

WATKIN JONES

HOME CONSTRUCTION

23 January 2024

WJG.L

52.7p

Market Cap: £135m

SHARE PRICE (p)



12m high/low

114p/32p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£43.9m (at 30/09/23)
Enterprise value	£91.1m
Index/market	AIM
Next news	HY trading update, April
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

WATKIN JONES IS A RESEARCH CLIENT OF
PROGRESSIVE

ANALYSTS

Alastair Stewart

+44 (0) 20 7781 5308

astewart@progressive-research.com



www.progressive-research.com

FY results in-line, guidance maintained

Watkin Jones's FY23 results, to 30 September, were closely aligned with guidance in its October trading update, with adjusted loss before tax slightly lower than our estimate and net cash higher. Booming demand continues to push up rents and the forward-funding market is 'showing early signs of recovery'. The group is maintaining its guidance for FY24E and is seeking to diversify revenue and boost performance in its core markets.

- Good performance contains loss in 'challenging' market.** The previously flagged losses reflect good operational performance against a hiatus in the forward-funding market, build cost inflation and challenges including a contractor liquidation. The underlying loss before tax, at £2.9m, compares to our estimate of a £3.5m loss. Net cash was £43.9m versus our estimate of £43.3m. As we previously assumed in our estimates, the Board has formally opted not to declare a final dividend in respect of FY23, but remains committed to restoring it and we continue to forecast 2.0x cover.
- FY24E estimates unchanged.** Watkin Jones continues to guide to adjusted operating profit in the range £15-20m, of which we remain at the low end. Current secured revenue from previously sold developments, on site, total c.£300m and all current development schemes are on track, supported by continuing moderation in build cost inflation. The secured pipeline has an estimated revenue of £1.5bn, of which £0.5bn is forward sold, £0.3bn secured with planning and £0.7bn in the planning process.
- Signs of recovery in funding.** The mini-budget of 2022 led to a hiatus in forward-funding decisions in the group's core institutional market (see p. 4), with now 'significant pent up demand'. However, 'encouragingly, the forward-fund market is showing early signs of recovery. Should interest rates trend downwards, we anticipate that there will be growing investor demand and capital allocations for high quality assets in our sectors.'
- Optimising margins, seeking new revenue sources.** The group is 'looking at every aspect of the business' to optimise margins and performance. In an example of turning its need to remediate its own buildings into an opportunity, the group is offering to refurbish third-party buildings into efficient, fire-safe buildings while achieving further development profits.
- Booming rental demand continues.** Widespread data shows undersupply of institutional-grade private rental homes and student accommodation, supported by WJG's Fresh accommodation management.

FYE SEP (£M)	2020	2021	2022	2023	2024E
Revenue	354.1	430.2	407.1	413.2	400.0
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	1.7
PER (x)	3.6x	3.2x	3.6x	N/A	15.7x
Dividend yield (%)	13.9%	15.6%	14.0%	2.7%	3.2%
EV/EBITDA (x)	1.5x	1.4x	1.4x	12.8x	3.6x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

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 22	H2 22	H1 23	H2 23
Revenue										
Student accommodation	246.1	226.0	259.9	180.0	175.7	165.0	78.3	101.8	48.4	127.3
Change (%)	-21.3%	-8.2%	15.0%	-30.7%	-2.4%	-6.1%	-25.3%	-34.4%	-38.2%	25.1%
Build-to-rent	77.4	94.0	138.6	191.2	207.7	215.0	93.8	97.5	93.0	114.7
Change (%)	na	21.4%	47.4%	38.0%	8.6%	3.5%	58.6%	22.7%	-0.8%	17.7%
Affordable-led Homes	34.3	26.3	22.7	14.5	19.6	12.0	5.4	9.1	7.8	11.8
Change (%)	14.4%	-23.4%	-13.7%	-36.1%	35.4%	-38.8%	-49.3%	-24.4%	43.8%	30%
Accommodation management	7.5	7.6	7.8	9.1	9.5	8.0	4.1	5.0	4.7	4.8
Change (%)	2.2%	1.7%	2.3%	16.9%	4.5%	-15.6%	7.1%	26.4%	15.0%	-4.1%
Corporate	9.5	0.3	1.3	12.3	0.7	-	11.4	0.9	-	0.7
Group revenue	374.8	354.1	430.2	407.1	413.2	400.0	192.9	214.1	153.9	259.4
Change (%)	-2.1%	29.4%	-3.9%	49.5%	1.5%	-3.2%	8.1%	-15.0%	-20.3%	21.1%
Gross profit										
Student accommodation	54.9	54.3	50.5	26.4	11.4	18.2	13.0	13.3	4.8	6.6
Margin (%)	22.3%	24.0%	19.4%	15.0%	6.5%	11.0%	16.6%	13.1%	9.8%	5.2%
Build-to-rent	13.8	14.9	29.8	32.8	19.8	20.9	12.0	20.8	8.3	11.6
Margin (%)	17.8%	15.8%	21.5%	17.0%	9.5%	9.7%	12.8%	21.3%	8.9%	10.1%
Affordable-led Homes	7.2	4.0	2.6	1.9	1.9	1.3	0.6	1.3	0.9	1.0
Margin (%)	20.9%	15.4%	11.3%	12.0%	9.8%	11.0%	11.7%	14.1%	11.9%	8.4%
Accommodation management	4.6	4.5	4.1	5.9	6.0	5.2	2.7	3.2	3.2	2.8
Margin (%)	61.5%	59.8%	52.6%	50.0%	63.2%	65.0%	65.4%	64.9%	67.1%	59.3%
Corporate	(0.3)	(1.8)	(2.1)	0.6	(4.3)	-	1.5	(0.8)	(1.1)	(3.2)
Gross profit	80.0	75.9	84.8	67.6	34.9	45.5	29.9	37.8	16.1	18.8
Margin (%)	21.4%	21.4%	19.7%	16.6%	8.4%	11.4%	15.5%	17.6%	10.4%	7.3%
Group admin	(21.3)	(20.8)	(23.3)	(25.4)	(30.1)	(30.5)	(15.3)	(15.9)	(14.3)	(15.8)
Profit on sale of I-hold properties	-	-	-	18.3	(4.6)	-	-	-	18.3	-
EBIT, group only	55.6	51.7	57.3	54.7	0.2	15.0	14.6	40.1	1.8	(1.6)
Share in op profit of JVs	0.3	0.2	(0.1)	-	(0.0)	-	-	-	-	(0.0)
Total operating profit	55.9	51.9	57.2	54.7	0.2	15.0	14.6	40.1	1.8	(1.6)
Exceptionals	(2.6)	(20.4)	-	(30.4)	(39.6)	-	(28.0)	(2.4)	(1.1)	(38.5)
Net interest	(5.4)	(6.1)	(6.0)	(5.9)	(3.0)	(3.5)	(3.2)	(2.7)	(1.5)	(1.5)
PBT	47.9	25.3	51.1	18.4	(42.5)	11.5	(16.6)	35.1	(0.8)	(41.7)
Underlying tax rate (%)	18.4	17.7	18.0	22.0	41.8	25.0	17.6	23.4	9.8	38.8
Reported tax	(9.0)	(4.2)	(9.2)	(5.0)	9.9	(2.9)	3.3	(8.3)	0.2	9.7
Net attrib. profit	38.8	21.1	41.9	13.4	(32.5)	8.6	(13.3)	26.8	(0.6)	(32.0)
Adj PBT	50.4	45.8	51.1	48.8	(2.9)	11.5	11.4	37.4	0.3	(3.2)
EBITDA	64.8	61.1	65.9	63.1	7.1	25.1	18.7	44.4	4.8	2.3
Adj EPS, dil (p)	16.1	14.7	16.3	14.8	(0.6)	3.4	3.6	11.2	0.1	(0.8)
DPS (p)	8.4	7.4	8.2	7.4	1.4	1.7	2.9	4.5	1.4	-
Net debt, post-IFRS 16	(60.7)	(39.6)	(4.9)	33.5	(1.3)	5.0	(99.2)	33.5	(2.1)	(1.3)
Net cash, pre-IFRS 16	88.4	94.8	124.3	82.6	43.9	50.2	26.8	82.6	45.3	43.9

Source: Company Information and Progressive Equity Research estimates.

The FY23 exceptionals comprise: £35m for building safety remedial works, as previously announced; £3.1m of restructuring costs (our previous estimate was £2.0m) and an additional £1.5m of exceptional interest costs.

Figure 2: Watkin Jones – Adjusted cashflow statement and summary balance sheet (£m unless stated)

Year-end September	2016	2017	2018	2019	2020	2021	2022	2023	2024E
Adjusted cash flow statement									
Group op. profit, pre exc	11.3	42.7	49.6	55.6	51.7	57.3	54.7	0.2	15.0
Depreciation	0.3	0.5	0.7	8.6	8.9	8.1	7.9	6.4	9.5
Intangible amortisation	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other, non-cash	(1.2)	0.5	4.3	(1.3)	0.7	(1.2)	(46.6)	1.3	-
Changes in working capital	13.7	(18.9)	11.4	(24.5)	(6.9)	11.6	(36.1)	(25.6)	(11.0)
Operating cash flow	24.5	25.4	66.6	38.9	54.9	76.3	(19.6)	(17.2)	14.1
Capex	2.6	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)	11.6	15.0	-
Interest, net	(1.2)	(1.0)	(1.0)	(5.1)	(6.5)	(6.6)	(5.7)	(2.8)	(3.5)
Tax	(8.2)	(5.1)	(11.1)	(9.8)	(10.0)	(8.2)	(1.6)	(11.5)	(2.9)
Free cashflow	17.7	19.0	54.1	23.8	38.0	61.3	(15.3)	(16.5)	7.7
Acquisitions, JVs	(11.3)	5.6	3.0	0.2	0.8	0.1	-	-	-
Dividends - paid	(13.4)	(12.4)	(17.5)	(20.1)	(14.3)	(25.5)	(21.8)	(15.1)	(1.4)
Other financing	(5.1)	6.0	1.7	5.1	(5.7)	(34.1)	11.6	(6.8)	-
Change in net cash/(debt)	(12.0)	18.1	41.3	9.0	18.9	1.8	(25.5)	(38.4)	6.3
Summary balance sheet									
Intangible fixed assets	15.5	15.0	14.4	13.8	13.3	12.7	12.2	11.6	11.0
Tangible fixed assets	1.9	4.9	4.8	121.1	113.8	106.7	34.1	31.3	21.8
Investments	8.8	4.8	4.0	7.8	7.7	5.3	3.3	17.2	17.2
Working capital	53.8	72.9	60.6	87.1	84.4	77.6	131.8	122.8	133.8
Provisions, others	(9.4)	(12.3)	(10.9)	(8.1)	(11.7)	(12.6)	(38.3)	(52.9)	(52.9)
Retirement benefit liabilities	-	-	-	-	-	-	-	-	-
Net cash/(debt) - post-IFRS 16	32.2	41.0	80.2	(60.7)	(39.6)	(4.9)	33.5	(1.3)	5.0
Net assets	102.7	126.2	153.0	161.1	167.8	184.8	176.5	128.8	136.0
Net cash pre-IFRS 16				88.4	94.8	124.3	82.6	43.9	50.2

Source: Company Information and Progressive Equity Research estimates.

WJG in brief: low-risk, capital-light, in growth markets

The group, admitted to AIM in 2016, in our view offers a unique low-risk, capital-light development and asset management model for private and student rental. It develops BTR and PBSA schemes, largely forward-funded by institutional investors, 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

- **Institutional investment resilient.** 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. Despite the repricing referred to in the recent trading statement due to higher funding costs, demand has remained robust for both BTR and PBSA because of 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.
- **Housebuilding arm pivoting into the affordable homes market.** The largely stand-alone Residential division, which historically operated a private-focused housebuilding model mainly in the North West of England, is piloting a move into affordable housing, which will operate through a capital-light forward-sale model. This will be led by affordable housing and include BTR as well as private housing for sale. The group indicated at the last results that growth would slow down slightly in the near term.
- **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)

	2020	2021	2022	2023	2024E
PROFIT & LOSS					
Revenue	354.1	430.2	407.1	413.2	400.0
Adj EBITDA	61.1	65.9	63.1	7.1	25.1
Adj EBIT	51.7	57.3	54.7	0.2	15.0
Reported PBT	25.3	51.1	18.4	(42.5)	11.5
Fully Adj PBT	45.8	51.1	48.8	(2.9)	11.5
NOPAT	37.6	41.9	38.0	(1.7)	8.6
Reported EPS (p)	8.2	16.4	5.2	(12.7)	3.4
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	1.7
CASH FLOW & BALANCE SHEET					
Operating cash flow	54.9	76.3	(19.6)	(17.2)	14.1
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)	6.3
Overdrafts / borrowings	174.1	141.2	77.4	73.7	73.7
Cash & equivalents	134.5	136.3	110.8	72.4	78.7
Net (Debt)/Cash, pre-IFRS 16	94.8	124.3	82.6	43.9	50.2
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)	5.0
NAV AND RETURNS					
Net asset value	167.8	184.8	176.5	128.8	136.0
NAV/share (p)	65.5	72.1	68.8	50.2	53.0
Net Tangible Asset Value	154.6	172.1	164.3	117.2	124.9
NTAV/share (p)	60.3	67.2	64.1	45.7	48.7
Average equity	164.5	176.3	180.9	153.5	133.0
Post-tax ROE (%)	12.8%	23.8%	7.4%	(21.2%)	6.5%
METRICS					
Revenue growth	(5.5%)	21.5%	(5.4%)	1.5%	(3.2%)
Adj EBITDA growth	(5.7%)	7.9%	(4.3%)	(88.7%)	252.5%
Adj EBIT growth	(7.1%)	10.8%	(4.5%)	(99.7%)	8738.2%
Adj PBT growth	(9.3%)	11.7%	(4.6%)	(105.9%)	(502.8%)
Adj EPS growth	(8.5%)	11.2%	(9.4%)	(104.4%)	(619.1%)
Dividend growth	(12.0%)	11.6%	(9.8%)	(81.1%)	20.4%
Adj EBIT margins	14.6%	13.3%	13.4%	0.0%	3.8%
VALUATION					
EV/Sales (x)	0.3	0.2	0.2	0.2	0.2
EV/EBITDA (x)	1.5	1.4	1.4	12.8	3.6
EV/NOPAT (x)	2.4	2.2	2.4	-54.7	10.5
PER (x)	3.6	3.2	3.6	N/A	15.7
Dividend yield (%)	13.9%	15.6%	14.0%	2.7%	3.2%
FCF yield	28.2%	45.4%	(11.3%)	(12.2%)	5.7%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

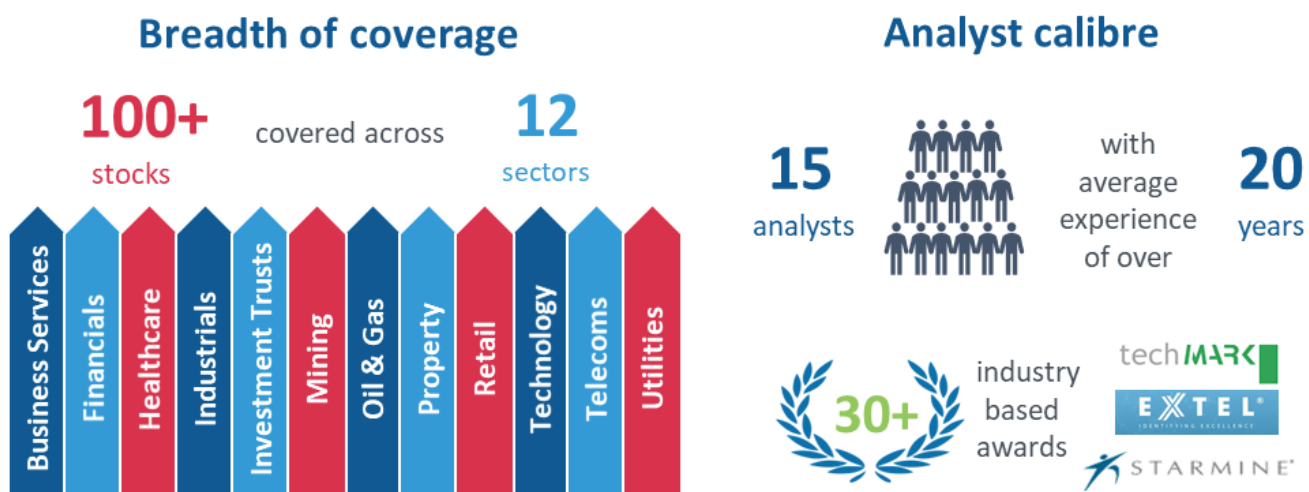
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To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com