

Foxtons Group

Progress evident in Q3/ytd revenue growth

Q3 trading update

Real estate

Foxtons has traded well ytd, with total revenue exceeding £100m and only c £3m short of the £106.9m reported for the whole of FY19. The company has not only benefited from the implementation of its strategy, but also from a recovering sales market and improving lettings market where rental rates recovered sharply during the quarter. It enters the final quarter with a sales pipeline of properties 'under offer', which is 20% higher than at the same point in 2019. We value the shares at 128p, slightly reduced from our previous 130p, as costs are likely to increase modestly.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	106.9	(1.9)	(0.3)	0.0	N/A	N/A
12/20	93.6	1.6	(0.1)	0.0	N/A	N/A
12/21e	131.8	7.5	(0.0)	0.5	N/A	1.0
12/22e	139.6	12.0	3.2	0.8	15.0	1.7

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

9M21 revenue up 50% y-o-y, up 24% versus 2019

Foxtons reported headline revenue of £103.6m for the nine months of FY21 (9M21), up 50% on the same period in 2020 and up 24% versus 2019. Stripping out the effect of the Douglas & Gordon (D&G) acquisition in March, underlying revenue grew 10% versus 2019. Q3 revenue grew 16% to £36.6m versus 2019 and was up 1% on the same basis. Overall revenue growth was primarily driven by lettings and sales with mortgage broking revenue largely flat on a two-year view. Foxtons ended the period with net cash of £24.5m, after spending £1.6m of the £3m share buyback programme announced in the H1 statement.

Cost increases imply modest reduction in forecasts

Revenue growth was in line with our full-year expectations, but Foxtons incurred one-off costs this year and, further out, we expect employment costs (national insurance contributions) and energy costs to accelerate. We have therefore reduced our operating profit forecasts by c £0.5m in each of the forecast periods.

Valuation: Revised to 128p/share, >2x the share price

Our base case shows 2022e EPS of 2.2p, which gives a valuation below the current share price when we apply the average 2014–15 P/E of 17.5x. If we roll our forecasts forward to 2023, our basic adjusted and diluted EPS of 2.7p implies a valuation of 45.5p, broadly similar to the current price. However, we would argue that future growth may not be fully reflected in the share price or our estimates as we do not forecast acquisitions. Our bull case highlights potential upside in forecasts, where Foxtons is particularly geared to further acquisitions of lettings books, as well as growth from Build to Rent (BTR), regional expansion and underlying markets. Our bull case scenario suggests a potential 2022 EPS of 7.3p, which implies a valuation of 128p/share when the 17.5x P/E is applied.

1 November 2021

Price 48p
Market cap £154m

Net cash* (£m) at 30 September 2021 24.5
*Excluding lease liabilities

Shares in issue 320.7m

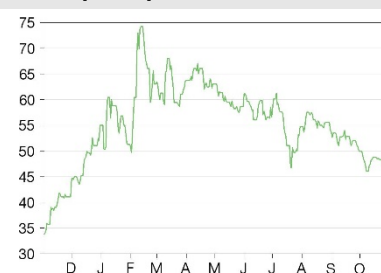
Free float 100%

Code FOXT

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(7.4)	(11.0)	46.4
Rel (local)	(8.6)	(12.7)	11.8
52-week high/low		74p	34p

Business description

Foxtons Group is London's leading and most widely recognised estate agency. It operates from a network of 57 interconnected branches offering a range of residential-related services, which are split into three separate revenue streams: sales, lettings and mortgage broking.

Next events

FY21 trading update December 2021

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Strategic progress and market recovery

Foxtons has traded well ytd, with total revenue exceeding £100m and only c £3m short of the £106.9m reported for the whole of FY19. The company has not only benefited from implementation of the strategy highlighted at its capital markets day in June, but also from a recovering sales market and improving lettings market, where rental rates recovered sharply during the quarter and are now at levels similar to those achieved in the same period in FY19. Foxtons enters the final quarter with a sales pipeline of properties 'under offer' that is 20% higher than at the same point in 2019.

Nine-month revenue growth of 50% y-o-y and 24% versus 2019

Foxtons' ytd revenue increased by more than 50% to £103.6m, driven by underlying growth in all three divisions, and by contributions of £7.1m and £4.8m in lettings and sales respectively from the D&G acquisition in March. On a two-year basis, revenue for 9M21 was up 24%. Stripping out the D&G contribution, the underlying business grew by 10% versus the same period in 2019. In lettings, ex D&G, volumes were up 11% and average rental per deal was broadly flat versus 2020.

Exhibit 1: Foxtons ytd revenue and growth rates

	9M19	9M20	9M21	Ytd 2021 vs 2019 (%)	Ytd 2021 vs 2020 (%)
Revenue					
Lettings	53.7	45.2	58.0	8.0%	28.3%
Sales	23.8	17.9	38.3	60.9%	114.0%
Mortgage broking	6.0	5.8	7.2	19.2%	25.1%
Total revenue	83.5	68.9	103.6	23.9%	50.3%

Source: Foxtons Group

Total revenue in Q3 grew by 27.9% y-o-y to £36.6m, primarily driven by the contribution from D&G in lettings and sales. On a two-year view versus 2019 and stripping out the contribution from D&G in Q3, lettings revenue increased by 1.5% to £21.6m and sales revenue slipped by 2% to £8.3m. Mortgage broking, which was unaffected by the D&G deal, reported revenue broadly flat at £2m for the quarter versus Q319, as Q320 benefited from remortgage activity.

Exhibit 2: Foxtons Q3 revenue and growth rates

£m	Q319	Q320	Q321	Ytd 2021 vs 2019 (%)	Ytd 2021 vs 2020 (%)
Revenue					
Lettings	21.3	19.5	24.9	17.1	27.8
Sales	8.4	6.9	9.7	15.5	39.9
Mortgage broking	2.0	2.2	2.0	(1.5)	(8.9)
Total revenue	31.7	28.6	36.6	15.5	27.9

Source: Foxtons Group, Edison Investment Research

The lettings market has staged a remarkable recovery as people have returned to the office post COVID-19. Ex D&G, ytd volumes were up 11% and revenue per deal was broadly flat. Q3 started with an excess of listings and weaker rents. This has reversed, with listings now at historically low levels and rents having returned to pre-pandemic levels in August and September.

In sales, activity was affected by the timing of the withdrawal of Stamp Duty Land Tax holiday, which saw some sales pulled forward from July/August into H1. There was strong growth in the second half of Q3 as the market normalised and demonstrated good underlying momentum.

Cost increases push estimates down modestly

At the revenue line, Foxtons continues to perform in line with existing estimates. However, in 2021 it incurred some one-off costs including executive search fees and digital marketing costs. In future

years, Foxtons cannot avoid the increase in national insurance rates and inflation, especially in relation to energy. We have therefore trimmed c £0.5m pa from our operating profit estimates in FY21–23.

This implies a c 10% reduction in EPS in the current year and a c 4% cut in FY22. There is no material impact on net cash, which we estimate at £18.6m (down 3% on the previous estimate) at end FY21, rising to £26.4m a year later.

Exhibit 3: Revised forecasts

£m	FY20	FY21e (old)	FY21e (new)	Chg (%)	FY22e (old)	FY22e (new)	Chg (%)
Revenue	93.6	130.1	131.8	1.3%	137.7	139.6	1.4%
Y-o-y growth (%)	-	39.1%	40.8%	-	5.8%	7.3%	-
Total operating profit (normalised)	3.8	10.0	9.5	(4.9%)	14.5	13.9	(3.9%)
Y-o-y growth (%)	-	163.4%	150.4%	-	45.0%	39.3%	-
PBT (normalised)	1.6	8.1	7.5	(6.9%)	12.5	12.0	(4.1%)
Y-o-y growth (%)	-	408.2%	373.5%	-	54.3%	48.0%	-
EPS (p, normalised based on average no of shares)	(0.1)	0.1	0.0	N/A	3.4	3.2	(4.0%)
Y-o-y growth (%)	-	N/A	N/A	-	N/A	N/A	-
DPS (p)	0.0	0.5	0.5	0.0%	0.8	0.8	(5.6%)
Y-o-y growth (%)	-	N/A	N/A	-	54.4%	45.5%	-
Net cash (pre-IFRS 16, ie ex-lease liabilities)	37.0	19.1	18.6	(2.5%)	27.4	26.4	(3.4%)
Y-o-y growth (%)	-	-48.5%	-49.8%	-	43.7%	38.8%	-

Source: Company accounts and Edison Investment Research

Valuation edges down to 128p/share

Given the modest reduction in 2022e operating profit, we have reduced our valuation from 130p/share to 128p/share, which is more than twice the current share price. For reference, we used the average 2014–15 P/E as this was the rating in a 'normal' growth period, similar to current conditions and therefore more representative.

Exhibit 4: Bear, base and bull case revenue and profit scenarios

	2022e			Comments
	Bear	Base	Bull	
2019 revenue base (£m)	106.9	106.9	106.9	2019 revenue base
Organic revenue growth (£m)	(8.9)	12.8	32.2	
M&A revenue growth (£m)	17.9	19.9	27.5	
2022 revenue (£m)	115.9	139.6	166.5	
Operating profit	(6.9)	10.9	31.1	Applied 75% drop-through to decline and growth scenarios
Interest	(1.9)	(1.9)	(1.9)	Assumed same in all scenarios
PBT	(8.8)	9.0	29.2	
Tax (@ 19%)	-	(1.7)	(5.5)	
Profit after tax	(8.8)	7.3	23.6	
Average shares in issue (diluted)	324.4	324.4	324.4	
EPS (p)	(2.7)	2.2	7.3	
Current price (p)	48			
Implied 2022e P/E (x)	(17.7)	21.4	6.6	
Potential value per share				
Target P/E (x)		17.5	17.5	Average forward P/E in 2014–15 was 17.5x.
Implied value per share (p)		39.3	127.5	

Source: Edison Investment Research

Exhibit 5: Financial summary

	£m	2018	2019	2020	2021e	2022e	2023e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		111.5	106.9	93.6	131.8	139.6	144.4
Normalised operating profit		(0.3)	0.6	3.8	9.5	13.9	15.9
Amortisation of acquired intangibles		(0.2)	(0.6)	(0.8)	(1.2)	(1.0)	(1.0)
Exceptionals		(15.7)	(5.7)	(1.1)	(0.8)	0.0	0.0
Share-based payments		(1.3)	(0.7)	(1.0)	(1.8)	(2.0)	(1.9)
Reported operating profit		(17.6)	(6.3)	0.8	5.7	10.9	13.0
Net Interest		0.0	(2.4)	(2.2)	(1.9)	(1.9)	(1.9)
Exceptionals		0.3	(0.1)	(0.0)	(0.1)	0.0	0.0
Profit Before Tax (norm)		0.0	(1.9)	1.6	7.5	12.0	14.0
Profit Before Tax (reported)		(17.2)	(8.8)	(1.4)	3.7	9.0	11.1
Reported tax		0.0	1.0	(1.8)	(7.7)	(1.7)	(2.6)
Net income (normalised)		0.0	(0.9)	(0.2)	(0.1)	10.3	11.4
Net income (reported)		(17.2)	(7.8)	(3.2)	(4.0)	7.3	8.5
Basic average number of shares outstanding (m)		275	275	314	325	320	320
EPS - basic normalised (p)		0.01	(0.32)	(0.08)	(0.04)	3.22	3.57
EPS - diluted normalised (p)		0.01	(0.32)	(0.08)	(0.04)	3.17	3.52
EPS - basic reported (p)		(6.25)	(2.83)	(1.02)	(1.22)	2.28	2.67
Dividend (p)		0.00	0.00	0.00	0.54	0.79	0.92
Revenue growth (%)		(5.2)	(4.1)	(12.5)	40.9	5.9	3.4
Normalised Operating Margin		(0.3)	0.5	4.1	7.2	10.0	11.0
BALANCE SHEET							
Fixed Assets		130.9	178.7	173.4	172.6	163.1	154.5
Intangible Assets		101.5	101.0	103.5	103.9	105.0	106.1
Goodwill		9.3	9.3	11.4	11.4	11.4	11.4
Tangible Assets		17.2	13.0	10.5	22.4	19.8	17.2
Right of use assets		0.0	51.4	44.4	35.4	27.4	20.4
Contract assets		0.3	0.6	0.4	0.4	0.4	0.4
Investments & other		2.6	3.3	3.1	(0.9)	(0.9)	(1.0)
Current Assets		32.4	30.2	52.6	38.4	45.6	51.1
Contract assets		0.5	1.0	1.7	1.7	1.7	1.7
Debtors		13.7	13.4	13.9	19.0	20.1	20.8
Cash & cash equivalents		17.9	15.5	37.0	18.6	26.4	33.8
Other		0.2	0.3	0.1	(0.6)	(2.3)	(5.0)
Current Liabilities		(22.0)	(27.9)	(29.2)	(33.4)	(34.2)	(34.8)
Creditors		(13.7)	(10.5)	(10.3)	(14.5)	(15.4)	(15.9)
Lease liabilities		0.0	(9.7)	(10.8)	(10.8)	(10.8)	(10.8)
Contract liabilities		(2.5)	(6.3)	(7.7)	(7.7)	(7.7)	(7.7)
Other		(5.7)	(1.4)	(0.4)	(0.4)	(0.4)	(0.4)
Long Term Liabilities		(17.9)	(65.2)	(62.4)	(49.7)	(38.1)	(25.5)
Lease liabilities		0.0	(46.2)	(40.7)	(28.8)	(18.8)	(8.9)
Contract liabilities		(1.1)	(1.3)	(1.1)	(1.1)	(1.1)	(1.1)
Other long-term liabilities		(16.8)	(17.8)	(20.6)	(19.9)	(18.2)	(15.6)
Net Assets		123.3	115.8	134.5	128.1	136.6	145.5
Shareholders' equity		123.3	115.8	134.5	128.1	136.6	145.5
CASH FLOW							
Op Cash Flow before WC and tax		(13.2)	(2.6)	4.3	9.9	14.9	17.0
Depreciation - Right of use assets		0.0	9.8	9.4	9.0	8.0	7.0
Impairment of goodwill		9.8	0.0	0.0	0.0	0.0	0.0
Branch asset impairment		2.7	4.3	1.7	0.7	0.0	0.0
Gain on disposal of PPE etc		0.1	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Working capital		1.3	(2.6)	(0.6)	(0.9)	(0.3)	(0.2)
Exceptional & other		0.0	0.0	0.0	0.0	0.0	0.0
Decrease in provisions		1.2	0.8	(0.8)	(1.0)	(1.0)	(1.0)
Share based payment charges		1.3	0.7	1.0	1.8	2.0	1.9
Cash settlement of share incentive plan		0.0	(0.4)	0.0	0.5	0.5	0.5
Tax		(1.5)	0.2	0.2	(0.7)	(1.7)	(2.6)
Net operating cash flow		1.8	9.8	14.7	18.7	22.0	22.2
Capex		0.2	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Acquisitions/disposals		(2.0)	(0.2)	(3.9)	(17.6)	(0.1)	(0.1)
Net interest		0.0	0.0	0.0	0.1	0.1	0.2
Dividends		(0.7)	0.0	0.0	0.0	(1.8)	(2.5)
Repayment of lease liabilities		0.0	(12.0)	(10.0)	(14.0)	(12.0)	(12.0)
Purchase of own shares		0.0	(0.1)	(0.3)	(5.7)	(0.3)	(0.3)
Net proceeds from issue of ord. Shares		0.0	0.0	21.1	0.0	0.0	0.0
Other		0.0	0.3	0.3	0.3	0.3	0.3
Net Cash Flow		(0.7)	(2.4)	21.5	(18.4)	7.9	7.3
Opening net debt/(cash)		(18.6)	(17.9)	(15.5)	(37.0)	(18.6)	(26.4)
Closing net debt/(cash) (ex lease liabilities)		(17.9)	(15.5)	(37.0)	(18.6)	(26.4)	(33.8)

Source: Company accounts, Edison Investment Research

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