

WATKIN JONES

HOME CONSTRUCTION

21 August 2024

WJG.L

50.9p

Market Cap: £130.4m

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	£86.4m
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
PROGRESSIVE

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Uncertain rates outlook delays transactions

Watkin Jones has issued a trading update, which, while highlighting strong medium-term opportunities in build-to-rent and student accommodation, concedes that market activity through the summer has been slower than anticipated, impacting transaction closures, largely due to uncertainty over the pace of interest rate cuts. The group has, therefore, reduced guidance for FY24E, but with significantly stronger than expected cashflow. However, the growing shortage of rental and student properties, in our view, should support a marked increase in opportunities once rates fall further.

- Deals on pause amid rates uncertainty.** As set out in the half-year results on 21 May 2024, Watkin Jones had a number of developments being actively marketed, with the subsequent sale of a substantial student development located in Stratford, London, announced in July. However, overall market activity through the summer has been slower than anticipated and the group now believes it unlikely that any further transactions will close before the September year-end. The group is now guiding to operating profit of £10-12m for FY24E, still well up on the £0.2m achieved in FY23. We have cut our estimate from £15.0m to £10.5m, resulting in our adjusted PBT being reduced from £11.5m to £7.0m.
- Cash significantly stronger than expected.** The group's focus on cash generation during the second half of FY24E has meant that pre-IFRS net cash is anticipated to be c.£65m – up from £44m at 31 March 2024 and above our estimate of £52m. The group's estimated exceptional provision for remedial works for legacy properties remains unchanged.
- Prudent stance for FY25E.** Falling rates should contribute to improved forward funding. The lower number of transactions in FY24E will, however, have a subsequent impact on FY25E results, as schemes will not contribute to revenue until they are forward sold. While the group has further schemes that it expects to take to market in FY25E, it 'believes that a more prudent set of transaction assumptions should be applied to the next 12 months than previously assumed. As such, we do not currently expect adjusted operating profit in FY25 to be above FY24'. We intend to introduce FY25E estimates as the outlook becomes clearer later this year.
- Focus on recovery in FY26E.** 'The Board is undertaking a review of a range of options that may be available to enhance its medium and longer term funding position to capitalise on a market recovery', which we believe could be strong given supply shortages and investment appetite (page 2).

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	7.0
Fully Adj EPS, dil (p)	14.7	16.3	14.8	-0.6	2.1
Dividend per share (p)	7.4	8.2	7.4	1.4	0.0
PER (x)	3.5x	3.1x	3.4x	N/A	24.8x
Dividend yield (%)	14.4%	16.1%	14.5%	2.8%	N/A
EV/EBITDA (x)	1.4x	1.3x	1.4x	12.1x	4.2x

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

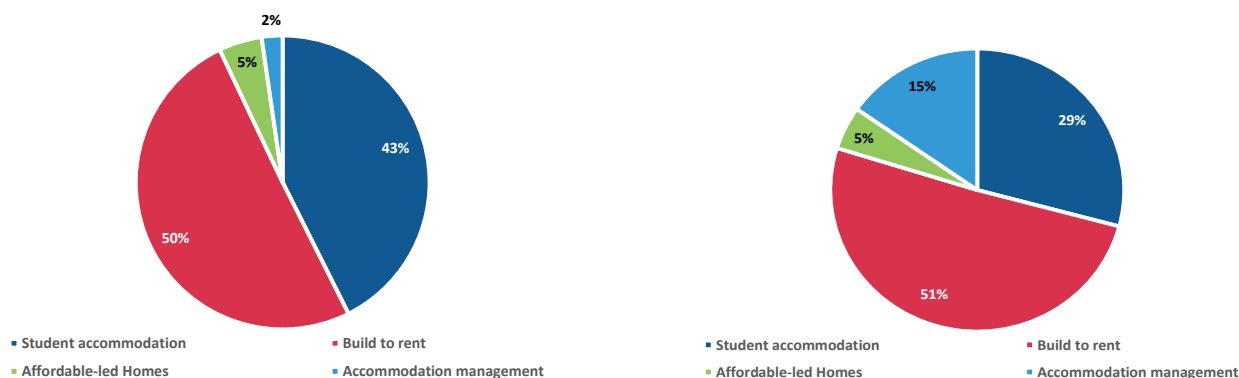
WJG in brief: capital-light model in growth markets

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 c.£65m. 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	20.6
Adj EBIT	51.7	57.3	54.7	0.2	10.5
Reported PBT	25.3	51.1	18.4	(42.5)	5.8
Fully Adj PBT	45.8	51.1	48.8	(2.9)	7.0
NOPAT	42.5	47.0	42.6	0.1	7.9
Reported EPS (p)	8.2	16.4	5.2	(12.7)	1.6
Fully Adj EPS (p)	14.7	16.3	14.8	(0.6)	2.1
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)	26.6
Free Cash flow	38.0	61.3	(15.3)	(16.5)	21.3
FCF per share (p)	14.9	23.9	(6.0)	(6.4)	8.3
Acquisitions	0.8	0.1	0.0	0.0	0.0
Net cash flow	18.9	1.8	(25.5)	(38.4)	21.3
Overdrafts / borrowings	174.1	141.2	77.4	73.7	73.7
Cash & equivalents	134.5	136.3	110.8	72.4	93.8
Net (Debt)/Cash, pre-IFRS 16	94.8	124.3	82.6	43.9	65.2
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)	20.0
NAV AND RETURNS					
Net asset value	167.8	184.8	176.5	128.8	134.0
NAV/share (p)	65.5	72.1	68.8	50.2	51.8
Net Tangible Asset Value	154.6	172.1	164.3	117.2	121.7
NTAV/share (p)	60.3	67.2	64.1	45.7	47.5
Average equity	164.5	176.3	180.9	153.5	131.4
Post-tax ROE (%)	12.8%	23.8%	7.4%	(21.2%)	3.0%
METRICS					
Revenue growth	(5.5%)	21.5%	(5.4%)	1.5%	(2.9%)
Adj EBITDA growth	(5.7%)	7.9%	(4.3%)	(88.7%)	189.1%
Adj EBIT growth	(7.1%)	10.8%	(4.5%)	(99.7%)	6085.9%
Adj PBT growth	(9.3%)	11.7%	(4.6%)	(105.9%)	(345.2%)
Adj EPS growth	(8.5%)	11.2%	(9.7%)	(104.4%)	(416.0%)
Dividend growth	(12.0%)	11.6%	(9.8%)	(81.1%)	(100.0%)
Adj EBIT margins	14.6%	13.3%	13.4%	0.0%	2.6%
VALUATION					
EV/Sales (x)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	1.4	1.3	1.4	12.1	4.2
EV/NOPAT (x)	2.0	1.8	2.0	873.4	11.0
PER (x)	3.5	3.1	3.4	N/A	24.8
Dividend yield (%)	14.4%	16.1%	14.5%	2.8%	N/A
FCF yield	29.2%	47.0%	(11.7%)	(12.7%)	16.3%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

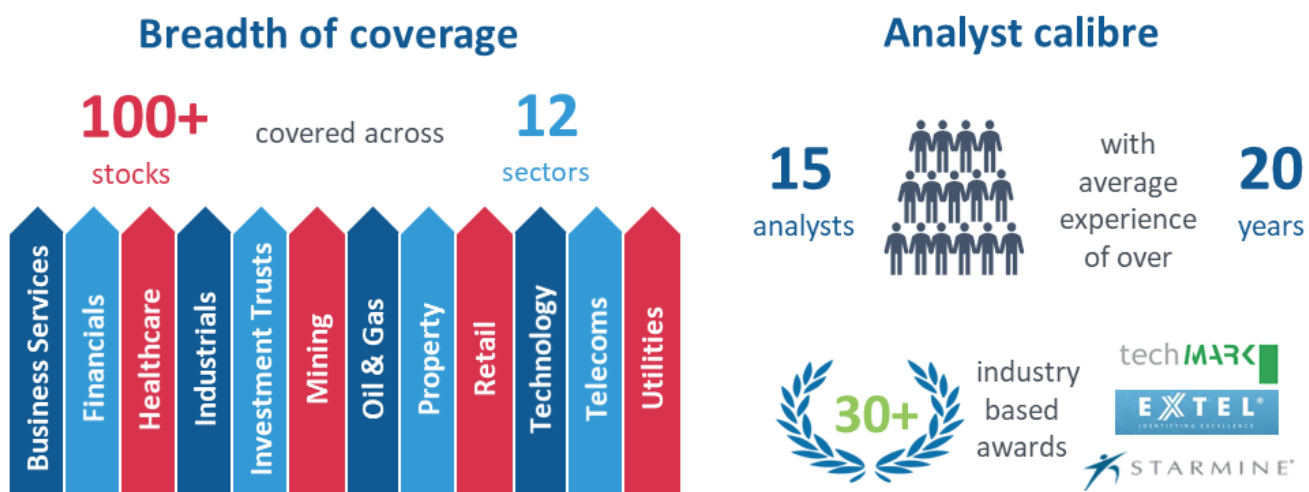
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