

# Telford Homes

## Consistent messaging

Telford Homes' latest update is consistent with management comments accompanying FY18 results and the company is on track to deliver further progress in FY19. The share price has not kept step with business performance, perhaps influenced by wider cyclical sentiment. Project portfolio newsflow is likely to remain positive, and this should serve to re-connect internal progress and investor returns in our view.

## AGM comments confirm FY19 on track

AGM comments point to a robust London housing market with broadly based demand continuing and we detect no change in tone regarding market temperature. We are reminded that profitability will again be weighted towards H2 and we assume that this reflects the phasing of visible projects that are currently underway.

## Well-defined strategy and market themes

Having attained record profitability of £46m PBT in FY18, management has set the target of delivering over £50m PBT in FY19 and consistent returns to shareholders. Two well-developed themes are the shortage of new housing in the London heartland, and strong and rising institutional investor interest in the build-to-rent (BTR) subsector. Together, these aspects are underpinning Telford's rebalancing towards larger but lower-risk (through forward sale) projects, which also facilitate increased business scale. The latest example cited is Equipment Works (a mixed-use development located in Walthamstow, E17) where negotiations are underway for the sale of all 257 of the site's proposed BTR homes to a single investor. Looking ahead, Telford is also actively exploring potential longer-term BTR investor partnership arrangements and further updates here in due course may provide additional insight into future strategic progress.

## Valuation: Share price lagging trading performance

In context, Telford Homes' share price has recovered from a post-EU referendum low of c 283p in July 2016. Indeed, it also performed well in the second quarter of calendar 2018 (reaching a c 471p high in May), but has since retraced and currently sits c 5% below levels at the start of the year. Having delivered record – and above consensus – FY18 results with a confirmed management expectation of further progress in FY19, the company's P/E has compressed to single-digit multiples with a prospective 4.7% dividend yield. To us, this looks like investor sentiment has moved away from perceived cyclical plays, but the dynamics of the London market are somewhat different and offer greater resilience in our view.

### 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	10.8	4.0
03/18	316.2	46.0	49.4	17.0	8.0	4.3
03/19e	412.3	51.7	55.7	18.7	7.1	4.7
03/20e	455.8	53.5	57.6	19.3	6.9	4.9

Source: Bloomberg

### Home construction

12 July 2018

**Price** 396p  
**Market cap** £300m

### 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.
- London market uncertainties (including Brexit effects).

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