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Telford Homes

Home construction

16 October 2018

Making progress, laying down markers

A 10 October update put down some clear markers for open-market sales to attain £50m+ group PBT in FY19 and for build-to-rent (BTR) sector expectations during H219. Some market risk remains evident at higher open-market price points and, with increasingly risk-averse UK equity market sentiment, Telford's trading update was not well received. However, short-term market conditions are not distracting management from the development of an attractive pipeline of future project opportunities.

H1 progress and H2 bias expected again in FY19

Telford has a portfolio of current on-site development projects and ten are scheduled for construction completion in the next 18 months or so. Of these, three are to be substantially complete during this financial year adding to available stock and driving the timing of owner-occupier sale commitments. Telford management expects H1 PBT to be ahead y-o-y. It also stated that c 90 open-market sales are required (and 25 are in the slower-moving £600,000+ bracket) in H2 to deliver full-year PBT above £50m. It is reasonable to expect this to be based on other assumptions (eg average selling price achieved and progress with BTR sites), but they were not specified.

Building a project and partner pipeline

Slower demand at higher price points in London is not news and momentum in Telford's typical price points (below £600,000) is being sustained with increasing use of the Help to Buy scheme. We expect Telford to continue to pursue new development opportunities and partnering arrangements in the BTR sector, while retaining focus on the undersupplied London residential market. Two early-stage examples show the scale of ambition – Parkside with Greystar (almost 900 BTR homes, planning approved) and a mixed scheme in East London (700 homes, seeking planning consent) – and also indicate a healthy project pipeline. Moreover, Telford expects to select a long-term BTR partner by the end of 2018, setting this in a contractual agreement by the end of FY19.

Valuation: Equity investors avoiding London property

Having largely traded in the 400–425p range over the past three months, Telford's share price has declined by c 15% since its trading update in a generally weak UK equity market. Consensus numbers have eased back in recent weeks; the current year P/E multiple is now just 6.2x, reflecting market scepticism regarding the attainment of these forecasts, in our view. Telford has strong positions in its chosen London market segments, which should be relatively resilient, but equity investors appear to have taken a bearish view on the London property market as a whole.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/17	291.9	34.1	36.6	15.7	9.2	4.6
03/18	316.2	46.0	49.4	17.0	6.8	5.0
03/19e	409.8	50.4	54.3	18.7	6.2	5.5
03/20e	452.5	52.1	56.3	19.3	6.0	5.7

Source: Bloomberg

Price	338p
Market cap	£256m

Share price graph

Share details

Code	TEF
Listing	AIM
Shares in issue	75.7m

Business description

Listed on AIM in 2000, Telford Homes is a London-focused residential property developer. Open market sales (in multi-occupancy, including mixed-use, developments) are the leading sector addressed, with increasing activity in the build-to-rent subsector, alongside investment partners. Affordable homes account for around one-third of sales volume.

Bull

- Focused, London residential market specialist (c 12,000 homes delivered to date) addressing broader demand in non-prime areas.
- Growing population, acknowledged housing shortage supported by long-term projections from the Mayor of London's office.
- Increasing build-to-rent project activity with a range of investment partners giving rise to higher-volume potential.

Bear

- Sentiment may be affected by low visibility on new build-to-rent investor transactions until secured (although they carry a lower risk profile thereafter)
- UK interest rate rises anticipated in 2019.
- London market uncertainties (including Brexit effects).

Analyst

Toby Thorrington +44 (0)20 3077 5721

Industrials@edisongroup.com

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