - either direct or opportunity; and is a two year contract long enough?

The Government needs to be cognisant of the narrowness of the vote (52:48) too, and the splits regionally, by age, class, income and education; for example, support for 'leave' was 30 percentage points higher among those with GCSE qualifications or below than it was for people with a degree, according to the Universities of Kent and London. This is witheringly divisive and is ignored at all our perils.

The Scottish Parliament has also voted in favour of a second independence referendum (and Scotland accounts for some 8% of UK GDP); and the City of London remains concerningly kinetic.

Since 23 June, nothing has really changed i.e. we are still a member of the EU; other, that is, than the fall in the value of the British Pound - and currency is a leading indicator, not a lagging one.

Like eggs for breakfast, too, the Brexit menu choice appears to be hard or soft only; but what about poached? An expertly poached egg is a thing of beauty and a gastronomic joy.

Switzerland and Norway are often mentioned as blue prints as is "Canada +" i.e. the Comprehensive Economic and Trade Agreement (CETA), which will eliminate nearly all tariffs between Canada and the EU.

The European Parliament voted in favour of CETA on 15 February but it must now go to all EU national parliaments for approval (and it has taken some eight years to get this far).

There will be an inevitable period of uncertainty and negative implications for the likes of exports, financial services and inward investment; and it remains unclear whether the extent and speed of new trade deals can make up for any losses from leaving the single market. This challenge also comes when the UK has its lowest number of civil servants (400,000) since the 1940s.

Similarly, inflation is already rising and, together with no real average earnings growth expected for, maybe, a decade or so, the UK consumer may finally call time and close his wallet.

It is thus best to beware of benign GDP forecasts of between 1.5 and 2.0% per annum for the next three years i.e. from the BoE and OBR; as economist Sam Courtney-Guy has quipped, we are in a period of "cautious uncertainty".

Nonetheless, infrastructure and housebuilding output are generally forecast to rise over the next three years; and Sir John Armitt, who heads the Brexit Leadership Group, claims that there is a potential £500 billion of private investment to be invested in UK infrastructure over the next 10 years.

On a similarly bright note, Richard Jeffrey, an esteemed UK economist, said recently that as far as he knew, the UK had not been towed out into the middle of the Atlantic and left.

The EU is a very important market for the UK, but so too is the UK for the EU. For example, BMW accounts for 10% of the cars built in the UK - plus imports - and the UK is reputedly one of the Group's most profitable international markets. Is it going to walk away from that?

On a broader plane, Apple, Deutsche Bank, Toyota, Nissan and Siemens are all very, very recent investors in the UK; as is the sovereign state of Qatar which already has £40 billion invested here and has agreed to mobilise a further £5 billion over the next three to five years.

The UK - which remains comfortably a top 3 European economy and a top 6 Worldwide - is a key financial and trading cornerstone of Europe.

The Remain campaign tended to preach fear, rather than what it saw as the benefits of EU membership (and Hilary did the same thing in the US election); and both lost.

But negativity breeds negativity and it is vital, now, that we look forward and focus on the positives; and four or five years from now we will wonder what all the fuss was about.

In the meantime, be commercial, be a good citizen and pay down debt.

Consensus forecasts for the UK Housebuilding Sector also show prospective earnings growth of 9 and 11% in 2017 and 2018 respectively; and a healthy yield in excess of 4%.

Bovis may or may not be acquired (and 'not' by Redrow or Galliford) and the Group played a blinder in appointing the awesome Greg Fitzgerald as its new CEO (and he is free to start right away). Ironically, too, Greg is the former CEO of Galliford; and would you go toe to toe with the golden old boy? In either or any event expect some marking of time for Sector share prices in Q2.

If you are purchasing for a granddaughter, no worries; but the easiest money you will ever make i.e. buying on the Brexit collapse has been made; Redrow, for example, bounced off £1 to more than £5 and the average leap in share prices was 81%. Bank the gains.

### Quote:

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*“Did you know that Theresa May has appointed Roy Hodgson as her right hand man. He has a fantastic record of leaving Europe swiftly”*

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Source: Anon.

## 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)

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*Note: Share prices at 31 March 2017*

*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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