

MJ Gleeson

On track and raring to grow

The market has not yet understood MJ Gleeson and its unique attractions, in our view. The group is in good positions and in strong markets in both segments of the business. There is cash to expand and the prospects have improved with the housing white paper (February 2017).

Taking the opportunity to grow

A positive first half report from the company confirmed that it is on track to hit 2016/17 expectations. It has shown indications of ambitious growth. The key driver of the business, affordable housebuilding for sale, showed revenue growth of 9% in H117 to £55m and a 10% rise in operating profit to £9m. The strategic land promotion operation created good cash flow and while revenue fell 44% to £8m operating profit was roughly stable at £4m. The company indicated that demand for its houses and land remains at a high level. There is support for home buyers through several schemes, including Help to Buy.

Creating growth capacity

The company is investing in growing affordable housing for sale. It will build over 1,000 units in the current year (451 in H1). The pace of change depends on how the current seven divisions expand their operations to get to, say, 250 units each pa. The company had 10,454 dwelling plots owned and controlled at the end of December. Investment has been made in the operations with three regional heads managing the seven existing divisions; three more are soon to be added in Cumbria, Northumberland and the West Midlands. The relevance of the strategic land promotion operations should not be ignored; the goal, however, appears to be to maintain a steady state at c £10m pa operating profit. Growth is to be driven by the affordable houses for sale.

The valuation ignores the prospects, in our view

Valuing land developers and housebuilders depends on the economic cycle. The mainstream external view is that housing is set for growth in volume and prices in the mid-term. The GDV of the owned and controlled land is £1.3bn (number of plots x £125,000 ASP); at a 20% net margin, that is worth £260m, pre-tax. The current hurdle rate is above 20%, although the actual level in H117 was 18%. The EV is £310m at close on 3 March 2017. The 21,256 potential plots in the strategic land promotion operations are difficult to value. In P/E terms, the stock trades on a 13.3x prospective, which is above the average of 10x, but so is the likely growth rate.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
06/16	142.1	28.2	42.6	14.5	14.1	2.4
06/17e	154.0	30.5	45.2	18.3	13.3	3.1
06/18e	168.0	33.0	49.5	20.2	12.2	3.4
06/19e	182.5	36.1	54.0	22.2	11.2	3.7

Source: Bloomberg

Household goods

6 March 2017

Price 602.5p
Market cap £327m

Share price graph



Share details

Code GLE
Listing LSE
Shares in issue 54.2m

Business description

MJ Gleeson makes and sells low-priced housing in the Midlands and north of England (average selling price is <£125,000) and promotes smart land development in South-East England. The sale of development land has unpredictable timing, not wholly in the company's control.

Bull

- Its product is in high demand.
- Long-term land bank, 10x current annual output.
- Cash positive, freedom to do deals.

Bear

- Housing markets cyclical. Help to Buy may end in 2021.
- The two operations have no synergies; combining them makes little economic sense at present.
- Management succession.

Analysts

Stephen Rawlinson +44 (0)20 3077 57 22
Toby Thorrington +44 (0)20 3077 57 00

industrials@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE-OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or a achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2014]. "FTSE(i)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.