10th October 2017

UK Housebuilding Sector: Q3 2017

Autumn 2017

'The $64,000 Question'

Source: iStock

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Table of Contents

$ 64,000 Prologue

Lots of them

Source: iStock

In mathematics, 64 is a superperfect number and one of only four less than 100.

It is also the number of squares on a chessboard, total positions in the Kama Sutra, a famous Beatles' song (prefixed by "When I'm") and my age last birthday - during Q3, the quarter under review here.

However, it was first monetised by the US radio show 'Take It or Leave It' in the 1940s on which seven questions were asked with the prize money (and level of difficulty) doubling each time from $1 to $64. Also, the contestant could bail and take the money (i.e. $8) at any time after a successful answer to Question 4.

In 1955, the programme made its move to television with massively inflated prize money and the re-jigged moniker 'The $64,000 Question'.

This expensive interrogatory entered Anglo Saxon and, indeed, international vernacular as did the original programme name: "Take It or Leave It" - and the incipient risk manager's exhortatory "You'll be sorrr-REEEE".

64,000 times 640,000 is also the current monetary worth of the UK Housebuilders i.e. on the first trading day of Q4, the market value rose 2.7% to £41 billion. This is 38% more than a year ago with Persimmon at circa three times book value. Similarly, while consensus earnings growth is forecast at 13% this year and next - the score is 2% in 2019.

In an increasingly capital-employed-light sector, dividends are also more important (in the UK housebuilder 'bond' market); and yields are above 4% prospective.

More broadly, the UK macro-economic questions are becoming more and more difficult too. The weak British Pound has done little for contestants and average earnings are adrift of a 'little bit' of inflation (unless you are a pensioner).

On a brighter note, the Conservative 'coalition' has announced an extra £10 billion in prize money to provide loans under 'Help to Buy' through to 2021 (housebuilder's share price also won, as a result).

The perspicacious housebuilders have answered six of the seven mythical questions put to them during the show. Near term it would be previous to "Take It" but longer term "you'll be sorry".

Share prices in Q3 2017

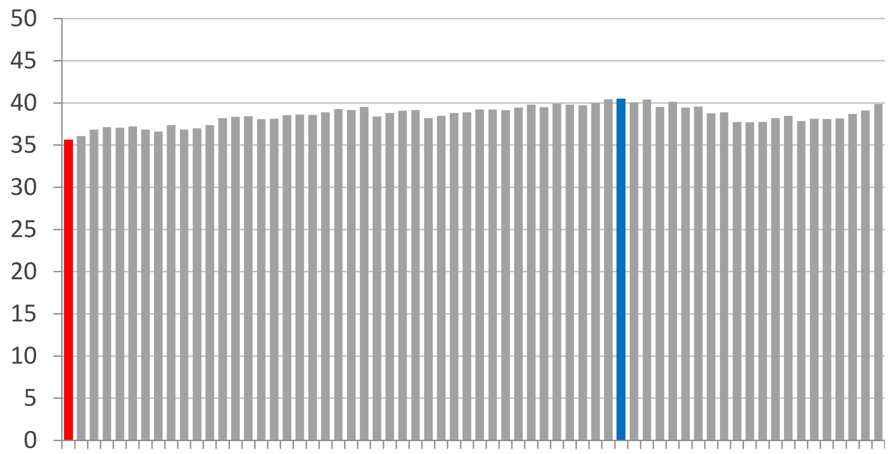
Housebuilders' share prices won by an average 7.6% in Q3 2017 on an actual basis and 11.0% weighted by contestant market capitalisation (in Q2 these winners were +6.1% and +4.3% respectively).

Persimmon and Berkeley were top of the leader board with +15.2% and intellectual support came from Cairn and Bovis which were both at 14% or better.

Of the rest, three were in double digits (Bellway, Taylor Wimpey and Watkin Jones). The remainder, meantime, were up between 1 and 9% in the quarter with two players in reserve i.e. McCarthy & Stone and Inland Homes.

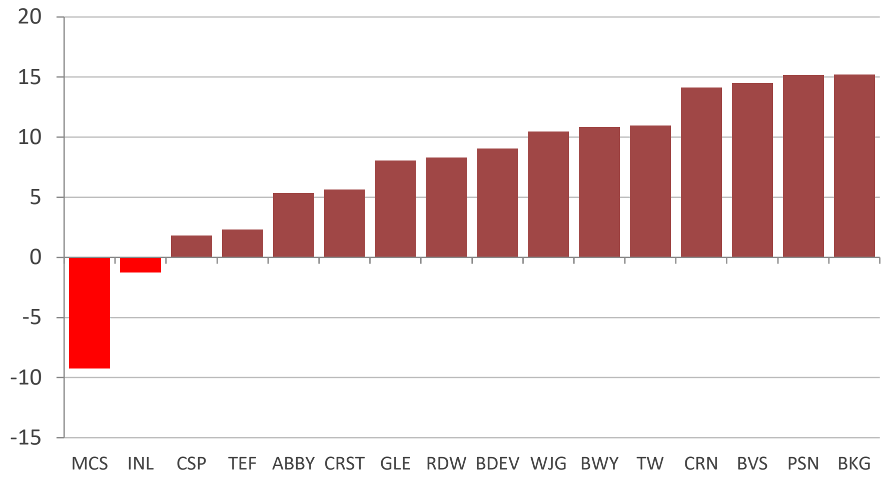
Q3 2017 also marks the 23rd quarter from the last 31 that has climbed in competition.

Housebuilding Sector Stock Market value - daily - Q3 2017 (£ bn)



Source: Hardman & Co Research

Share prices in Q3 2017 vs Q2 2017 (% change)



Source: Hardman & Co Research

In Q3 2017, there were 64 quiz days and on two-thirds of them (43), the Sector won in value (in Pound notes) versus one third (21) when it failed to do so.

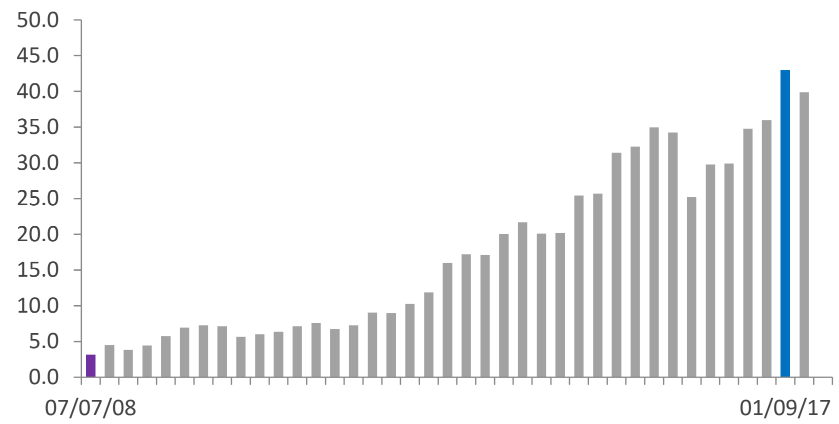
The best daily performance was +2.3% on 19 July - and the worst was minus 2.9% on 14 September.

Week 39, the final one of Q3, saw the best five day win-margin (+4.6%) with Week 27 worst (minus 4.4%).

Month by month, July (+8.1%) and August (+4.0%) were both positive participants but September was off (-1.5%) and was spared further blushes by a late 'Help to Buy' rally.

The lowest Sector daily value in Q3 was on its first day, 3 July (with £35.6 billion), after which it broke new ground on 12 occasions with a new all-time peak score of £40.5 billion on 1 September (which nudged to £41 billion on 2 October).

UK Housebuilding Sector: Market value (£ billion): Q1 2007 to Q3 2017 *



**Low was 7 July 2008 (purple) and high on 1 September 2017 (blue)*
Source: Hardman & Co Research

Year-to-date and year-on-year

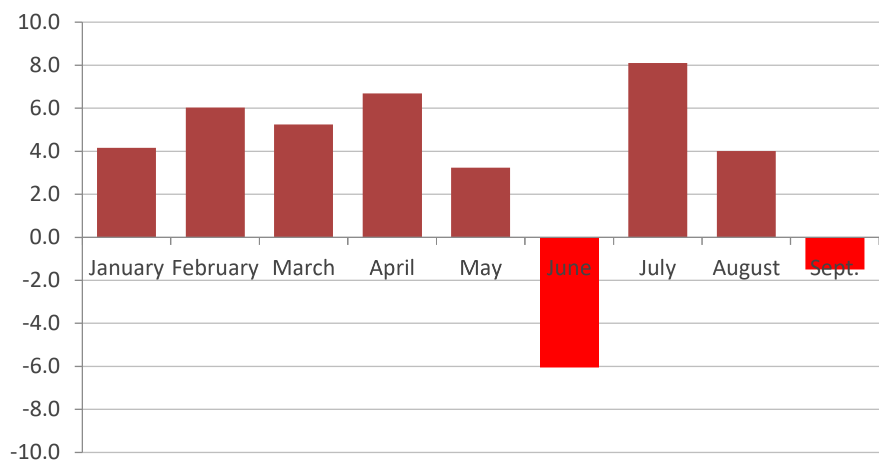
In the year-to-date, share prices rose 29% between 1 January and 29 September and +34% weighted. Herein, constant Watkin Jones was outstanding at +86% with Persimmon runner-up on +45%; while two entrants were in the red (McCarthy & Stone and Inland).

Unsurprisingly, the year-on-year movements in share prices are also very good (remember the 2016 Brexit quiz?) with +31% actual and +35% weighted. Individually, Watkin Jones (+81%) also led the annualised league table with Berkeley, Cairn, Countryside, Persimmon and Redrow at +40% or better; and 14 from 16 stocks positive aspirants.

The Housebuilders also saw off all other equity quiz competitors across all measurement paths as the Sector rose, on a weighted (by market capitalisation) basis by 35% year-on-year, 34% in 2017 to date and almost 11% in Q3.

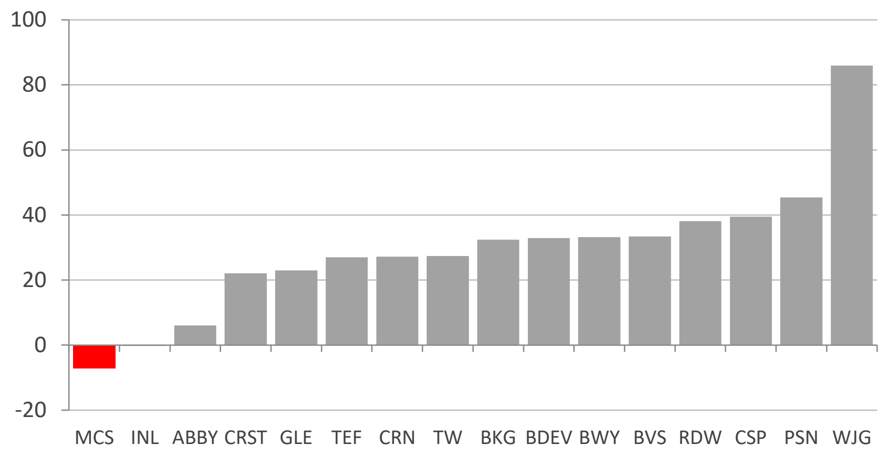
At the same time, a number of the UK equity market's principal indices struggled to answer any questions in Q3 and scored low. The same goes for the Construction Sector while the two Real Estate indices didn't turn up.

UK Housebuilding Sector: month-by-month 2017 YTD (% change)



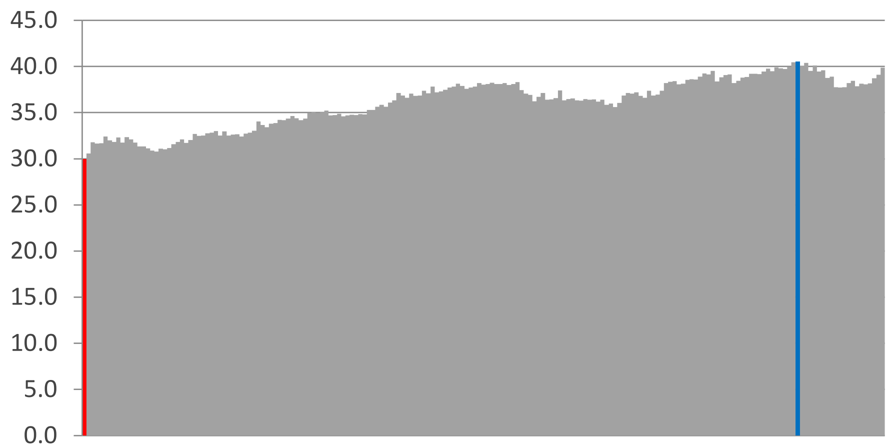
Source: Hardman & Co Research

Share prices in year-to-date (YTD) to 29 September 2017 (% change)



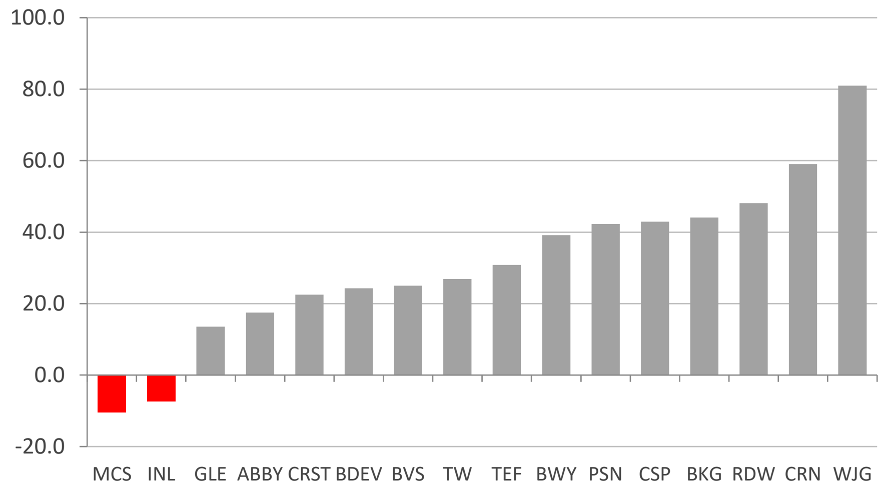
Source: Hardman & Co Research

Housebuilding Sector daily stock market value (£bn) to 29 Sept. 2017



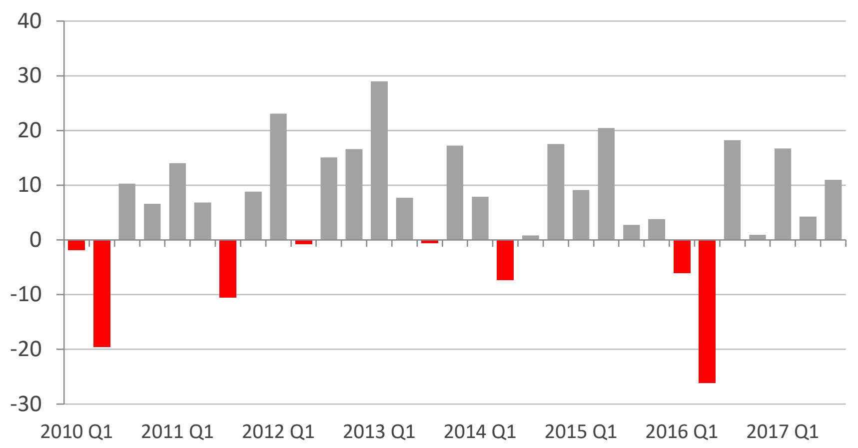
Source: Hardman & Co Research

Share prices year-on-year: at 29/06/97 vs 30/09/16 (% change)



Source: Hardman & Co Research

UK Housebuilding Sector share prices: Q1 2010 thru Q3 2017* % change



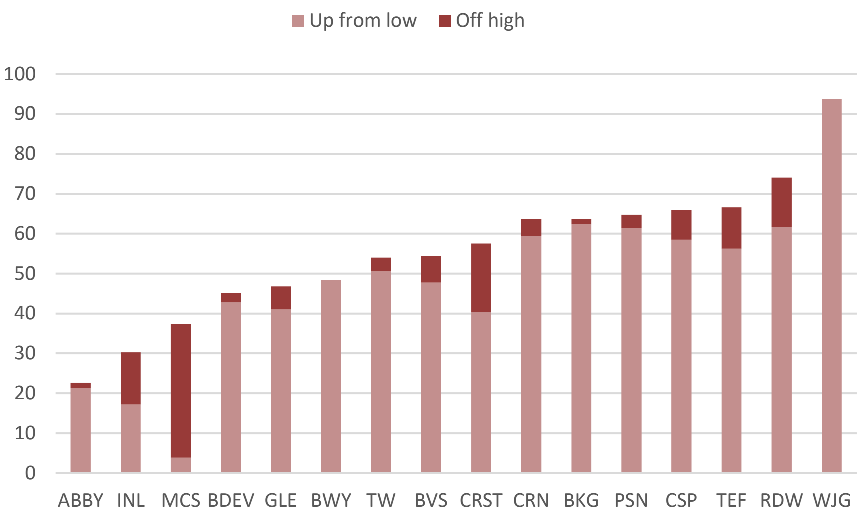
**weighted % change in share prices quarter by quarter*
Source: Hardman & Co Research

Peaks and values

Housebuilders' share prices are, on average, 19 times above the lows of 2008; and 48% up on more recent 52 week lows (weighted these numbers are 28 times and 53% respectively). But they are also some 10% below their 2007 peaks (13% weighted); and 7% off 52 week highs (4% appraisal weighted).

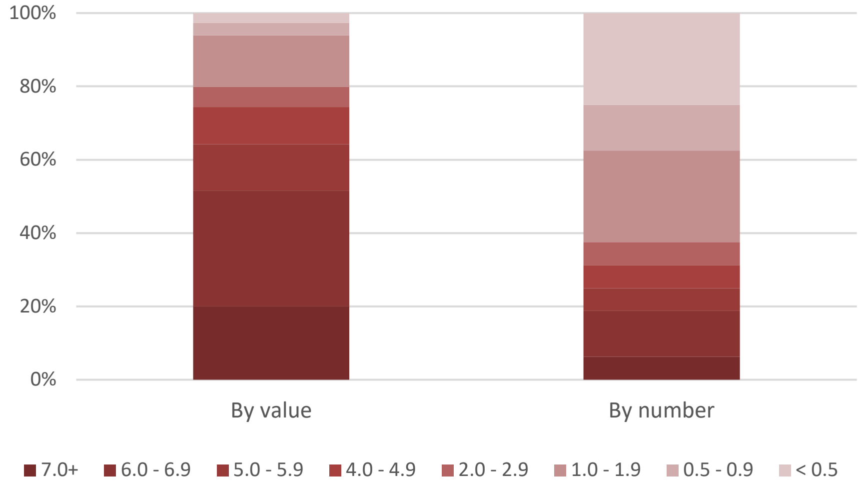
Berkeley (91) has been welcomed back as a winner to the FTSE 100 for the second time to join team mate Barratt (73 at 29 Sept.); Taylor Wimpey (69); and Persimmon (53) which is worth £8 billion. Together, these four FTSE proctors account for 64% of the UK Housebuilding Sector value.

Movement against 52 week lows and highs (% change)



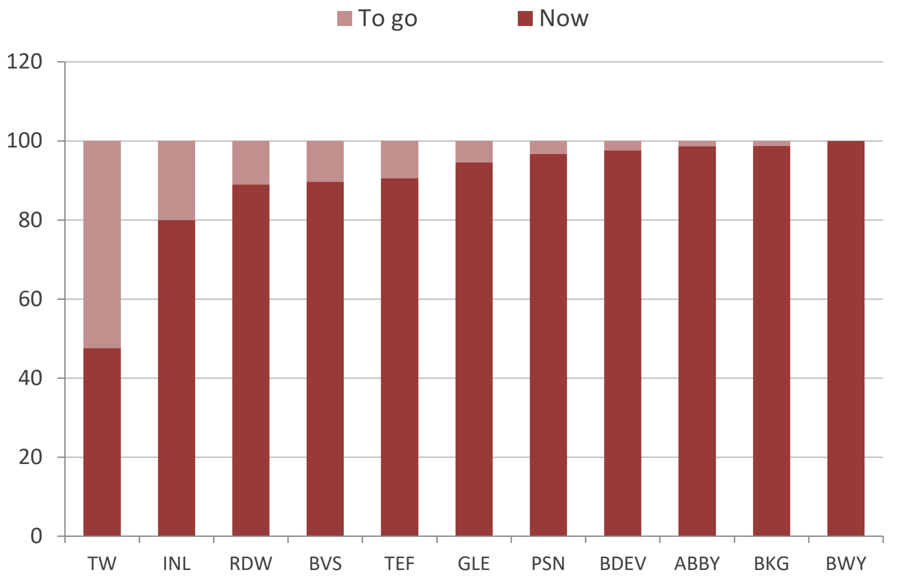
Source: Hardman & Co Research

Sector structure by stock market value: 16 firms worth £39.9 billion at 29/09/17*



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

Current share price as % of all-time peak level at 29/09/17 (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

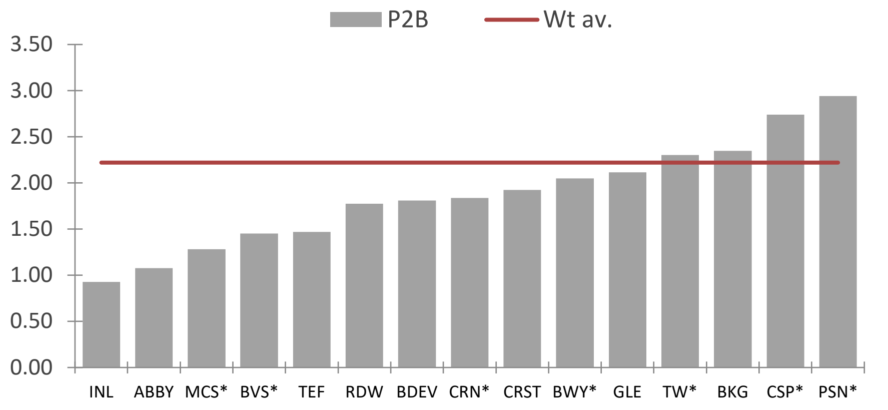
The Housebuilders' latest average Price-to-Book valuation answer was 1.87 at 29 September 2017 and 2.22 question weighted (a year ago they were 1.69 and 1.86 respectively).

Six out of 15 companies are at 2.0 or better, while Persimmon is nudging 3.0 (with Watkin Jones at 4.94 excluded from the averages and the chart).

Total Shareholder Return (TSR) for the Sector in the year-to-date (i.e. to 29 September 2017) scored 29.5%. However, the annualised TSR of 36.2% answered the $64,000 question (data are sourced from Bloomberg).

Included here, Watkin Jones was very nearly TSR answer-perfect with 87 and 86% year to date and over 12 months; little wonder that its speciality, student accommodation, is gaining candidate popularity.

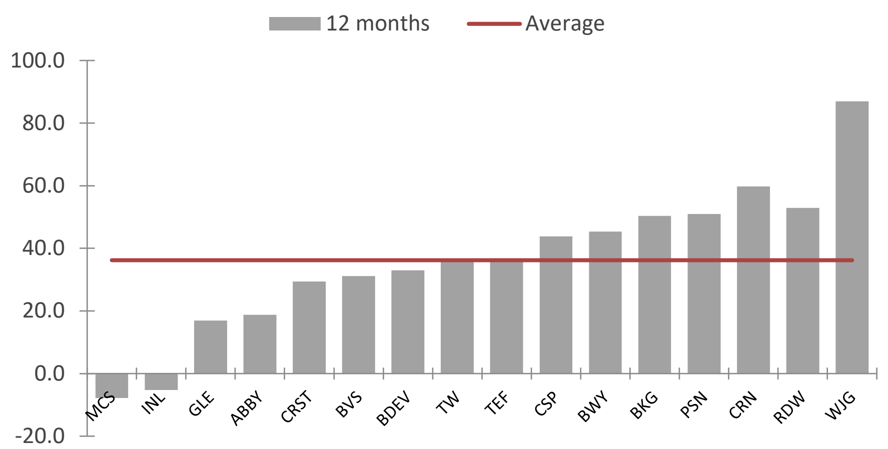
Price-to-Book-Value at year end/latest interim * & priced at 29/09/17



**denotes interims; weighted av. is 2.22 is shown as a line; actual av. is 1.87; & ex-Watkin Jones (4.94)*

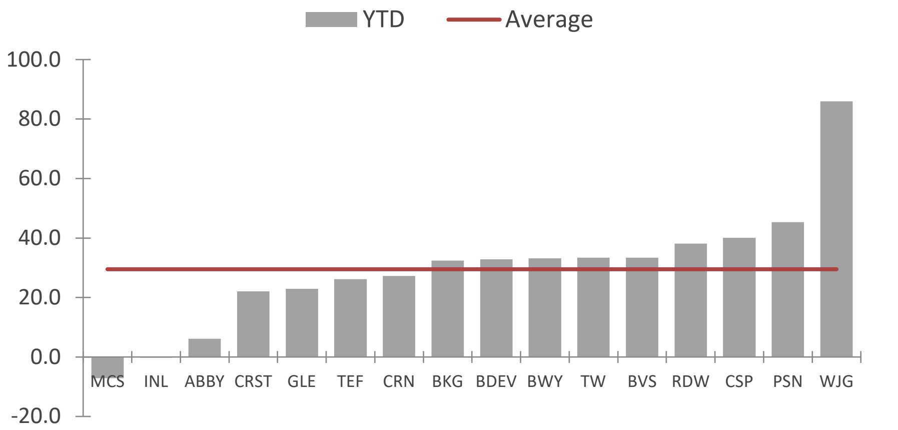
Source: Hardman & Co Research

Housebuilders TSR in 12 months to 29 September 2017 (%)



Source: Bloomberg

Housebuilders TSR in year-to-date to 29 September 2017 (%)



Source: Hardman & Co Research

Valuation

The Sector's prospective PERs are 10.5x in 2017 (including seven reportees) followed by 9.2x in 2018 and 9.0x in 2019. These are based on consensus forecasts and results for 15 companies in 2017 and 2018 - and seven in 2019 i.e. the currently loss-making Cairn is excluded for now, but it is gathering a head of steam.

Earnings growth is forecast at +13% in 2017 and, again, in 2018. However, 2019 sees the expected rate of growth slow to 2% (albeit from a smaller sample). Consensus forecasts also show 3 from 15 companies with lower earnings in 2017 and one each in 2018 and 2019.

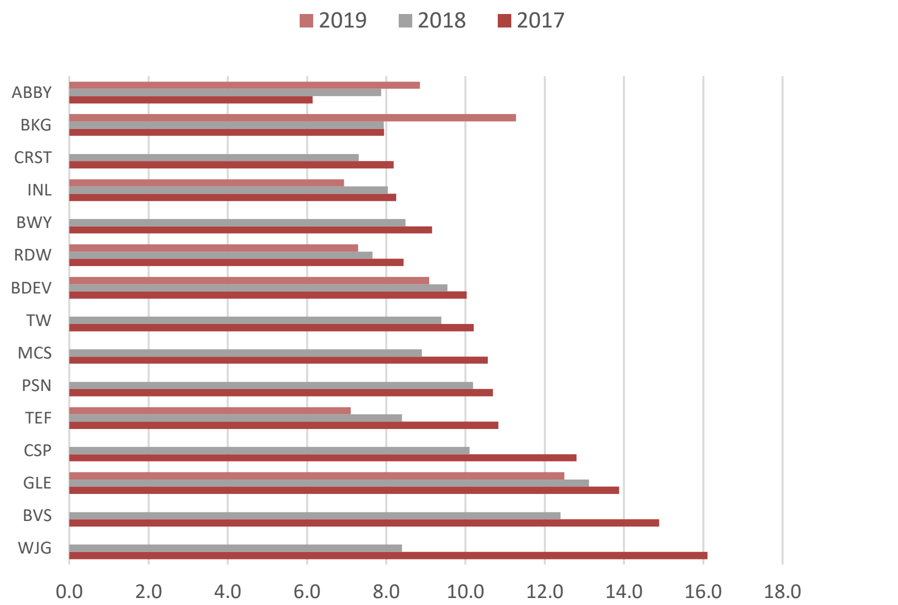
For the record, the trailing 12 monthPERs for the UK equity market's principal indices range from 22 to 25x.

Turning to income, the Housebuilding Sector (including specials) has, in 2017 and 2018, prospective yields of 4.1% (including seven historics) and 4.6% respectively – in turn covered 3.3 and 3.0 times. For 2019, the yield is 4.7% covered 3.3 times based on a smaller player sample.

Note, too, a number of companies have committed to paying enhanced dividends which means Barratt Berkeley, Crest and Taylor Wimpey are yielding 6 to 8% across the stage.

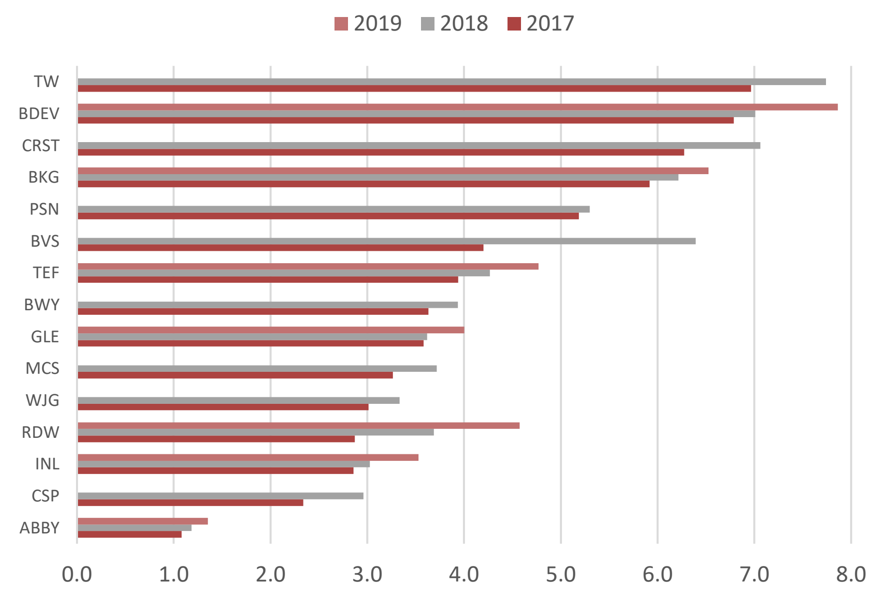
For the record, the UK equity market yields between 2.7 and 3.9% historic with lean average cover of 1.3x; all calculations are made at the LSE close on 29 September 2017.

PER: 2017 (10.5x); 2018 (9.2); and 2019 (9.0x) at 29 September 2017



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

Yield: 2017 (av. 4.1%); 2018 (4.6%); and 2019 (4.7%) at 29 Sept. 2017



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

Results and trading in Q3

In Q3 there were five sets of final results, four interims and 19 other trading related Sector announcements broadcast.

Average individual pretax profits for a net eight Q3 reportees (Cairn is in loss and thus not included) rose 14% whilst EBIT margins nudged ahead from 20.1 to 20.6% on revenue larger by 13% at £10.6 billion.

EPS rose 13% on average (including negative Bovis) while dividends widened by a staggering 72% on average (or +34% ex-Taylor Wimpey). In turn, average individual cover dipped from 6.2 to 4.3x (or 4.5 to 2.6x ex-Abbey).

The average increase in orders was 18% (from a sample of five) with Inland leading the way at +47% for its housing units.

Average individual ROCE added 100 basis points to 21.9% with Capital Turn easing back from 1.46 to 1.06.

Profit & 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*
11-Jul	**Abbey**	Full Year	30-Apr	61	63	4	27.6	28.1	-2	na	15	17.7	16.1
	Abbey (GBP)			45	54	20			12		32		
01-Aug	**Taylor W.**	Half Year	02-Jul	267	335	26	19.2	20.2	19	-1	334	12.3	3.6
22-Aug	**Persimmon**	Half Year	30-Jun	356	463	30	23.8	27.6	12	15	23	0.8	0.9
05-Sep	**Redrow**	Full Year	30-Jun	250	315	26	18.9	19.4	20	14	70	5.5	4.1
06-Sep	**Barratt**	Full Year	30-Jun	682	808	18	15.8	16.6	10	14	36	1.8	1.5
07-Sep	**Bovis**	Half Year	30-Jun	62	46	-25	15.5	11.5	4	na	0	2.4	1.9
25-Sep	**Gleeson**	Full Year	30-Jun	28	33	17	19.8	20.6	13	na	66	2.9	2.0
TOTAL (£m) ex-Inland				1708	2072								
Individual average change (%)							14			10	18	72	6.2
Sector average change (%)							21			13			
Individual average margin (%)								20.1	20.6				
Sector average margin (%)								18.3	19.5				

Source: Company announcements and Hardman & Co Research

Notes:

(i) Pretax profit (PBT) numbers are adjusted where necessary and are net of exceptional items

(ii) EBIT is Earnings Before Interest & Tax; DPS is dividend per share

(iii) Abbey plc is Irish domiciled and reports in Euros

(iv)Taylor Wimpey, Persimmon and Barratt have/are paying ordinary and special dividends

(v)Taylor Wimpey's 'DPS % change' is for its ordinary dividend 0.53 to 2.30 pence (and ex-special of 10.4 pence)

Balance Sheets

Date	Company	Event	Period ending	Net Assets (£m)		Net (Debt)/Cash (£m)		*Gearing*	*Gearing*	*ROCE^ Old %*	*ROCE^ New %*	*Capital Turn (x)*
				Old	New	Old	New	*Old %*	*New %*			
11-Jul	Abbey	Full Year	30-Apr	281	308	105	96	-37	-31	21.6	19.6	0.70
	Abbey (GBP)			220	260	82	81					
01-Aug	Taylor W.	Half Year	02-Jul	2,592	2,779	117	429	-5	-15	19.9	23.0	1.14
22-Aug	Persimmon	Half Year	30-Jun	2,344	2,711	462	1120	-20	-41	33.3	36.7	1.33
05-Sep	Redrow	Full Year	30-Jun	1,041	1,235	-139	-73	13	6	19.7	23.4	1.20
06-Sep	Barratt	Full Year	30-Jun	3,118	3,430	581	711	-19	-21	20.3	23.1	1.33
07-Sep	Bovis	Half Year	30-Jun	965	1,014	-8	-32	1	3	12.9	8.3	0.77
25-Sep	Gleeson	Full Year	30-Jun	153	171	23	34	-15	-20	18.4	19.2	0.94
28-Sep	Inland	Full Year	30-Jun	116	131	-55	-68	47	52	na	na	-
TOTAL (£m)				10549	11730	1063	2201					
Individual average change (%)					*12*							
Sector average change (%)					*11*							
Individual average ROCE (%) adjusted										*20.9*	*21.9*	*1.06*
Sector average ROCE (%) adjusted										*20.4*	*21.7*	*1.11*
Individual average gearing (%)								*-4*	*-8*			
Sector average gearing (%)								*-10*	*-19*			

Source: Hardman & Co Research

Notes: (i) ^ ROCE is return on capital employed - and this is adjusted where required for half year, goodwill and other intangibles etc

Performance and outlook

Abbey (Finals -11 July)

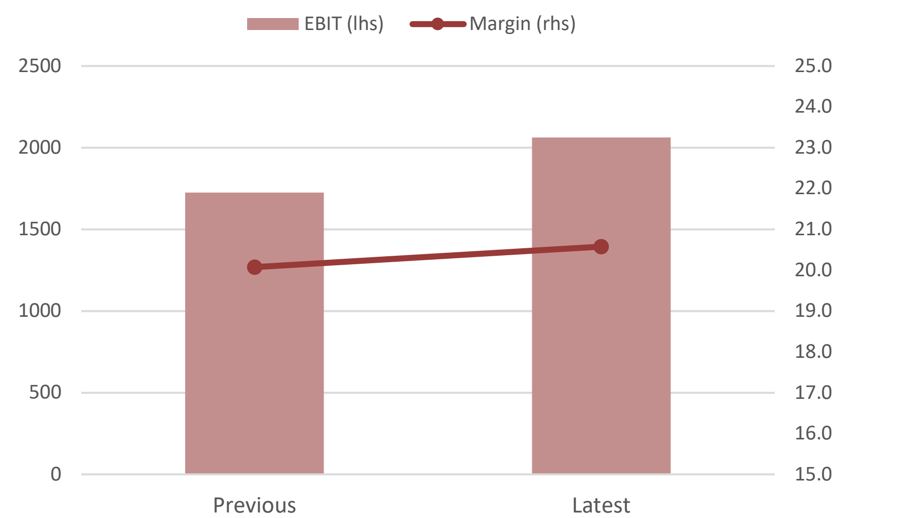
Here, a dramatic resurgence in trading in Ireland was a key characteristic of the year. There was also a significantly better result in Prague, in the Czech Republic, and very much a sound year in its, by far largest unit, the UK i.e. with eight-tenths of Abbey's total revenue.

Overall, the Group reported flat revenue at Euro 217 million (i.e. minus 2%). However, on a constant currency basis, we estimate, that the rise was 11% to Euro 245 million. The same applies to pretax profit which nudged ahead 4% to Euro 63.5 million at the stated level but by 18% in constant currencies to Euro 72 million.

By region, forward sales have been quieter. However, in the year under review, the UK saw revenue rise 7% to £147.2 million (Euro 173.9 million) as it built and sold 495 units. Okay, this was down from 544 a year ago. However, it also implied an 18% rise in GBP selling prices to £297,300. At the same time, EBIT was ahead 11% at £45.6 million which meant that an already super-duper operating margin improved by 100 basis points to 31.0%

Meantime, Ireland saw revenue soar almost two-and-a-half fold to Euro 13.8 million as unit output jumped from 23 to 39 and, unsurprisingly, there was a shift from loss (Euro 152,000) to an operating profit of Euro 2.1 million and a margin of 15.0%. Ireland "should see another jump in activity" this year.

Sector Revenue (£million) and EBIT Margin (%): reported in Q3 2017



Source: Hardman & Co Research

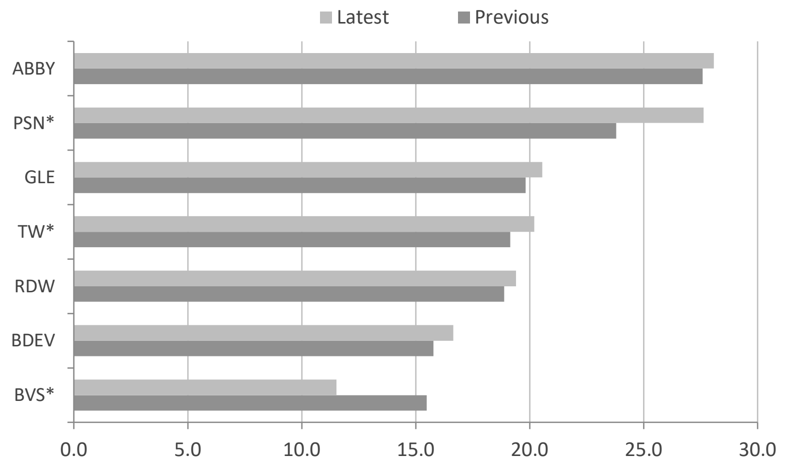
Telford (AGM - 13 July)

The Group is exclusively London-focused and is also "on track to exceed £40 million of profit before tax for the year to 31 March 2018 and £50 million in the year to 31 March 2019,having already secured over 80% of the anticipated gross profit for 2018 and over 60% for 2019.

"Whilst there has been some political and economic uncertainty in recent weeks the Group is hopeful of greater stability in the months ahead. Regardless of this uncertainty,

there remains a lack of supply of new homes relative to need in non-prime areas of London. We believe this imbalance, coupled with our increased focus on build to rent, will continue to underpin the longer term growth of Telford Homes".

EBIT profit margins (%) reported in Q3 2017 *



**denotes interim results*
Source: Hardman & Co Research

Countryside (Trading Statement - 27 July)

Total completions were up 41% to 821 units in the Group's third quarter which runs to the end of June (Q3 2016: 583 units). At the same time, its private average selling price grew 16% to £404,000 with underlying sales price growth of 5% (Q3 2016: £348,000).

Net reservation rates were also up 16% at 0.88 (Q3 2016: 0.76) per active outlet per week - and Countryside has 19% more outlets at 44.

Finally, it closed its Q3 with a record private unit forward order book: +28% to £354.0 million.

Little else need be said.

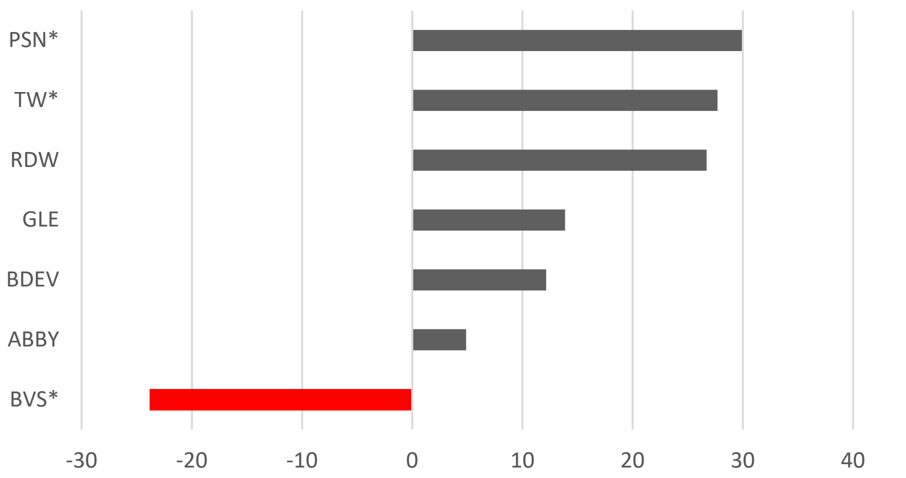
Taylor Wimpey (Interims - 1 August)

In H1 the Group took a £130 million exceptional provision to cover the cost of reviewing its leasehold unit sales. Excluding this, operating and pretax profit (£335 million) rose 25 and 26% respectively on revenue wider by 19% at £1.73 billion; in turn operating margin nudged from 19.2 to 20.2%.

Unit sales (ex-JVs) cleared 6,580 (+9%) and average selling prices were 6.3% to the good at £253,000 (with private-for-sale unit even better at +7.9% to £287,000).

The order book, however, was no great shakes i.e. in terms of units, they were ahead just 0.7%, on 2 July, at 8,741 units - and, in terms of value, the order book was at minus 0.6% at £2.11 billion. It also talked about "solid" website visits, which is a strange word and not a positive one.

EPS growth* (% change) reported in Q3 2017



**denotes interim results*
Source: Hardman & Co Research

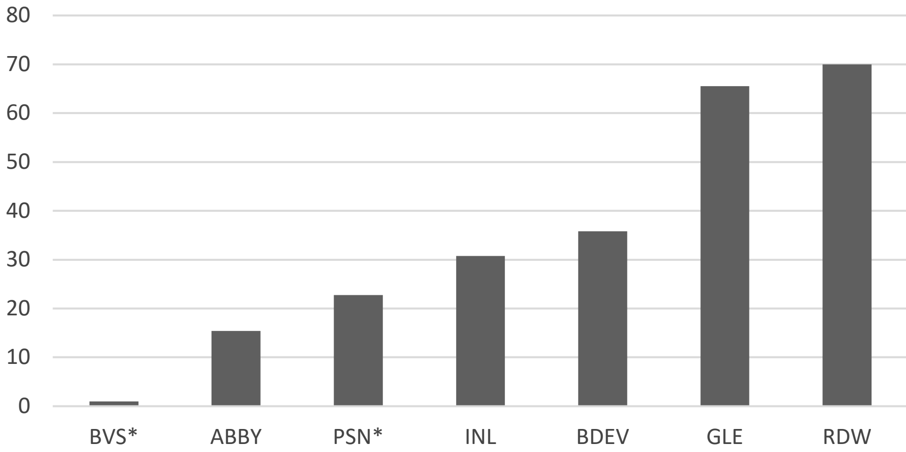
Bellway (Trading Update - 13 June)

Housing revenue is expected to have increased by over 13% to £2.5 billion in the fiscal year to end July 2017 with volumes ahead 11% at 9,644 units; and an operating margin of "slightly in excess of 22%" (2016: 22.0%). This is a detailed Update.

Similarly, forward sales are up 16% £1,296.3 million while the average selling price of all homes (including social) rose 2.9% last year to £260,000; and "the pricing environment remained positive, supported by robust demand throughout the country".

For the record, too, fiscal 2017's revenue is almost 2.3 times the housing revenue reported four years ago in fiscal 2013.

Dividends per share reported in Q3 2017* (% change)



**denotes interims*
Source: Hardman & Co Research

Persimmon (Interims - 22 August)

This Group really does appear to walk on water and, in its latest half year to end June, EBIT soared 30% and with it margins rose from 23.8 to 27.6%. Pretax was also 30% to the good (at £463 million on an adjusted basis).

Persimmon also continues to return capital to shareholders (135 pence in this period) and it sports net cash of more than £1 billion; with ROCE continuing comfortably north of 30% i.e. 36.7% (2016: 33.3%). The order book is also 15% to the good at more than £2 billion.

The only slight wrinkles were a challenge in finding sufficient skilled workers and inflationary pressures in the supply chain.

Finally, it said: “the housing market across our regions remains confident and consumer sentiment is resilient”; but “We remain mindful of the risks the Group faces”.

Cairn Homes (Interims – 5 September)

Cairn Homes (Interims - 5 September): have you heard the one about the marginally profitable Irish housebuilder which has a market capitalisation of Euro 1.3 billion?

This would be Cairn Homes plc which has been a listed company since June 2015 in London; and since July in Dublin.

In the first six months of calendar 2017, it sold 94 units and generated revenue of Euro 42 million (2016: Euro 16 million) and a gross margin of 18.7% (2016: 16.5%). Pretax profit was Euro 108,000 (ex-exceptionals).

Inventories, however, run to Euro 766 million comprising a core land bank of 33 separate sites with capacity for some 12,700 units (over 90% of which are in Greater Dublin).

For the record, too, it was listed at Euro 1.00 and is now Euro 1.72. Nice work.

Redrow (Finals - 5 September)

Chairman Steve Morgan is to morph from 'executive' to 'non-executive' - and does so on the back of a record year. He was also founder of the Company in 1974 - and after a nine year sabbatical (from 2000) returned in 2009 to effectively rescue it.

In the year to 30 June, revenue rose by a fifth to £1.7 billion with EBIT margins of 19.4% (2016: 18.4%) and both pretax (to £315 million) and EPS rising 26 and 27% respectively.

Steve also talked, unusually, about prospects for 2020: "we expect our turnover in 2020 to be circa £2.2 billion and our pretax profit to be circa £430 million (2017: £315)…. With our projected 33% dividend payout, the dividend in 2020 will rise to 32 pence per share (2017: 17 pence)". Extraordinary.

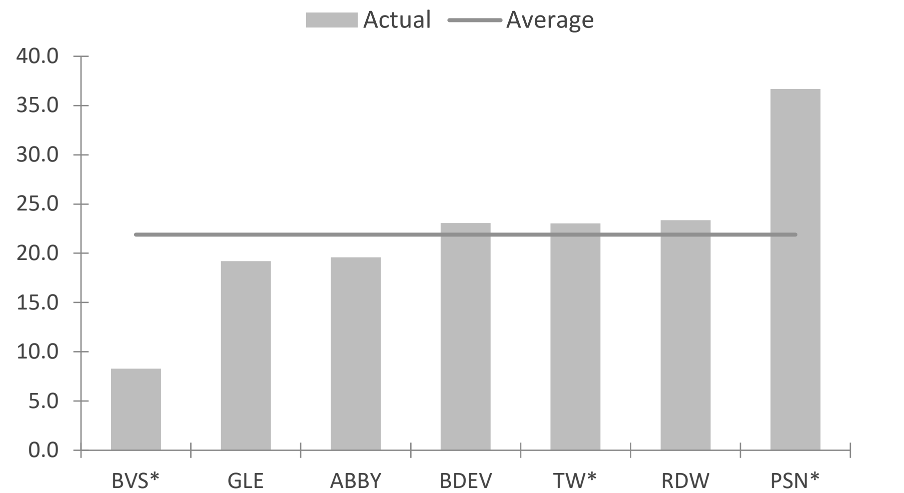
Barratt (Finals - 6 Sept)

"The UK's largest housebuilder" delivered its highest volumes in nine years i.e. 17,395 (2016: 17,319) and £4.65 billion of revenue (+10%) in the year to end June 2017 - plus a 17.4% EBIT margin (2016: 15.8%).

Pretax profit was struck at an adjusted £774 million which was ahead 13.4% year-on-year. At the same time, forward sales (including JV's) were up 13.8% as of 3 September 2017 at £2,749.9 million albeit Barratt spoke of "some headwinds in central London market".

In relation to its dividend policy, too, the Group quoted Reuters consensus estimates of EPS, which at 63.4 pence imply growth of 3.4% for fiscal 2018 (as at 31 August 2017). This is not exciting.

Latest reported and average ROCE (%) reported in Q3 2017*



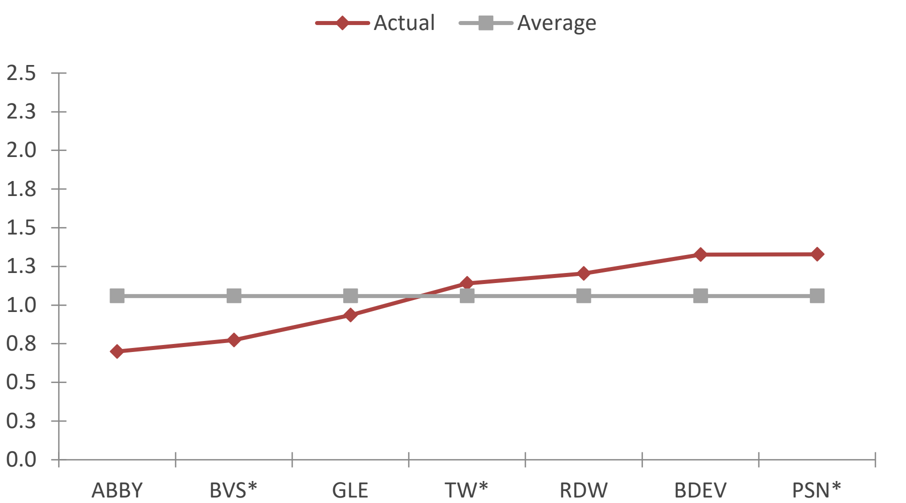
**denotes interims; ROCE is return on capital employed*
Source: Hardman & Co Research

Berkeley (AGM - 6 September)

In the first four months of the year Berkeley has continued to trade in line with Management's expectations, with sales prices remaining above business plan levels. This also meant a reaffirmation of guidance that Berkeley is on track to deliver at least £3.0 billion of pretax profit in the five years ending 30 April 2021, with profits for the current year anticipated to be at least as strong as 2016-17.

"While Berkeley is in excellent shape, the London market continues to be adversely impacted by both, uncertainty around the terms and implications of Brexit and, the changes in recent years to Stamp Duty Land Tax and mortgage interest deductibility. This has been partly offset by good availability of mortgage finance at low interest rates, favourable currency exchange rates……".

Capital Turn (x) reported in Q3 2017*



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

McCarthy & Stone (Trading Update - 6 September)

The Group said it has delivered a consistent improvement in trading throughout the year to end August, despite the increased uncertainty in the secondary market following the EU Referendum and General Election.

Total legal completions were in line with the prior year at 2,302 (2016: 2,296) and forward sales have steadily improved despite the significantly lower number of new sales releases and first occupations.

All sales lead indicators also remain well ahead of the prior year and an increased level of forward sales of circa £141 million is being carried into the new financial year, representing a 21% improvement (2016: £116 million).

As expected, too, there has been strong upward momentum in average selling prices and margins in H2.

Bovis (Interims - 7 September)

The Group had a tumultuous H1 to end June with not one but two putative bids (Galliford Try and Redrow) and the arrival of a new and beatified CEO in Greg Fitzgerald (formerly of Galliford).

In the six months to end June, too, while revenue was little changed at £428 million EBIT margins (ex-exceptional costs of £6.3 million) were lower at 12.2% (2016: 15.5%). Net pretax profit also down and, here, by 31% at £42.7 million, although the dividend was held at 15 pence per share.

Greg is now embarking on a four strategic plan to fix the ailing Bovis and will recommend a 5% increase in the ordinary dividend this year followed by +20% in 2018 (to circa 57 pence). In addition, special dividends totalling £180 million (some 134 pence per share) are to be paid over the three years to 2020.

Gleeson (Finals - 25 September)

Gleeson has a "twin track strategy" of developing low cost houses for open market sale in the North of England and strategic land sales in the South; and it had a good year to end June 2017.

Revenue rose 13% to £160 million with an EBIT margin of 20.6% (2016: 19.8%) and pretax profit ahead 17% to just over £33 million; and the dividend for the year was raised by an incredible 66% to 24 pence per share.

In the year, too, it sold 1013 units (2016: 904 units) at an average price of £122,700 (minus 2.4%) and it made eight land sales (2016: seven) comprising 841 residential plots (2016: 822).

The Company has also set out its stall to build 2,000 units per annum within five years and with land sales it points to 65 sites with "the potential to deliver 21,505 plots".

Inland Homes (Finals - 28 September)

The UK stock market and investors have not fully grasped the concept of land identification, assembly, kinetic planning and sale; or the EPRA metric. Indeed, conventional housebuilders dance to the earnings drum (and latterly yield has become more audible).

Inland, however, sensibly tries to identify the carrying value of its land; and EPRA or the European Real Estate Association promotes consistency here.

In the year to the end of June, EPRA Net Asset Value (NAV) per share rose 4.2% to 96.22 pence on an adjusted basis (and at the time of writing Inland's share price was 58.5 pence).

In something of transitional year strategically (more housing for sale and work with housing associations), the Company saw revenue dip 11% to £90.7 million and adjusted pretax profit mark time at £18.1 million (2016: £17.9 million) ex-revaluations and the like. However, the dividend for the year was raised 31% (to 1.7 pence) which reflects Inland's confidence and a housing-for-sale order book 47% ahead (at £33 million) plus a plethora of land opportunities within its 6,923 plot land bank. This includes newly secured planning permission for nearly 1,856 plots which was won in the year under review.

The Company probably needs a Sector on its own and while Gleeson is a cousin - it is a conventionally distant one.

Macroeconomics

UK GDP growth was confirmed at 0.3% in Q2 2017 (vs Q1 2017) with business expenditure flat and household spending slowing from 0.4 to 0.1%. Year on year, Q2 is 1.7% better albeit in Q1 of this year the annualised gain was 2.0%.

The Consumer Price Index or CPI continues to rise and was at 2.9% annualised in August, up from 2.6% in July - and 0.6% in August 2016.

Unemployment was a skinny 4.3% in the July quarter (i.e. 1.46 million souls) and the lowest since 1975 (comparable records began in 1971).

Finally, Retail Sales in August, by volume, increased by a fat 2.4% year-on-year (which makes 52 months in a row of annualised gains); and in value terms the gain almost twice as plump at 5.6% (ex-auto fuel). Non-food purchases were said to be the driver here.

Mortgages

The Council of Mortgage Lenders or CML said that despite the shift in mix of buyer type and region, total mortgage lending has been stable. It was estimated at £24.2 billion in August, which seasonally adjusted is £21.4 billion i.e. same ball park as monthly lending in 2017 to date.

UK Finance (*aka* British Bankers Association or BBA) said house purchase approvals by the High Street banks reached 41,807 in August, stronger than the monthly average of 41,133 over the last six months and 11% higher than the same time last year when the market was subdued following the referendum result.

And, finally, the Bank of England recorded mortgage approvals in August at 66,580 which 2.7% down on July but 8.1% ahead of August 2016.

Volumes and prices

At Experian (where I am an advisor), the forecasts for Private Housing Output growth are 6, 4 and 3% in 2017, 18 and 19 respectively (in real terms).

Turning to house prices, the Nationwide recorded just +0.2% in September with the annualised rate at 2.0% versus August's 2.1%. London, however, has seen a marked slowdown, with prices falling in annual terms for the first time in eight years (i.e. minus 0.6%) to make it the weakest UK region for the first time since 2005.

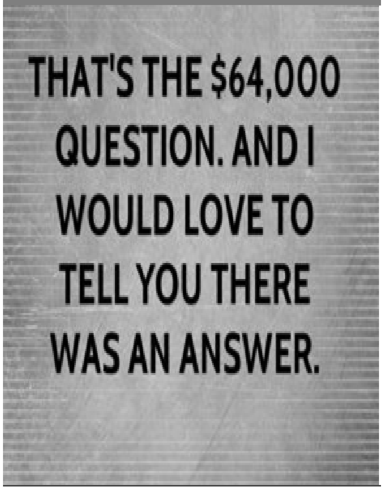
Elsewhere, Rightmove reported a further dip in the national average asking price of 1.3% (i.e. £3,660) in September with the annualised rate now at +1.1% versus +3.1% in August.

Then the Halifax (still talking August) said price rose 1.1% in the eighth month of the year (and 2.6% annualised) with the quarterly trend barely positive at 0.1%.

Finally, the Reuters Housing Market Poll (which I feed into) expects a median +2.5% for UK house price inflation in 2017 (including 0% in London).

$64,000 Conclusion

‘Question’



Sourece: Shutterstocks

A number of the winning contestants in the original ‘The $64,000 Question’ - affectionately known as ‘Question’ - went on to achieve celebrity status; and one, Dr Joyce Brothers was given her own TV show.

But, there were also substantiated accusations that some of the results were being rigged to suit the sponsors such as Revlon i.e. it liked popular candidates. In turn, such practice was made illegal and, simultaneously, it shifted the axis of power in television broadcasting away from the sponsors towards the networks.

In terms of performance, a number of the contestants in the UK Housebuilding Quiz Show has reached celebrity status with 30, 40 and even 80% rises in share prices in the past year (in part sponsored by the immediate Brexit vote aftermath).

But, no, the course of true competition never did run smooth. For example, Telford talked about “some political and economic uncertainty in recent weeks” and Taylor Wimpey (with a marginally lower order book) added “the outcome of the General Election, combined with the on-going Brexit negotiations, has resulted in greater political uncertainty, and we are therefore alert to the potential risk of a future change in customer confidence”.

Similarly, Persimmon underlined challenges in finding sufficient skilled workers and inflationary pressures in the supply chain, while Redrow said: “we need the Government to continue to support training initiatives and in particular reach an early agreement as part of the Brexit negotiations on the status of EU workers who make such a valuable contribution to our industry”.

FTSE 100 quizmasters Barratt and Berkeley also spoke specifically about the London contest. Respectively: “some headwinds in central London market”; and “the London market continues to be adversely impacted by both, uncertainty around the terms and implications of Brexit and, the changes in recent years to Stamp Duty Land Tax and mortgage interest deductibility. …..”.

Finally, McCarthy & Stone answered with “increased uncertainty in the secondary market following the EU Referendum and General Election”.

As already noted, too, the UK macro-economic questions are becoming more and more difficult. The weak British Pound has done little for contestants and average earnings are adrift of a ‘little bit’ of inflation (unless you are a pensioner).

On a brighter note, the Conservative ‘coalition’ has announced an extra £10 billion in prize money to provide loans under ‘Help to Buy’ through to 2021 (housebuilders’ share prices also won, as a result).

The perspicacious housebuilders have answered six of the seven mythical questions put to them during the show. Near term it would be previous to “Take It” but longer term “you’ll be sorry”.

Quote:

“Now comes the $64,000 question. Why did you run away from me baby?””.

Source: Bill in ‘Kill Bill: Vol. 2’

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)

Note: Share prices at 29 September 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

Notes

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