

19 June 2013 | 7 pages

Homebuilding (GICS) | Homebuilding (Citi)
Western Europe | United Kingdom

Berkeley Group Holdings PLC (BKGH.L)

Results: Making Strong Progress – Strategy Delivering

- **Citi's Take** — Group delivered a strong set of results ahead of consensus expectations. Group PBT was up 26% at £271m compared to consensus of £261m. Group remains well on track to deliver scheduled capital return and announced a further interim dividend of 59p per share in September 2013, ahead of its first milestone of September 2015. Consensus estimates may edge up on the back of this update. All in all a very strong set of results showing good progress on strategy.
- **Operating margins show steady improvement** — rising to 20.4% in 2013 from 18.8% in the previous year driven by mix improvements and higher absorption of overheads. Underlying operating profit increased by 43% to £280m. Anticipated gross margin in the land bank up 10.5% to £2,852m.
- **Solid balance sheet & cash generation** — group net cash at the year end was £45m compared to a net debt of £58m in the previous year despite £315m of land investments and £20m dividend payments. NAV up by 20% to 1,009p.
- **Outlook comments** — the group remains on track to deliver returns to shareholders supported by a strong landbank. It also remains on track to increase the gross margin in the landbank to £3bn by April 2014 and recent planning successes provide a solid support to deliver on the first two return milestones.
- **Meeting details** — Analyst's meeting will be held today at UBS offices at 9.30am.
- **Implications** — the stock has had a good run since the start of the year (+23%), but lagged the overall sector which is up c.41%. The shares reside on a P/NAV of 2.2 times for the calendar year 2013 and look relatively full on valuation but we expect positive news-flow to continue into the next financial year.

Neutral	2
Price (18 Jun 13)	£21.59
Target price	£21.25
Expected share price return	-1.6%
Expected dividend yield	2.1%
Expected total return	0.5%
Market Cap	£2,834M
	US\$4,434M

Price Performance (RIC: BKGH.L, BB: BKG LN)



Berkeley Group Holdings PLC (GBP)

Year to 30 Apr	2011A	2012A	2013E	2014E	2015E
Sales (£M)	742.6	1,041.1	1,414.4	1,459.6	1,463.2
Profit Before Tax (£M)	136.2	214.8	280.0	312.0	327.0
Diluted EPS (p)	70.3	90.9	152.6	173.6	176.4
Diluted EPS (Old) (p)	70.3	90.9	152.6	173.6	176.4
PE (x)	30.7	23.7	14.1	12.4	12.2
EV/EBITDA (x)	19.0	13.8	9.3	8.2	7.7
DPS (p)	0.0	0.0	45.0	90.0	300.0
Net Div Yield (%)	0.0	0.0	2.1	4.2	13.9

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Berkeley Group Holdings PLC

Valuation

We have a target price of 21.25p on Berkeley Group. We typically value housebuilders using asset-based methodologies such as applying target multiples to our net assets forecast combined with our Discounted Liquidation Valuation. However, valuing Berkeley Group has become more complicated due to the announcement of the cash return planned over the next ten years. We have carried out a DCF valuation of the £13 of cash forecast to be returned over the next ten years. Based on an assumed discount rate of c.7%, we arrive at a DCF value per share of 909p for the £13 to be returned to shareholders. We then combine this with a Dividend Discount Model valuation and also with a net asset valuation for our 2022 forecasts and then take an average of the two methodologies to arrive at our price target. Our Dividend Discount Model is calculated using a sustainable forecast DPS of 65p in ten years' time. We have used the DDM to value the shares from 2022 and discounted back by 7.5%, deriving an implied value per share of 1046p in current money. Adding this to our valuation of the cash return gives an implied valuation of £19.55. For the net asset valuation methodology, we take our forecast NAV per share for 2022E and apply a net asset target multiple of 2.2 times. We use a relatively high net asset multiple to reflect the high return on equity we expect at this point. Discounting this back gives an implied value per share of £12.88, on our estimates. Adding this to our valuation of the cash return gives an implied valuation of £21.97. We then weight the DDM valuation by 30% and the NAV multiple methodology by 70% to arrive at our price target of £21.25.

Risks

Berkeley Group has a very strong balance sheet, and the UK housing market remains undersupplied in terms of new houses due to the planning system, but weak consumer confidence and low mortgage availability have seen housing transactions drop sharply.

As well as these sector-wide issues, we would highlight the following specific risks for Berkeley Group:

- The London market may be adversely affected by the ongoing financial market turbulence.
- Investors and overseas buyers are major customers for Berkeley and any undue GBP turbulence and difficulties with rental markets may affect them more than the industry.

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 price target. Conversely, if the impact is less negative, the stock could exceed our target.

Appendix A-1

Analyst Certification

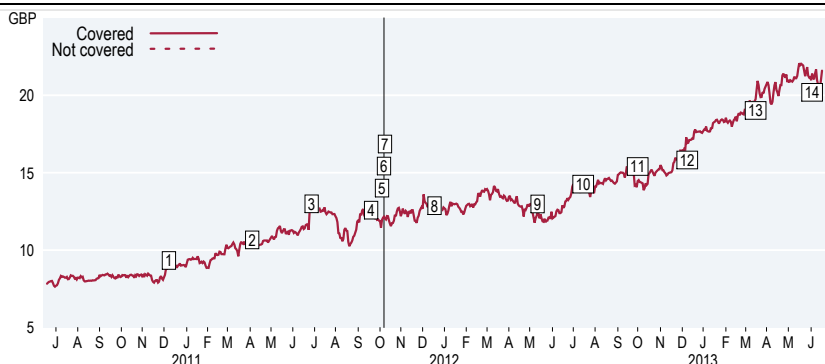
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Berkeley Group Holdings PLC (BKGH.L)

Ratings and Target Price History Fundamental Research

Analyst: Aynsley Lammin
Covered since December 5 2012



	Date	Rating	Target Price	Closing Price
1	8-Dec-10	1M	*12.90	9.08
2	5-Apr-11	1M	*12.50	10.66
3	28-Jun-11	*2M	*13.75	12.94
4	20-Sep-11	2M	*13.85	12.43
5	5-Oct-11	2M	*13.60	11.95

* Indicates change

	Date	Rating	Target Price	Closing Price
6	7-Oct-11	Stock rating system changed		
7	8-Oct-11	*2	13.60	12.16
8	19-Dec-11	2	*13.75	12.69
9	11-May-12	*1	13.75	12.45
10	16-Jul-12	1	*16.00	13.94

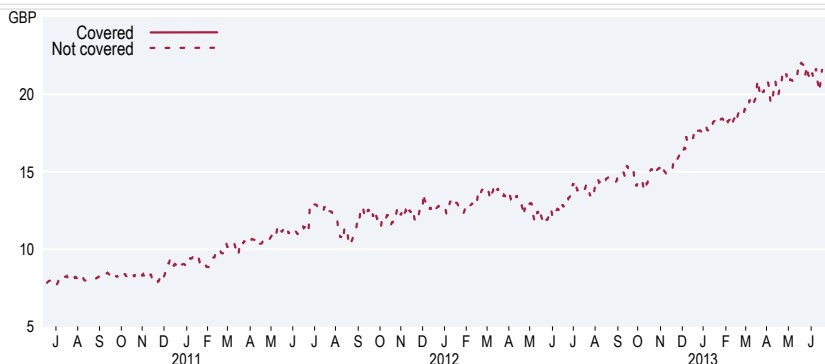
	Date	Rating	Target Price	Closing Price
11	30-Sep-12	1	*17.60	14.06
12	10-Dec-12	*2	*18.15	16.91
13	15-Mar-13	2	*19.85	19.75
14	4-Jun-13	2	*21.25	21.40

Rating/target price changes above reflect Eastern Standard Time

Berkeley Group Holdings PLC (BKGH.L)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Aynsley Lammin
Covered since December 5 2012



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Data current as of 31 Mar 2013

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

12 Month Rating			Relative Rating		
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48%	39%	12%	7%	87%	7%
53%	49%	43%	65%	49%	51%

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