

4 March 2013 | 15 pages

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

Taylor Wimpey PLC (TW.L)

Valuation Looks Stretched after Big Re-Rating

- **Downgrade to a Sell after a strong run** — Our target price increases to 78p given higher estimates and sector re-rating but we downgrade our rating to reflect a negative ETR and the shares YTD outperformance of c.10% against the sector. While we expect the trading news-flow to remain positive and consensus numbers to be robust, we believe the shares have run too far in the near term.
- **Potential for capital return, but not likely this year** — Management's comments suggested that there would be no return of "excess" capital over and above the dividend this year. While we would not be surprised to see a 2-3 year capital return program at some point after 2013, the size, timing and impact on the balance sheet and valuation of this remains very uncertain.
- **2012 results were slightly ahead** — As operating profit came in at £230m against our estimate of £224m, mainly due to a better margin. PBT of £185m was also better, with the final dividend up 13% to 43p. Completions of 10,886 and the ASP were in line with previous guidance with UK housing margins of 11.5% (2011: 9.0%).
- **Balance sheet in line** — Net debt of £59m was line with previous guidance, although land creditors did move higher to £375m (from £306m). The land bank increased marginally to 65,409 plots from 65,264 last year. Tangible NAV per share of 61.5p was 7% up on last year.
- **Outlook and estimates changes** — The order book is healthy at £1,076 (+9.5%) with around 50% forward sold for 2013 completions. Sales rates and visitor trends have improved in recent weeks with support by a better mortgage market. We have increased our profit estimates and now expect PBT of £232m for 2013.
- **Valuation** — The shares reside on a 2013E & 2014E P/NAV multiple of 1.25 and 1.15 times respectively. The shares have enjoyed a strong re-rating recently as the market seems to be partially factoring in the potential for some form of capital return.

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Sell	3
from Neutral	
Price (01 Mar 13)	£0.82
Target price	£0.78
from £0.73	
Expected share price return	-4.7%
Expected dividend yield	1.7%
Expected total return	-3.0%
Market Cap	£2,644M
	US\$4,009M

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	2,163.3	2,330.6	2,530.9
Profit Before Tax (£M)	84.4	185.3	232.0	285.0	348.0
Diluted EPS (p)	1.8	4.6	5.2	6.4	7.8
Diluted EPS (Old) (p)	1.8	5.7	4.8	5.9	na
PE (x)	45.6	17.9	15.8	12.9	10.5
EV/EBITDA (x)	16.4	10.4	8.6	7.2	5.9
DPS (p)	0.4	0.6	1.2	1.5	1.8
Net Div Yield (%)	0.5	0.8	1.5	1.8	2.2

Aynsley Lammin

+44-20-7986-4092
aynsley.lammin@citi.com

Ami Galla
ami.galla@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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TW.L: Fiscal year end 31-Dec						Price: £0.82; TP: £0.78; Market Cap: £2,649m; Recomm: Sell					
Profit & Loss (£m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	1,808	2,019	2,163	2,331	2,531	PE (x)	45.6	17.9	15.8	12.9	10.5
Cost of sales	-1,532	-1,663	-1,753	-1,859	-1,980	PB (x)	1.4	1.3	1.2	1.2	1.1
Gross profit	276	356	410	472	551	EV/EBITDA (x)	16.4	10.4	8.6	7.2	5.9
Gross Margin (%)	15.3	17.6	19.0	20.2	21.8	FCF yield (%)	1.4	5.6	5.1	5.4	7.2
EBITDA (Adj)	160	230	272	323	389	Dividend yield (%)	0.5	0.8	1.5	1.8	2.2
EBITDA Margin (Adj) (%)	8.8	11.4	12.6	13.8	15.4	Payout ratio (%)	21	14	23	24	23
Depreciation	-2	-2	-2	-2	-3	ROE (%)	5.4	12.1	8.2	9.5	10.7
Amortisation	0	0	0	0	0	Cashflow (£m)					
EBIT (Adj)	158	228	270	320	386	EBITDA	160	230	272	323	389
EBIT Margin (Adj) (%)	8.8	11.3	12.5	13.7	15.3	Working capital	-59	-73	-75	-90	-70
Net interest	-75	-45	-40	-38	-41	Other	-115	-77	-127	-169	-185
Associates	1	2	2	3	3	Operating cashflow	-14	80	70	63	134
Non-op/Except	-6	22	0	0	0	Capex	-6	-4	-8	-10	-10
Pre-tax profit	79	208	232	285	348	Net acq/disposals	562	1	0	0	0
Tax	-23	24	-63	-77	-94	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	43	0	0	0	0	Investing cashflow	557	-3	-8	-10	-10
Reported net profit	99	231	169	208	254	Dividends paid	-12	-18	-38	-48	-58
Net Margin (%)	5.5	11.5	7.8	8.9	10.0	Financing cashflow	-582	-609	-62	-53	-124
Core NPAT	59	149	169	208	254	Net change in cash	-37	-530	0	0	0
Per share data						Free cashflow to s/holders	39	150	137	143	194
Reported EPS (p)	3.0	7.1	5.2	6.4	7.8						
Core EPS (p)	1.8	4.6	5.2	6.4	7.8						
DPS (p)	0.4	0.6	1.2	1.5	1.8						
CFPS (p)	-0.4	2.4	2.1	1.9	4.1						
FCFPS (p)	1.2	4.6	4.2	4.4	5.9						
BVPS (p)	57.3	62.1	66.3	71.3	77.4						
Wtd avg ord shares (m)	3,190	3,186	3,200	3,200	3,200						
Wtd avg diluted shares (m)	3,282	3,262	3,262	3,262	3,262						
Growth rates											
Sales revenue (%)	-30.5	11.7	7.2	7.7	8.6						
EBIT (Adj) (%)	318.0	43.9	18.4	18.8	20.5						
Core NPAT (%)	31.9	152.8	13.5	22.8	22.1						
Core EPS (%)	32.6	154.4	13.5	22.8	22.1						
Balance Sheet (£m)											
Cash & cash equiv.	148	190	190	190	190						
Accounts receivables	83	106	98	91	129						
Inventory	2,687	2,789	2,870	2,945	3,025						
Net fixed & other tangibles	5	7	13	21	28						
Goodwill & intangibles	5	5	5	5	5						
Financial & other assets	445	453	453	453	453						
Total assets	3,373	3,550	3,630	3,705	3,831						
Accounts payable	391	533	533	518	532						
Short-term debt	0	0	0	0	0						
Long-term debt	265	249	226	221	154						
Provisions & other liab	882	779	751	686	668						
Total liabilities	1,538	1,561	1,510	1,425	1,354						
Shareholders' equity	1,834	1,988	2,120	2,281	2,477						
Minority interests	2	1	0	0	0						
Total equity	1,835	1,990	2,120	2,281	2,477						
Net debt	117	59	35	30	-36						
Net debt to equity (%)	6.4	3.0	1.7	1.3	-1.5						

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For definitions of the items in this table, please click [here](#).

2012 Results Overview

Slight beat to estimates at the operating level on better margins

Full year results were slightly ahead of expectations at the operating profit level, which came in at c.£230m against our estimate of £224m, mainly due to a slightly better margin performance.

Key highlights were:

- Turnover improved by 12% driven by an increase in the number of private completions and higher average selling prices on private sales from mix improvements
- Operating profit increased by 44% as UK operating margins (incl. JVs) improved from 9.0% to 11.5%, driven mainly by build cost efficiencies
- Group results included a one-off credit on release of a tax provision following a favorable resolution of a historic tax liability (c.£60m included taxes) and an associated interest accrual of .£22m (included in exceptionals)
- Normalised net income increased to £149m from £59m last year
- Dividend increased to 0.62p per share from 0.38p last year
- Group net debt at the year end reduced from £117m to £59m with gearing including land creditors at 21.8% compared to 23.1% last year

Figure 1. FY Results – Actual versus Expected (GBP in Millions)

	2011	2012e	2012	Change (%)
Turnover	1,808	2,022	2,019	12%
Op. Profit - Group	158.3	224.3	227.7	44%
Margin	8.8%	11.1%	11.3%	
Exceptionals	-5.8	12.4	22.4	
EBIT (incl. exceptionals)	152.5	236.7	250.1	64%
JV's & Associates	1.2	0.8	2.4	
Financing	-75.1	-50.1	-44.8	
PBT - reported	78.6	187.4	207.7	164%
PBT - normalised	84.4	175.0	185.3	120%
Taxes	-22.7	7.1	23.6	
Discontinued operations	43.1	0.0	0.0	
Net income - reported	99.0	194.5	231.3	134%
Net income - normalised	59.1	126.0	149.3	153%
EPS (p) - reported	3.0	5.9	7.1	135%
EPS (p) - normalised & diluted	1.8	5.7	4.6	153%
Tangible NAV per share (p)	57.3	60.5	61.5	7%
DPS (p)	0.38	0.90	0.62	63%
Dividend cover (x)	4.7	4.3	7.4	

Source: Company reports, Citi Research

Operational Summary

Turnover

Higher private sales contributed to turnover growth

Group turnover increased by 12% to £2,019m driven by a c.16% improvement in UK private sales (excl. JVs) while sales on affordable houses were c.8% lower. Overall UK completions increased by 7% to 10,886 units and average selling prices were c.6% higher at £181k, primarily on mix improvements with underlying prices remaining broadly stable. Revenue from Spain operations was up 12%.

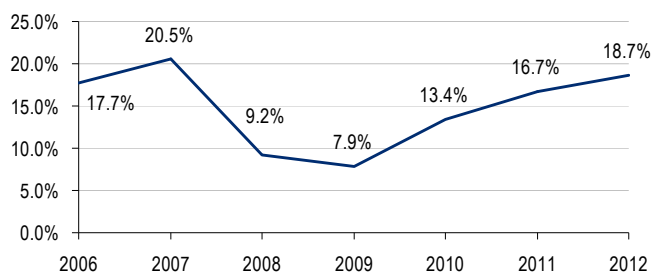
Profit & Margins

UK operating margins improve on build costs efficiencies and cheaper land flowing through

Operating profit increased by 44% to £228m as operating margins edged up to 11.3% from 8.8% last year. UK operating margins (incl. profit on JVs) increased to 11.5% from 9.0% on the back of build cost efficiencies, lower direct selling expenses and helped by selling from better quality locations and newly acquired sites. Operating margins also benefitted from static overheads and excluding the impact of inflation, overheads were c. £11m lower from 2010 levels in real terms. The group expects to deliver another £10m overhead savings in 2014 relative to 2010.

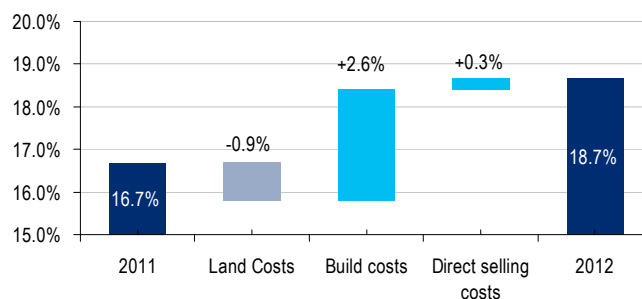
Management highlighted that margins were 1.5% better on land bought post 2009.

Figure 2. UK Contribution margins (%) 2006-12



Source: Company data, Citi Research

Figure 3. UK Contribution Margin Movement, 2011-12



Source: Company data, Citi Research

Landbank

Management continues to invest in land and the land bank at the year end stood at c. 6.1 years' of supply

Group landbank of owned and controlled plots stood at 65,409 plots at the year end and represented c.6.1 years of supply. During the year the group acquired 14,172 plots on 112 new sites with an average contribution margin of 23% and the total land spend including land creditors was c.£427m compared to £398m last year. Group's strategic land bank increased by 16% to 100,340 plots and the management aims to source c.30% of completions from its strategic land bank over the next three years.

Management is clearly driving to improve its strategic land bank to support margins going forward.

Balance Sheet, Cash & Dividends

Year end gearing including land creditors improved to 21.8% from 23.1%

Group net debt at the year end fell from £117m to £59m driven by better free cash generation and working capital efficiency, despite a higher spend on land and pension payments. Land creditors increased by 22% to £375m and gearing including land creditors came in at 21.8% compared to 23.1% last year. Total dividend edged up to 0.62p per share from 0.38p last year. The balance sheet remains relatively strong.

Figure 4. Balance Sheet, Cash and Dividends

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Dividend	12.0	0.0	0.0	0.0	0.4	0.6	1.2	1.5	1.8
%age growth	6.8%					63.2%	93.5%	25.0%	20.0%
Dividend Cover	0.55				4.7	7.4	4.3	4.3	4.3
Dividend Yield	4.4%	0.0%	0.0%	0.0%	1.0%	1.2%	1.5%	1.8%	2.2%
Gearing	38%	91%	50%	36%	6%	3%	2%	1%	-1%
Gearing inc land creditors	57%	124%	74%	53%	23%	22%	19%	18%	14%
Interest Cover - EBITDA	4.1	0.5	0.3	1.5	2.1	5.1	6.9	8.5	9.5
FCF yield - reported	-3.2%	19.2%	27.5%	9.4%	-1.7%	4.8%	2.4%	2.0%	4.7%
FCF yield - steady state	-0.9%	4.1%	-12.6%	-11.5%	3.2%	9.1%	5.1%	5.4%	7.3%

Source: Company data, Citi Research

Outlook Expectations & Estimate Changes

Management is cautiously optimistic on the UK housing market on the back of better sales rates and visitor trends seen in recent weeks supported by NewBuy reservations. Overall the group expects stable market conditions with some help expected from underlying selling prices and continues to focus on margin improvement from newly acquired land.

We have increased our profit estimates, mainly to reflect higher completions growth and slightly better margins than what we were assuming. We expect the group to report PBT of £232m and £285m respectively for 2013 and 2014.

Comment on Potential Capital Return

Some form of capital return looks likely

The potential return of capital to shareholders is likely to become an increasingly key part of the valuation of the shares. However, without clarity over the scale and timing of any such return it is difficult to be definitive with regard to its effect on valuation. For example, would the capital return be paid out of free-cash flow generated from trading or would it actually have an impact on the balance sheet and therefore potentially the NAV per share?

In order to get a perspective of the potential scale of any return Figure 5 shows the effect of returning capital in £100m increments from £200m to £500 relative to the size of net assets and the per share equivalent of. For example returning £300m of capital would be the equivalent of c.9p per share and equate to c.15% of net assets.

Figure 5. Potential Capital Return – Per Share Equivalent and Size Relative to Net Assets

£ms	Per Share	% of Net Assets
200	6	10%
300	9	15%
400	13	20%
500	16	25%

Source: Citi Research

Clearly any decision as to the scale and timing will be weighed up at the time in the context of the market and outlook for the group.

Our best guess at this point is that something could be announced in 2014-15 and that it would likely be funded by the group pausing their land buying and predominantly returning cash to shareholders from the cash-flow from operations. If we assume, for example, that £300m was given back over a 2 year period, that would equate to 9-10p, which discounted back by 2 years is c.8-9p in current money. While this gives an indication of what could possibly be done, it is very difficult to predict what will be decided, if management goes down this route, and its impact on the business and valuation at this stage. However, it is likely to increasingly play a part in the potential valuation.

Target price

Target price moves to 78p

We have revised our target price from 73p to 78p to reflect the recent results performance and sector stock moves.

We derive our target price using 2014E estimates. We calculate our target prices using a weighted approach using the following valuation metrics – P/E, P/NAV, dividend yield, cash flow and DLV. Under current market conditions we believe P/E, dividend yield and cash flow are less useful since earnings and cashflow are some way off sustainable levels due to the point we are at in the cycle. Therefore we have increased the weighting of our asset based valuation metrics. Our Discounted Liquidation Value (DLV) weighting is 25%, with the NAV metric making up the balance of 75%. We use 1.1 times book for our target multiple to derive our NAV-based valuation of 78p. Our DLV for Taylor Wimpey is calculated using a weighted average cost of capital of 9% and delivers 80p, to which we apply a 5% discount to our DLV to get to an implied value of 76p.

Figure 6. Target price Calculation

	10 yr avg	5 yr avg	Average	Target Multiple	Current figure	Target price	Weighting
PE	7.2	6.2	6.7	15.0	5.2	78	0%
P/NAV (ex goodwill)	0.90	1.08	0.99	1.10	71	78	75%
FCF Yield - Steady State				5.0%	4	84	0%
DLV - p				0.95	80	76	25%
Calculated Target price - p						78	
Current Price - p						82	
%age difference						-5%	
Expected Dividend - p						1.2	
Expected total return - %						-3%	

Source: Citi Research

Taylor Wimpey Overview

Figure 7. Strategic & Tactical Analysis

Strengths	Weaknesses	Opportunities	Threats
Cost cutting	Spain	Improve strategic long-term land bank	Significant decline in house prices
UK Focus	Balance sheet still relatively inefficient	Restructure capital structure	Restricted mortgage lending
Stronger balance sheet following disposal	Pension liability	Cash generation	

Source: Citi Research

Figure 8. Key Figures

Yr to Dec	2012	2013E	Key Shareholders	UK Product mix	2012
Completions (UK)	10,886	11,430	Schroder Investment	Apartments	24%
Average selling price:	£181,400	£185,128	Third Avenue	1/2/3 bed houses	42%
Land bank (years):	6.0	5.8	JPMorgan Asset Mgmt	4/5 bed houses	34%
Housing operating profit:	£226m	£270m	Blackrock		
Housing operating margin:	11.4%	12.7%	Dimensional		
ROIC	5.8%	6.1%			

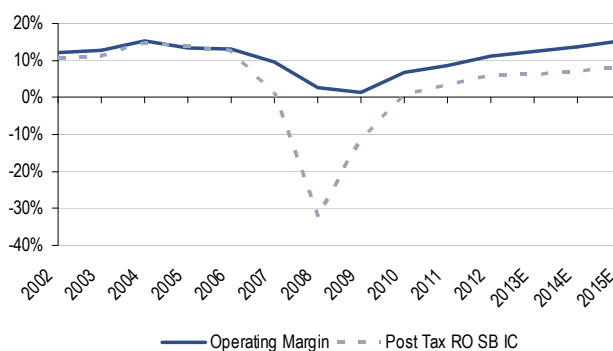
Source: Company Reports and Citi Research

Figure 9. Completions & ASP



Source: Company data, Citi Research

Figure 10. Margins & ROIC



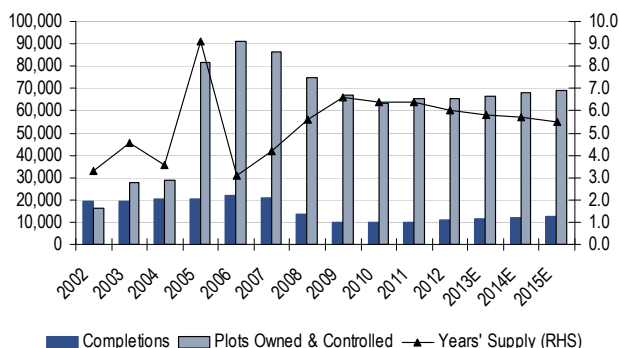
Source: Company data, Citi Research

Figure 11. Share Price Performance



Source: Datastream, Citi Research

Figure 12. Land Bank



Source: Company data, Citi Research

Earnings Model

Figure 13. Profit & Loss Account, 2007-15E (GBP in Millions)

Yr to December	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Volumes									
UK	20,690	13,394	10,141	9,927	10,180	10,886	11,430	11,975	12,645
North America	6,740	5,421	4,755	4,140					
Spain	212	214	225	136	109	156	156	156	156
Total Volumes - houses only	27,642	19,029	15,121	14,203	10,289	11,042	11,586	12,131	12,801
<i>%age change</i>	110.0%	-31.2%	-20.5%	-6.1%	-27.6%	7.3%	4.9%	4.7%	5.5%
Turnover									
UK Housing	3,053.8	2,390.1	1,700.4	1,736.5	1,779.4	1,986.9	2,128.0	2,294.6	2,494.3
North American Housing	986.8	981.6	824.3	835.6					
Spanish Housing	64.4	59.8	61.0	31.1	28.6	32.0	35.3	36.0	36.6
Total Housing Turnover	4,105.0	3,431.5	2,585.8	2,603.2	1,808.0	2,018.9	2,163.3	2,330.6	2,530.9
Corporate	-	36.2	9.9	-	-	-	-	-	-
Construction	609.3	-	-	-	-	-	-	-	-
Total Turnover	4,714.3	3,467.7	2,595.7	2,603.2	1,808.0	2,018.9	2,163.3	2,330.6	2,530.9
<i>%age change</i>	28.1%	-26.4%	-25.1%	0.3%	-30.5%	11.7%	7.2%	7.7%	8.6%
Operating Profits									
UK Housing	409.1	53.2	15.3	111.3	172.0	226.4	269.5	319.3	385.0
<i>Margin</i>	13.4%	2.2%	0.9%	6.4%	9.7%	11.4%	12.7%	13.9%	15.4%
North American Housing	53.3	52.1	41.4	83.6					
<i>Margin</i>	5.4%	5.3%	5.0%	10.0%					
Spanish Housing	2.2	(2.4)	(1.4)	(3.6)	0.2	1.3	-	1.0	1.0
<i>Margin</i>	3.4%	-4.0%	-2.3%	-11.6%	0.7%	4.1%	0.0%	2.8%	2.7%
Total Housing	464.6	102.9	55.3	191.4	172.2	227.7	269.5	320.3	386.0
<i>Margin</i>	11.3%	3.0%	2.1%	7.4%	9.5%	11.3%	12.5%	13.7%	15.3%
Construction	3.4								
<i>Margin</i>	0.6%								
Group central cost / synergies	(15.4)	(14.2)	(17.7)	(19.1)	(13.9)				
Total EBITA	452.6	88.7	37.6	172.3	158.3	227.7	269.5	320.3	386.0
<i>Margin</i>	9.6%	2.6%	1.4%	6.6%	8.8%	11.3%	12.5%	13.7%	15.3%
<i>%age change</i>	-5.2%	-80.4%	-57.5%	357.7%	-8.1%	43.9%	18.4%	18.8%	20.5%
EBITA & Exceptionals									
EBITA	452.6	88.7	37.6	172.3	158.3	227.7	269.5	320.3	386.0
<i>EBITA Margin</i>	9.6%	2.6%	1.4%	6.6%	8.8%	11.3%	12.5%	13.7%	15.3%
Amortisation	(3.7)	(818.5)							
EBIT & Exceptionals	448.9	(729.8)	37.6	172.3	158.3	227.7	269.5	320.3	386.0
Exceptional Items	(379.7)	(1,015.3)	(603.8)	(134.4)	(5.8)	22.4	-	-	-
EBIT	69.2	(1,745.1)	(566.2)	37.9	152.5	250.1	269.5	320.3	386.0
JV's & Associates	23.4	7.6	5.6	9.9	1.2	2.4	2.0	2.5	3.0
Financing	(112.1)	(179.1)	(139.4)	(119.0)	(75.1)	(44.8)	(39.5)	(37.8)	(41.0)
PBT as reported	(19.5)	(1,916.6)	(700.0)	(71.2)	78.6	207.7	232.0	285.0	348.0
PBT - normalised	363.9	(82.8)	(96.2)	63.2	84.4	185.3	232.0	285.0	348.0
Income taxes	(177.2)	76.6	59.3	330.6	(22.7)	23.6	(62.7)	(77.0)	(94.0)
Profit after tax	(196.7)	(1,840.0)	(640.7)	259.4	55.9	231.3	169.4	208.1	254.0
<i>Tax Rate - reported</i>	29.7%	4.0%	28.5%	29.0%	30.0%	28.0%	27.0%	27.0%	27.0%
Net income	(195.5)	(1,841.3)	(640.7)	259.4	99.0	231.3	169.4	208.1	254.0
Net income - normalised	71.4	(82.8)	(96.2)	44.8	59.1	149.3	169.4	208.1	254.0
No. of Diluted Shares (m)	1,081.6	1,387.4	2,551.8	3,297.6	3,282.3	3,262.4	3,262.4	3,262.4	3,262.4
EPS (p) - as reported	(18.1)	(132.7)	(25.1)	7.9	3.0	7.1	5.2	6.4	7.8
EPS (p) - Norm.	6.6	(6.0)	(3.8)	1.4	1.8	4.6	5.2	6.4	7.8
<i>%age change</i>	-82.8%	-190.4%	-36.9%	-136.1%	32.3%	154.4%	13.5%	22.8%	22.1%
EPS (p) - Norm. & Dil.	6.6	(6.0)	(3.8)	1.4	1.8	4.6	5.2	6.4	7.8
DPS (p)	12.0	-	-	-	0.4	0.6	1.2	1.5	1.8
<i>%age change</i>	6.8%	0.0%	0.0%	0.0%	0.0%	63.2%	93.5%	25.0%	20.0%
Dividend Cover (x)	0.6	-	-	-	4.7	7.4	4.3	4.3	4.3

Source: Company Reports, Citi Research

Key Data

Figure 14. Key Data, 2007-15E (GBP in Millions)

Yr to December	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Group Turnover	4,714	3,468	2,596	2,603	1,808	2,019	2,163	2,331	2,531
Growth/(decline)	28.1%	-26.4%	-25.1%	0.3%	-30.5%	11.7%	7.2%	7.7%	8.6%
EBITDA	460.9	96.6	41.8	176.6	160.0	229.7	271.7	322.6	388.5
Growth/(decline)	-3.5%	-79.1%	-56.7%	322.0%	-9.4%	43.6%	18.3%	18.8%	20.4%
Op. Profit/EBIT	452.6	88.7	37.6	172.3	158.3	227.7	269.5	320.3	386.0
Growth/(decline)	-5.2%	-80.4%	-57.5%	357.7%	-8.1%	43.9%	18.4%	18.8%	20.5%
Op. margin	9.6%	2.6%	1.4%	6.6%	8.8%	11.3%	12.5%	13.7%	15.3%
CIR PBT	363.9	-82.8	-96.2	63.2	84.4	185.3	232.0	285.0	348.0
Growth/(decline)	-10.3%	-122.8%	16.1%	-165.7%	33.6%	119.6%	25.2%	22.8%	22.1%
CIR Net Profit	71.4	-82.8	-96.2	44.8	59.1	149.3	169.4	208.1	254.0
Growth/(decline)	-75.3%	-216.0%	16.1%	-146.6%	31.7%	152.8%	13.5%	22.8%	22.1%
CIR EPS	6.60	-5.97	-3.77	1.36	1.80	4.58	5.19	6.38	7.79
Growth/(decline)	-82.8%	-190.4%	-36.9%	-136.1%	32.3%	154.4%	13.5%	22.8%	22.1%
Net Dividend	11.96	0.00	0.00	0.00	0.38	0.62	1.20	1.50	1.80
Growth/(decline)	6.8%	-100.0%	#DIV/0!	#DIV/0!	#DIV/0!	63.2%	93.5%	25.0%	20.0%
Cash flow per share (p)	-9.13	12.24	8.85	3.13	-0.45	2.50	2.19	1.98	4.19
Growth/(decline)	-159.4%	-234.0%	-27.7%	-64.7%	-114.3%	-658.0%	-12.6%	-9.5%	111.7%
Net Assets	3705	1673	1501	1823	1835	1990	2120	2281	2477
Growth/(decline)	72.9%	-54.8%	-10.3%	21.5%	0.7%	8.4%	6.6%	7.5%	8.6%
Housebuilders invested capital	4334	5177	3629	3153	3318	3107	3243	3374	3517
Growth/(decline)	58.7%	19.4%	-29.9%	-13.1%	5.3%	-6.4%	4.4%	4.0%	4.2%
Gearing - reported	38%	91%	50%	36%	6%	3%	2%	1%	-1%
Net Interest Cover x (EBITDA)	4.1	0.5	0.3	1.5	2.1	5.1	6.9	8.5	9.5
NAV per share ex goodwill - p	268	121	47	57	57	62	66	71	77
WACC	8.1%	10.6%	10.6%	10.2%	9.1%	8.9%	9.0%	9.0%	9.0%
Ro SB IC - post tax	1.1%	-32.4%	-11.2%	0.9%	3.2%	5.8%	6.1%	6.9%	8.0%
RoE post tax	-1.0%	-68.7%	-31.8%	-3.5%	3.0%	7.7%	8.2%	9.4%	10.6%
Share Price - Ords	274	66	32	32	36	51	82	82	82
No. Ord shares - m	1078	1387	2552	3194	3190	3186	3200	3200	3200
Market Cap	2951	920	817	1023	1161	1616	2619	2619	2619
Net cash / (debt) - Average	-1253	-1693	-1254	-773	-424	-97	-47	-33	3
Enterprise Value	4204	2613	2071	1796	1585	1713	2666	2652	2616
PE	41.4x	-11.1x	-8.5x	23.5x	20.2x	11.1x	15.8x	12.8x	10.5x
Price to NAV ex goodwill	1.02x	0.55x	0.68x	0.56x	0.64x	0.82x	1.24x	1.15x	1.06x
EV/EBITDA	9.1x	27.1x	49.5x	10.2x	9.9x	7.5x	9.8x	8.2x	6.7x
EV/Sales	0.9x	0.8x	0.8x	0.7x	0.9x	0.8x	1.2x	1.1x	1.0x
EV/ Invested Capital	1.0x	0.5x	0.6x	0.6x	0.5x	0.6x	0.8x	0.8x	0.7x
REP ratio	6.97x	-0.17x	-0.54x	6.78x	1.35x	0.84x	1.21x	1.02x	0.84x
Cash flow yield	-3.3%	18.5%	27.7%	9.8%	-1.2%	4.9%	2.7%	2.4%	5.1%
Dividend Yield	4.4%	0.0%	0.0%	0.0%	1.0%	1.2%	1.5%	1.8%	2.2%
Housing Data									
UK Completions	20690	13394	10141	9927	10180	10886	11430	11975	12645
Growth/(decline)	-5.6%	-35.3%	-24.3%	-2.1%	2.5%	6.9%	5.0%	4.8%	5.6%
Average selling price £	188,335	170,590	160,383	171,200	171,119	181,400	185,128	190,365	196,068
Growth/(decline)	2.2%	-9.4%	-6.0%	6.7%	0.0%	6.0%	2.1%	2.8%	3.0%
UK Housing Margin	13.4%	2.2%	0.9%	6.4%	9.7%	11.4%	12.7%	13.9%	15.4%
Land Bank plots - Owned & Contr.	86155	74917	66800	63556	65264	65409	66688	68265	69327
Growth/(decline)	-5.4%	-13.0%	-10.8%	-4.9%	2.7%	0.2%	2.0%	2.4%	1.6%
No. Years	4.2	5.6	6.6	6.4	6.4	6.0	5.8	5.7	5.5
Av plot cost £	41553	37005	30552	26497	26738	27122	27351	27818	28546
%age of selling price	22.1%	21.7%	19.0%	15.5%	15.6%	15.0%	14.8%	14.6%	14.6%
DLV per share	119	39	48	59	64	73	80	84	88
Price to DLV	2.3	1.7	0.7	0.5	0.6	0.7	1.0	1.0	0.9
Share price - high	394	155	53	44	43	67			
Share price - low	138	3	10	22	29	37			
PE High	59.6x	-26.0x	-14.1x	32.3x	24.1x	14.6x			
PE Low	20.9x	-0.6x	-2.7x	16.4x	16.0x	8.1x			
Price to net assets High	1.47x	1.29x	1.13x	0.77x	0.76x	1.07x			
Price to net assets Low	0.52x	0.03x	0.22x	0.39x	0.50x	0.60x			

Source: Company Reports, Citi Research

Taylor Wimpey PLC

Company description

Taylor Wimpey is the result of the merger between Taylor Woodrow and George Wimpey. It is one of the top three UK housebuilders by volume and has a relatively national presence. It exited its North American activities in 2011 but still has a small operation in Spain.

Investment strategy

We have a Sell rating on Taylor Wimpey mainly due to valuation after a strong run in the share price. The balance sheet has strengthened subsequent to the sale of the North American business. We wouldn't be surprised to see some further restructuring of the balance sheet over time to further reduce its cost of capital. Going forward, management will likely be more focused on the UK business and remains confident of improving on its margin following a good improvement in 2012. There is also potential to see some kind of capital return programme at some point in the future as margins and returns improve in a volume constrained market. Given the recent rally in the share price, we have a Sell rating on valuation grounds.

Valuation

Our target price is 78p.

We derive our target price using 2014E estimates. We calculate our target prices using a weighted approach using the following valuation metrics – P/E, P/NAV, dividend yield, cash flow and DLV. Under current market conditions we believe P/E, dividend yield and cash flow are less useful and therefore, we have increased the weighting of our asset based valuation metrics. Our Discounted Liquidation Value (DLV) weighting is 25%, with the NAV metric making up the balance of 75%. We use 1.1 times book for our target multiple to derive our NAV-based valuation of 78p. Our DLV for Taylor Wimpey is calculated using a weighted average cost of capital of 9% and delivers 80p, to which we apply a 5% discount to our DLV to get to an implied value of 76p.

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 important 2013 Spring selling season;
- 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 target prices. 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

Analyst Certification

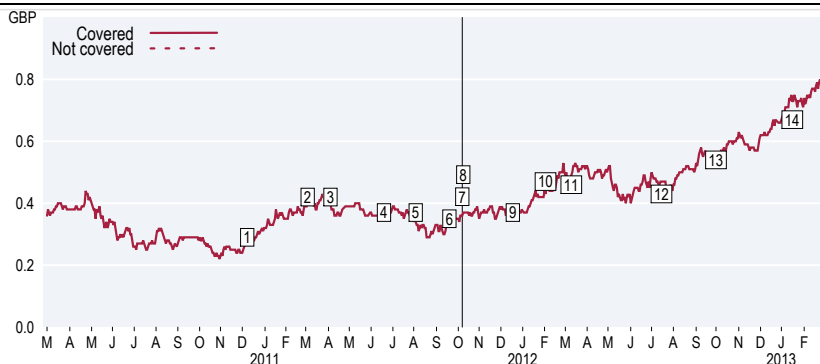
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IMPORTANT DISCLOSURES

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

* Indicates change

	Date	Rating	Target Price	Closing Price
6	20-Sep-11	1H	*0.46	0.34
7	7-Oct-11	Stock rating system changed		
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

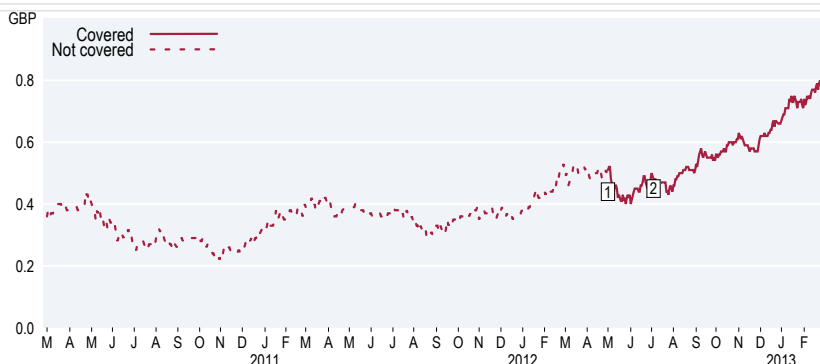
	Date	Rating	Target Price	Closing Price
11	9-Mar-12	2	*0.50	0.49
12	16-Jul-12	2	*0.51	0.47
13	30-Sep-12	*1	*0.67	0.54
14	16-Jan-13	*2	*0.73	0.73

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

Rating/target price changes above reflect Eastern Standard Time

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% of companies in each rating category that are investment banking clients	53%	49%	45%	60%	49%	55%

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