

Taylor Wimpey PLC (TW.L)

Results: Hinting at Special Dividends as Positive Trends Continue

- **Citi's Take** — Group posted strong H1 results broadly in line with its early July trading update. Underlying PBT was up 42% at £109m in line with our expectation and operating profit increased by 34% at £132m. Tangible NAV rose by 16% to 67.2p per share. Management has also commented that it will provide a full update on its dividend policy (regular and additional larger returns where appropriate) at their 2013 results, which hints at potential special dividends. We expect consensus estimates to edge up modestly (particularly at the lower end) on these results.
- **UK housing profits show strong growth with revenue rising by 11% to £1bn** — supported by good progress in its Southern markets. H1 completions were up 2% and private ASPs were c.8% higher. During H1 the private reservation rate rose to 0.67 from 0.60. UK operating margin rose by 230bps to 13.5% in H1 benefitting from cheaper land flowing through P&L. Net reversal of £34.1m of impairment write-downs was posted in the UK — which will mute operating margin increase from here.
- **Strong order book supports profit delivery** — order book is at a record 7,378 homes valued at £1.3bn. The group is nearly 90% sold for 2013 and therefore expects volumes to be towards the upper end of expectations with margins in the order book ahead of completions in H1 2013. Management sees a positive outlook.
- **Balance sheet remains strong** — with net debt falling to £68.4m, after land spend of £233m in H1. Management still sees good opportunities in the land market.
- **Implications** — Positive news-flow continues. Next test for the market will be how the autumn selling season delivers. Shares have had a very strong run recently and now reside on 2014E a P/NAV multiple of c1.45. Potential for special dividends remains with a comment looking likely early next year.
- **Analyst meeting today at 9:00am** – Dial-in details: - +44 20 3059 8125.

Neutral	2
Price (30 Jul 13)	£1.06
Target price	£0.96
Expected share price return	-9.6%
Expected dividend yield	1.5%
Expected total return	-8.1%
Market Cap	£3,434M
	US\$5,233M

Price Performance (RIC: TW.L, BB: TW/ LN)



Taylor Wimpey PLC (GBP)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Sales (£M)	1,808.0	2,018.9	2,250.9	2,446.6	2,650.3
Profit Before Tax (£M)	84.4	185.3	261.0	338.0	414.8
Diluted EPS (p)	1.8	4.6	5.9	7.6	8.8
Diluted EPS (Old) (p)	1.8	4.6	5.9	7.6	8.8
PE (x)	58.9	23.2	17.9	13.9	12.0
EV/EBITDA (x)	21.3	13.8	10.4	8.2	6.8
DPS (p)	0.4	0.6	1.3	1.6	2.0
Net Div Yield (%)	0.4	0.6	1.2	1.5	1.9

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Taylor Wimpey PLC

Valuation

Our price target is 96p. We typically calculate our target prices for the housebuilders using a matrix approach whereby we take the PE, P/NAV, dividend yield, cash flow and DLV figures for each company. We do not currently use PEs or dividend yields due to the currently low level of profitability at this point in the cycle. These valuations are weighted according to the outlook and the market's current focus. We set the weighting of our Discounted Liquidation Value (DLV) to 25%, our FCF steady-state yield weighting to 25% with the NAV metric making up the balance 50%. Our DLV for Taylor Wimpey is calculated using a weighted average cost of capital of c.10% and gives a value of 106p. We use a FCF steady state forecast which effectively assumes no change in working capital and apply a target yield of 6% to arrive at a price target of 94p on this basis. Our P/NAV is based on a 1.25x multiple and gives a value of 92p.

Risks

As well as the generic risks for the whole sector, stemming from the health of the overall housing market, we see the following company-specific risks to our target price for Taylor Wimpey:

- UK house price deflation over the next twelve months, if the UK economy suffers another recession, this could put pressure on asset values again;
- Weaker consumer confidence feeding through to the housing market will make it harder to maintain current sales rates, particularly during the 2013 Autumn selling season. Looking further out a poor take up the "Help to Buy" mortgage schemes would also lead to disappointing volumes.
- Less success than assumed in bringing through strategic land will make margin progression more difficult;

If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Appendix A-1

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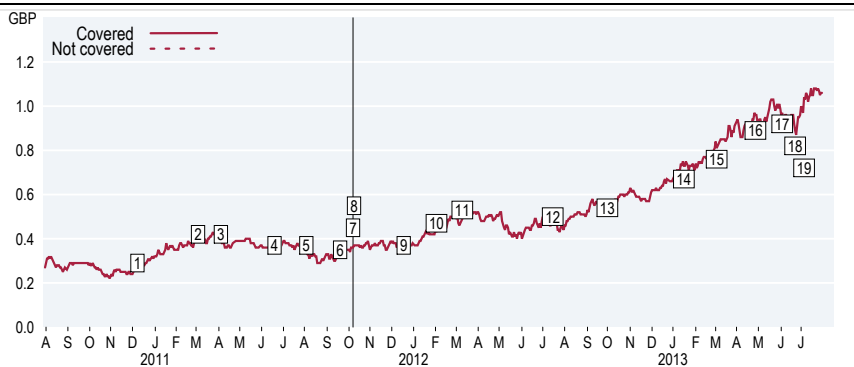
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Taylor Wimpey PLC (TW.L)

Ratings and Target Price History

Fundamental Research

Analyst: Aynsley Lammin



Date	Rating	Target Price	Closing Price
1 8-Dec-10	1S	*0.50	0.29
2 3-Mar-11	1S	*0.53	0.41
3 5-Apr-11	*2S	*0.48	0.40
4 20-Jun-11	*1H	0.48	0.36
5 3-Aug-11	1H	*0.49	0.34
6 20-Sep-11	1H	*0.46	0.34
7 7-Oct-11	Stock rating system changed		

* Indicates change

Date	Rating	Target Price	Closing Price
8 8-Oct-11	*1	0.46	0.36
9 19-Dec-11	1	*0.44	0.35
10 2-Feb-12	*2	*0.45	0.43
11 9-Mar-12	2	*0.50	0.49
12 16-Jul-12	2	*0.51	0.47
13 30-Sep-12	*1	*0.67	0.54
14 16-Jan-13	*2	*0.73	0.73

Date	Rating	Target Price	Closing Price
15 4-Mar-13	*3	*0.78	0.81
16 26-Apr-13	3	*0.87	0.96
17 4-Jun-13	3	*0.92	0.97
18 21-Jun-13	*2	0.92	0.89
19 4-Jul-13	2	*0.96	1.04

Rating/target price changes above reflect Eastern Standard Time

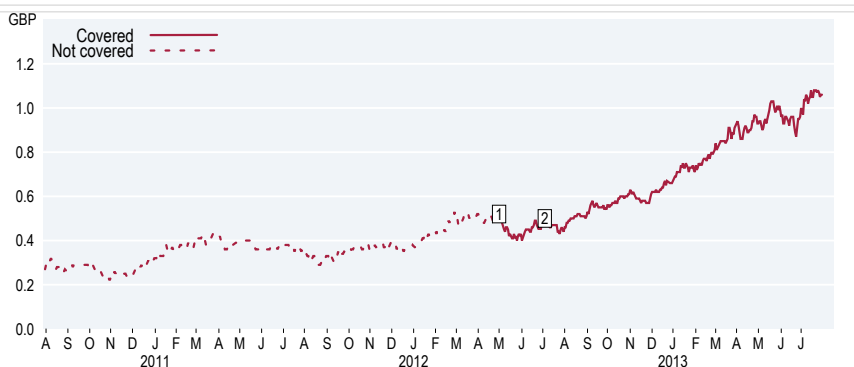
Taylor Wimpey PLC (TW.L)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Aynsley Lammin



Date	Rating	Target Price	Closing Price
1 1-May-12	*ADD LP	-	0.51

* Indicates change

Date	Rating	Target Price	Closing Price
2 4-Jul-12	*REM LP	-	0.48

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Data current as of 30 Jun 2013

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
48%	40%	12%	6%	88%	6%
53%	50%	45%	58%	51%	49%

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