

# WATKIN JONES

## HOME CONSTRUCTION

23 April 2024

WJG.L

40.4p

Market Cap: £103.5m

### SHARE PRICE (p)



12m high/low

99p/32p

Source: LSE Data (priced as at prior close)

### KEY DATA

Net (debt)/cash	£44.0m (at 31/03/24)
Enterprise value	£59.5m
Index/market	AIM
Next news	HY results, 21 May
Shares in issue (m)	256.2
Chairman	Alan Giddins
CEO	Alex Pease
CFO	Sarah Sergeant

### COMPANY DESCRIPTION

Watkin Jones develops large-scale residential-for-rent properties in the build-to-rent & student accommodation markets.

[www.watkinjones.com](http://www.watkinjones.com)

WATKIN JONES IS A RESEARCH CLIENT OF  
PROGRESSIVE

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## H1 in-line amid reviving investor appetite

Watkin Jones's guidance for FY24E is unchanged in its trading update for the first half to 31 March. We maintain our forecasts for the full year and introduce half-year estimates, in line with reiterated guidance that performance will be significantly H2 weighted. The group confirms a continuing gradual recovery in appetite among institutional investors to forward fund its build-to-rent (BTR) and student developments. We believe this should gather pace as the direction of interest rates becomes clearer.

- Previously secured work drives first half.** Guidance has been maintained, with first-half performance driven substantially by the group's previously secured forward-sold developments. Gross margins for the two development divisions are c.10%, in line with guidance at the FY23 results. As announced on 7 March, the group also completed the forward sale of a 260-bed student scheme in Bristol in the period. Two further student sites have been secured totalling c.1,500 beds for future delivery, subject to planning. At the half-year end, net cash was c.£44m (H1 23: £45.3m).
- Heavy H2 weighting.** We make no changes to our FY24E forecasts and introduce half-year estimates (pages 2 and 3). These assume a 20%/80% split in PBT, in line with reiterated guidance that performance will be 'significantly H2 weighted'. We believe a decision on the weighting of the interim and final dividend will depend on trading at the time of the interim results on 21 May. We intend to introduce FY25E estimates at that time, with the outlook likely to be sensitive to the trajectory for interest rates.
- Step change likely as rates view becomes clearer.** The forward-funding market was disrupted as interest rates ramped up after September 2022. Watkin Jones states that it is 'seeing the wider real estate investment market and appetite for forward funds continuing to recover gradually, off a low base'. Our view is that, while sentiment is improving, investment has started first in the student market then in 'single family' housing BTR – whereas the group focuses on the urban multi-storey sector. We believe that once rates fall there could be a marked improvement in mainstream BTR, with widespread data showing an undersupply of institutional-grade private lets and student accommodation pushing rents to record levels.
- CFO succession.** In a managed succession process, Sarah Sergeant, CFO, will step down from the Board in mid-June. Simon Jones has been appointed as CFO Designate and will join the Board on 21 May. He was most recently CFO at property outsourcing specialist Mapeley Group.

FYE SEP (£M)	2020	2021	2022	2023	2024E
Revenue	354.1	430.2	407.1	413.2	400.0
Fully Adj PBT	45.8	51.1	48.8	-2.9	11.5
Fully Adj EPS, dil (p)	14.7	16.3	14.8	-0.6	3.4
Dividend per share (p)	7.4	8.2	7.4	1.4	1.7
PER (x)	2.7x	2.5x	2.7x	N/A	12.0x
Dividend yield (%)	18.2%	20.3%	18.3%	3.5%	4.2%
EV/EBITDA (x)	1.0x	0.9x	0.9x	8.4x	2.4x

Source: Company Information and Progressive Equity Research estimates.

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Please refer to important disclosures at the end of the document.

**Figure 1: Watkin Jones – Key performance highlights (£m unless stated)**

Year-end September	2019	2020	2021	2022	2023	2024E	H1 2023	H2 2023	H1 2024E	H2 2023E
<b>Revenue</b>										
Student accommodation	246.1	226.0	259.9	180.0	175.7	165.0	48.4	127.3	58.1	106.9
Change (%)	-21.3%	-8.2%	15.0%	-30.7%	-2.4%	-6.1%	-38.2%	25.1%	20.0%	-16.0%
Build-to-rent	77.4	94.0	138.6	191.2	207.7	215.0	93.0	114.7	105.1	109.9
Change (%)	na	21.4%	47.4%	38.0%	8.6%	3.5%	-0.8%	17.7%	13.0%	-4.2%
Affordable-led Homes	34.3	26.3	22.7	14.5	19.6	12.0	7.8	11.8	5.8	6.2
Change (%)	14.4%	-23.4%	-13.7%	-36.1%	35.4%	-38.8%	43.8%	30%	-25.0%	-47.9%
Accommodation management	7.5	7.6	7.8	9.1	9.5	8.0	4.7	4.8	4.0	4.0
Change (%)	2.2%	1.7%	2.3%	16.9%	4.5%	-15.6%	15.0%	-4.1%	-15.0%	-16.2%
Corporate	9.5	0.3	1.3	12.3	0.7	-	-	0.7	-	-
<b>Group revenue</b>	<b>374.8</b>	<b>354.1</b>	<b>430.2</b>	<b>407.1</b>	<b>413.2</b>	<b>400.0</b>	<b>153.9</b>	<b>259.4</b>	<b>173.0</b>	<b>227.0</b>
Change (%)	-2.1%	29.4%	-3.9%	49.5%	1.5%	-3.2%	-20.3%	21.1%	12.4%	-12.5%
<b>Gross profit</b>										
Student accommodation	54.9	54.3	50.5	26.4	11.4	18.2	4.8	6.6	6.0	12.1
Margin (%)	22.3%	24.0%	19.4%	15.0%	6.5%	11.0%	9.8%	5.2%	10.4%	11.3%
Build-to-rent	13.8	14.9	29.8	32.8	19.8	20.9	8.3	11.6	10.2	10.7
Margin (%)	17.8%	15.8%	21.5%	17.0%	9.5%	9.7%	8.9%	10.1%	9.7%	9.7%
Affordable-led Homes	7.2	4.0	2.6	1.9	1.9	1.3	0.9	1.0	0.6	0.7
Margin (%)	20.9%	15.4%	11.3%	12.0%	9.8%	11.0%	11.9%	8.4%	10.0%	11.9%
Accommodation management	4.6	4.5	4.1	5.9	6.0	5.2	3.2	2.8	2.6	2.6
Margin (%)	61.5%	59.8%	52.6%	50.0%	63.2%	65.0%	67.1%	59.3%	65.0%	65.0%
Corporate	(0.3)	(1.8)	(2.1)	0.6	(4.3)	-	(1.1)	(3.2)	-	-
<b>Gross profit</b>	<b>80.0</b>	<b>75.9</b>	<b>84.8</b>	<b>67.6</b>	<b>34.9</b>	<b>45.5</b>	<b>16.1</b>	<b>18.8</b>	<b>19.4</b>	<b>26.1</b>
Margin (%)	21.4%	21.4%	19.7%	16.6%	8.4%	11.4%	10.4%	7.3%	11.2%	11.5%
Group admin	(21.3)	(20.8)	(23.3)	(25.4)	(30.1)	(30.5)	(14.3)	(15.8)	(15.3)	(15.3)
Profit on sale of I-hold properties	-	-	-	18.3	(4.6)	-	-	18.3	-	-
<b>EBIT, group only</b>	<b>55.6</b>	<b>51.7</b>	<b>57.3</b>	<b>54.7</b>	<b>0.2</b>	<b>15.0</b>	<b>1.8</b>	<b>(1.6)</b>	<b>4.2</b>	<b>10.9</b>
Share in op profit of JVs	0.3	0.2	(0.1)	-	(0.0)	-	-	(0.0)	-	-
<b>Total operating profit</b>	<b>55.9</b>	<b>51.9</b>	<b>57.2</b>	<b>54.7</b>	<b>0.2</b>	<b>15.0</b>	<b>1.8</b>	<b>(1.6)</b>	<b>4.2</b>	<b>10.9</b>
Exceptionals	(2.6)	(20.4)	-	(30.4)	(39.6)	-	(1.1)	(38.5)	-	-
Net interest	(5.4)	(6.1)	(6.0)	(5.9)	(3.0)	(3.5)	(1.5)	(1.5)	(1.8)	(1.7)
<b>PBT</b>	<b>47.9</b>	<b>25.3</b>	<b>51.1</b>	<b>18.4</b>	<b>(42.5)</b>	<b>11.5</b>	<b>(0.8)</b>	<b>(41.7)</b>	<b>2.4</b>	<b>9.2</b>
Underlying tax rate (%)	18.4	17.7	18.0	22.0	41.8	25.0	9.8	38.8	25.0	25.0
Reported tax	(9.0)	(4.2)	(9.2)	(5.0)	9.9	(2.9)	0.2	9.7	(0.7)	(2.2)
<b>Net attrib. profit</b>	<b>38.8</b>	<b>21.1</b>	<b>41.9</b>	<b>13.4</b>	<b>(32.5)</b>	<b>8.6</b>	<b>(0.6)</b>	<b>(32.0)</b>	<b>1.8</b>	<b>6.9</b>
Adj PBT	50.4	45.8	51.1	48.8	(2.9)	11.5	0.3	(3.2)	2.4	9.2
EBITDA	64.8	61.1	65.9	63.1	7.1	25.1	4.8	2.3	9.2	15.9
Adj EPS, dil (p)	16.1	14.7	16.3	14.8	(0.6)	3.4	0.1	(0.8)	0.7	2.7
DPS (p)	8.4	7.4	8.2	7.4	1.4	1.7	1.4	-	TBC	TBC
Dividend cover (x)	1.9	2.0	2.0	2.0	(0.5)	2.0				
FCFPS (p)	9.3	14.9	23.9	(6.0)	(6.4)	3.0				
NAV (p)	63.1	65.5	72.1	68.8	50.2	53.0				
TNAV (p)	57.7	60.3	67.2	64.1	45.7	48.7				
Net cash/(debt), post-IFRS 16	(60.7)	(39.6)	(4.9)	33.5	(1.3)	5.0	(2.1)	(1.3)	(1.0)	5.0
<b>Net cash/(debt), pre-IFRS 16</b>	<b>88.4</b>	<b>94.8</b>	<b>124.3</b>	<b>82.6</b>	<b>43.9</b>	<b>50.2</b>	<b>45.3</b>	<b>43.9</b>	<b>44.0</b>	<b>50.2</b>

Source: Company Information and Progressive Equity Research estimates.

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

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

Source: Company Information and Progressive Equity Research estimates.

## WJG in brief: capital-light model in growth markets

The group, admitted to AIM in 2016, in our view offers a unique capital-light development and asset management model for private and student rental. It develops BTR and PBSA schemes, largely forward-funded by institutions, which acquire sites from WJG with the benefit of planning and then pay for the works monthly as development progresses, thus reducing capital tie-up for WJG. The group also provides an accommodation management service through its Fresh Property Group (FPG) business, which manages both WJG and third-party developed assets. We believe the group should benefit from continuing growth opportunities in new student accommodation, has 'early mover advantage' in BTR, and this is all tied together by FPG in what we have defined as a 'virtuous circle'. For more information, see the [Watkin Jones section](#) of Progressive's website.

### Key current themes: addressing growing rental markets

- **Capital-light investment model.** Institutional investors have underpinned the group's capital-light growth model by acquiring developments on a forward-sales basis, in which they pay for the land and the development works as they progress. The current elevated interest rates have led to a partial slowdown in investment, but we believe both BTR and PBSA remain attractive due to long-term visibility of rental income.
- **Build-to-rent.** As we have argued in our research, we expect long-term growth in BTR, fuelled by demand from renters, either economically or for 'lifestyle', and from investors, attracted by income prospects while other sources of yield are diminishing.
- **Student demand remains high.** Despite past worries that Brexit and then Covid might have deterred university entries, particularly from overseas students, UCAS continues to register new records for applications from both home and abroad.
- **Opportunities in land market – boosted by strong balance sheet.** Any slowdown in investment decisions could, in our view, open up new opportunities for WJG to buy land at reduced prices, given the group's net cash of over £40m. We believe WJG could exploit significant opportunities from landowners in challenged sectors such as retail and leisure. WJG could also benefit from recent changes to planning rules, allowing vacant office and retail properties to be fast-tracked for residential use.
- **Fresh accommodation management: tying the group together.** We see Fresh as not only providing a stable income stream from its regular management fees but also using its insight and 'brand' to tie together student accommodation, BTR and possibly co-living as graduates move into work.

**Financial Summary: Watkin Jones**

Year end: September (£m unless shown)

	2020	2021	2022	2023	2024E
<b>PROFIT &amp; LOSS</b>					
Revenue	354.1	430.2	407.1	413.2	400.0
Adj EBITDA	61.1	65.9	63.1	7.1	25.1
Adj EBIT	51.7	57.3	54.7	0.2	15.0
Reported PBT	25.3	51.1	18.4	(42.5)	11.5
Fully Adj PBT	45.8	51.1	48.8	(2.9)	11.5
NOPAT	42.5	47.0	42.6	0.1	11.3
Reported EPS (p)	8.2	16.4	5.2	(12.7)	3.4
Fully Adj EPS (p)	14.7	16.3	14.8	(0.6)	3.4
Dividend per share (p)	7.4	8.2	7.4	1.4	1.7
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	54.9	76.3	(19.6)	(17.2)	14.1
Free Cash flow	38.0	61.3	(15.3)	(16.5)	7.7
FCF per share (p)	14.9	23.9	(6.0)	(6.4)	3.0
Acquisitions	0.8	0.1	0.0	0.0	0.0
Net cash flow	18.9	1.8	(25.5)	(38.4)	6.3
Overdrafts / borrowings	174.1	141.2	77.4	73.7	73.7
Cash & equivalents	134.5	136.3	110.8	72.4	78.7
Net (Debt)/Cash, pre-IFRS 16	94.8	124.3	82.6	43.9	50.2
IFRS 16 Lease liabilities	(134.5)	(129.3)	(49.1)	(45.2)	(45.2)
Net (Debt)/Cash post-IFRS 16	(39.6)	(4.9)	33.5	(1.3)	5.0
<b>NAV AND RETURNS</b>					
Net asset value	167.8	184.8	176.5	128.8	136.0
NAV/share (p)	65.5	72.1	68.8	50.2	53.0
Net Tangible Asset Value	154.6	172.1	164.3	117.2	124.9
NTAV/share (p)	60.3	67.2	64.1	45.7	48.7
Average equity	164.5	176.3	180.9	153.5	133.0
Post-tax ROE (%)	12.8%	23.8%	7.4%	(21.2%)	6.5%
<b>METRICS</b>					
Revenue growth	(5.5%)	21.5%	(5.4%)	1.5%	(3.2%)
Adj EBITDA growth	(5.7%)	7.9%	(4.3%)	(88.7%)	252.5%
Adj EBIT growth	(7.1%)	10.8%	(4.5%)	(99.7%)	8738.2%
Adj PBT growth	(9.3%)	11.7%	(4.6%)	(105.9%)	(502.8%)
Adj EPS growth	(8.5%)	11.2%	(9.7%)	(104.4%)	(619.1%)
Dividend growth	(12.0%)	11.6%	(9.8%)	(81.1%)	20.4%
Adj EBIT margins	14.6%	13.3%	13.4%	0.0%	3.8%
<b>VALUATION</b>					
EV/Sales (x)	0.2	0.1	0.1	0.1	0.1
EV/EBITDA (x)	1.0	0.9	0.9	8.4	2.4
EV/NOPAT (x)	1.4	1.3	1.4	601.5	5.3
PER (x)	2.7	2.5	2.7	N/A	12.0
Dividend yield (%)	18.2%	20.3%	18.3%	3.5%	4.2%
FCF yield	36.8%	59.2%	(14.8%)	(15.9%)	7.4%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

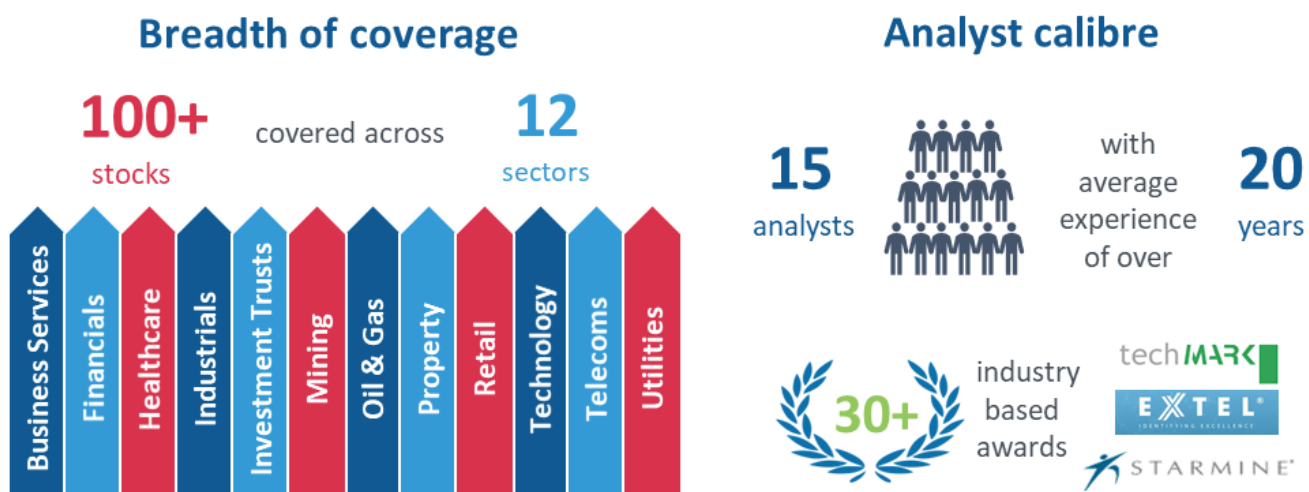
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