

Vistry Group: The housebuilder trading at a 50% discount

Company:	Vistry Group (VTY LN)	Market Cap:	£2.2bn
Industry:	Housebuilder (66% partnership)	Net Debt:	£500mio (average)
Country:	UK	Revenue:	£3.45bn*
Date:	28 th November 2024	Net Income:	£220mio (6.4%)*
Dividend:	5%	Free cash flow:	£220mio (6.4%)*
Entry:	£2.15bn	Target:	£3.5bn (59%)

*estimated 2024 figures

Why Vistry?

- £1bn shareholder return plan within 3 years remains intact (£700mio remaining)
- Well aligned with Labour's plan to build 1.5mio homes over the next 5 years and a particular urgent need for affordable housing
- Large insider share buying after 2nd profit revision
- Company valuation is down 50% (or £2bn) largely due to a one-off £165mio profit impact

Risks

- Higher interest rates could dampen house building demand in the open market (1/3 of Vistry's revenue)
- Impact of higher stamp duties is uncertain. Feedback I received from industry professionals is that it so far seems to affect the higher end of the market only
- Labour government's 1.5mio housebuilding target is unlikely to be achieved in a 5-year period
- Near term share price pressure due to likely FTSE 100 relegation
- Higher build costs & risks to fire remediation provision and government tax changes

About Vistry Group

Vistry Group is a UK focused housebuilder that generates 2/3 of their revenue from partnerships and 1/3 from open market. The company, originally Bovis Homes, has evolved through a series of acquisitions and mergers by acquiring Linden Homes and Partnerships for £394.6mio from Galliford Try in 2020 and merging with Countryside in a £1.3bn cash and share deal (Vistry was valued at £1.6bn before the deal, Countryside was worth £1.1bn, i.e. £2.7bn combined). Vistry now incorporates several brands, including Bovis Homes, Linden Homes, Countryside Homes, Vistry Group and Countryside Partnerships. Under the partnership model, Vistry sources the land, secures the planning permission and is responsible for the design and build-out of the project, while a local authority, housing association or local community is brought in to complete the project. As much as 71% of Vistry's sales are affordable homes or Private Rented Sector (PRS) housing units, which are generally forward funded by the buyers on a percentage of build complete basis, hence require little or no upfront capital from Vistry. This makes the partnership model particularly attractive, because the return on capital employed (ROCE) is generally higher (between 20-25%) compared with traditional housebuilders.

Why are the shares down over 50% since the beginning of October?

Vistry Group provided a trading update on 8th October that warned of a one-off impact of £115mio due to revised development cost assumptions¹. Just one month later, these assumptions got revised upwards to £165mio, but an independent review ensured that these additional costs were solely from the South Division and wrongly accounted for in the first place². In addition, completions slowed down, impacting the full year results as some projects would slip into the next year. The valuation then took another hit when the company announced that its Chief Operating Officer, Earl Sibley, was leaving the firm³. At this point, I became very interested and started buying shares as low as 622p (£2.075bn valuation). Just two months earlier, this company was worth £4.5bn, and a one-off £165mio cost impact should not lead to such a drastic change in the company's valuation. Yes, the slowdown in completions and higher interest rates after the Budget are concerning. But with £300mio adjusted profit before tax, a £2.2bn valuation is

¹ <https://www.vistrygroup.co.uk/sites/vistrygroup/files/2024-10/vistry-group-8-october-2024-trading-update.pdf>

² <https://www.vistrygroup.co.uk/sites/vistrygroup/files/2024-11/vistry-group-trading-update-8-november-2024.pdf>

³ https://otp.tools.investis.com/clients/uk/bovis_homes2/rns/regulatory-story.aspx?cid=1525&newsid=1886526

quite attractive, especially as net current assets are over £2.5bn with over £3.1bn worth of inventories and total net assets of £3.3bn.

Vistry Group: A Strong Balance sheet

Year	Inventories	Net current assets	Borrowings	Net assets
2018	1,320.2	1,246.4	36.4	1,583.6
2019	1,207.7	1,291.4	0.0	1,795.2
2020*	1,836.5	1,450.5	303.1	3,632.2
2021	1,962.2	1,613.4	164.3	3,843.2
2022**	2,838.1	2,497.1	558.6	3,249.7
2023	3,100.7	2,537.1	507.1	3,318.5

Source: Vistry Group Annual Reports, *Acquisition of Linden and Partnerships, ** Merger with Countryside

Vistry Group: High Profitability

Year	Adjusted Revenue	Revenue	Gross profit	Operating profit	Adjusted profit before tax	Profit before tax	Government grant income	Net finance expense	Net income attributable to shareholders
2018	1,061.1	1,061.4	230.9	174.2	168.1	168.1		-6.1	136.6
2019	1,137.2	1,130.8	242.8	192.6	193.8	188.2		-6.1	152.0
2020*	2,040.1	1,811.7	246.9	91.7	143.9	98.7		-8.0	77.0
2021	2,693.6	2,359.0	439.3	285.4	346.0	319.5		4.0	154.0
2022**	3,115.1	2,771.3	413.7	212.5	418.4	247.5	6.4	-32.7	190.4
2023	4,042.1	3,564.2	545.4	311.8	419.1	304.8	40.4	-68.8	221.7

Source: Vistry Group Annual Reports, *Acquisition of Linden and Partnerships, ** Merger with Countryside

Vistry Group: Growing Cash Flows Before Working Capital

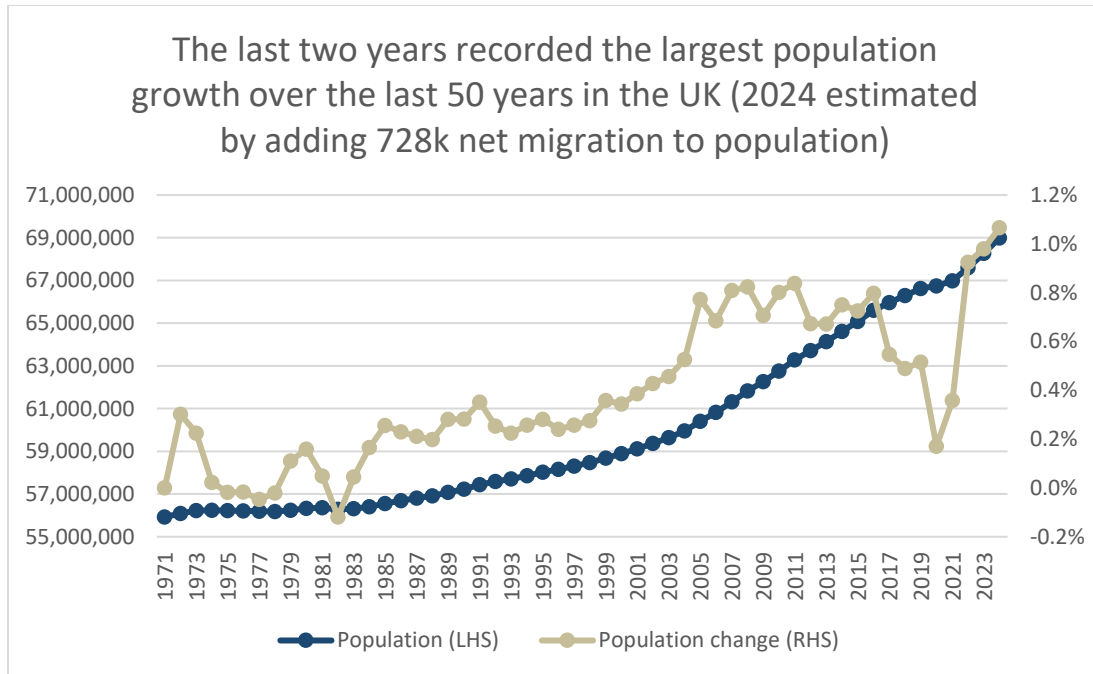
Year	Operating cash flow before working capital	Working capital	Operating cash flow after working capital	Investing cash flows	Dividends paid	Leases
2018	167.8	-5.2	130.7	-20.0	-129.7	-
2019	178.6	73.7	216.4	-57.9	-78.6	5.6
2020*	125.9	105.1	181.7	-383.8	0.0	-15.3
2021	322.2	1.7	267.0	45.6	-88.7	-16.6
2022**	416.6	-248.8	70.9	19.3	-138.9	-17.5
2023	442.0	-387.7	-72.1	52.5	-110.4	-29.4

Source: Vistry Group Annual Reports, *Acquisition of Linden and Partnerships, ** Merger with Countryside

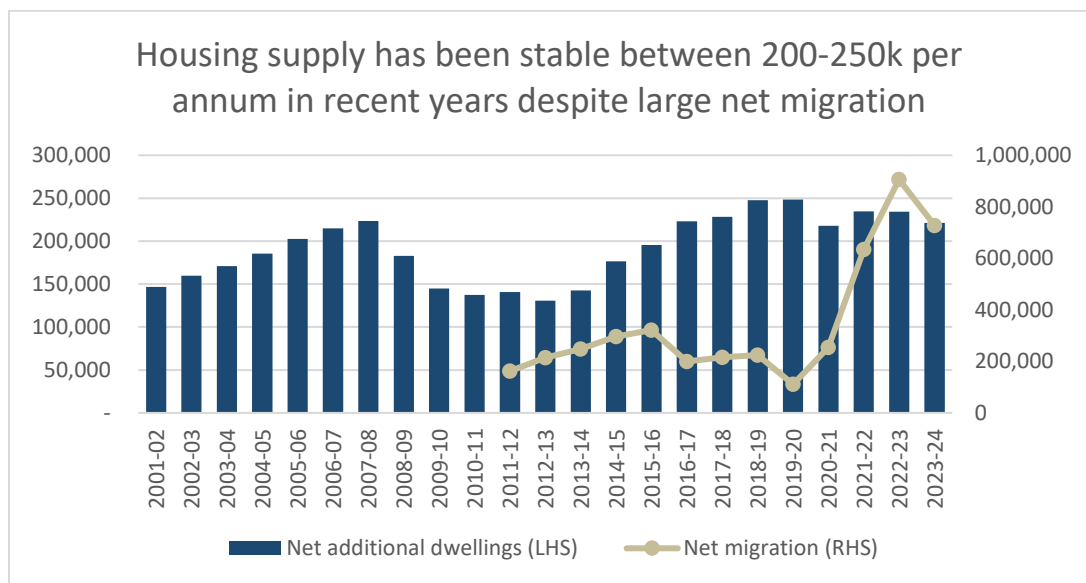
Rising population, limited housing supply

The Labour government has pledged to build 1.5mio homes in just over 5 years⁴. This would mean an additional 50k homes per year when compared to the recent net additional dwellings of 250k achieved at maximum over the last few years. Vistry has set its target to complete 17,500 units this year, which it will likely undershoot amidst fewer completions than expected into year-end. The UK's population, on the other hand, has climbed by around 1% per annum over the last two years, adding almost 700k more people per year to the country. However, when comparing population growth in recent years, it becomes clear that pre-Brexit the UK population grew by around 0.7-0.8% per year. From 2017, this growth declined to 0.5% per year, before Covid reduced this further to 0.2% in 2020 and 0.4% in 2021, and only really recovering in 2022/23 with 0.9% and 1% growth. On average, the population therefore grew by around 0.6% per year between 2017 and 2023. The most recent provisional figures show a decline in net migration towards 728k compared to a high of 906k a year earlier. Overall, it remains clear that there is a shortage of housing, especially in affordable housing amidst high net migration.

⁴ <https://www.gov.uk/government/news/investors-developers-and-local-and-national-government-leaders-unite-to-drive-forward-ambitions-to-create-15-million-homes-across-this-parliament>



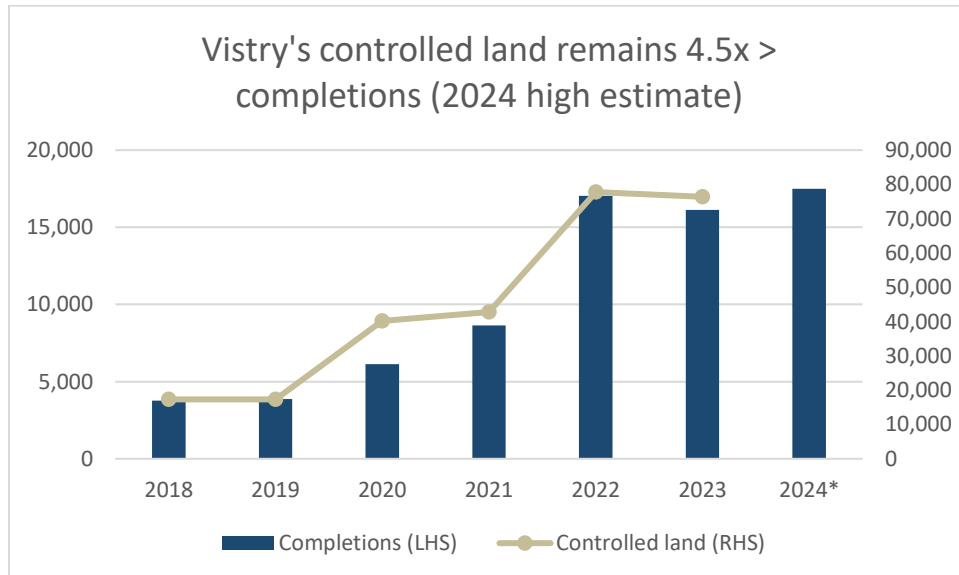
Source: Office for National Statistics



Source: <https://www.gov.uk/government/statistics/housing-supply-net-additional-dwellings-england-2023-to-2024/housing-supply-net-additional-dwellings-england-2023-to-2024>,
<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/longterminternationalmigrationprovisional/yearendingjune2024>

Vistry is ideally placed to benefit

The higher demand for housing is beneficial to Vistry. What's even more beneficial is the high demand for affordable housing. This is where the partnership business comes to the fore, boosted by the Countryside merger. After the second profit warning, there were also two large insider transactions equaling £2mio⁵ and £3.7mio⁶ in value at a valuation 12% above the current valuation. Finally, Vistry has held on to its commitment to return £1bn to shareholders by 2026, with £285mio returned by H1 2024⁷, leaving another £700mio of returns over the next two years (1/3 of its market cap). Whilst mortgage rates have recently risen, 2yr and 5yr government bond yields have come down from this year's peak earlier in November. Labour is admitting that meeting the 300k housebuilding target per year might be difficult, hence is seeking to simplify the planning system and it could also involve higher grants, which are key for Vistry and its partnership model. Overall, I do not see interest rates moving higher from here and even if Labour fails to meet the 1.5mio housebuilding target, the government will at least make sure that we don't see a reduction in housebuilding. At this valuation, this leaves Vistry with high potential upside and little downside.

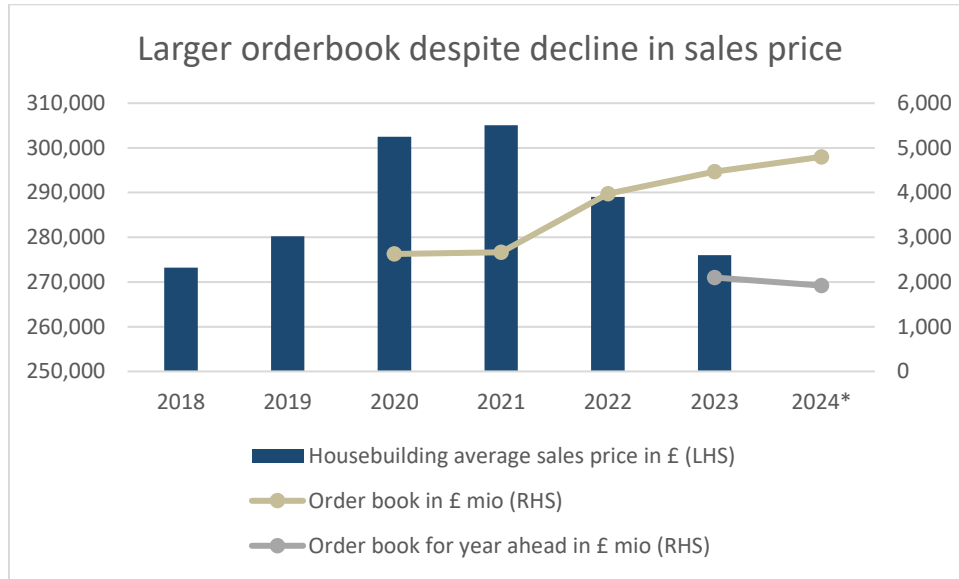


Source: Vistry Group Annual Reports

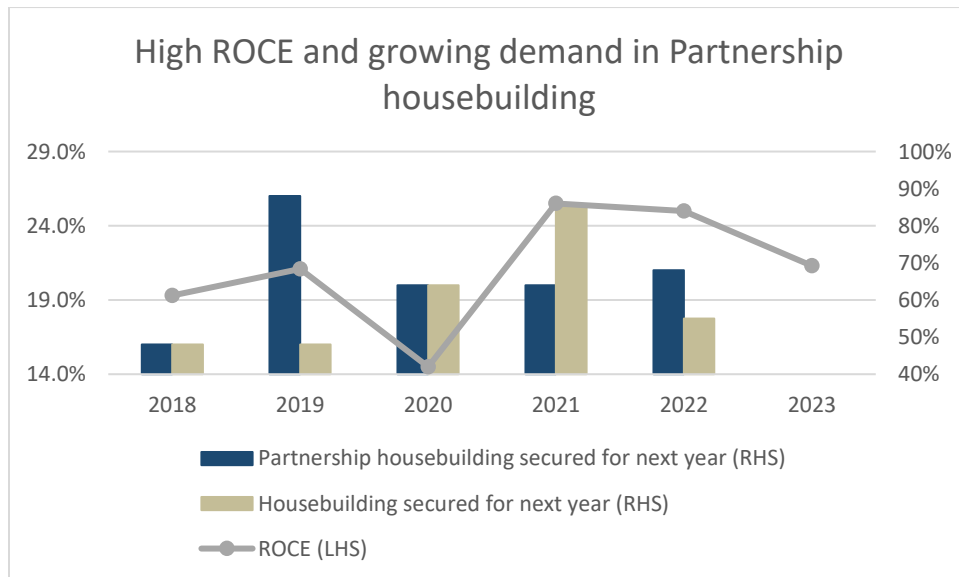
⁵ https://otp.tools.investis.com/clients/uk/bovis_homes2/rns/regulatory-story.aspx?cid=1525&newsid=1883481

⁶ https://otp.tools.investis.com/clients/uk/bovis_homes2/rns/regulatory-story.aspx?cid=1525&newsid=1883480

⁷ <https://www.vistrygroup.co.uk/media-centre/press-releases/strong-half-year-performance-further-ps130m-share-buyback-announced>



Source: Vistry Group Annual Reports



Source: Vistry Group Annual Reports

Relative value is attractive, also when considering fire remediation

Whilst the macro is in favour of Vistry and the UK housebuilding sector in general, it also comes with a caveat. The Grenfell Tower fire that caused the loss of more than 72 lives has led to a review of all buildings with flammable cladding. The remediation plan led to 54 developers signing a pledge to remediate critical fire safety works in buildings over 11 metres, partly funded by a 4% additional corporation tax from April 2022⁸. However, a £3bn Building Safety Levy on new construction has not been placed on housebuilders (yet), instead a remediation acceleration plan by 2029 has been ordered⁹. The National Audit Office estimated on 4th November 2024 that of the 9-12k buildings over 11 metres that MHCLG estimates will need remediating, only 4,771 buildings have been identified and included, hence leaving 60% of affected buildings still to be identified¹⁰ with the total cost ranging from £12.6bn to £22.4bn¹¹. This stands in contrast to what most listed housebuilders are reporting with assessment rates of up to 100% and on average around 40% completed or started. Overall, Vistry is on average better positioned than its competitors, as the average building height >11 metres is lower than competitors such as Barrat Redrow, Bellway or Persimmon, which all spend more per building to be remediated.

Vistry is the largest housebuilder by units in the UK

Housebuilder	# of houses built	Average home price in £	Landbank # of slots	Landbank # of slots (incl. strategic land)	Region
Vistry	18,000	273,000	75,313	150,319	England
Barratt Redrow	17,000	306,800	93,511	250,375	UK
Persimmon	10,500	263,288	38,067	81,545	England, Scotland
Taylor Wimpey	9,500	317,000	79,000	140,000	UK
Bellway	8,500	307,909	48,887	95,292	UK
Berkeley Group	3,500	664,000	53,600	54,081	London, South England
Crest Nicholson	1,800	349,000	14,146	31,959	England
MJ Gleeson	1,772	185,700	7,420	19,138	Central England
Springfield Properties	878	174,000	5,593	31,471	Scotland

Source: Individual company reports

⁸ <https://www.hbf.co.uk/news/homebuilders-face-a-45-billion-hike-in-taxes-and-red-tape/>

⁹ <https://www.gov.uk/government/news/radical-action-to-speed-up-removal-of-unsafe-cladding-announced>

¹⁰ <https://www.nao.org.uk/reports/dangerous-cladding-the-governments-remediation-portfolio/>

¹¹ <https://www.investorchronicle.co.uk/content/0394b79a-87d0-545c-be5a-8881bf70cf3c>

Vistry trades at the most attractive valuation compared to peers

Housebuilder	Equity valuation £mio	Net debt £mio	EV (incl. provisions) £mio	Revenue £mio	Net profit £mio	Tangible net asset value GBp per share	Current share price GBp	Premium/(discount) to TNAV
Vistry	2,100	322	2,703	3,450	230	768	665	-13%
Barratt Redrow	6,180	-732	6,076	4,168	250	452	433	-4%
Persimmon	4,040	-350	3,928	2,900	250	1,015	1,264	25%
Taylor Wimpey	4,500	-584	4,182	3,400	300	125	127	2%
Bellway	2,980	11	3,500	2,380	160	2,921	2,512	-14%
Berkeley Group	4,200	-532	3,878	2,400	397	3,363	4,120	23%
Crest Nicholson	442	9	597	500	20	299	172	-43%
MJ Gleeson	292	-13	292	345	20	510	500	-2%
Springfield Properties	108	40	154	267	10	127	90	-29%

Source: Individual company reports

Vistry spends less than the average on building remediated due to height

Housebuilder	# of houses remediation provided	Fire safety provision in £ mio	% assessed for remediation	% started or completed	Comment
Vistry	213	281	96%	40%	Buildings <11 metres not assessed
Barratt Redrow	262	628	53%	52%	>160 buildings are still waiting for remediation assessment
Persimmon	83	239	95%	47%	They are looking at buildings <11 metres for assessment
Taylor Wimpey	211	266	69%	35%	Buildings <11 metres not assessed
Bellway	137	509	?	51%	At current pace, it would take 12 years to remediate all buildings
Berkeley Group	80	210	95%	50%	Prefer to do work themselves and seek recoveries from supply chains and insurers
Crest Nicholson	140	145	?	?	Not aware of buildings <11 metres requiring remediation
MJ Gleeson	17	13			
Springfield Properties	-	6			

Source: Individual company reports, End Our Cladding Scandal Organisation



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