

Foxtons Group

Strong results, dividend and share buy back in H2

Foxtons Group's core London market has been improving all year and the interim results highlight both the recovery and the contribution from recent acquisitions. Furthermore, the company announced a return to paying dividends in respect of the half year and given the strength of both trading and the balance sheet, revealed a £3m share buyback programme that should augment earnings. We retain our underlying assumptions but raise our valuation by 1p to 130p to reflect the share buyback.

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	130.1	8.1	0.1	0.5	622.2	1.0
12/22e	137.7	12.5	3.4	0.8	15.8	1.6

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

Strong markets and M&A imply good growth

Foxtons reported H1 revenue of £66.9m, up 29% versus H119, comfortably ahead of our expectations. Operating profit was £5.2m having been in loss in both 2019 and 2020 and PBT was £3.3m, again having been in loss for the previous two years. Adjusted EPS was 1.1p/share which has allowed Foxtons to declare a dividend of 0.18p/share. The company ended the period with net cash of £24.4m which along with the positive cash inflow has encouraged the board to announce a £3m share buyback.

Underlying forecasts unchanged

The outlook is encouraging despite the tapering of the stamp duty holiday as the market appears to be maintaining momentum. Our underlying full year forecasts are essentially unchanged, bar the inclusion of £1.5m of branch business rates, taken voluntarily in H1 and paid in July. Foxtons continues to roll out its growth strategy which was highlighted in its June capital markets day. This includes investing in the underlying business, pursuing M&A of lettings books, regional expansion and focusing on the Build to Rent (BTR) market which is expanding rapidly.

Valuation: Bull case value edges up to 130p/share

Our base case shows 2022e EPS of 2.4p, which gives a valuation below the current share price when we apply the average 2014/15 P/E of 17.5x. If we roll over our forecasts to 2023e, our basic, adjusted and diluted EPS of 2.9p implies a valuation of 50.8p, much closer 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 the potential upside in forecasts, where Foxtons is particularly geared to further acquisitions of lettings books as well as growth from BTR, regional expansion and underlying markets. Our bull case scenario suggests a potential 2022e EPS of 7.4p, which implies a valuation of 130p/share when the 17.5x P/E is applied, a 1p uplift due to the £3m share buyback announced.

H121 results and outlook

Real estate

2 August 2021

Price **53p**

Market cap **£172m**

Net cash (£m) at 30 June 2021 **24.4**
*Excluding lease liabilities

Shares in issue **327.7m**

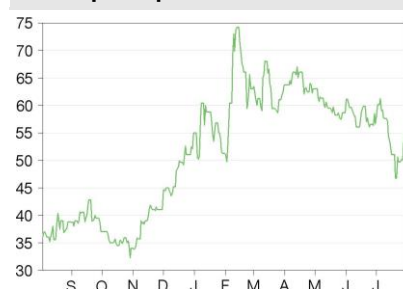
Free float **100%**

Code **FOXT**

Primary exchange **London**

Secondary exchange **N/A**

Share price performance



% **1m 3m 12m**

Abs **(3.4) (13.2) 49.9**

Rel (local) **(3.7) (14.2) 23.7**

52-week high/low **74p 32p**

Business description

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

Next events

Q3 trading update **October 2021**

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H1 group and divisional performance

Foxtons reported H121 revenue of £66.9m, which was up 66% versus the previous year and 29% versus 2019. Excluding £7.2m of revenue from Douglas and Gordon (D&G), underlying revenue was up 48% and 15% respectively. These growth rates include the impact of the loss of £1.4m from the tenant fee ban. The principal drivers of the revenue growth were the increase in lettings volumes which were up 26% y-o-y to 10,026, and sales volumes which were up 141% y-o-y to 2,071. Mortgage volumes were also up, by 35% to 2,795, but the revenue base is much smaller compared to the Lettings and Sales divisions.

Exhibit 1: Interim results summary

	H119	H120	H121	H121 vs H119	H121 vs H120
Revenue					
Lettings	32.4	25.7	33.1	2.0%	28.8%
Sales	15.4	11.1	28.6	85.5%	158.7%
Mortgage Broking	4.0	3.6	5.2	31.0%	44.3%
Total revenue	51.8	40.4	66.9	29.1%	65.9%
Adjusted operating profit					
Lettings	2.0	2.0	1.5	-27.3%	-27.3%
Sales	(3.5)	(4.8)	2.7	-	-
Mortgage Broking	0.6	0.5	1.1	71.8%	134.4%
Total adjusted operating profit	(0.9)	(2.4)	5.2	-	-
PBT (ex exceptionals)	(2.1)	(3.5)	4.1	-	-
EPS - basic, diluted and adjusted (p)	(0.7)	(1.6)	1.1	-	-
DPS (p)	0.0	0.0	0.18	-	-
Net cash	14.5	40.5	24.4	67.8%	-39.9%

Source: Foxtons and Edison Research

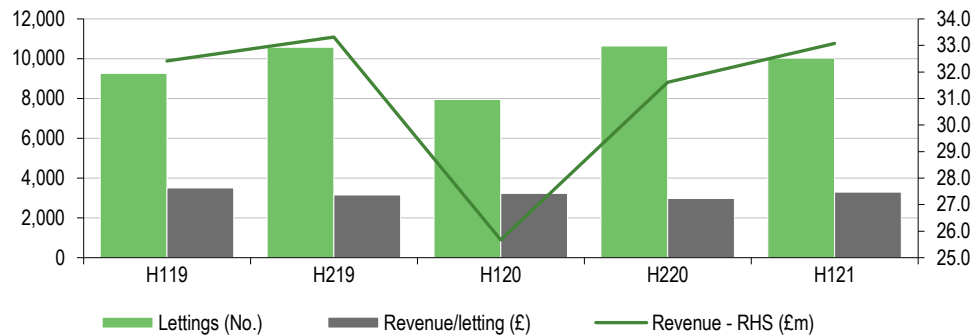
Operating profit improved dramatically, from losses in both 2019 and 2020, to £5.2m in H121. This figure includes c £1m benefit from the acquisition of D&G, but also a charge of £1.5m relating to the voluntary payment of branch business rates. Basic, diluted and adjusted EPS came in a 1.1p and Foxtons declared its first dividend since 2017, of 0.18p/share, in line with its strategy to pay out 35–40% of earnings as dividends.

Foxtons ended the period with net cash of £24.4m after the payment of £10m as part consideration for D&G and a £3m investment in Boomin. This strong position and positive outlook encouraged Foxtons to announce a second share buyback, this time of £3m. We estimate that the buyback is c 1% earnings enhancing in a full year.

Lettings activity showing signs of recovery

Total lettings increased 26% y-o-y to 10,026, benefiting from c 700 units in H1 from the D&G acquisition (from 1 March 2021). This represents growth of 8.2% over the same period in 2019. Revenue per unit improved modestly from £3,229 in H120, to £3,300, benefiting from the higher rates achieved from the acquired business. Adjusting for the acquisition and for the £1.4m impact of the tenant fee ban, average rentals were down c 9% versus 2019. That said, rates are now beginning to improve, and is likely to be given a boost if international travel continues to reopen and international students return from September. Overall, Lettings revenue was marginally higher than the same period in 2019.

Exhibit 2: Foxtons' Lettings activity, last five half years

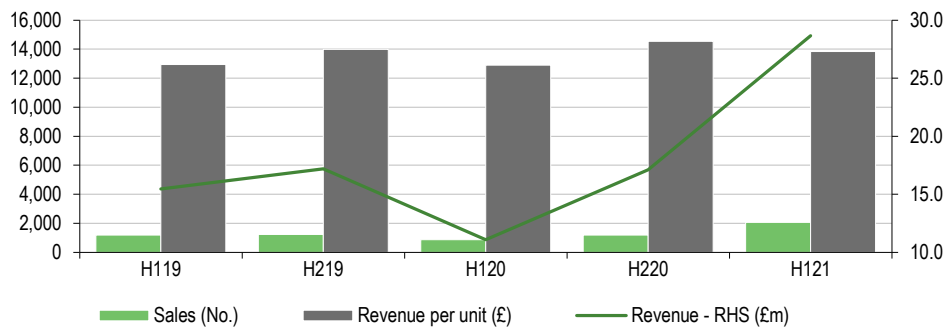


Source: Foxtons

Sales activity more than doubled

H121 saw sales volumes increase by more than 140% to 2,071, including c 200 units from D&G. This volume represents growth of more than 70% versus 2019. Clearly, the business benefited from the stamp duty holiday and pent-up demand from the lockdown. Revenue per unit was also up, by 7% to £13,833, again benefiting from the higher value sales from the acquired business. However, underlying revenue per unit was c 2% higher on the underlying business. In total, Sales revenue was up nearly 160% to £28.6m, a level not achieved since 2016.

Exhibit 3: Foxtons' Sales activity, last five half years

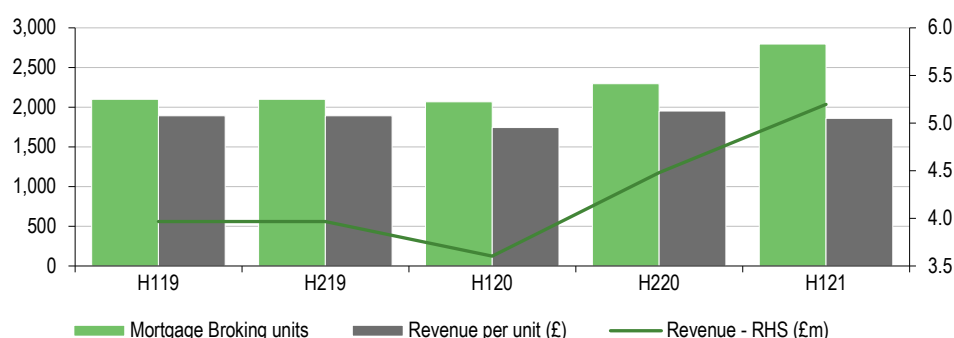


Source: Foxtons

Mortgage Broking volumes up 35% y-o-y

Mortgage Broking activity was also strong in the period, benefiting from the strength in the sales volumes referred to above. In total, volumes increase 35% y-o-y to 2,795 and average revenue per transaction rose 7% to £1,859. Overall, the business generated revenue of £5.2m in the period, comfortably ahead of H120, and 31% ahead of H119.

Currently, Foxtons is conducting a strategic review of the Mortgage Broking business which could lead to one of a number of outcomes. This is because the business is currently unable to handle the volume of activity that the rest of Foxtons is able to channel to the division without significant levels of investment. However, given the strategic fit of the operation with the core sales business, we believe it is likely that Foxtons will retain some interest in the business in the long term.

Exhibit 4: Foxtons' Mortgage Broking activity


Source: Foxtons

Underlying forecasts unchanged: Valuation edges up to 130p/share

Our underlying trading assumptions are unchanged. However, due to Foxtons' decision to voluntarily pay £1.5m of branch business rates in July (relating to the first half), we have reflected the charge in our 2021 estimates. This is the primary driver of the reduction in PBT, the balance being minor exceptional charges. Our 2022 and 2023 estimates are essentially unchanged.

Exhibit 5: Summary of estimate changes

	PBT (old, £m)	PBT reported (new, £m)	% change	EPS (old, p)	EPS basic reported (new, p)	% change
2020	(1).4	(1.4)	-	(1.0)	(1.0)	-
2021e	5.976	4.237	-29.1	1.5	(1.1)	-
2022e	9.549	9.539	-0.1	2.4	2.4	1.5
2023e	11.685	11.693	0.1	2.9	3.0	1.8

Source: Company data, Edison Research

Our valuation is unaffected by the changes above, but due to the share buyback, we have reduced the shares in issue which edges up our valuation from 129p/share to 130p/share.

Exhibit 6: Bear, base and bull case revenue and profit scenarios

£m unless stated	2022e			Comments
	Bear	Base	Bull	
2019 revenue base	106.9	106.9	106.9	
Organic revenue growth	-8.9	12.8	32.4	
M&A revenue growth	16.2	18.0	25.3	
2022 revenue	114.1	137.7	164.6	
Operating profit	(6.2)	11.5	31.7	Applied 75% drop-through to decline and growth scenarios
Interest	(1.9)	(1.9)	-1.9	Assumed same in all scenarios
PBT	(8.1)	9.5	29.8	
Tax (@ 19%)	-	(1.8)	(5.7)	
Profit after tax	(8.1)	7.7	24.1	
Average (diluted) shares in issue (m)	324.4	324.4	324.4	
EPS (p)	(2.5)	2.4	7.4	
Current price (p)	53			
Implied 2022e P/E (x)	-21.2	22.3	7.1	
Potential value per share				
Target P/E (x)		17.5	17.5	Average forward P/E in 2014/2015 was 17.5x.
Implied value per share (p)		41.7	130.0	

Source: Edison Investment Research

Exhibit 7: Financial summary

Year end 31 December, IFRS	£'m	2018	2019	2020	2021e	2022e	2023e
INCOME STATEMENT							
Revenue		111.5	106.9	93.6	130.1	137.7	142.4
Normalised operating profit		(0.3)	0.6	3.8	10.0	14.5	16.5
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	6.2	11.5	13.6
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	8.1	12.5	14.6
Profit Before Tax (reported)		(17.2)	(8.8)	(1.4)	4.2	9.5	11.7
Reported tax		0.0	1.0	(1.8)	(7.8)	(1.8)	(2.2)
Net income (normalised)		0.0	(0.9)	(0.2)	0.3	10.7	12.4
Net income (reported)		(17.2)	(7.8)	(3.2)	(3.6)	7.7	9.5
Basic average number of shares outstanding (m)		275	275	314	325	320	320
EPS - basic normalised (p)		0.01	(0.32)	(0.08)	0.09	3.35	3.87
EPS - diluted normalised (p)		0.01	(0.32)	(0.08)	0.08	3.31	3.81
EPS - basic reported (p)		(6.25)	(2.83)	(1.02)	(1.09)	2.42	2.96
Dividend (p)		0.00	0.00	0.00	0.54	0.83	1.02
Revenue growth (%)		(-5.2)	(-4.1)	(-12.5)	39.1	5.8	3.5
Normalised Operating Margin		-0.3	0.5	4.1	7.7	10.5	11.6
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	38.7	46.3	52.9
Contract assets		0.5	1.0	1.7	1.7	1.7	1.7
Debtors		13.7	13.4	13.9	18.7	19.8	20.5
Cash & cash equivalents		17.9	15.5	37.0	19.0	27.4	35.5
Other		0.2	0.3	0.1	(0.7)	(2.5)	(4.8)
Current Liabilities		(22.0)	(27.9)	(29.2)	(33.2)	(34.0)	(34.5)
Creditors		(13.7)	(10.5)	(10.3)	(14.3)	(15.1)	(15.7)
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)	(49.6)	(37.9)	(25.7)
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)	(19.8)	(18.0)	(15.8)
Net Assets		123.3	115.8	134.5	128.5	137.5	147.2
Shareholders' equity		123.3	115.8	134.5	128.5	137.5	147.2
CASH FLOW							
Op Cash Flow before WC and tax		(13.2)	(2.6)	4.3	10.4	15.5	17.6
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	(0.8)	(1.8)	(2.2)
Net operating cash flow		1.8	9.8	14.7	19.2	22.4	23.1
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)	(2.7)
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	(17.9)	8.3	8.1
Opening net debt/(cash)		(18.6)	(17.9)	(15.5)	(37.0)	(19.1)	(27.4)
Closing net debt/(cash) (ex lease liabilities)		(17.9)	(15.5)	(37.0)	(19.1)	(27.4)	(35.5)
Closing net debt/(cash) (inc. lease liabilities)		(17.9)	40.4	14.6	20.6	2.3	(15.8)

Source: Company accounts, Edison Investment Research

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