

Telford Homes

Greater focus on a long-term growth market

Initiation of coverage

Construction & materials

26 March 2019

Price 295p
Market cap £223m

Telford Homes represents a pure play on London's clear requirement for the delivery of more good-quality, new build homes. Management is continuing to orient development activities towards the more robust build to rent (BTR) subsector, although there will be a near-term dip in earnings as the pipeline transitions, factoring in isolated other project delays and current market conditions also. Regaining and sustaining historic profit levels would warrant a share price significantly ahead of the present valuation.

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 03/17 | 291.9 | 34.1 | 36.6 | 15.7 | 8.1 | 5.3 |
| 03/18 | 316.2 | 46.0 | 49.4 | 17.0 | 6.0 | 5.8 |
| 03/19e | 349.2 | 40.3 | 41.3 | 17.0 | 7.1 | 5.8 |
| 03/20e | 385.9 | 25.0 | 26.4 | 17.0 | 11.2 | 5.8 |
| 03/21e | 472.9 | 30.1 | 32.5 | 17.0 | 9.1 | 5.8 |

Note: Telford's share of JVs is included. *PBT and EPS are normalised.

| | |
|-------------------------------------|-------|
| Net debt (£m) at end September 2018 | 123.1 |
| Shares in issue | 75.7m |
| Free float | 96% |
| Code | TEF |
| Primary exchange | AIM |
| Secondary exchange | N/A |

Share price performance



| % | 1m | 3m | 12m |
|------------------|--------|--------|--------|
| Abs | (13.7) | 3.0 | (25.9) |
| Rel (local) | (13.4) | (4.2) | (27.6) |
| 52-week high/low | 471.5p | 270.0p | |

Business description

Listed on AIM in 2001, Telford Homes is a London-focused residential property developer. Its portfolio of developments includes open market sales (in multi-occupancy, including mixed-use, developments), the build-to-rent subsector (alongside investment partners) and affordable homes delivered to housing associations.

Next events

FY19 year-end March 2019

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Clear focus on long-term growth market

Telford Homes is a leading residential-led property developer in London and has successfully demonstrated an ability to leverage its local expertise across a range of client types. Citing a chronic housing shortage, the Mayor's office has a clear agenda to raise new home building rates to c 65,000 per year over the next 10 years compared to a recent average of less than a third of that level. Medium- and long-term population and household growth expectations further underpin this demand.

Strong support for BTR homes

The company has taken decisive steps in the rapidly expanding new build BTR subsector including the recent announcement of two long-term strategic partnerships being M&G and Invesco. Stretched London affordability ratios together with private rental flexibility led to this sector's rapid growth; strong interest from financial investors and support from the London Mayor indicate that this is set to continue. Consequently, Telford Homes is well positioned in this environment and in the longer-term contexts of expected tenant and investor demand.

Valuation: Assessing medium-term profit potential

Telford Homes' share price has declined by almost one quarter in the last 12 months (compared to a slightly improved FTSE All-Share Index over the same period), the decline occurring in Q418. Earnings expectations have eased back for FY19 and we show a step down in FY20 with a partial recovery in FY21, by which time the P/E becomes 9.1x on our estimates. We currently anticipate a flat 5.8% dividend yield across our estimate horizon. Our DCF analysis suggests the share price is factoring in EBIT slightly above the FY21 level in the medium and long term, while a recovery to FY18 levels equates to a share price over 50% higher.

Investment summary

Company description

Telford Homes is a leading provider of residential-led developments entirely within the London boroughs and has an established 18-year track record, operating through a diverse range of market conditions and with a wide range of partners and tenure types (including open market, BTR and affordable homes and commercial). Its stated pipeline at the end of H119 had a projected gross development value of £1.65bn and in recent years it has entered the fast-growing BTR segment where new strategic industry investor partnerships have recently been announced.

Valuation: Higher share price above sustainable £35m EBIT

Telford Homes' earnings are generated from the progression of pipeline projects; new schemes to replace those that are cycling through the financial statements are required to sustain and grow profits over time. Based on the earnings that our assumptions generate, the company is trading on a closing year, FY19 P/E of 7.1x (compared to a 6–9x range for UK housebuilders). During the transition phase to the step-up in BTR delivery, earnings dip in FY20 and show some recovery in FY21, at which point the P/E becomes 9.1x. Across this period, we anticipate a flat dividend payout equivalent to a 5.8% yield. Using a DCF approach, we note that the current share price is equivalent to the delivery of c £35m EBIT in perpetuity with a 7% WACC. In contrast, regaining the FY18 £49m EBIT level instead yields a 472p value per share.

Financials: Earnings recovering from FY21, stable net debt

The scale and mix of project work undertaken will influence project returns and balance sheet funding requirements. The contracted payment schedule of BTR projects requires significantly less capital to support them compared to open market developments and, allowing for reduced risk, generate lower contribution margins. Our model generates FY19 group PBT of £40m in line with recent management guidance. Beyond this, PBT dips to c £25m in FY20 before starting to rebuild initially to £30m in FY21; existing and new assumed BTR/affordable units plus delivery on identified open market development contribute to this recovery.

Key cash flow items are directly related to project activity in any one period and revolve around the level of working capital required to facilitate development and the associated profitability and project type influences this. We anticipate group net debt of c £125m at the end of FY19 and expect it to be broadly stable to slightly lower in the following two years owing to increasing levels of forward funded work.

Sensitivities: Adaptability to changing markets required

As a residential property provider, Telford's activity levels are influenced by interest rate movements as part of the wider economic cycle and the specifics of supply and demand in the London market with both domestic and international interest. An existing housing shortage and expected growth in population/households provide the primary underpinning for a resilient long-term overall demand picture despite near-term Brexit uncertainty. Allowing for changing market conditions, which can stimulate or dampen subsectors at different times, Telford needs to be adaptable in positioning its development pipeline given multi-year delivery cycles; management has proved itself to be very adept in this regard. Given the shortage of London housing, the forthcoming Mayoral election (in May 2020) is unlikely to trigger a material change in policy stance in our view and the UK government's two-year extension of Help to Buy support (to 2023) is helpful at the margin to Telford Homes.

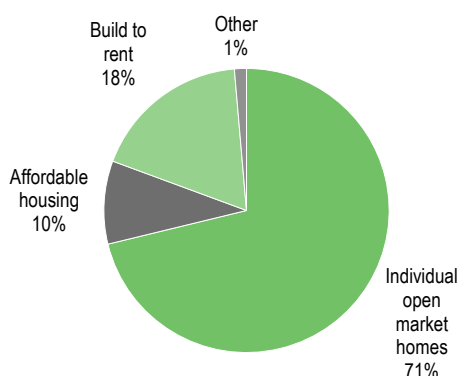
Company description: Specialist London developer

Telford Homes is a specialist provider of multi-occupancy residential housing developments, operating exclusively in the London boroughs. It largely develops in areas that offer good transport links to central London including complex projects involving site regeneration and sensitivity to other community requirements. Telford has historically sold to a wide range of customers but is increasingly focusing on the fast-growing BTR sector.

Leading provider of residential properties in London

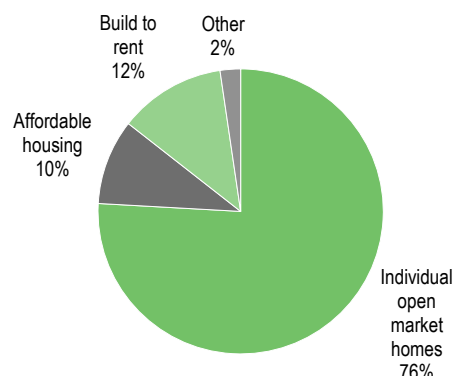
Telford Homes is a London-focused developer of residential and residential-led property on brownfield sites mainly in non-prime locations. It undertakes design, planning and site acquisition activities supporting its projects and as main contractor, assembles and manages a supply chain of sub-contractors to execute building works. The housing mix includes individual open market sales, affordable and BTR homes with an average selling price across the current pipeline below £540,000. This is below the Help to Buy threshold which has become an increasing feature of recent trading updates, but still accounted for less than 10% of open market house sales in FY18.

Exhibit 1: FY18 revenue split by segment



Source: Telford Homes. £316.2m (includes JV shares)

Exhibit 2: FY18 adjusted gross profit split



Source: Telford Homes. £83.6m (inc JV shares)

In addition to providing homes, Telford's projects often include wider community aspects that in the past have included public uses (eg new/replacement schools), commercial premises (eg leisure, retail, office space) and transport linkages all as part of residential-led site development. Its customer profile has historically included individual owner occupiers, buy-to-let landlords both in the UK and overseas, housing associations and BTR investors, which is now a particular area of focus.

Stable management team

Telford has had a very stable management team. Current executive chairman Andrew Wiseman co-founded the business in 2000. CEO Jon Di Stefano joined as CFO in 2002, shortly after the company's IPO, moving to CEO in 2011; at that point Katie Rogers (group financial controller from 2008) became CFO. The board's two other longstanding executives (MD and sales and marketing director) were joined by a new land and planning director in 2018. A non-executive completes the board currently, bringing legal, housing and local and central government experience to the group, and a second NED is actively being sought. Over time and in varying market conditions, the board has demonstrated an ability to adapt the development pipeline mix to address the strongest segments across private, public, owner-occupied, rented and affordable housing, and grow the scale of developments and profitability of the group, which reached a record £46m PBT in FY18.

Track record of profitable London focus

Over time, the Telford management team has successfully evolved and directed development portfolio activities towards stronger sectors. It has also grown the scale of developments undertaken and group profitability, which has left the group well positioned for the market phase. Below we highlight a brief history and recent achievements of the group.

2000–2012: From its formation in 2000 (by former directors of AIM-listed Furlong Homes, acquired earlier that year) until January 2012, Telford Homes was positioned as a first-class developer of open market homes and a partner of affordable housing providers largely in east London. In the second half of this period, having reported c £104m revenue and £13.5m PBT in FY07, it moved to convert unsold open market developments into affordable housing ones aided by Greater London Authority (GLA) funding during the recession. A focus on cash as existing developments were managed through to completion saw PBT trough at £3.0m after exceptional charges in FY11 with some recovery in the following couple of years. Naturally, the extent of this was constrained by limited commitments to additional land investment in prior years. Faced with more restricted buy-to-let mortgage availability, Telford also marketed to overseas investors (especially in Asia), who became an important alternative source of demand.

2013–2015: A strong period for open market home developments, building on land acquisition in the prior period with a focus around inner east London and additional interest in north and central London boroughs. Financial performance was characterised by healthy advance sales, growth in the number of units delivered and significant improvements in gross margins and profitability reflecting the mix shift and generally favourable market conditions. In the affordable housing segment, Telford continued to work with existing and new partners to develop sites supported by the GLA grant allocation scheme. In addition, in 2013 Telford was appointed alongside others to the GLA's London Development Panel, established to facilitate the use of public sector-owned land for residential-led development. Telford finished 2015 with a development pipeline in excess of £1bn, comprising 2,200 homes under construction across 16 sites. Changes in operating structure in the period were designed to raise group capacity to be able to manage a development pipeline of up to 10,000 homes. It also noted interest in the institutional private rented sector (PRS) for the first time.

2016–2018: Telford acquired the United House Developments regeneration business (with interests in four separate site opportunities) for £23m in September 2015 and raised £50m new equity in the following month to fund this and additional development land sites. It also entered into a number of PRS/BTR transactions¹ and reached a pre-construction agreement for a fifth, which is pending s106 planning obligations approval and full design and build terms (ie Parkside, SW11 for Greystar) for a c 900 home build. BTR accounted for 18% of FY18 revenues (26% in FY17, from zero in FY15). Telford management explicitly flagged that it was actively exploring longer-term collaboration possibilities in this sector (and has announced the outcome of this process with two strategic partner agreements subsequently, on 5 March 2019). In FY18, open market homes were still the largest segment (71% of revenue) with mix changes including reducing buy-to-let interest reflecting fiscal changes and market conditions. FY18 represented the fourth successive year of record profits attaining £46m PBT in that year.

1 **1. Pavilions, N1** with L&Q for £66.75m (February 2016) handed over August 2018, **2. Carmen St, E14** – M&G Real Estate £63.2m (May 2016), **3. The Forge, E6** – M&G Real Estate £48.6m (December 2016), **4. New Garden Quarter, E15** phase I – Folio London/Notting Hill Housing Group £53.7m (March 2017).

FY19 trading – re-setting expectations

At the end of H119, management indicated the development pipeline in total was in excess of 5,000 homes with an expected gross development value of £1.65bn. Paradoxically, Telford is in a phase of increasing its project scale but at the same time reducing development risk.

Near-term earnings gap

Telford is in a transition phase as it significantly increases the proportion of BTR developments on its books. As shown later, individual projects can have long gestation periods over planning and construction phases so the development pipeline evolves gradually rather than overnight. As evidenced in the 28 February trading update, a combination of a softening London residential market, one specific live project delay and a small number of others in the pre-construction phase have conspired to reset near-term expectation levels during this transition period. Specifically, FY19 PBT is expected by management to be c £40m (following a record £46m in FY18) and project phasing now suggests a further step down in FY20 followed by a partial recovery in FY21.

While there is an element of reduced aggregate profit expectations for the current development portfolio (including modestly lower net pricing on some open market units and a switch from open market to BTR on certain others) the larger near-term impact could be considered to be deferred rather than foregone earnings. This certainly applies to the ongoing City North scheme (with a six-month delay pushing c £15m profit from FY20 into FY21) and two temporarily delayed build contracts as well as longer planning periods on others also fall into this category. The net effect of these elements is as described earlier;

- a modest shortfall against earlier FY19 profit expectations (and below FY18 PBT)
- a more significant dip in FY20
- earnings start to rebuild in FY21 (largely dependent on more robust BTR and affordable housing developments, together with the revised schedule on a live but deferred JV scheme).

Our estimates are shown in the Financials section below and in the Financial summary table that follows (Exhibit 7).

Partnerships with two strategic BTR partners announced.

Having trailed the intention to identify potential strategic long-term BTR partners in the end FY18 trading update (appointing Savills to manage the review process) Telford announced the outcome on 5 March. For forward funded developments, M&G Real Estate is now the priority partner for schemes up to 200 BTR units and Invesco Real Estate its equivalent above 200 BTR units. In other words, Telford is to work closely with these specialist investors in identifying, designing and developing long-term income-generating residential property assets consistent with their portfolio requirements and the respective parties' financial returns criteria. Once complete, the investors have sole ownership of the built asset and responsibility for its management; Telford acts as the development partner only. In the event that a partner elects not to participate, we understand that the other partner has the first refusal opportunity to do so (by definition in the other's size bracket) and after that Telford Homes would engage with other parties.

The separate partner agreements are each for a three-year duration with an expectation of continuation beyond this initial period. Both strategic partners have been active in the UK BTR sub sector since 2014 and already have a portfolio of assets and developments in London. We see clear practical merit in standardising and streamlining the contractual process on future schemes and alignment with substantial financial partners with existing expertise and a clear intent to invest further in BTR property.

A dynamic perspective on the development pipeline

To date, we understand that Telford has developed homes in the majority of London boroughs, partnered with various housing associations and contracted with four separate BTR investors to date. These relationships, a portfolio of completed developments and extensive local market knowledge represent key levers for a successful ongoing sourcing of appropriate land sites. Exhibit 4 provides a dynamic view of Telford's portfolio development, showing projects that started in earlier periods and are expected to complete during our estimated time horizon as well as those yet to start that run beyond FY21. This illustrates the need to continually identify, secure and successfully develop and sell sites to sustain and grow the business. As discussed earlier, this enables management to evolve its offer and change the balance of activities. This section discusses the company's land sourcing options by reference to historic transactions.

Site appraisal: Telford uses its market knowledge and relationships to assimilate site opportunities appraising prospective financial returns (including target sales revenue, project costs, and capital requirements) against prospective risk (eg site characteristics, planning, end-market demand). The appeal of a locality comprises multiple factors such as transport links, amenities, affordability, which help to define the target market and in turn building design and fit out specification. It seeks to manage risk exposure through contingent purchases, forward open market sales and/or contracted development.

Sourcing land: Telford's core focus has been on brownfield land in non-prime locations and in recent years has expanded across the London boroughs (and remaining within the M25). Developing typically more difficult London sites (eg constrained access, adjacent services, ground conditions) distinguishes the company from mainstream regional and national housebuilders, especially those erecting single dwellings on previously undeveloped greenfield sites outside the M25. Telford has sourced both public and private sector land in a variety of different ways:

Sole development: outright proprietary purchase most likely for open market-led development (eg Stratford Central and Stratosphere, both E15) and typically in more robust economic conditions with a healthy individual open-market sales market.

Partnership: this could be through a formal joint venture agreement (eg New Garden Quarter, E15 with Notting Hill Genesis) or in conjunction with a land owner or housing association, typically where there is an affordable housing element, the provision of which may represent partial consideration (eg Bow Garden Square with Poplar HARCA, Gloucester & Durham, NW6 with LB Brent, as selected via the London Development Panel².)

Acquisition: on acquiring United Homes Development regeneration business in 2015, Telford secured a position on four new developments (three of which were through shares of joint ventures). More recently, it acquired part of Greystar's Greenford, UB6 development, a large mixed-use scheme.

Current development project pipeline.

Telford Homes undertakes pre-development work (design, planning, site acquisition), construction/contract management, sales and future project research; financial performance in any year represents a blend of these activities. Telford's active FY19 development pipeline includes 23 projects that in total require the delivery of over 5,000 dwellings (broadly 40% open market, 40% BTR and 20% affordable housing) and a number of commercial units.

2 www.london.gov.uk/what-we-do/housing-and-land/land-and-development/london-development-panel-2

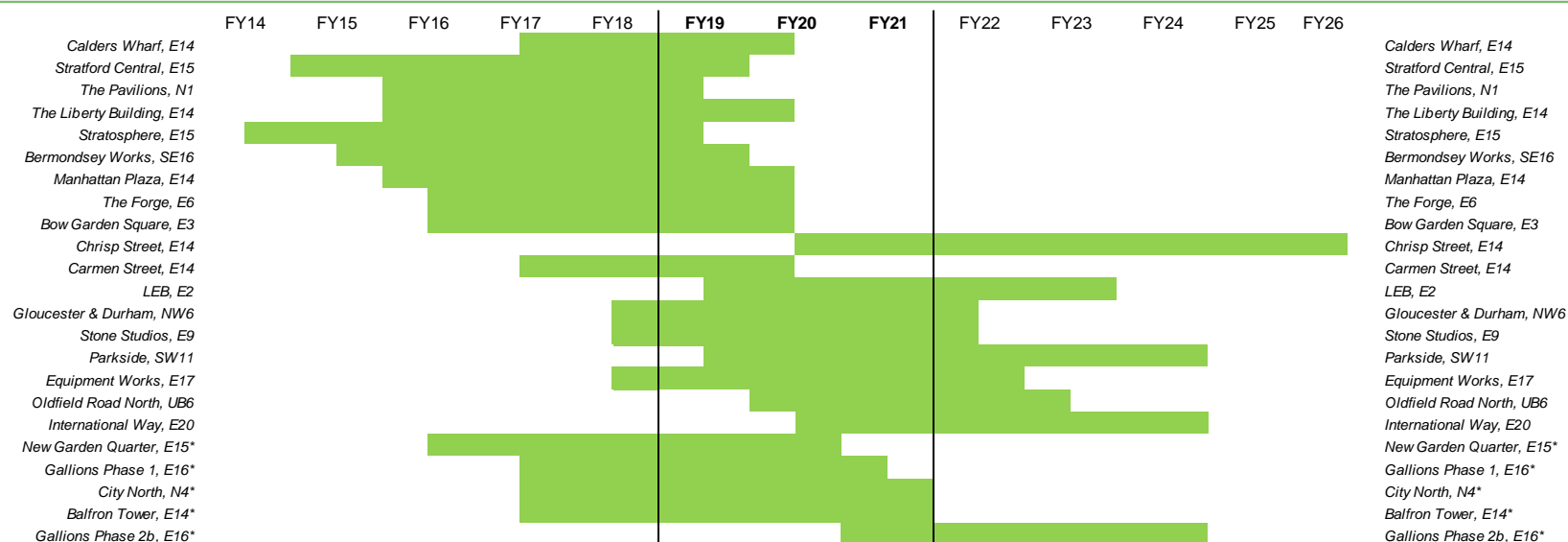
Exhibit 3: Telford Homes projects active in FY19

| | Value | Units | Units | Units | Units | Other | Brief description |
|---------------------------|-------|-------|-------|-------|-------|-------|---|
| | £m | Total | OM | BTR | AH | c 5%+ | |
| Calders Wharf, E14 | ○ | 25 | 21 | - | 4 | Y | LB Tower Hamlets, Island Gardens, adjacent to the Greenwich Foot Tunnel. Four-storey building with 1,2 & 3 bedrooms on a riverfront site. |
| Stratford Central, E15 | ● | 181 | 157 | - | 24 | | LB Newham, Stratford. 31 storey residential tower with apartment mix including 1, 2 & 3 bedrooms, suites and apartments. Excellent transport links. |
| The Pavilions, N1 | ● | 156 | - | 156 | - | | LB Islington, Caledonian Road. Challenging site built with one, two and three bed units and green conservation space. First BTR completion (for L&Q). |
| The Liberty Building, E14 | ● | 155 | 105 | - | 50 | | LB Tower Hamlets, Limeharbour, Canary Wharf. 26-storey tower, 1,2 & 3 bed apartments and a penthouse. Concierge, gym and private gardens. |
| Stratosphere, E15 | ● | 341 | 307 | - | 34 | | LB Newham, Stratford High St. Two residential towers (36 and 12 storeys) with 1,2 & 3 bedroom apartments/penthouses. Concierge, gym, roof terrace. |
| Bermondsey Works, SE16 | ● | 158 | 148 | - | 10 | | LB Southwark, S. Bermondsey. 18-storey tower, connected lower height villas 1, 2, 3 bed and duplex apartments. Concierge, gym, roof gardens, school. |
| Manhattan Plaza, E14 | ● | 195 | 145 | - | 50 | | LB Tower Hamlets, Poplar. Up to 21 storeys at its highest point comprising of a mixture of apartments and townhouses. Concierge, gym, roof gardens. |
| The Forge, E6 | ● | 192 | - | 125 | 67 | | LB Newham, Upton Park. Buildings from 3 to 14 storeys. BTR homes sold to M&G Real Estate, 67 affordable homes sold to East Thames Ltd (now L&Q). |
| Bow Garden Square, E3 | ○ | 109 | 83 | - | 26 | | LB Tower Hamlets, Bow. Mixed use scheme in partnership with Polar HARCA with 1,2 & 3 bed apartments and suite & villas. Community school & mosque. |
| Chrisp Street, E14 | ● | 643 | 443 | - | 200 | Y | LB Tower Hamlets, Poplar. Chrisp St market regeneration in partnership with Poplar HARCA in a GLA new housing Zone. Part of United House acquisition. |
| Carmen Street, E14 | ● | 206 | - | 150 | 56 | | LB Tower Hamlets, Poplar. 22-storey tower with 150 BTR homes sold to M&G Real Estate and 56 affordable homes sold to Poplar HARCA. |
| LEB, E2 | ● | 189 | 124 | - | 65 | Y | LB Tower Hamlets, Bethnal Green. Proposed mixed use scheme with buildings from 5-15 storeys. |
| Gloucester & Durham, NW6 | ● | 235 | 133 | - | 102 | | LB Brent, South Kilburn. Partnership with borough, site secured via London Development Panel with affordable homes sold to Notting Hill Genesis. Part of a multi-phase master plan. |
| Stone Studios, E9 | ● | 120 | 110 | - | 10 | Y | LB Hackney, Hackney Wick. Residential-led, mixed use development with over 50,000sq of commercial space. |
| Parkside, SW11 | ● | 890 | - | 890 | - | | LB Wandsworth, Nine Elms, Battersea. Two buildings, community facilities and public space. Partnership with Greystar. Approaching full build contract stage. |
| Equipment Works, E17 | ● | 337 | - | 257 | 80 | Y | LB Waltham Forest, Walthamstow. Mixed tenure residential development with c 19,000sq ft of flexible commercial space. BTR deal announced 19 February. |
| Oldfield Lane North, UB6 | ● | 278 | 194 | - | 84 | - | LB Ealing, Greenford. Part of Greystar's 20 acre large mixed use scheme (and c 1,965 homes in total). Acquired in November 2018. |
| International Way, E20 | ● | 376 | 204 | - | 172 | | Announced 11 Feb 2019. Conditional site purchase (subject to satisfactory planning consent). Next to Stratford International station & Westfield Stratford |
| New Garden Quarter, E15* | ● | 471 | 183 | 112 | 176 | | LB Newham. 3 to 9 storey mansion block design around a new two acre public park. JV with Notting Hill Genesis. BTR homes sold to Folio London. |
| Gallions Phase 1, E16* | ● | 292 | 205 | - | 87 | | LB Newham, Gallions Reach. Part of a wider multi-phase Notting Hill Genesis redevelopment. Residential-led, part of United House acquisition. |
| City North, N4* | ● | 355 | 308 | - | 47 | Y | LB Islington. Business Design Centre JV (part of United House acquisition). Major mixed use development with new access to Finsbury Park tube station. |
| Balfron Tower, E14* | ● | 137 | 137 | - | - | | LB Tower Hamlets, Poplar. Refurb of 26-storey, grade II listed residential building. JV: Londonnewcastle and Poplar HARCA, part of United House deal. |
| Gallions Phase 2b, E16* | ● | 267 | 132 | - | 135 | | LB Newham, Gallions Reach. Part of a wider multi-phase Notting Hill Genesis redevelopment. Mixed tenure, part of United House acquisition. |

Source: Company, Edison Investment Research. Note: Key a) unit types: OM = Open market, BTR = build-to-rent, AH = affordable housing, Other = non-residential (accounting for c 5%+ of development value). b) Development value: ○ < £50m, ● > 50m/<£100m, ● > £100m /<£150m, ● >£150m/<£200m, ● > £200m. *JV. The four shaded developments have all been fully handed over in FY19. Some existing open market developments could be changed to BTR.

The earliest project above started construction in FY14 (completing by the end of FY19) while two others (in the planning phase) are expected to run to FY26. The following pages show the expected sequencing and location of the above development schedule and background data by London borough to provide context for a growth case for London residential property.

Exhibit 4: Telford Homes – current development projects: Timeline and locations

**LB Islington**

The Pavilions, N1
City North, N4*

LB Hackney

Stone Studios, E9

LB Southwark

Bermondsey Works, SE16

LB Ealing

Oldfield Road North, UB6

LB Wandsworth

Parkside, SW11

LB Brent

Gloucester & Durham, NW6

**LB Waltham Forest**

Equipment Works, E17

LB Tower Hamlets

Calders Wharf, E14
The Liberty Building, E14
Manhattan Plaza, E14
Bow Garden Square, E3
Chrisp Street, E14
Carmen Street, E14
LEB, E2
Balfon Tower, E14*

LB Newham

Stratford Central, E15
Stratosphere, E15
The Forge, E6
International Way, E20
New Garden Quarter, E15*
Gallions Phase 1, E16*
Gallions Phase 2b, E16*

Source: Company, Edison Investment Research. Note: H&F – Hammersmith & Fulham, K&C – Kensington & Chelsea.


Exhibit 5: London demographics: population, number of households and average sale and rental values by borough

| | Population ¹ | | | | Housing stock ¹ | | | | Density ² | Affordability ³ | Average rent/month ⁴ | | |
|---------------------------------|-------------------------|-------------------|-------------------|-----------------|----------------------------|------------------|------------------|-----------------|----------------------|----------------------------|---------------------------------|--------------|--------------|
| | 2017 | 2030 | 2050 | CAGR to 2030 | 2017 | 2030 | 2050 | CAGR to 2030 | | | 1 bed | 2 bed | 3 bed |
| Bold = Inner London | | | | | | | | | | | | | |
| City of London | 7,405 | 9,367 | 10,604 | 1.8% | 6,568 | 8,423 | 9,438 | 1.9% | 20.0 | 14.8 | 1,842 | 2,383 | .. |
| Barking & Dagenham | 210,513 | 260,560 | 322,490 | 1.7% | 74,876 | 101,679 | 126,972 | 2.4% | 19.7 | 10.7 | 975 | 1,200 | 1,400 |
| Barnet | 391,446 | 438,006 | 503,490 | 0.9% | 148,617 | 184,417 | 193,167 | 1.7% | 17.1 | 15.9 | 1,150 | 1,375 | 1,797 |
| Bexley | 247,179 | 276,493 | 304,657 | 0.9% | 97,980 | 113,011 | 119,947 | 1.1% | 15.2 | 11.0 | 788 | 1,050 | 1,300 |
| Brent | 332,750 | 382,415 | 418,595 | 1.1% | 119,056 | 154,141 | 165,603 | 2.0% | 27.3 | 15.9 | 1,270 | 1,500 | 1,850 |
| Bromley | 330,909 | 356,489 | 378,948 | 0.6% | 138,913 | 154,419 | 157,857 | 0.8% | 9.2 | 14.6 | 950 | 1,225 | 1,500 |
| Camden | 249,556 | 266,386 | 304,798 | 0.5% | 106,813 | 121,534 | 130,513 | 1.0% | 47.7 | 20.0 | 1,560 | 2,058 | 2,817 |
| Croydon | 386,436 | 441,922 | 490,900 | 1.0% | 157,091 | 191,910 | 203,159 | 1.6% | 18.2 | 11.2 | 900 | 1,200 | 1,400 |
| Ealing | 347,126 | 413,618 | 438,773 | 1.4% | 133,530 | 170,523 | 179,041 | 1.9% | 23.8 | 16.0 | 1,200 | 1,450 | 1,750 |
| Enfield | 335,647 | 361,176 | 402,838 | 0.6% | 125,341 | 145,600 | 149,278 | 1.2% | 15.3 | 13.9 | 1,050 | 1,300 | 1,550 |
| Greenwich | 282,774 | 339,418 | 383,314 | 1.4% | 111,447 | 148,219 | 167,501 | 2.2% | 22.0 | 12.9 | 1,100 | 1,300 | 1,550 |
| Hackney | 277,475 | 300,157 | 351,640 | 0.6% | 112,534 | 132,482 | 141,942 | 1.3% | 57.1 | 15.9 | 1,473 | 1,778 | 2,353 |
| Hammersmith & Fulham | 181,889 | 234,251 | 270,774 | 2.0% | 88,459 | 115,168 | 131,130 | 2.1% | 50.5 | 20.9 | 1,400 | 1,753 | 2,383 |
| Haringey | 282,397 | 298,983 | 345,855 | 0.4% | 109,388 | 130,928 | 137,807 | 1.4% | 36.4 | 16.8 | 1,250 | 1,500 | 1,800 |
| Harrow | 252,052 | 273,953 | 308,750 | 0.6% | 90,529 | 106,909 | 110,220 | 1.3% | 17.8 | 16.0 | 1,050 | 1,300 | 1,638 |
| Havering | 256,162 | 298,889 | 316,043 | 1.2% | 103,291 | 122,956 | 126,558 | 1.3% | 8.9 | 12.0 | 870 | 1,100 | 1,350 |
| Hillingdon | 307,040 | 334,770 | 363,708 | 0.7% | 109,619 | 126,974 | 129,238 | 1.1% | 9.4 | 12.3 | 1,000 | 1,250 | 1,450 |
| Hounslow | 274,970 | 301,808 | 345,756 | 0.7% | 101,645 | 126,138 | 130,247 | 1.7% | 17.6 | 11.1 | 1,100 | 1,250 | 1,500 |
| Islington | 235,370 | 249,455 | 274,967 | 0.4% | 104,928 | 115,911 | 122,093 | 0.8% | 69.0 | 15.7 | 1,517 | 1,950 | 2,383 |
| Kensington & Chelsea | 157,954 | 169,188 | 178,691 | 0.5% | 89,854 | 96,789 | 100,618 | 0.6% | 70.5 | 40.7 | 1,950 | 2,817 | 4,485 |
| Kingston upon Thames | 178,419 | 202,034 | 228,514 | 1.0% | 67,474 | 82,591 | 88,190 | 1.6% | 18.0 | 15.5 | 1,100 | 1,325 | 1,595 |
| Lambeth | 331,157 | 347,007 | 399,029 | 0.4% | 140,854 | 160,300 | 168,637 | 1.0% | 50.9 | 14.7 | 1,300 | 1,600 | 2,100 |
| Lewisham | 306,380 | 333,474 | 388,806 | 0.7% | 126,544 | 151,611 | 159,668 | 1.4% | 35.7 | 12.4 | 1,100 | 1,400 | 1,600 |
| Merton | 208,225 | 232,473 | 255,498 | 0.9% | 83,937 | 98,170 | 102,333 | 1.2% | 22.2 | 15.4 | 1,200 | 1,450 | 1,798 |
| Newham | 347,448 | 443,657 | 480,671 | 1.9% | 112,696 | 172,083 | 188,598 | 3.3% | 29.2 | 12.7 | 1,200 | 1,400 | 1,600 |
| Redbridge | 303,887 | 337,202 | 386,513 | 0.8% | 103,397 | 124,634 | 130,645 | 1.4% | 18.3 | 14.4 | 1,000 | 1,250 | 1,550 |
| Richmond upon Thames | 197,988 | 214,103 | 227,030 | 0.6% | 85,154 | 94,446 | 96,897 | 0.8% | 14.4 | 19.9 | 1,250 | 1,595 | 2,100 |
| Southwark | 317,735 | 364,761 | 412,254 | 1.1% | 132,787 | 165,261 | 185,381 | 1.7% | 44.2 | 14.3 | 1,350 | 1,600 | 2,000 |
| Sutton | 204,933 | 222,186 | 242,239 | 0.6% | 82,783 | 94,227 | 97,113 | 1.0% | 18.8 | 12.9 | 925 | 1,160 | 1,500 |
| Tower Hamlets | 311,044 | 380,598 | 421,229 | 1.6% | 121,437 | 172,500 | 187,453 | 2.7% | 54.7 | 9.7 | 1,430 | 1,733 | 2,200 |
| Waltham Forest | 280,050 | 303,516 | 353,239 | 0.6% | 102,769 | 123,296 | 128,817 | 1.4% | 26.4 | 15.7 | 1,100 | 1,300 | 1,600 |
| Wandsworth | 319,731 | 377,297 | 405,231 | 1.3% | 144,439 | 172,319 | 182,152 | 1.4% | 40.9 | 19.7 | 1,352 | 1,672 | 2,150 |
| Westminster | 250,049 | 274,812 | 292,403 | 0.7% | 125,565 | 140,319 | 146,308 | 0.9% | 56.0 | 24.6 | 1,842 | 2,492 | 3,467 |
| Inner London | 3,228,142 | 3,605,736 | 4,056,281 | 0.9% | 1,410,170 | 1,683,545 | 1,803,140 | 1.4% | 45.7 | | 1,425 | 1,733 | 2,254 |
| Outer London | 5,328,414 | 5,991,032 | 6,671,295 | 0.9% | 2,150,145 | 2,636,343 | 2,791,381 | 1.6% | 16.0 | | 1,050 | 1,300 | 1,600 |
| Total London | 8,904,096 | 10,040,424 | 11,208,247 | 0.9% | 3,560,315 | 4,319,888 | 4,594,521 | 1.5% | | | 1,288 | 1,500 | 1,800 |

Source: 1. GLA 2016-based housing-led population projections (Nov 2017), 2. Dwelling per hectare: Number and Density of Dwellings by Borough (London.gov.uk) 3. Ratio of House Prices to Earnings, Borough - workplace basis (London.gov.uk), 4. Private Rental Market Statistics (Valuation Office Agency).

Build to Rent: Fast growing London residential market

The London BTR subsector has only been in existence for 10 years and has gathered real momentum in the last five. According to the British Property Federation³ at the end of Q418, London had a completed stock of around 14,800 BTR homes – around half of the UK total – with a further c 19,000 under construction and c 39,000 at the planning stage. (The equivalent figures three years earlier were sub 4,000, c 6,000 and just over 8,000 respectively, providing a clear indication of the growth trajectory.)

Telford is a comparatively new and relatively early entrant to this segment but, despite the growth already seen, we consider this to be a well-timed move because:

- The sector is still **small in the context** of the current London residential housing market.
- It is supported by **strong institutional investor interest**, when other segments are more challenged (ie owner-occupiers – affordability/uncertainty; buy-to-let – adverse fiscal change).
- **Forward funding** significantly de-risks and promotes development activity.
- The private sector is the dominant provider of new homes in London and higher density/multi-occupancy developments represent an obvious way to increase new home provision alongside other tenure and property types **consistent with the London Housing Strategy**.

As we have seen, the London private rental sector has grown significantly and BTR provides a differentiated offer in a traditionally fragmented market through:

- Single landlord: better quality, built for purpose design increasingly with greater amenities (such as concierge, gyms, outdoor space).
- More flexible tenancy arrangements: prospectively longer, offering greater security and stability (to both tenant and rental yield).

Some commentators expect owner-occupier and private rental tenure proportions to continue to converge (reducing and rising respectively) and the BTR subsector is well placed to grow disproportionately quickly in this scenario. As a final comment, we acknowledge that short-term London house price and rental trends are unhelpful for sentiment but the capital remains a large market with attractive long-term growth characteristics. Telford's announced strategic BTR partnership agreements are a significant endorsement of the subsector and indicator of the scale of the company's intent in this space.

Longer term London residential property context

While London house prices, transaction levels and rentals are being affected by Brexit uncertainty, data produced by the Mayor of London's office clearly suggest favourable long-term growth characteristics and a near-term need for increased new home provision in the capital. This section quantifies market scale and growth targets and provides commentary on some subsector themes.

Recent development of the London residential property market:⁴ London's estimated population and number of households were 8.9m people and 3.56m homes in 2017. Around 40% of those households were located in the 13 inner London boroughs. (The breakdown and dwelling density by borough are shown in Exhibit 5.) The comparative population and household figures for 2000 were 7.2m and 3.07m, indicating a net addition to the housing stock averaging just over 26,000 homes per year; of this c 20,000 were new build homes.

3 Build to Rent Q4 2018 www.bpf.org.uk/media-listing/press-releases/building-boom-uk-build-rent-housing

4 The data in this section is sourced from the London Mayor's 'Housing in London 2018' document.

A growing population and a supply-constrained housing market contributed to deteriorating affordability ratios across the London boroughs (ie from 5.5x average workplace earnings in 2000 to 12.4x in 2017 for London as a whole, compared to equivalent figures for England as a whole of 4.2x and 7.9x respectively) and was most likely an important driver in the growth of private rental demand. Although the number of owner-occupied and social rented households barely grew, the private rental subsector equivalent more than doubled to c 0.98m, representing just over 27% of the total by the period end. In this sector, the average number of households increased by c 30,000 per year.

An assessment of the current position and future requirements: according to the London Mayor's office there is a housing shortage in the capital as the number of new jobs created has outstripped the number of new homes provided in the last 20 years or so. Consequently, in its assessment there is a requirement to add c 65,000 new homes per year for the next 10 years to address the shortfall. Compared to the historic average number of new homes added annually noted above, this would represent a significant and sustained uplift in new residential housebuilding activity. In this context, Telford's development pipeline of 5,000+ homes (and operational capacity for up to 10,000 homes), not all for delivery in a single year, would represent a meaningful but realistic contribution to the Mayor's stated target.

London Housing Strategy is the Mayor's policy document (published May 2018, formally adopted August 2018). Its primary thrust is to increase the quantum of new homes and the proportion of new affordable homes while building inclusive neighbourhoods. These features all play to Telford Homes' business strengths, as does the targeting of qualitative improvements in the private rental sector.

'The Mayor will provide a financial and planning environment that helps more land come forward faster for development, and he will work with well-placed delivery bodies including developers, housing associations, and councils to accelerate homebuilding on these sites'.⁵

Understandably, many of the Mayor's proposed initiatives and interventions are geared towards facilitating an increasing provision of affordable housing (long-term aim to 50% total new) including:

- **Funding:** various instruments, the largest of which is the Affordable Homes Programme 2016–21. Also 30 Housing Zone partnerships established across 22 London boroughs now.
- **Improving land availability:** eg London Development Panel 2 to accelerate the delivery of new homes on public land (framework agreement with 29 partners, including Telford Homes).
- **Infrastructure:** co-ordination and investment to unlock development sites. Access also to the UK government's Housing Infrastructure Fund.
- **Support for different tenures/delivery models:** recognition that different tenure types as well as affordable housing are required to achieve the targeted number of new homes. This includes Building Council Homes for Londoners (£1bn plan for c 11,000 new social rent properties over four years), strategic partnerships with large housing associations and a new planning system pathway for BTR schemes.

The latter subsector is an area that Telford has entered in recent years and is actively increasing its exposure here so it is encouraging that the Mayor's office/GLA has a positive view of the role that it can play in the delivery of new homes. This is clearly stated along with the benefits of BTR in the London Housing Strategy (pp73–76, s3.75 onwards).

⁵ London Housing Strategy, s3.11, p46

Sensitivities

The London residential property market (including some related elements of community area regeneration) is Telford's sole focus and Brexit is a significant market distraction, especially among higher value properties, which could potentially have negative economic implications. That said, we believe that demand at Telford's typical price points (eg a current development pipeline average below £540,000) will be relatively resilient. It is reasonable to anticipate more clarity once the nature of Brexit becomes more defined.

Segmented approach, different sector dynamics: inertia has led to a lower number of housing transactions in the capital making it particularly difficult for chain-affected **individual owner-occupiers** looking to move. In this trading environment first-time buyers are the most active and Telford's price point below £600k and the extension of the government's Help to Buy scheme (with a first-time buyer threshold up to this level) very much plays into this segment. In a still relatively low interest rate environment, **investors** in private residential rental property have remained active; while fiscal changes have affected buy-to-let landlord activity, institutional demand for new buy-to-rent developments to diversify investment portfolios appears to be robust. This segment has been Telford's increasing focus in its more recent wholly owned portfolio and pipeline. After a lengthy period of economic austerity, more funding flexibility for the construction of new **affordable housing** by local authorities and housing associations is a useful adjunct for Telford developments.

London-specific issues: all bar one of the London boroughs have affordability ratios (median new house price divided by median workplace earnings) above the England and Wales average of 9.7x, the exception being Tower Hamlets, which is in line.⁶ Although this is likely to make the owner-occupier market more sensitive to market trends (eg employment, interest rate prospects) it also provides a sound underpin to the private rental market, we would argue. Infrastructure investment (eg Stratford regeneration, Crossrail, London Underground extensions) is seen as a significant catalyst for job creation and a driver of demand for new homes. The Mayor's London Housing Strategy was formally adopted in August 2018 and represents a policy document for the GLA. The next mayoral election is scheduled for May 2020; if there is a change of mayor we believe the focus on increasing new build activity across the London boroughs is unlikely to change materially on this timescale. Otherwise, other UK government budgetary measures (eg tax regime changes) can influence housing market activity across London and for the UK as a whole as does the level of and changes in interest rates. The two-year extension of Help to Buy support to 2023 has been seen as beneficial for the first-time buyer market (with London property values capped at £600,000).

Contracting risk: in a typical contracting environment, close management control of construction disciplines against an accurately costed tender (and agreed variations) are key profit drivers. As the proprietor of its developments, Telford manages its contractor supply chain to deliver its project design while assuming risk associated with acquiring land at appropriate prices, progressing through planning and ultimately achieving expected revenues. When done in conjunction with a contracted purchaser, these risks are reduced but open market forward sales can also achieve this on projects to some extent. Telford has a long-term presence in London residential development, especially in the eastern boroughs, with established supply chain relationships. Nevertheless, an understanding of market developments (eg labour/materials availability, inflation, funding position, competitor activity) is a key risk-management requirement. We are not aware of any material legal disputes between Telford and its contractor base, believe it has a good record in this area and consider that the retentions held on construction contracts at the end of FY18 (ie £2.5m, slightly up y-o-y) is low in the context of £316m revenue in that year.

⁶ www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2017

Valuation

Telford's near-term P/E multiples have been inflated by the transition dip in earnings from record FY18 levels and stand at 11.2x for FY20 followed by 9.1x one year further out. Quoted UK housebuilders are currently trading on 6–9x P/Es, although there are significant operating differences (eg by regional exposure and dwelling type). On a standalone basis, our DCF analysis suggests the current share price is factoring in a long-term level of profitability below FY18's record earnings. Alternatively, regaining the FY18 EBIT level drives an equity valuation c 54% above current levels. A dividend yield of 5.8% is a further attraction for investors.

Valuing current and prospective development pipelines

Telford's business model requires land acquisition, construction and sale of developed property assets. Save for some short holding periods prior to the disposal of freehold interests, it generates no ongoing income streams from the assets it develops. Consequently, the P&L is comprised of the cycle through of pipeline projects, typically over a two- to three-year construction period although there are larger multi-phase schemes also. As discussed, sustaining and growing profitability is dependent on bringing through successive new schemes to replace those that are cycling through the financial statements.

On an **earnings** basis, the company is trading on an FY19 P/E of 7.1x and EV/EBITDA of 7.2x and these multiples become 9.1x and 8.8x respectively two further years out. Out of these earnings, our estimates currently generate a flat **dividend yield** of 5.8% out to FY21; earnings cover also dips to 1.6x in FY20 before recovering to 1.9x in FY21.

With balance sheet net operating assets substantially current and related to active projects, as is debt carried, group net assets at any one time are effectively transitory. Our projected end FY19 **NAV** is £252m or 333p per share and the current 295p share price sits on a c 11% discount to this.

Another way to consider the development pipeline is by reference to its **gross development value** (GDV), which was stated to be £1.65bn at the end of H119. Crudely, if we apply a 17% EBIT margin, the current level of interest costs and a 20% tax rate, this GDV nets down to the current market capitalisation. Allowing for c £150m net debt on hand, we could interpret this as equivalent to a 'management premium' or implicit value attributed to the company over and above the profit that can be generated from the current, known development pipeline.

Staying with cash-based measures, we now use a **DCF analysis** to interpret the current share price and illustrate valuations by varying the EBIT and WACC assumptions. (In all cases, beyond our forecast years our model uses a flat EBIT figure in perpetuity, a neutral working capital movement beyond FY19 and a 20% tax rate.) We note that incorporating c £35m EBIT and applying our company-specific 7% WACC estimate generates a valuation equivalent to the current 295p share price (towards the left hand range of outputs shown in Exhibit 6). Regaining the FY18 £49m EBIT level in the DCF instead yields a 472p value per share. One could cite weak current market conditions, greater post Brexit clarity or a prospective ramp up in BTR activity as potential drivers of a range of possible outcomes for Telford Homes and Exhibit 6 provides a reference point for valuation under a number of scenarios.

Exhibit 6: Telford Homes DCF illustration

| Value per TEF share (£) | | EBIT (£m) | | | | |
|-------------------------|----|-----------|------|------|------|------|
| | | 30 | 35 | 40 | 45 | 50 |
| WACC % | 6% | 2.99 | 3.75 | 4.50 | 5.26 | 6.02 |
| | 7% | 2.31 | 2.94 | 3.58 | 4.21 | 4.85 |
| | 8% | 1.80 | 2.34 | 2.89 | 3.43 | 3.98 |

Source: Edison Investment Research

Financials

Telford Homes' financial statements represent an aggregation of progress across a number of active projects at any point in time and are influenced by the balance of project types, their risk profiles and stages of completion. We have adopted the company's preferred presentation, which includes a proportional share of JV results, noting that the cash flow statements are our interpretation as they are not separately reported.

A note on project types and business mix effects

We summarise our model and estimates below but first we describe how business mix influences group working capital movements as a reference point for future business development. We make a simplistic distinction between contracted development (eg for identified BTR or affordable housing clients) and uncontracted development (eg open market homes or commercial space).

Contracted development: we would expect the end client to be invoiced to reflect the stage of project completion based on costs incurred and the expected project margin that Telford expects to earn. Consequently, depending on the successful execution of stages and payment profile agreed, the required WIP/working capital investment required by Telford should be comparatively light. (This includes the initial land acquisition cost that, subject to successful design and planning phases, should be reimbursed at the pre-/initial construction stage.) As a result, at the project level, recognised revenue, cash receipts and development costs should be relatively closely aligned, allowing for timing differences around reporting period ends.

Uncontracted development: in contrast, revenue receipts for this type of development tend to be substantially back-end loaded (save for some deposits, reservations and pre-sales) and geared around physical completion and handover. This means development costs (including land, planning and construction) are effectively carried by Telford for most of the project's duration. As a result, this requires more significant investment in WIP/working capital, the quantum depending on the scale of development and construction timescale (as well as initial land value). Profitability is also back-end loaded, so completion dates relative to trading period ends can potentially have a material impact on reported profitability. Building out developments in phases or blocks, rather than a single building, does soften this point, allowing for individual blocks to be completed and sold whereas others on the same development are ongoing.

Margin/risk trade-off: clearly, there is greater uncertainty around ultimate achieved revenue total in open market developments, albeit in a market with established benchmarks and demographics, and this is reflected in a better margin expectation of c 16%+ versus c 14% for contracted projects. As in all contracting work, the actual margin reflects construction performance against design and cost. For open market projects, realised selling price differences versus budget provide additional upside/downside compared to contracted projects where the price is agreed in advance.

Mix effects on reported financials: to summarise, Telford's reported financial performance at group level will reflect the mix of projects undertaken in any one period. Specifically:

- Higher project margin contribution/average WIP – from a higher proportion of open market/uncontracted projects (and depending on completions in any one period)
- Lower project margin contribution/WIP requirement – from a higher proportion of contracted projects.

As described earlier, Telford is increasing its development bias towards contracted, specifically BTR, projects and consequently, we expect gross and EBITDA margin progression to reflect the second of these bullet points with a lower capital requirement than would be the case for equivalent open market developments.

BTR transition feeds through to recovering profits in FY21

The nature of Telford's business model means the current development profile has a finite time horizon (see Exhibit 4). In the absence of adding new projects to replace those completing, the P&L would contract but result in a significant build-up of balance sheet cash. Market forecasts include additional, unidentified projects coming into and working through the development pipeline, based on perceived capacity, and we states these assumptions explicitly below. Our model generates:

- **Group PBT** in FY19 at £40m below the record FY18 level (ie £46m), dipping to £25m in FY20 before starting to rebuild in FY21.
- **Net earnings** follow a similar pattern to PBT
- **Dividend** currently flat at 17p pa (FY18–FY21), with a DPS cover low point at 1.6x ahead of strategic partnership BTR project pipeline development

In the above earnings profile, our model incorporates new (yet to be explicitly identified) projects that make the following contributions to gross profit:

- **FY19** zero, **FY20** c 6% and **FY21** c 40%.

To achieve this, we have assumed new contracted projects with a gross development value of c £150m each with a three-year construction to completion duration with one in FY20 and two in FY21 (starting at the beginning and middle of that year).

Cash flow dominated by the level of project activity

The key cash flow items relate to the level of project activity in any one period and revolve around the working capital required to facilitate development and the associated profitability generated, which in turn drives cash tax and dividend payments. Telford does not undertake the physical construction of its developments and has limited fixed capital requirements although it may periodically invest in or acquire interests in other project vehicles.

Working capital/bank funding is transitory at the project level but a permanent group feature with multiple projects at different stages of development and new ones added as others complete. WIP is the main component although project specific amounts recoverable on contracts, owed by JVs and advances received also feature. Contracted development is less capital intensive; we expect working capital investment and net debt to both be above FY18 levels at the end of FY19 and to broadly maintain that level over the following two years. Consistent with the increasing proportion of BTR work, working capital as a percentage of sales should trend down; our modelled gearing is below 50% in all three years in line with recent guidance. Note that timing differences and revenue/profit recognition on open market/uncontracted projects (eg forward sales) may mean that WIP cash flow and balance sheet line item movements are not completely aligned in any one trading period. We adjust cash flow WIP to allow for such differences introduced by our model. Cash net interest costs will be higher than the company reports in its P&L owing to capitalisation of external project funding costs during construction (though the margin and this interest effect is adjusted in our model). We have modelled cash tax to be broadly in line with the P&L charge.


Capital invested in project activities

We repeat here that outside of project requirements, Telford very much has a capital-light model. Its funding strategy is on a project-by-project basis under group facilities, which comprise a five-year RCF of £210m (to 2022) and separate facilities for the City North and Balfron Tower JV projects. (Historically, there has been limited JV project-related debt, c £3m at the end of FY18, although this may vary in future depending on requirements beyond initial funding from JV partners.) The last significant equity funding call (a £50m gross Placing) was in FY16 to fund development activity and the acquisition of the United House Developments regeneration business. Telford has no significant long-term liabilities and no exposure to defined benefit pension scheme obligations.

Exhibit 7: Financial summary

| | £m | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|--|----|---------|---------|---------|---------|---------|---------|---------|
| Year end 31 March | | | | | | | | |
| PROFIT & LOSS | | | | | | | | |
| Revenue | | 173.5 | 245.6 | 291.9 | 316.2 | 349.2 | 385.9 | 472.9 |
| Cost of Sales | | (116.7) | (180.5) | (226.8) | (232.7) | (264.6) | (314.8) | (394.9) |
| Gross Profit | | 56.8 | 65.0 | 65.1 | 83.6 | 84.6 | 71.1 | 78.1 |
| EBITDA | | 31.5 | 37.0 | 39.8 | 53.8 | 48.8 | 33.3 | 38.3 |
| Operating Profit (before GW and except.) | | 30.9 | 36.4 | 39.2 | 52.9 | 47.6 | 31.9 | 36.7 |
| Intangible Amortisation | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating Profit | | 30.9 | 36.4 | 39.2 | 52.9 | 47.6 | 31.9 | 36.7 |
| Net Interest | | (5.8) | (4.2) | (5.1) | (6.8) | (7.3) | (7.0) | (6.6) |
| Profit Before Tax (norm) | | 25.1 | 32.2 | 34.1 | 46.0 | 40.3 | 25.0 | 30.1 |
| Profit Before Tax | | 25.1 | 32.2 | 34.1 | 46.0 | 40.3 | 25.0 | 30.1 |
| Tax | | (5.5) | (6.5) | (6.6) | (8.6) | (8.8) | (4.7) | (5.2) |
| Profit After Tax (norm) | | 19.7 | 25.7 | 27.5 | 37.4 | 31.5 | 20.2 | 24.9 |
| Profit After Tax | | 19.7 | 25.7 | 27.5 | 37.4 | 31.5 | 20.2 | 24.9 |
| | | | | | | | | |
| Average Number of Shares Outstanding (m) | | 59.2 | 65.5 | 74.7 | 75.1 | 75.7 | 76.0 | 76.0 |
| EPS - normalised FD (p) | | 32.6 | 38.9 | 36.6 | 49.4 | 41.3 | 26.4 | 32.5 |
| EPS (p) | | 33.2 | 39.3 | 36.8 | 49.8 | 41.6 | 26.6 | 32.8 |
| Dividend per share (p) | | 11.1 | 14.2 | 15.7 | 17.0 | 17.0 | 17.0 | 17.0 |
| | | | | | | | | |
| Gross Margin (%) | | 32.7 | 26.5 | 22.3 | 26.4 | 24.2 | 18.4 | 16.5 |
| EBITDA Margin (%) | | 18.2 | 15.1 | 13.6 | 17.0 | 14.0 | 8.6 | 8.1 |
| Operating Margin (before GW and except.) (%) | | 17.8 | 14.8 | 13.4 | 16.7 | 13.6 | 8.3 | 7.8 |
| BALANCE SHEET | | | | | | | | |
| Fixed Assets | | 1.9 | 2.1 | 2.2 | 3.4 | 11.1 | 11.7 | 12.1 |
| Intangible Assets | | 0.0 | 0.4 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Tangible Assets | | 1.0 | 1.5 | 1.3 | 2.5 | 3.4 | 4.0 | 4.4 |
| Investments | | 0.9 | 0.2 | 0.1 | 0.0 | 6.9 | 6.9 | 6.9 |
| Current Assets | | 328.3 | 337.8 | 422.1 | 443.4 | 461.7 | 473.1 | 484.4 |
| Stocks | | 277.2 | 285.6 | 339.4 | 373.9 | 392.2 | 403.4 | 414.4 |
| Debtors | | 5.9 | 24.9 | 37.5 | 50.8 | 50.8 | 50.8 | 50.9 |
| Cash | | 39.7 | 20.8 | 39.8 | 13.8 | 13.8 | 13.8 | 13.8 |
| Current Liabilities | | (208.8) | (150.9) | (217.2) | (214.0) | (219.2) | (223.9) | (223.6) |
| Creditors | | (116.2) | (112.8) | (163.1) | (97.1) | (80.7) | (87.6) | (95.5) |
| Short term borrowings | | (92.6) | (38.2) | (54.1) | (116.9) | (138.6) | (136.3) | (128.1) |
| Long Term Liabilities | | (1.1) | (2.0) | (2.8) | (1.7) | (1.8) | (1.8) | (1.8) |
| Long term borrowings | | (0.4) | (0.7) | (1.1) | (0.4) | (0.4) | (0.4) | (0.4) |
| Other long term liabilities | | (0.7) | (1.4) | (1.7) | (1.3) | (1.4) | (1.4) | (1.4) |
| Net Assets | | 120.4 | 187.0 | 204.3 | 231.1 | 251.9 | 259.2 | 271.2 |
| CASH FLOW | | | | | | | | |
| Operating Cash Flow | | | | 27.2 | (61.2) | 7.3 | 26.3 | 32.6 |
| Net Interest | | | | (3.8) | (5.6) | (6.0) | (5.4) | (5.3) |
| Tax | | | | (6.5) | (7.6) | (7.8) | (3.7) | (4.2) |
| Capex | | | | (0.4) | (2.1) | (2.0) | (2.0) | (2.0) |
| Acquisitions/disposals | | | | (3.6) | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing | | | | 0.9 | 0.8 | 0.3 | 0.0 | 0.0 |
| Dividends | | | | (11.1) | (12.4) | (13.2) | (12.9) | (12.9) |
| Net Cash Flow | | | | 2.7 | (88.1) | (21.3) | 2.3 | 8.2 |
| Opening net debt/(cash) | | | | 18.0 | 15.3 | 103.4 | 125.1 | 122.8 |
| HP finance leases initiated | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | | | | 0.0 | 0.0 | (0.3) | 0.0 | 0.0 |
| Closing net debt/(cash) | | | | 15.3 | 103.4 | 125.1 | 122.8 | 114.6 |
| Gearing (net debt/net assets) | | | | 8% | 45% | 50% | 47% | 42% |

Source: Telford Homes accounts, Edison Investment Research. Note: Financials presented including Telford Homes share of JV activities; the company does not currently report a cash flow statement on this basis, so the above represents our interpretation only. Our P&L projections show interest costs gross, before capitalisation effects (and with a higher gross margin), which net out at the PBT level. Historic P&L numbers have been presented on the same basis.

| | |
|---|---|
| Contact details | Revenue by geography |
| <p>Telford House Queensgate, Britannia Road Waltham Cross, Herts. EN8 7TF United Kingdom 01992 809800 www.telfordhomes.london</p> |  <p>A horizontal bar chart with a single green bar representing 100% of the revenue. The x-axis is labeled with a '%' symbol at the start. A legend below the bar indicates that the green color represents the 'UK'.</p> |
| Management team | |
| <p>CEO: Jon Di-Stefano Joined in 2002 and became CEO in 2011. Also NED at Urban and Civic. Qualified chartered accountant.</p> | <p>CFO: Katie Rogers Joined in 2007 and became group CFO in July 2011. Qualified chartered accountant.</p> |
| <p>Chairman: Andrew Wiseman Co-founded Telford in 2000 and headed the company's AIM IPO in December 2001. Relinquished the CEO role after a handover period in January 2012. Also a strategic board member of Optivo, a London Housing Association. Qualified management accountant.</p> | |
| Principal shareholders (at 15 March 2019) | (%) |
| Octopus Investments | 10.0 |
| Hargreaves Lansdown | 7.9 |
| Interactive Investor | 6.1 |
| Investec Wealth & Investment | 5.8 |
| Thames River Capital | 3.3 |
| Companies named in this report | |

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