


# Reasons to be Cheerful?


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# The only certainty is uncertainty...


 "Britain's middle classes feel the pinch in cost of living crisis"  
Financial Times – 21 Apr 23

 "FY23 outlook uncertain; homebuyer confidence and mortgages critical to the health of the UK housing market"  
Barratt Developments – 11 Jan 23

 "Global economy faces weakest growth in 30 years, warns IMF"  
The Times – 6 Apr 23

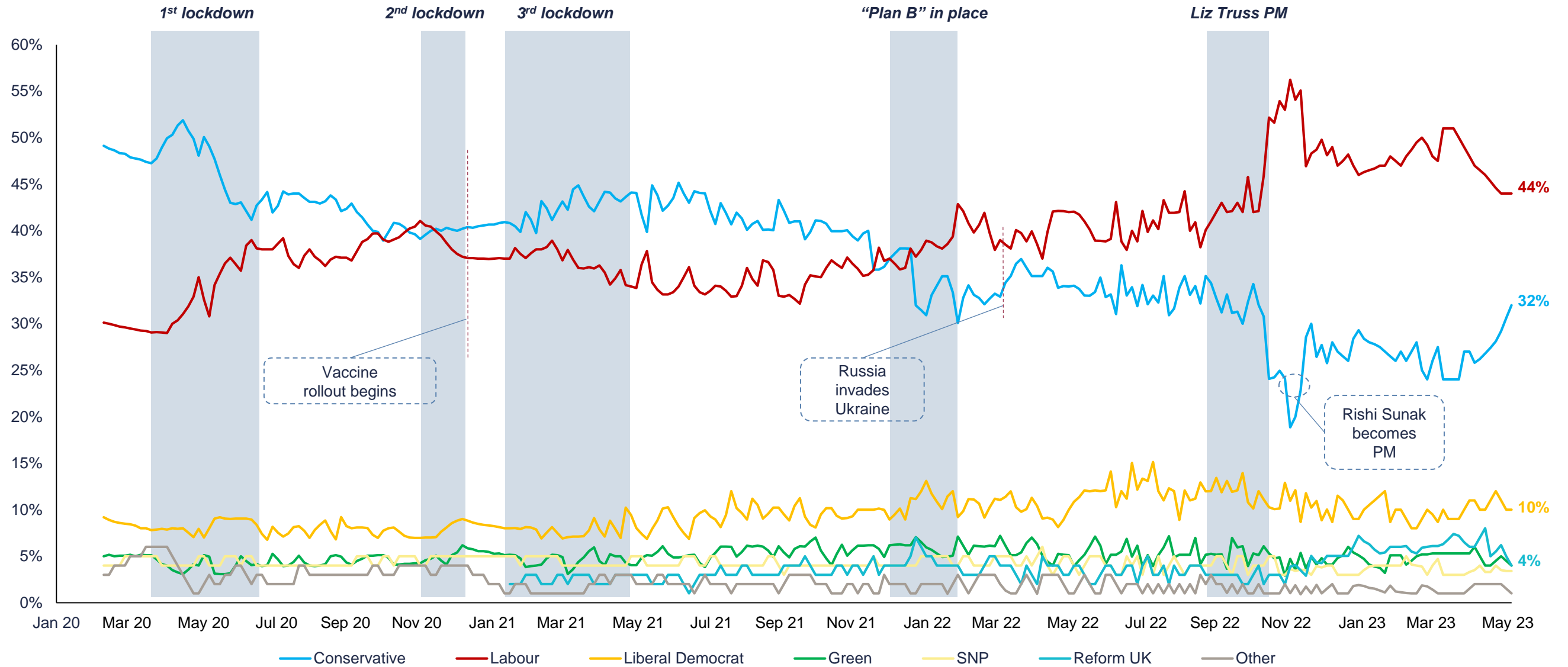
 "Bank of England hikes interest rates by 25 basis points after inflation surprises"  
CNBC – 23 Mar 23

 "First Republic taken over by JP Morgan as third US bank falls"  
The Telegraph – 1 May 23

 "Ukraine 'ready' to talk to Russia on Crimea if counteroffensive succeeds"  
Financial Times – 5 Apr 23



# Voting intention survey on general election



# Is the UK market “good value” or “cheap for a reason”?

The UK market has traded at a discount for several years...

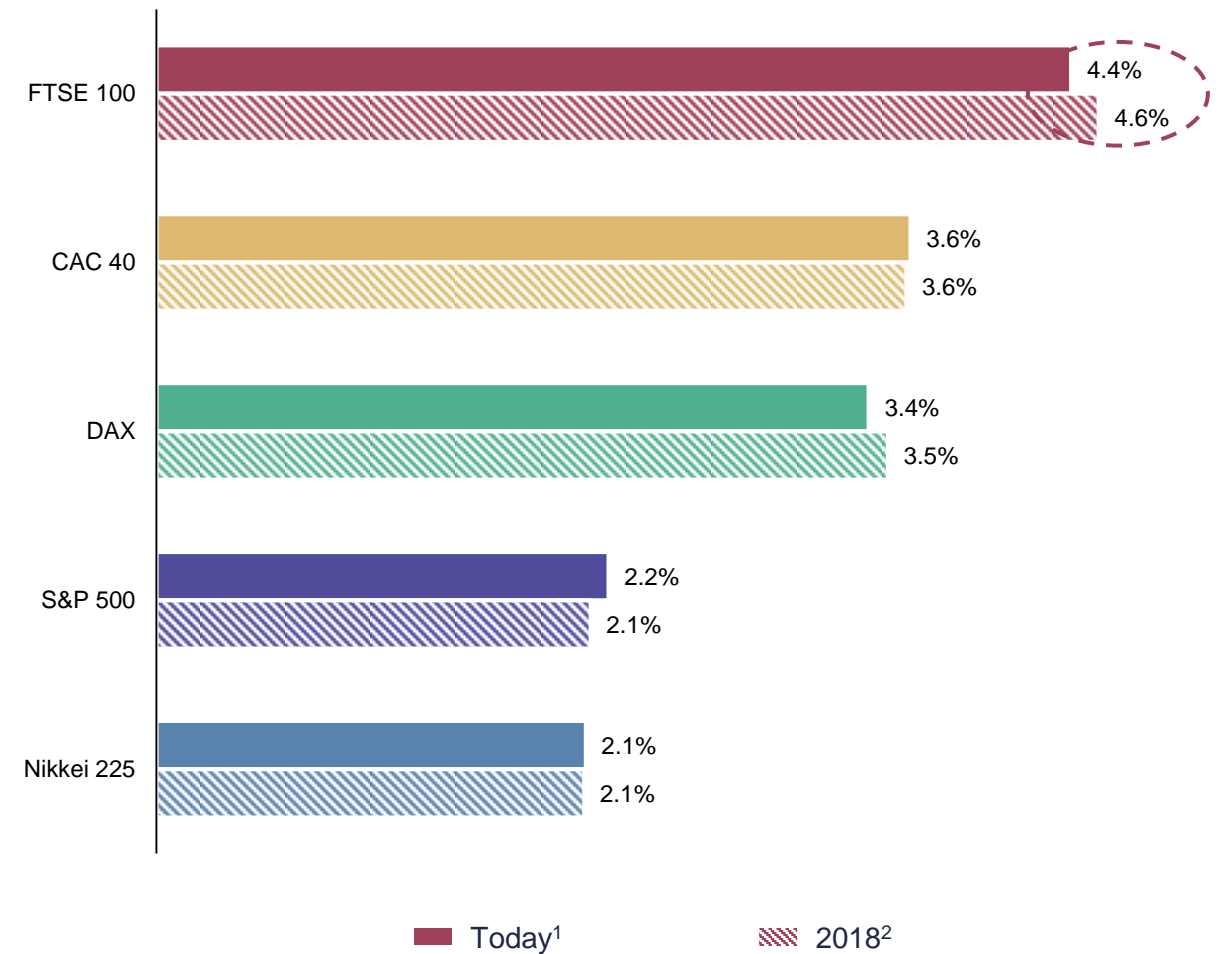
## The lowest price/earnings multiple...

Rebased forward P/E multiple (Apr-2018 = 100)

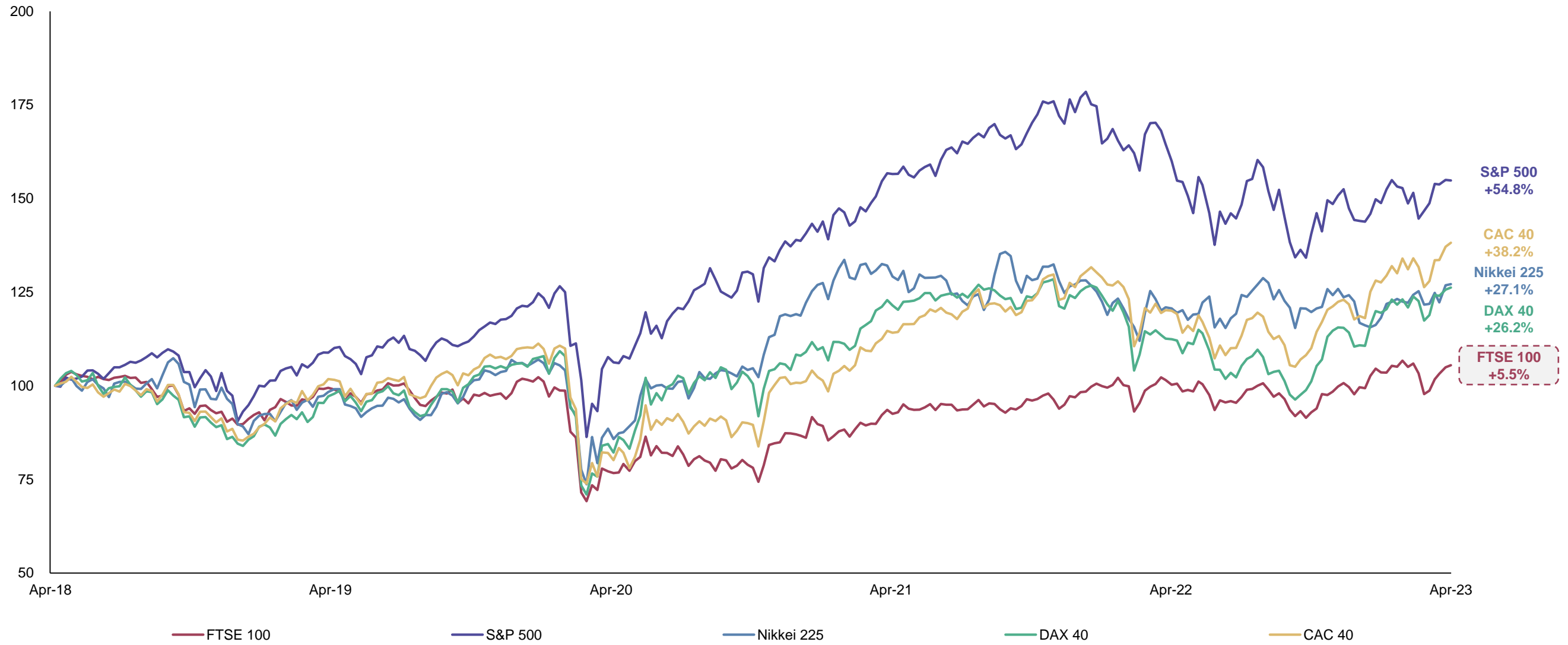


## The highest dividend yield...

The UK market continues to have the highest yield across developed markets



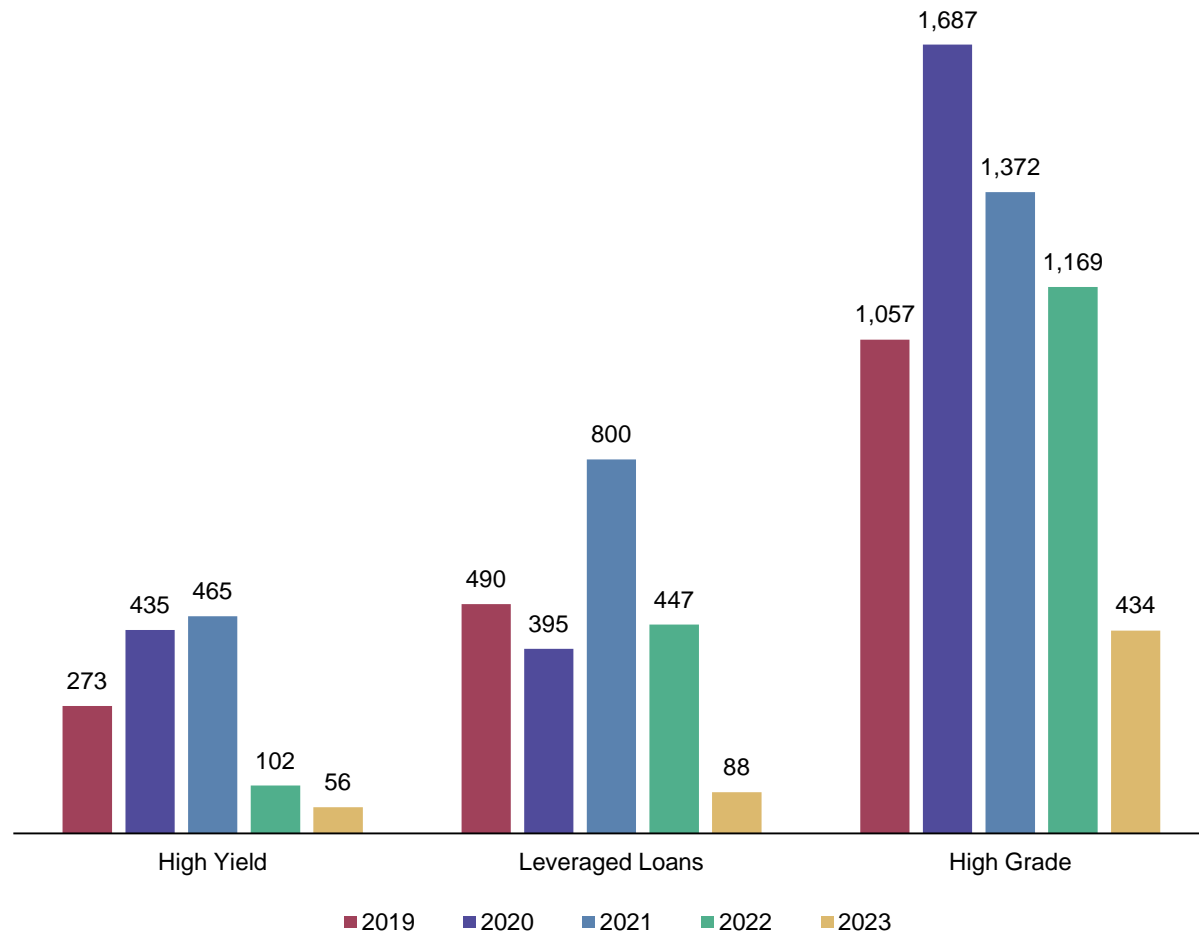
# The UK market continues to trade at a discount



# Cautious debt markets ... market is “risk-off”

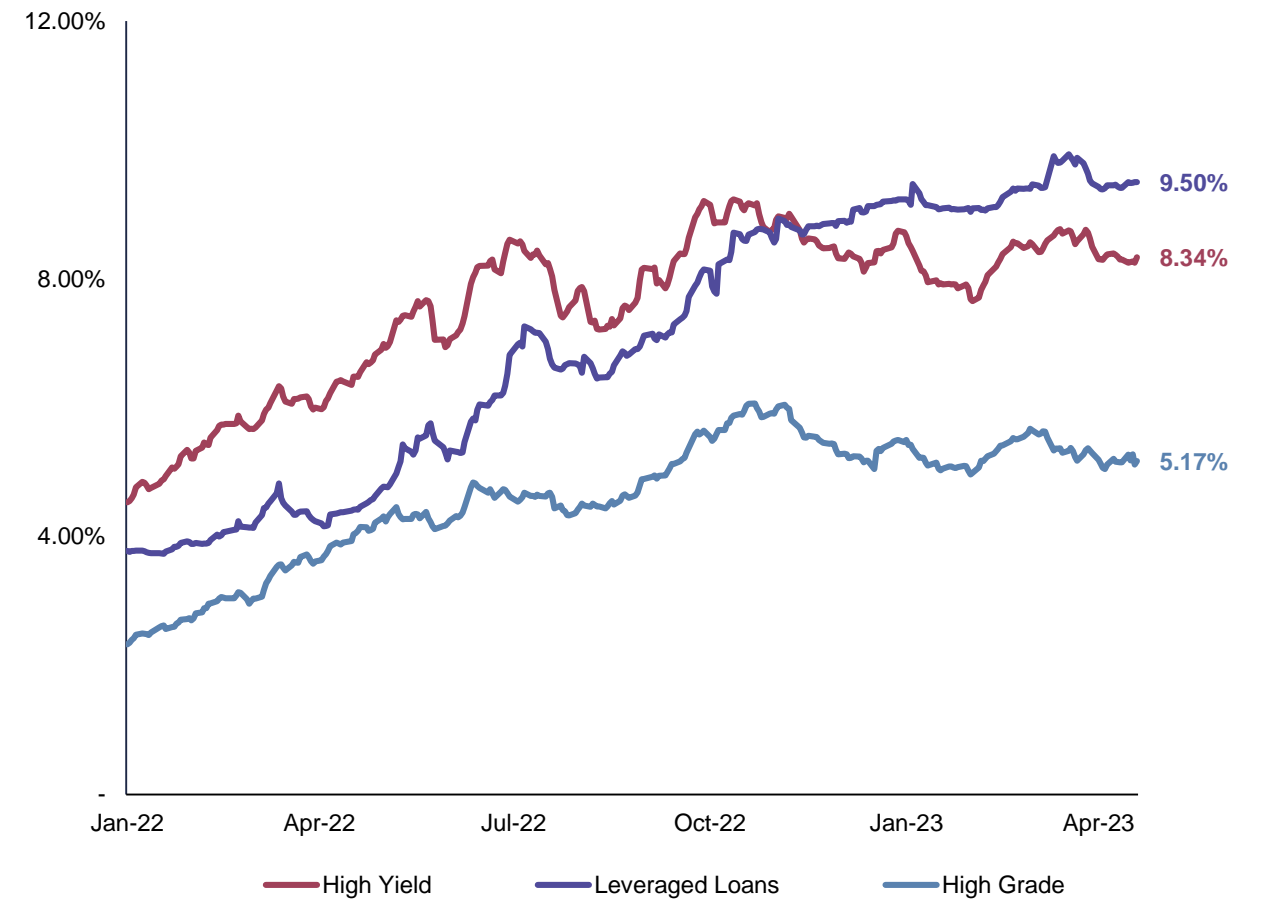
## Global YTD new issuance volume (\$bn)<sup>1</sup>

Year to date debt issuance down 30%...



## Yield to maturity (%)

Yields widened since January 2022



# Will mortgage availability and cost impede sector recovery?

## Mortgage approvals ('000s)

UK Monthly Number of Approvals (BoE)

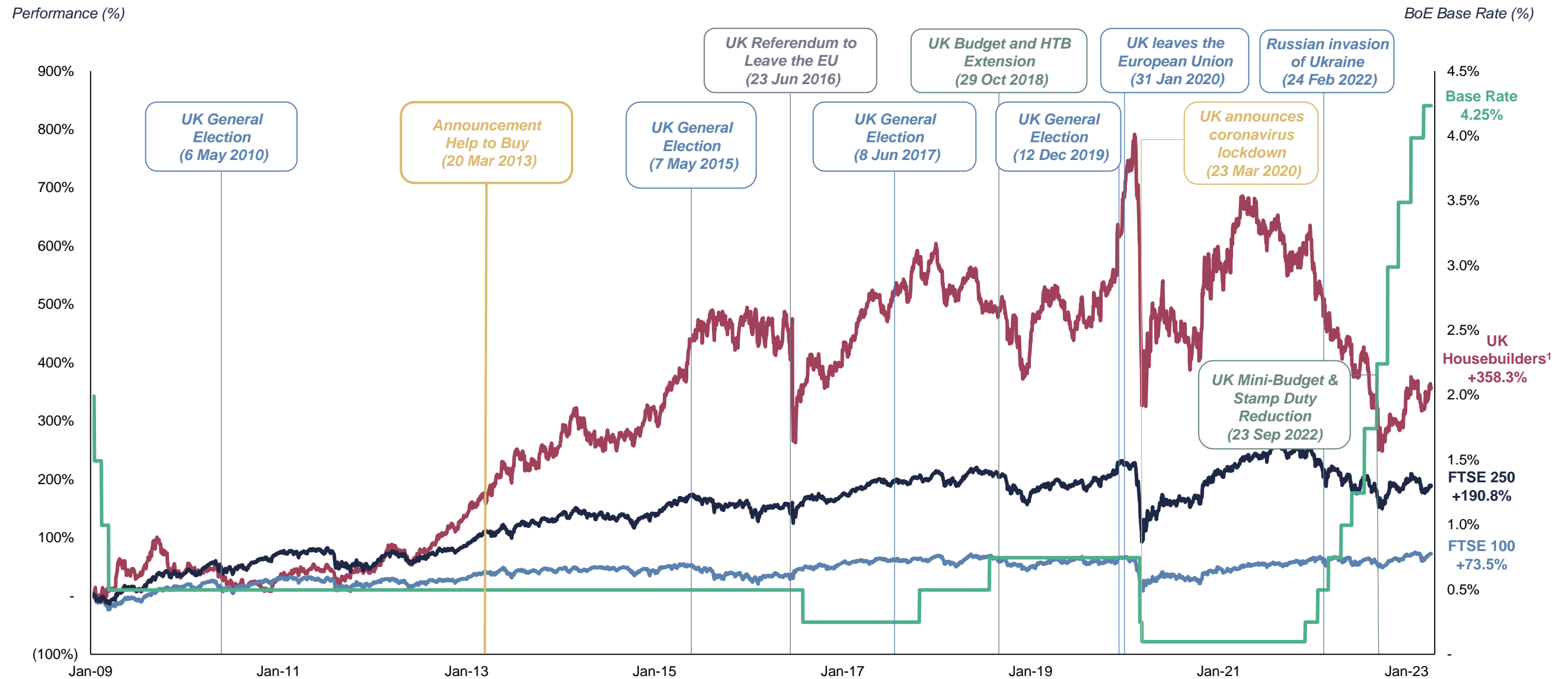


## Increasing mortgage rates<sup>1</sup>

UK Mortgage Rates (Bank of England)



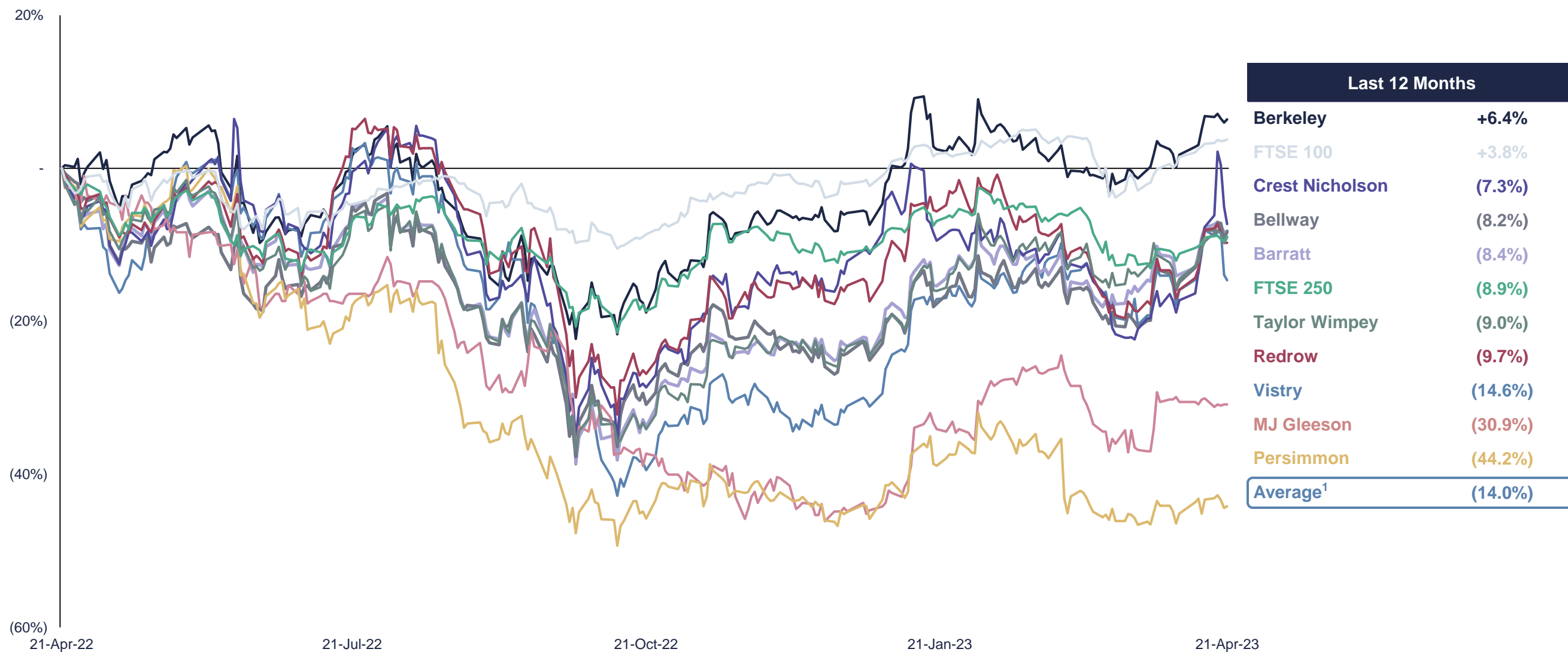
# Three “shocks” to the sector – 2016 referendum; 2020 lockdown; 2021/22 sell-off...; interest rate hikes causes sector sell-off...



Source: Bank of England, Capital IQ as of 21-Apr-2023  
 Note: Chart shows share price performance from 1-Jan-2009 – 21-Apr-2023  
 1. UK Homebuilders Index includes Barratt, Bellway, Berkeley, Crest Nicholson, MJ Gleeson, Persimmon, Redrow, Taylor Wimpey, Vistry Group and Galliford Try (share price until sale of Linden Homes and Partnerships & Regeneration businesses transaction completion on 02-Jan-2020)

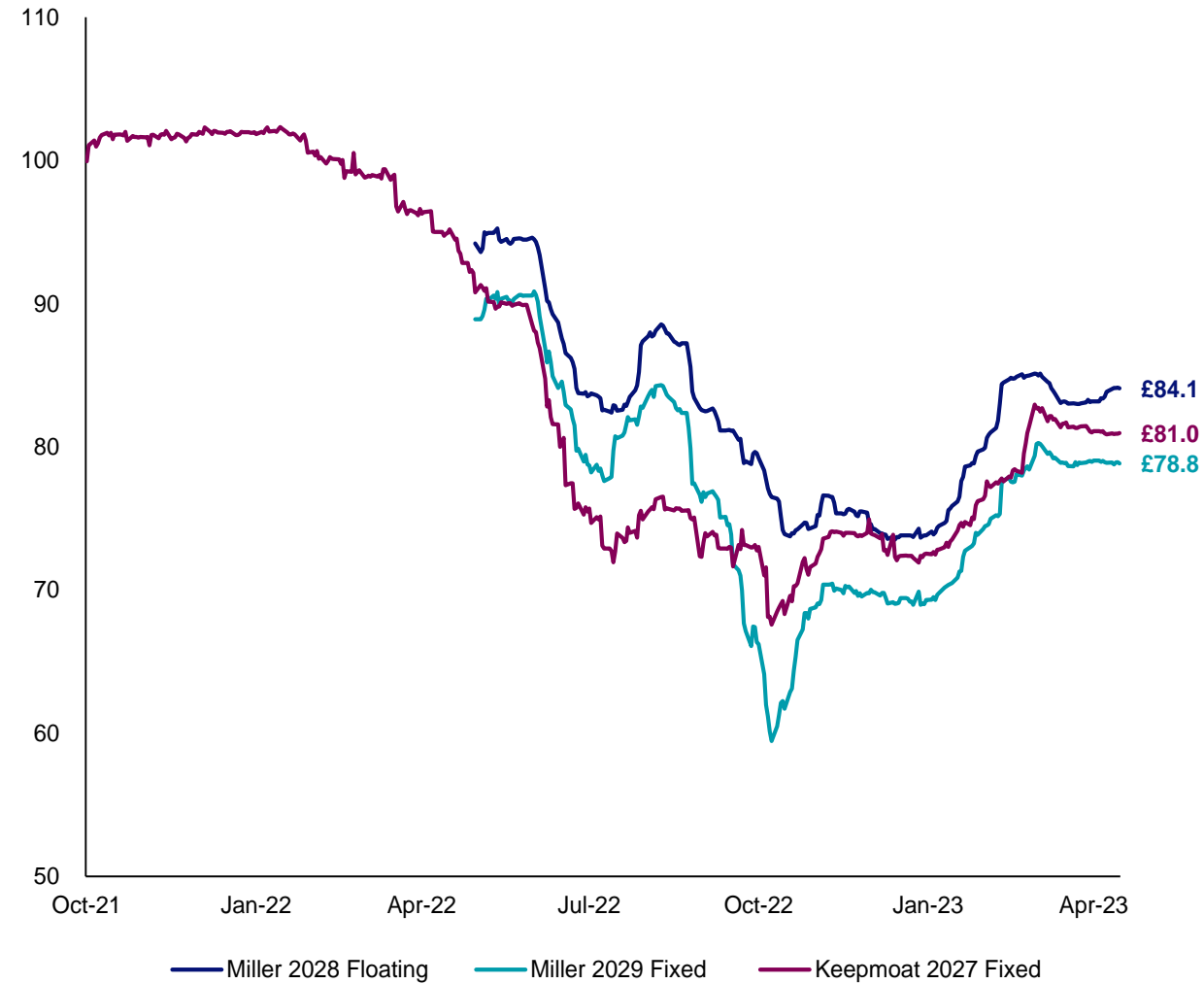


# Majority of sector in negative territory but strong recovery since October 2022

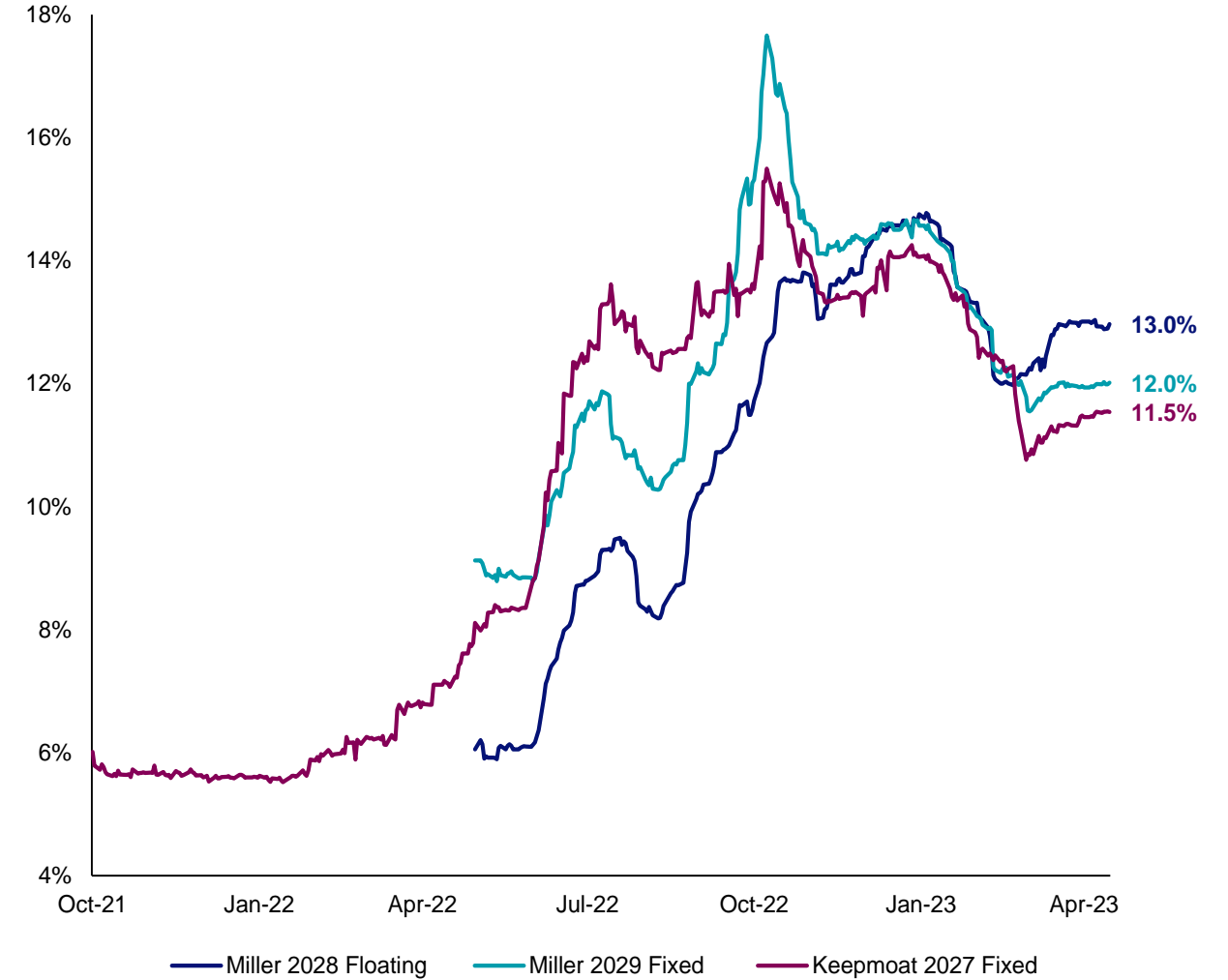


# Miller and Keepmoat bonds trade below issue price...

Bond price performance since issuance (in GBP)

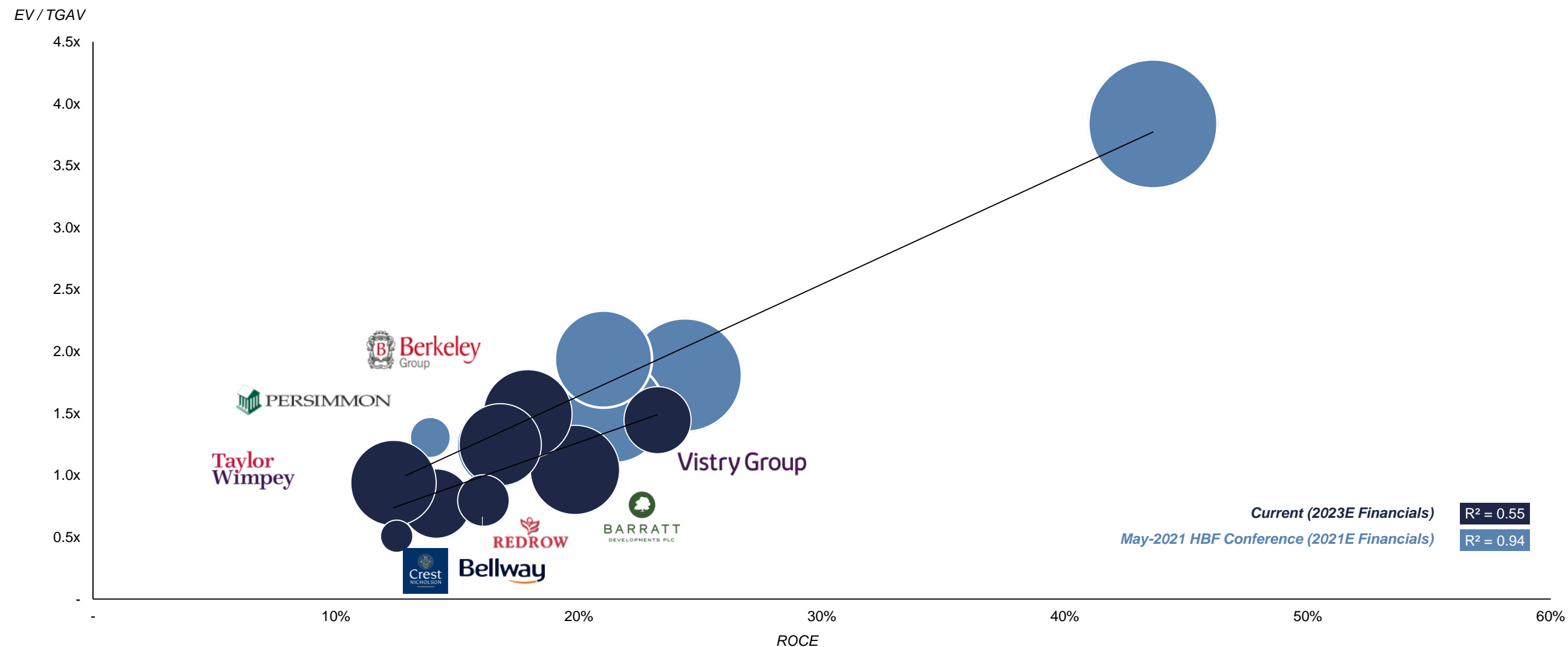


Yield to maturity since issuance (in %)



# Valuations have compressed and differentiation narrowed

EV / TGAV vs ROCE (2021E & 2023E) regression



# Depressed valuations despite no leverage, high ROCEs and high margins



# Unprecedented corporate activity in 2021 – A vote of confidence... 2022 and 2023 far more subdued...



# Key lessons from a frenetic 2021



# Corporate activity will return...

## Reasons to buy



Trough valuations



Positive long-term sector dynamics



Government support – Tory vs Labour



Tight land market

## Reasons to sell



Sector better than anticipated



“Long list” of motivated buyers with capacity



Tight land market



Medium term Government support



Threat of higher taxation

## Key issues in the sector

- 1 | **Government and housing policy?**
- 2 | **Mortgage availability**
- 3 | **Merits of vertical integration and horizontal diversification?**
- 4 | **Impact of modern methods of construction? And traditional construction?**
- 5 | **Sustainability**
- 6 | **Competition investigation**
- 7 | **Election...**