

# WATKIN JONES

## HOME CONSTRUCTION

21 May 2024

### WJG.L

53.6p

Market Cap: £137.3m

#### SHARE PRICE (p)



12m high/low

99p/32p

Source: LSE Data (priced as at prior close)

#### KEY DATA

Net (debt)/cash	£44.0m (at 31/03/24)
Enterprise value	£93.3m
Index/market	AIM
Next news	FY trading update, Oct
Shares in issue (m)	256.2
Chairman	Alan Giddins
CEO	Alex Pease
CFO	Sarah Sergeant

#### COMPANY DESCRIPTION

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

[www.watkinjones.com](http://www.watkinjones.com)

WATKIN JONES IS A RESEARCH CLIENT OF  
PROGRESSIVE

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## Guidance unchanged as investment rekindles

Watkin Jones has maintained its FY24E guidance following today's results for the six months to 31 March, which showed operating profit more than doubling. The group continues to expect a heavy H2 weighting as it has focused on operational performance while the forward-funding market has remained largely on hold, pending further clarity on the direction of interest rates. Sentiment is now gradually improving, according to the group.

- First half in line with expectations.** HY revenue rose by 14% to £175m, predominantly from the group's previously sold developments on site, alongside one forward sale completed in March. Gross margins were maintained and in line with guidance (page 2), and adjusted operating profit rose 122% following the cost saving actions implemented in FY23. Net cash was broadly level at £44m. Continuing the approach adopted at the FY23 year-end, the Board is 'prioritising the maintenance of financial flexibility during this period of market disruption' and has not declared an interim dividend, but 'will keep this approach under review'. WJG continues to expect adjusted operating profit to be at least £15m.
- Trading as planned.** Operational highlights during the period included: securing two new purpose-built student accommodation (PBSA) development sites, subject to planning; and planning submissions for a further c.3,000 PBSA beds across four schemes. The group has completed building safety rectification works on three buildings in the period, with costs in line with expectations and the provision unchanged.
- Development pipeline supports outlook for H2 and beyond.** The group's secured development pipeline stands at £1.4bn. This includes c.£400m of contractually secure forward-sold revenue, of which c.£150m is for delivery in the second half. The group is targeting further forward sales in FY24, of which one is in legals while other schemes are being actively marketed. Current development schemes are on track, benefitting from a continuing moderation in build-cost inflation.
- Investment appetite gradually improving.** The statement says the investment market is 'gradually showing signs of recovery as economic sentiment improves, albeit, a slower than expected reduction in interest rates has potential to impact pace of recovery.' CEO Alex Pease stated: 'With our end-to-end development platform and a sector leading reputation in the BTR and PBSA markets in the UK, our focus remains on positioning the business to best capitalise on a market recovery.'

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	3.3x	3.6x	N/A	16.0x
Dividend yield (%)	13.7%	15.3%	13.8%	2.6%	N/A
EV/EBITDA (x)	1.5x	1.4x	1.5x	13.1x	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.

**Figure 1: Watkin Jones – Key performance highlights (£m unless stated)**

Year-end September	2019	2020	2021	2022	2023	2024E	H1 2023	H2 2023	H1 2024	H2 2024E
<b>Revenue</b>										
Student accommodation	246.1	226.0	259.9	180.0	175.7	165.0	48.4	127.3	61.0	104.0
Change (%)	-21.3%	-8.2%	15.0%	-30.7%	-2.4%	-6.1%	-38.2%	25.1%	20.0%	-18.3%
Build-to-rent	77.4	94.0	138.6	191.2	207.7	215.0	93.0	114.7	99.8	115.2
Change (%)	na	21.4%	47.4%	38.0%	8.6%	3.5%	-0.8%	17.7%	13.0%	0.4%
Affordable-led Homes	34.3	26.3	22.7	14.5	19.6	12.0	7.8	11.8	8.9	3.1
Change (%)	14.4%	-23.4%	-13.7%	-36.1%	35.4%	-38.8%	43.8%	30%	-25.0%	-74.0%
Accommodation management	7.5	7.6	7.8	9.1	9.5	8.0	4.7	4.8	4.1	3.9
Change (%)	2.2%	1.7%	2.3%	16.9%	4.5%	-15.6%	15.0%	-4.1%	-15.0%	-17.8%
Corporate	9.5	0.3	1.3	12.3	0.7	1.3	-	0.7	1.3	-
<b>Group revenue</b>	<b>374.8</b>	<b>354.1</b>	<b>430.2</b>	<b>407.1</b>	<b>413.2</b>	<b>401.3</b>	<b>153.9</b>	<b>259.4</b>	<b>175.1</b>	<b>226.2</b>
Change (%)	-2.1%	29.4%	-3.9%	49.5%	1.5%	-2.9%	-20.3%	21.1%	13.8%	-12.8%
<b>Gross profit</b>										
Student accommodation	54.9	54.3	50.5	26.4	11.4	18.8	4.8	6.6	7.1	11.7
Margin (%)	22.3%	24.0%	19.4%	15.0%	6.5%	11.4%	9.8%	5.2%	10.4%	11.3%
Build-to-rent	13.8	14.9	29.8	32.8	19.8	20.9	8.3	11.6	9.3	11.6
Margin (%)	17.8%	15.8%	21.5%	17.0%	9.5%	9.7%	8.9%	10.1%	9.7%	10.1%
Affordable-led Homes	7.2	4.0	2.6	1.9	1.9	1.3	0.9	1.0	0.4	0.9
Margin (%)	20.9%	15.4%	11.3%	12.0%	9.8%	11.0%	11.9%	8.4%	10.0%	29.8%
Accommodation management	4.6	4.5	4.1	5.9	6.0	5.2	3.2	2.8	2.3	2.9
Margin (%)	61.5%	59.8%	52.6%	50.0%	63.2%	65.0%	67.1%	59.3%	65.0%	72.5%
Corporate	(0.3)	(1.8)	(2.1)	0.6	(4.3)	(0.7) <sup>1</sup>	(1.1)	(3.2)	(0.7) <sup>1</sup>	-
<b>Gross profit</b>	<b>80.0</b>	<b>75.9</b>	<b>84.8</b>	<b>67.6</b>	<b>34.9</b>	<b>45.5</b>	<b>16.1</b>	<b>18.8</b>	<b>18.4</b>	<b>27.1</b>
Margin (%)	21.4%	21.4%	19.7%	16.6%	8.4%	11.4%	10.4%	7.3%	10.5%	12.0%
Group admin	(21.3)	(20.8)	(23.3)	(25.4)	(30.1)	(30.5)	(14.3)	(15.8)	(14.4)	(16.1)
Profit on sale of I-hold properties		-	-	18.3	(4.6)	-	-	18.3	-	-
<b>EBIT, group only</b>	<b>55.6</b>	<b>51.7</b>	<b>57.3</b>	<b>54.7</b>	<b>0.2</b>	<b>15.0</b>	<b>1.8</b>	<b>(1.6)</b>	<b>4.0</b>	<b>11.0</b>
Share in op profit of JVs	0.3	0.2	(0.1)	-	(0.0)	-	-	(0.0)	-	-
<b>Total operating profit</b>	<b>55.9</b>	<b>51.9</b>	<b>57.2</b>	<b>54.7</b>	<b>0.2</b>	<b>15.0</b>	<b>1.8</b>	<b>(1.6)</b>	<b>4.0</b>	<b>11.0</b>
Exceptionals	(2.6)	(20.4)	-	(30.4)	(39.6)	(1.3)	(1.1)	(38.5)	(1.3)	-
Net interest	(5.4)	(6.1)	(6.0)	(5.9)	(3.0)	(3.5)	(1.5)	(1.5)	(0.6)	(2.9)
<b>PBT</b>	<b>47.9</b>	<b>25.3</b>	<b>51.1</b>	<b>18.4</b>	<b>(42.5)</b>	<b>10.2</b>	<b>(0.8)</b>	<b>(41.7)</b>	<b>2.1</b>	<b>8.1</b>
Add back exceptionals	2.6	20.4	-	30.4	39.6	1.3	1.1	38.5	1.3	-
<b>Adj PBT</b>	<b>50.4</b>	<b>45.8</b>	<b>51.1</b>	<b>48.8</b>	<b>(2.9)</b>	<b>11.5</b>	<b>0.3</b>	<b>(3.2)</b>	<b>3.4</b>	<b>8.1</b>
<b>EBITDA</b>	<b>64.8</b>	<b>61.1</b>	<b>65.9</b>	<b>63.1</b>	<b>7.1</b>	<b>25.1</b>	<b>4.8</b>	<b>2.3</b>	<b>9.0</b>	<b>16.0</b>
<b>Adj EPS, dil (p)</b>	<b>16.1</b>	<b>14.7</b>	<b>16.3</b>	<b>14.8</b>	<b>(0.6)</b>	<b>3.4</b>	<b>0.1</b>	<b>(0.8)</b>	<b>1.0</b>	<b>2.4</b>
<b>DPS (p)</b>	<b>8.4</b>	<b>7.4</b>	<b>8.2</b>	<b>7.4</b>	<b>1.4</b>	<b>-</b>	<b>1.4</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net cash/(debt), post-IFRS 16	(60.7)	(39.6)	(4.9)	33.5	(1.3)	4.9	(2.1)	(1.3)	(0.7)	4.9
Net cash/(debt), pre-IFRS 16	88.4	94.8	124.3	82.6	43.9	50.1	45.3	43.9	44.0	50.1

Source: Company Information and Progressive Equity Research estimates. <sup>1</sup> £0.1m Corporate profit minus £0.8m impairment of inventory

**Build to Rent (BTR)** revenues derived from the build-out of WJG's sold developments, which are 'progressing well and on track'. Two schemes reached practical completion in the period. **PBSA** revenues were 26.0% higher reflecting the successful forward sale of the Gas Lane scheme in Bristol and continued strong build progress from other live schemes. Two schemes reached practical completion in the period. The gross margin increased due to the comparative margin being impacted by additional build costs incurred in Exeter where the main contractor went into liquidation in January 2023. **Accommodation management (Fresh)** revenues fell due to a reduced number of units under management.

## 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 the works 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.

**Financial Summary: Watkin Jones**

**Year end: September (£m unless shown)**

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>
<b>PROFIT &amp; LOSS</b>					
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
<b>CASH FLOW &amp; BALANCE SHEET</b>					
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
<b>NAV AND RETURNS</b>					
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%
<b>METRICS</b>					
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%
<b>VALUATION</b>					
EV/Sales (x)	0.3	0.2	0.2	0.2	0.2
EV/EBITDA (x)	1.5	1.4	1.5	13.1	3.7
EV/NOPAT (x)	2.2	2.0	2.2	943.3	8.3
PER (x)	3.6	3.3	3.6	N/A	16.0
Dividend yield (%)	13.7%	15.3%	13.8%	2.6%	N/A
FCF yield	27.7%	44.6%	(11.1%)	(12.0%)	5.6%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

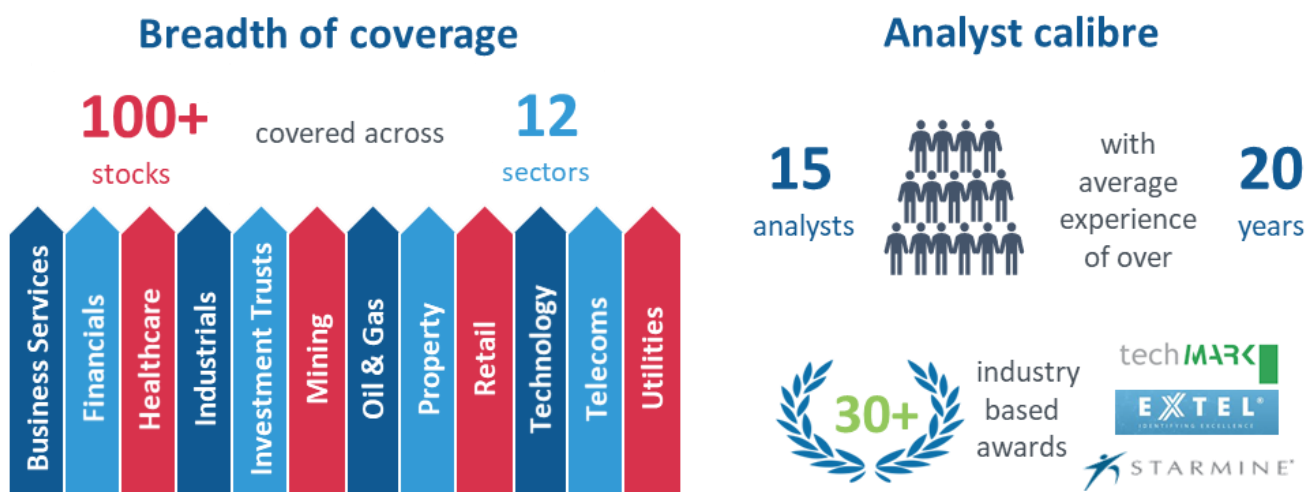
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