

## Outstanding pipeline and forward visibility

29th July 2019

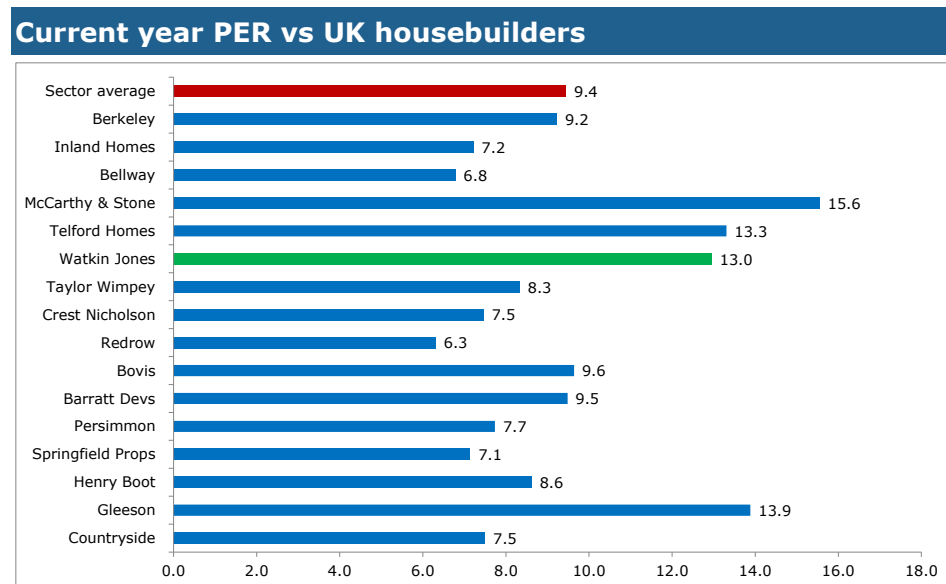
If you were worried about the impact of Brexit on the UK's £51.2bn purpose built student accommodation and £9.6bn Build-to-Rent markets, then don't be. The country's largest PBSA operator Unite, reported last week that the **industry's outlook was "positive"**, whilst institutional capital continues to flood into BtR. So much so, that real-estate adviser Savills expects the latter to ultimately be worth £543.6bn, covering 1.749m homes compared to 30.4k today.

Similarly, **quality developers like Watkin Jones are enjoying healthy demand**, despite the more uncertain economic climate. The group saying this morning that not only were **all 6 of its FY19 PBSA schemes on track** for completion by September, but it had also:

- Exchanged contracts (worth £19.6m) on a 197 unit student site in Canterbury with Europa Generation (completion by Sept'21).
- Forward funded its 245 unit PBSA scheme in Swansea with Brookfield (Sept'21).
- Secured a new prime site in Exeter for up to 170 student beds (Sept'23).
- Been granted planning permission for a 12 storey, 462 bed PBSA scheme in Leicester (Sept'22).
- Obtained planning consent on an adjacent BtR site in Leicester for 184 apartments (delivery FY21), and signed contracts on a further 186 unit project with section 106 authorisation in Brighton (FY22).

## Strong momentum plus downside resilience

Better still, **the buoyant pipeline provides multi-year visibility for investors**, with the stock trading at a modest 13x PER (see below), whilst paying a hefty 3.9% dividend yield.



Source: Equity Development : arithmetic average for sector

### Company Data

EPIC	AIM:WJG
Price	207p
52 week Hi/Lo	233p/192p
Market cap	£528m
ED valuation/share	250p
Net cash (est. Sept'19)	£90.5m
Sharecount	255.3m
Daily volume	500k

### Share Price (p)



Source: Share Cast

### Company Description

Watkin Jones is a tier 1 developer & manager of large scale, multi occupancy accommodation, focusing on purpose built student accommodation (PBSA) and residential build to rent (BtR).

Both areas are expanding, supported by strong fundamentals – enabling the firm to leverage its reputation & industry expertise, along with operating a forward sale, low risk, cashflow positive and capital light model.

Residential property & agency lettings businesses are also set to become growth engines.

**Next news:** Trading update Oct'19

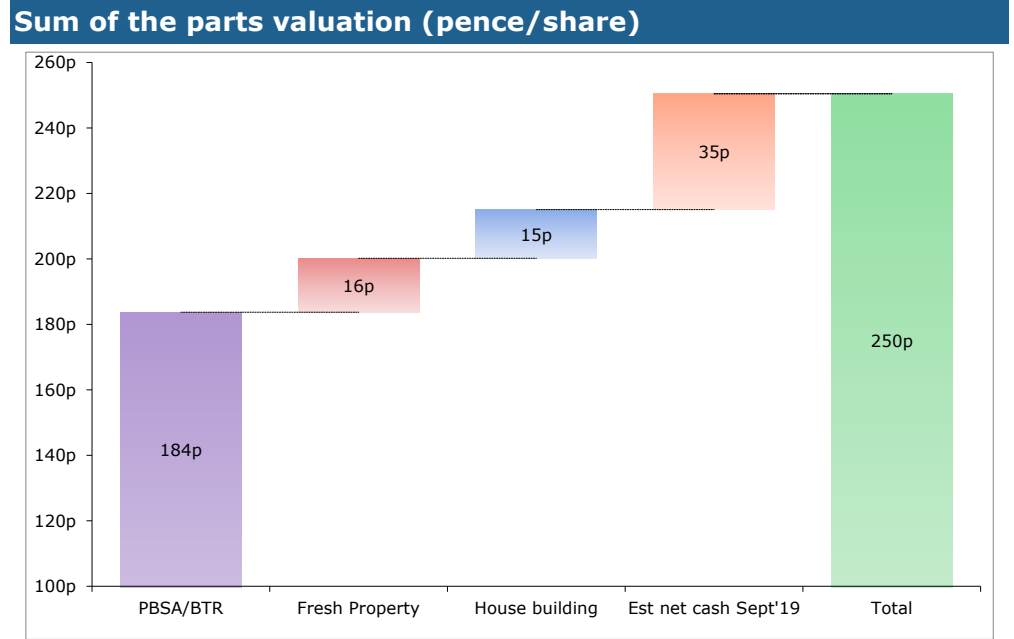
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## Trading in line with expectations

We reckon **this is good value**, especially given that **the firm remains on track** to hit our adjusted FY19 PBT and EPS estimates of £51.0m and 16p respectively on revenues of £390m, closing Sept'19 with net cash of £90.4m (worth 35.4p/share). Likewise, **we make no change to our 250p/share SOTP valuation** (see below).



Source: Equity Development

Interestingly too, we believe the stock has been unfairly affected because of the recent liquidity issues at Woodford Investment Management. Indeed we understand that Woodford has now disposed of all its previous 13% stake (circa 33m shares), which artificially depressed the price.

## Favourable demand dynamics

CEO Richard Simpson concluding: **"We continue to see positive momentum across all key areas of the business. Our 6 PBSA schemes for delivery in FY19 are on track for completion ahead of the 2019/20 academic year and we continue to see an encouraging pipeline of potential future sites across the UK. The final quarter of the financial year is typically a busy period for the Group in terms of forward sale activity, and we expect that to be the case again this year in respect of both the PBSA and BtR pipelines**

*Our expertise in acquiring sites at attractive prices, securing planning consent and then forward selling the schemes to a wide range of investors not only validates our business model but also demonstrates that, even in a more complex market, **our strategy remains extremely resilient. The sectors in which we operate are highly attractive to investors and we continue to make solid progress against our internal targets.***

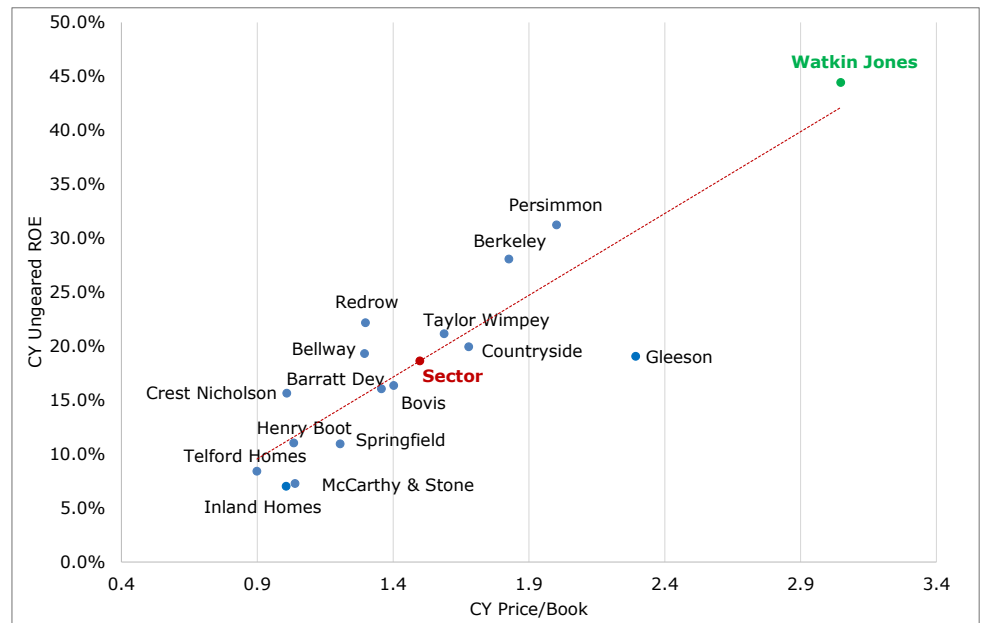
## Summary financial projections

Watkin Jones (continuing) (Sept yearend)	2015 Act £'ms	2016 Act £'ms	2017 Act £'ms	2018 Act £'ms	2019 Est £'ms	2020 Est £'ms	2021 Est £'ms	2022 Est £'ms	2023 Est £'ms	2024 Est £'ms
<b>Turnover</b>										
Student (PBSA) accommodation	228.2	237.2	256.1	312.7	285.0	295.0	300.0	300.0	300.0	300.0
Build to Rent (BTR)	0.0	0.0	1.2	3.8	60.0	90.0	125.0	170.0	210.0	250.0
Residential development	15.9	26.3	18.1	30.0	38.0	40.0	45.0	50.0	55.0	60.0
Fresh property management		2.8	6.1	7.3	7.0	8.1	8.9	9.7	10.7	11.8
Other / construction	0.2	0.7	20.4	9.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>244.2</b>	<b>267.0</b>	<b>301.9</b>	<b>363.1</b>	<b>390.0</b>	<b>433.1</b>	<b>478.9</b>	<b>529.7</b>	<b>575.7</b>	<b>621.8</b>
<b>Group revenue growth % YoY</b>	<b>73.5%</b>	<b>9.3%</b>	<b>13.1%</b>	<b>20.3%</b>	<b>7.4%</b>	<b>11.0%</b>	<b>10.6%</b>	<b>10.6%</b>	<b>8.7%</b>	<b>8.0%</b>
Student (PBSA) accommodation		3.9%	8.0%	22.1%	-8.9%	3.5%	1.7%	0.0%	0.0%	0.0%
Build to Rent (BTR)				209.5%	1494.0%	50.0%	38.9%	36.0%	23.5%	19.0%
Residential development	-12.6%	65.3%	-31.3%	65.8%	26.8%	5.3%	12.5%	11.1%	10.0%	9.1%
Fresh property management			116.6%	19.2%	-4.1%	15.0%	10.0%	10.0%	10.0%	10.0%
Student (PBSA) accommodation	41.5	48.6	56.6	60.7	55.6	55.1	54.0	54.0	54.0	54.0
Build to Rent (BTR)	0.0	0.0	0.7	1.0	7.8	11.7	16.3	22.1	27.3	32.5
Residential development	2.7	3.0	3.0	4.4	7.6	8.0	9.0	10.0	11.0	12.0
Fresh property management	0.0	1.7	3.8	4.5	4.2	4.8	5.3	5.8	6.4	7.1
Other	-0.1	0.5	-0.5	1.8	0.0	0.0	0.0	0.0	0.0	0.0
<b>Group gross profit</b>	<b>44.0</b>	<b>53.8</b>	<b>63.5</b>	<b>72.4</b>	<b>75.2</b>	<b>79.6</b>	<b>84.6</b>	<b>91.9</b>	<b>98.7</b>	<b>105.6</b>
<b>Group % margin</b>	<b>18.0%</b>	<b>20.2%</b>	<b>21.0%</b>	<b>20.0%</b>	<b>19.3%</b>	<b>18.4%</b>	<b>17.7%</b>	<b>17.4%</b>	<b>17.1%</b>	<b>17.0%</b>
Student (PBSA) accommodation	18.2%	20.5%	22.1%	19.4%	19.5%	18.7%	18.0%	18.0%	18.0%	18.0%
Build to Rent (BTR)			56.3%	27.1%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Residential development	16.6%	11.5%	3.8%	14.6%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Fresh property management		58.9%	49.4%	61.8%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Admin	-10.6	-14.6	-20.8	-22.8	-23.5	-24.9	-26.1	-27.4	-28.4	-29.5
Distribution / other	-1.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Adjusted EBIT</b>	<b>32.5</b>	<b>37.9</b>	<b>42.7</b>	<b>49.6</b>	<b>51.7</b>	<b>54.7</b>	<b>58.5</b>	<b>64.6</b>	<b>70.3</b>	<b>76.1</b>
<b>% margin</b>	<b>13.3%</b>	<b>14.2%</b>	<b>14.1%</b>	<b>13.7%</b>	<b>13.3%</b>	<b>12.6%</b>	<b>12.2%</b>	<b>12.2%</b>	<b>12.2%</b>	<b>12.2%</b>
<b>EBITDA (incl JV profits)</b>	<b>33.6</b>	<b>41.5</b>	<b>45.2</b>	<b>50.9</b>	<b>52.9</b>	<b>55.9</b>	<b>59.7</b>	<b>65.9</b>	<b>71.6</b>	<b>77.4</b>
<b>% margin</b>	<b>13.8%</b>	<b>15.6%</b>	<b>15.0%</b>	<b>14.0%</b>	<b>13.6%</b>	<b>12.9%</b>	<b>12.5%</b>	<b>12.4%</b>	<b>12.4%</b>	<b>12.5%</b>
Profit from JVs	1.2	3.0	1.4	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	-0.7	-1.0	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
<b>Adj profit before Tax</b>	<b>32.9</b>	<b>39.8</b>	<b>43.3</b>	<b>50.1</b>	<b>51.0</b>	<b>54.0</b>	<b>57.7</b>	<b>63.8</b>	<b>69.6</b>	<b>75.4</b>
Effective tax rate	-19.1%	-20.5%	-17.3%	-18.6%	-20.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
<b>Adjusted EPS (pence)</b>	<b>10.4</b>	<b>12.4</b>	<b>14.0</b>	<b>16.0</b>	<b>16.0</b>	<b>17.1</b>	<b>18.3</b>	<b>20.2</b>	<b>22.0</b>	<b>23.9</b>
EPS growth rate	138.5%	19.2%	13.1%	13.8%	0.1%	7.1%	6.9%	10.6%	8.9%	8.3%
Net assets per share (p)	44	40	49	60	68	76	86	96	107	119
Net tangible assets per share (p)	44	34	44	54	62	71	80	90	101	113
<b>Dividend (p)</b>		<b>4.0</b>	<b>6.6</b>	<b>7.6</b>	<b>8.0</b>	<b>8.6</b>	<b>9.1</b>	<b>10.1</b>	<b>11.0</b>	<b>11.9</b>
<b>Valuation benchmarks</b>										
P/E ratio	19.9	16.7	14.8	13.0	13.0	12.1	11.3	10.2	9.4	8.7
P/E ratio (excluding Sept'18 net cash)				11.0	11.0	10.3	9.6	8.7	8.0	7.4
Price/Tangible book	4.7	6.1	4.7	3.8	3.3	2.9	2.6	2.3	2.0	1.8
Price/Book	4.7	5.1	4.2	3.5	3.0	2.7	2.4	2.2	1.9	1.7
EV/EBIT	13.8	11.8	10.5	9.0	8.7	8.2	7.7	6.9	6.4	5.9
Return on Equity (EPS/NA)	23.5%	30.8%	28.4%	26.6%	23.5%	22.4%	21.4%	21.2%	20.7%	20.1%
Dividend yield		1.9%	3.2%	3.7%	3.9%	4.1%	4.4%	4.9%	5.3%	5.8%
<b>Net cash/(debt)</b>	<b>39.1</b>	<b>32.2</b>	<b>41.0</b>	<b>80.2</b>	<b>90.4</b>	<b>101.3</b>	<b>113.0</b>	<b>125.9</b>	<b>140.0</b>	<b>155.3</b>
Net cash / share (p)	15.3	12.6	16.1	31.4	35.4	39.6	44.2	49.2	54.7	60.7
Sharecount (Ks)	255,269	255,269	255,269	255,269	255,369	255,469	255,569	255,669	255,769	255,869
<b>Shareprice</b>	<b>207</b>									

Source: Company historic data, Equity Development estimates.

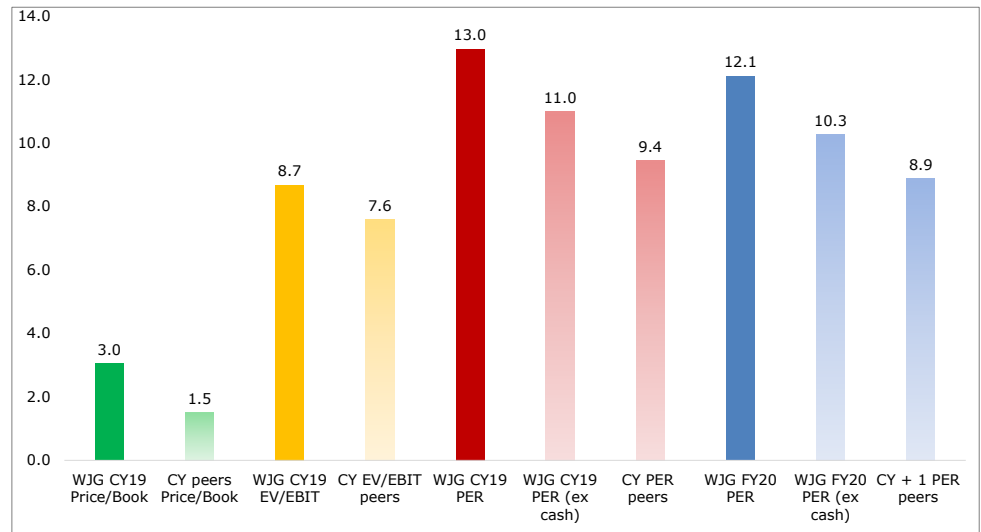
## Appendices - sector valuation metrics and KPIs

### Ungear Return on Equity vs Price:Book valuation



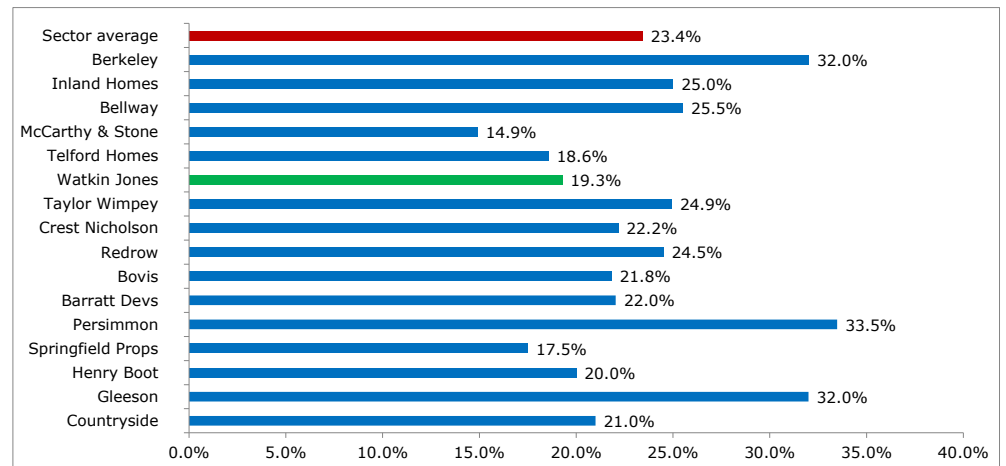
Source: Equity Development. Ungear ROE = (EBIT – tax - minorities)/(net assets +/- net debt/cash)

### Summary valuation benchmarks vs UK homebuilders



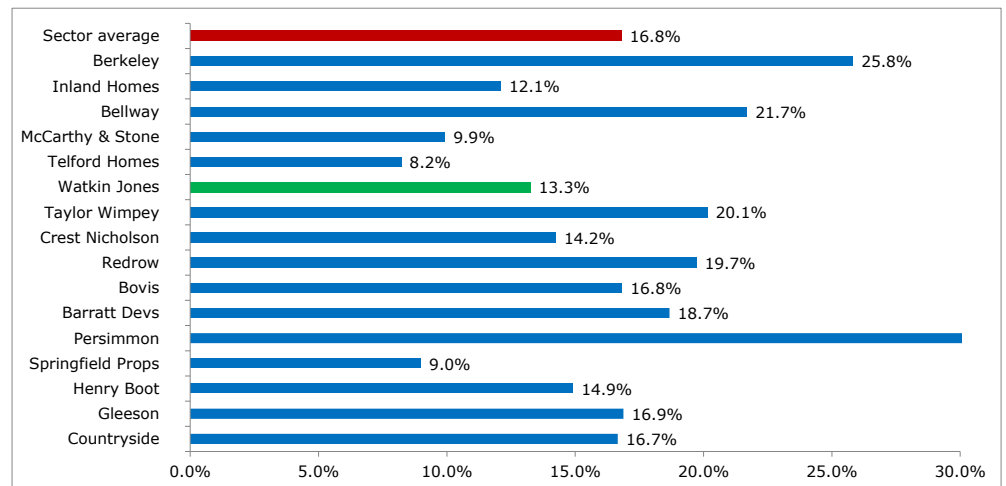
Source: Equity Development

### Current Year gross profit margins



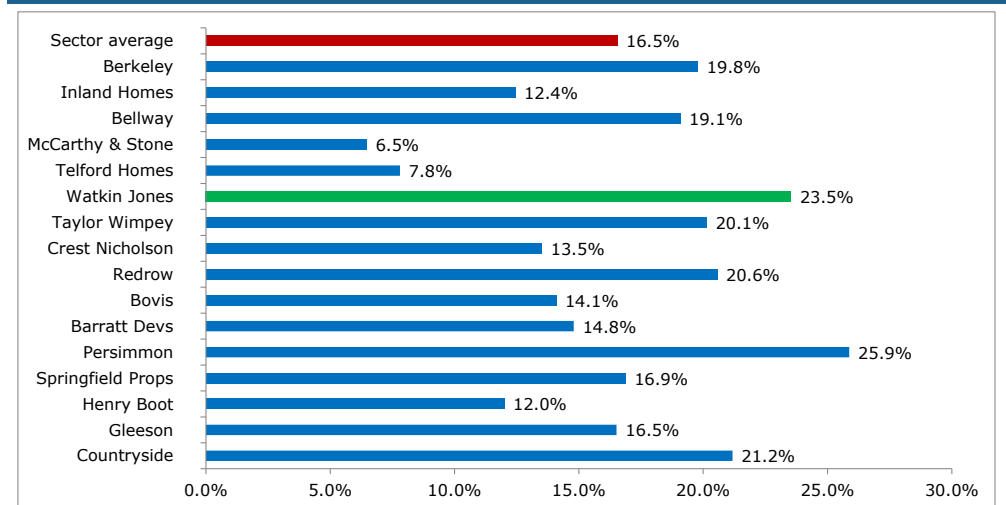
Source: Equity Development : arithmetic average for sector

### CY EBIT margins



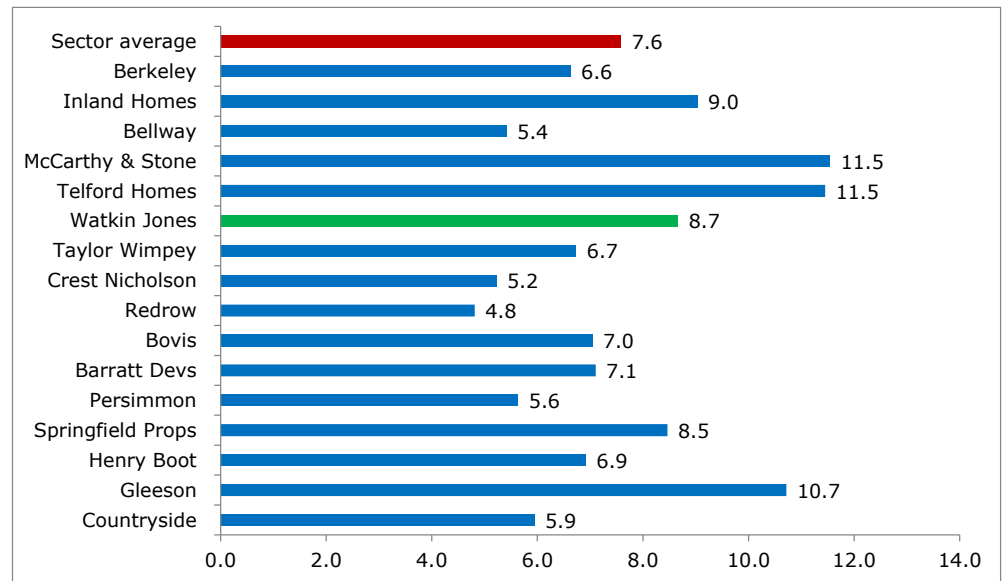
Source: Equity Development, arithmetic average for sector

### CY ROE (reported)



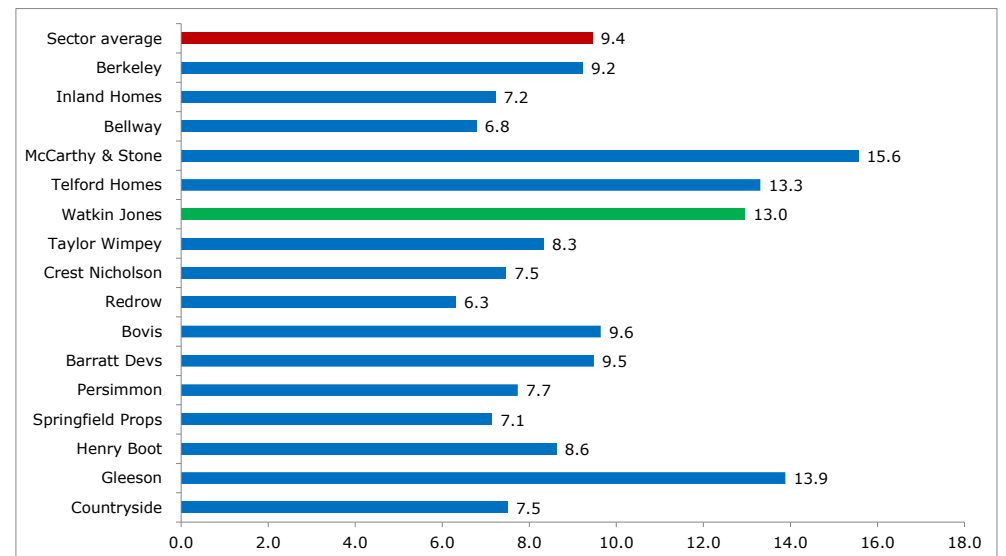
Source: Equity Development, arithmetic average for sector

### CY EV/EBIT multiples vs peers



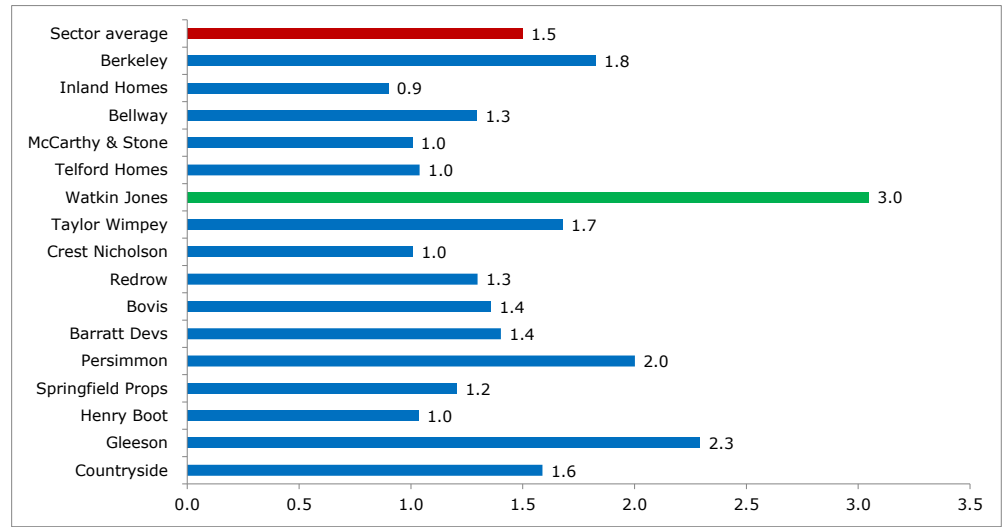
Source: Equity Development : arithmetic average for sector

### CY PER multiples vs peers



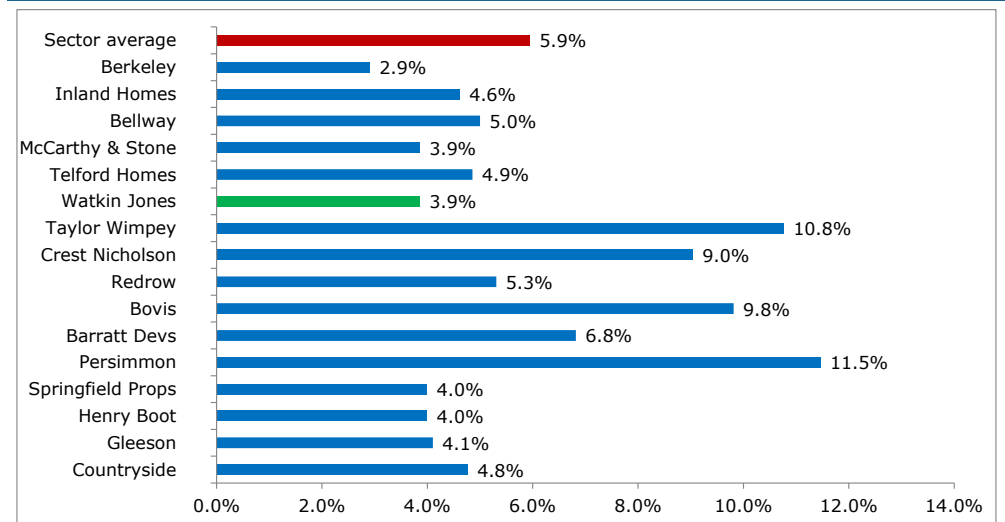
Source: Equity Development : arithmetic average for sector

**CY Price : Book**



Source: Equity Development, arithmetic average for sector

**CY dividend yield vs peers**



Source: Equity Development : arithmetic average for sector

## Key risks

- Impact of a substantial jump in UK interest rates and/or a recession. This seems unlikely though, given that even the most pessimistic economic forecasts are for >1.5% GDP growth through to 2022.
- Protracted delays in obtaining planning consent, which traditionally has plagued the whole sector.
- Availability of skilled labour and associated resources at desired cost levels.
- Foreign exchange fluctuations could impact demand from international investors, from say Singapore, Hong Kong and China.
- Being relatively small in BTR, Watkin Jones could get squeezed by larger rivals, partners and customers.
- Future access to funding at commercial rates, perhaps in the unlikely event of another banking crisis.
- Generic risks of retention/recruitment of key staff, etc.
- Acquiring land at affordable rates.
- Withdrawal of government support for house-building (eg H2B, FTBs, stamp duty, etc).
- Brexit, and other possible legislative changes, say concerning building regulations, affordable housing, ground rents, etc
- Less demand from institutional money, if for example bond/gilt yields were to rise materially.





## Investor Access

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