

WATKIN JONES

HOME CONSTRUCTION

29 July 2024

WJG.L

53.1p

Market Cap: £136m

SHARE PRICE (p)



12m high/low

58p/32p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£44.0m (at 31/03/24)
Enterprise value	£92m
Index/market	AIM
Next news	FY trading update, Oct
Shares in issue (m)	256.2
Chairman	Alan Giddins
CEO	Alex Pease
CFO	Simon Jones

COMPANY DESCRIPTION

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

www.watkinjones.com

WATKIN JONES IS A RESEARCH CLIENT OF
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Innovative JV deal reinforces project pipeline

Watkin Jones has announced the sale of a major purpose-built student accommodation (PBSA) development in East London to a newly created JV with Housing Growth Partnership (HGP), part of Lloyds Banking Group, in an innovative variant of its traditional forward-selling model. The deal, contributing towards our existing forecasts for FY24E, allows WJG to share in future value uplift on the development and, in our view, broadens the group's options for funding future projects.

- Further project cemented in high-demand London student sector.** In its first transaction with HGP, WJG has forward sold a new 397-bed PBSA development together with workspace and commercial units in Stratford. It is being delivered via an innovative JV structure, owned 75% by HGP and 25% by WJG, funded by equity from HGP as well as third-party debt.
- Essentially a similar model to WJG norm.** The deal shares characteristics with the group's standard forward sales model to third-party investors. WJG will receive initial net cash receipts of c.£20m for the land sale, reflected in current guidance for FY24E. It will then earn c.£96m of receipts phased over the three years of the development, at margins in line with its stated targets, as well as generating ongoing management fees once operational, through Fresh, the group's accommodation management business (see page 2).
- Potential upside on subsequent sale.** What differs is the potential for WJG to participate in further value upside from the intended realisation sale by the JV, following completion and stabilisation, expected post-FY26E. In the event that this sale generates returns in excess of agreed hurdle rates, the group will be entitled to a further incentive payment in cash, linked to the level of outperformance.
- A further string to group's bow.** HGP is a social impact investor, which since 2016 has supported over 7,500 new homes across 100 sites in a wide range of housing types and tenures. In our view, this hybrid investment approach demonstrates WJG's resourcefulness, at a time when a number of its traditional institutions have paused investment decisions. According to CEO Alex Pease, it 'underlines WJG's ability to find attractive structuring solutions for institutional partners. While we remain encouraged by signs confidence is returning, this is tempered by continued uncertainty around the trajectory of interest rate cuts. We, nevertheless, have a number of schemes in the market which are generating good levels of interest.'

FYE SEP (£M)	2020	2021	2022	2023	2024E
Revenue	354.1	430.2	407.1	413.2	401.3
Fully Adj PBT	45.8	51.1	48.8	-2.9	11.5
Fully Adj EPS, dil (p)	14.7	16.3	14.8	-0.6	3.4
Dividend per share (p)	7.4	8.2	7.4	1.4	0.0
PER (x)	3.6x	3.2x	3.6x	N/A	15.8x
Dividend yield (%)	13.8%	15.4%	13.9%	2.6%	N/A
EV/EBITDA (x)	1.5x	1.4x	1.5x	12.9x	3.7x

Source: Company Information and Progressive Equity Research estimates.

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

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

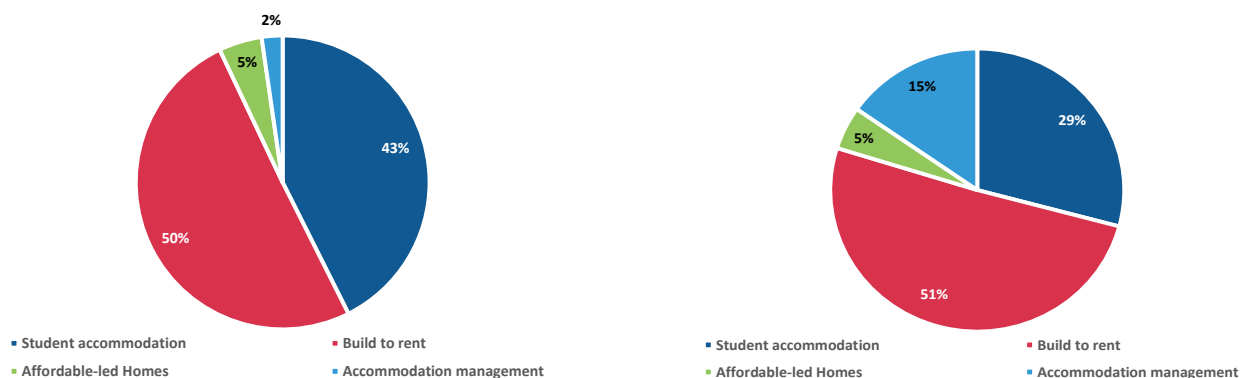
WJG in brief: capital-light model in growth markets

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

Key current themes: addressing growing rental markets

- **Capital-light investment model.** Institutional investors have underpinned the group’s capital-light growth model by acquiring developments on a forward-sales basis, in which they pay for the land and the development works as they progress. The current elevated interest rates have led to a partial slowdown in investment, but we believe both BTR and PBSA remain attractive due to long-term visibility of rental income.
- **Build-to-rent.** As we have argued in our research, we expect long-term growth in BTR, fuelled by demand from renters, either economically or for ‘lifestyle’, and from investors, attracted by income prospects while other sources of yield are diminishing.
- **Student demand remains high.** Despite past worries that Brexit and then Covid might have deterred university entries, particularly from overseas students, UCAS continues to register new records for applications from both home and abroad.
- **Opportunities in land market – boosted by strong balance sheet.** Any slowdown in investment decisions could, in our view, open up new opportunities for WJG to buy land at reduced prices, given the group’s net cash of over £40m. We believe WJG could exploit significant opportunities from landowners in challenged sectors such as retail and leisure. WJG could also benefit from recent changes to planning rules, allowing vacant office and retail properties to be fast-tracked for residential use.
- **Fresh accommodation management: tying the group together.** We see Fresh as not only providing a stable income stream from its regular management fees but also using its insight and ‘brand’ to tie together student accommodation, BTR and possibly co-living as graduates move into work.

Watkin Jones Group: Revenue (LHS) and gross profit (RHS) by division, FY23 (%)



Source: Company Information

Financial Summary: Watkin Jones

Year end: September (£m unless shown)

	2020	2021	2022	2023	2024E
PROFIT & LOSS					
Revenue	354.1	430.2	407.1	413.2	401.3
Adj EBITDA	61.1	65.9	63.1	7.1	25.0
Adj EBIT	51.7	57.3	54.7	0.2	15.0
Reported PBT	25.3	51.1	18.4	(42.5)	10.2
Fully Adj PBT	45.8	51.1	48.8	(2.9)	11.5
NOPAT	42.5	47.0	42.6	0.1	11.2
Reported EPS (p)	8.2	16.4	5.2	(12.7)	2.9
Fully Adj EPS (p)	14.7	16.3	14.8	(0.6)	3.4
Dividend per share (p)	7.4	8.2	7.4	1.4	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	54.9	76.3	(19.6)	(17.2)	14.0
Free Cash flow	38.0	61.3	(15.3)	(16.5)	7.7
FCF per share (p)	14.9	23.9	(6.0)	(6.4)	3.0
Acquisitions	0.8	0.1	0.0	0.0	0.0
Net cash flow	18.9	1.8	(25.5)	(38.4)	7.7
Overdrafts / borrowings	174.1	141.2	77.4	73.7	73.7
Cash & equivalents	134.5	136.3	110.8	72.4	80.1
Net (Debt)/Cash, pre-IFRS 16	94.8	124.3	82.6	43.9	51.6
IFRS 16 Lease liabilities	(134.5)	(129.3)	(49.1)	(45.2)	(45.2)
Net (Debt)/Cash post-IFRS 16	(39.6)	(4.9)	33.5	(1.3)	6.4
NAV AND RETURNS					
Net asset value	167.8	184.8	176.5	128.8	137.4
NAV/share (p)	65.5	72.1	68.8	50.2	53.1
Net Tangible Asset Value	154.6	172.1	164.3	117.2	125.1
NTAV/share (p)	60.3	67.2	64.1	45.7	48.8
Average equity	164.5	176.3	180.9	153.5	133.1
Post-tax ROE (%)	12.8%	23.8%	7.4%	(21.2%)	5.5%
METRICS					
Revenue growth	(5.5%)	21.5%	(5.4%)	1.5%	(2.9%)
Adj EBITDA growth	(5.7%)	7.9%	(4.3%)	(88.7%)	251.8%
Adj EBIT growth	(7.1%)	10.8%	(4.5%)	(99.7%)	8709.4%
Adj PBT growth	(9.3%)	11.7%	(4.6%)	(105.9%)	(501.1%)
Adj EPS growth	(8.5%)	11.2%	(9.7%)	(104.4%)	(616.9%)
Dividend growth	(12.0%)	11.6%	(9.8%)	(81.1%)	(100.0%)
Adj EBIT margins	14.6%	13.3%	13.4%	0.0%	3.7%
VALUATION					
EV/Sales (x)	0.3	0.2	0.2	0.2	0.2
EV/EBITDA (x)	1.5	1.4	1.5	12.9	3.7
EV/NOPAT (x)	2.2	2.0	2.2	930.3	8.2
PER (x)	3.6	3.2	3.6	N/A	15.8
Dividend yield (%)	13.8%	15.4%	13.9%	2.6%	N/A
FCF yield	28.0%	45.0%	(11.2%)	(12.1%)	5.6%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

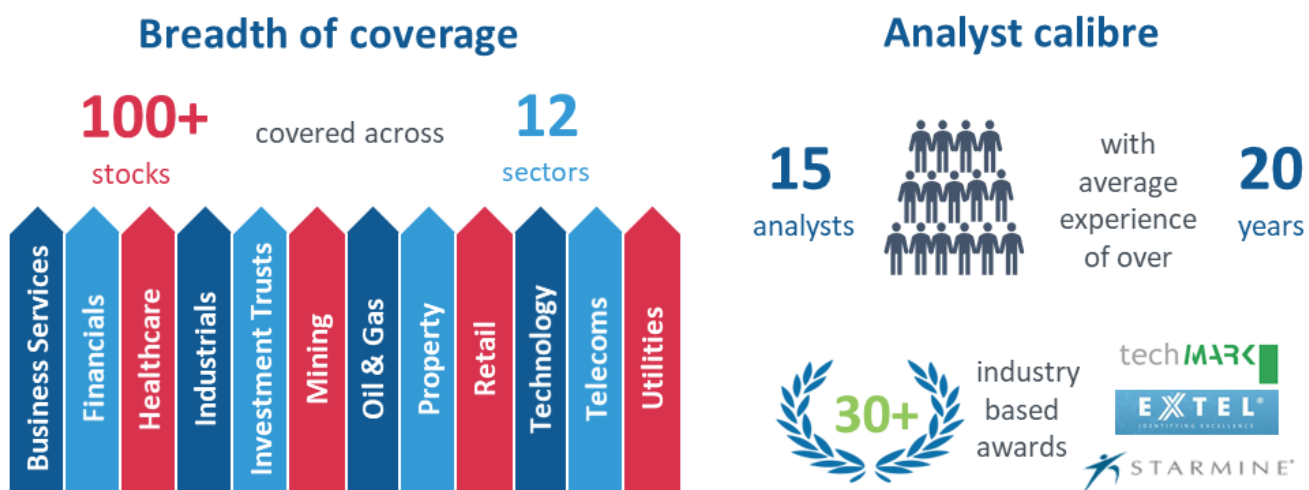
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