

Update for CSP – Activist Built 9.4% Position – Spin-Off of the Housebuilding – New Chairman – New Mandate

Browning West, the third-largest shareholder in Countryside Properties PLC, with a 9.4% stake started to take activist actions in CSP. The activist wrote letters to the board,¹ demanding to immediately appoint Browning West's CIO, Usman Nabi, to the Board, replace Countryside's Chairman and task the New Chairman with a mandate to "Let Partnerships Prosper". "The new Chairman will work with the reinvigorated Board to urgently address three key issues: (i) reassess the current operating plan to see if there is an opportunity to improve return on capital employed and margins in 2021 and 2022, (ii) initiate a process to thoughtfully execute the separation of Housebuilding to create a stand-alone Partnerships business, and (iii) construct a prudent capital allocation policy that significantly reduces the risk of any future equity offerings and maximises total long-term returns for all shareholders."²

Following the activist's actions, Countryside Properties' Chairman David Howell will step down from the board in 2021. Moreover, the company has appointed Rothschild & Co to advise on a break-up at the beginning of December 2020, which would result in Countryside focusing on building homes for housing associations, local authorities and the private rented sector. I also expect that the new board will probably change the CEO. The activist's letter stated that "Mr McPherson was appointed CEO earlier this year and had no prior experience serving as the CEO of a large PLC". The CEO sold 15,185 shares following the activist's intervention.

I view this as a very positive sign. This brings back the spin-off catalyst and indicates that the capital allocation of the company will improve. Historically, the company was not investing enough into the Partnerships division, making dilutive capital raises and focusing too much on the dividend. Due to the recent capital raise and investments, [my expectations](#) for the company's expected ROIC decreased significantly to ~33% from 70%+ historical levels. However, this was still an attractive investment because of the quality of the business and because of the cheap price. In terms of the potential CEO replacement, Iain just became CEO recently, and he might just need some guidance rather than replacement.

Going forward, I still see at least 15%+ IRR potential. This is conditioned on the fact that the company can return to Partnerships' 50%+ ROIC by 2022. This would require the company to return to 15% EBITA margin and 3.5+ asset turnover, which are still below historical levels for the last 4 years. I value Housebuilding spin-off at 6x EBITA 2021 Exit, on par with peers. For the Partnerships division, I expect it to re-rate to at least 15x EBITA. I believe this is conservative for the business with 50%+ ROIC, 16%+ operating income growth and very high revenue visibility. My expected revenue CAGR of ~18% is also very conservative. This implies the rate of completions below 2019 levels, while the company should increase it with new modular factories. After the spin-off and new chairman, we should get an amazing business with solid capital allocation. Even if the execution underdelivers, the downside is very limited due to the cheapness of the shares. Therefore, the risk/reward is very attractive.

¹ <https://propertyindustryeye.com/browning-west-calls-for-countryside-properties-to-let-partnerships-prosper/>

² <https://www.prnewswire.co.uk/news-releases/browning-west-calls-for-countryside-properties-to-let-partnerships-prosper--827734052.html>

Partnerships															
Total completions	1,603	1,874	2,192	3,019	4,425	-	1,791	-	2,113	3,904	4,880	5,645	6,736	7,859	9,171
% growth	n/a	16.9%	17.0%	37.7%	46.6%	n/a	(5.2%)	n/a	(16.7%)	(11.8%)	25.0%	15.7%	19.3%	16.7%	16.7%
Average ASP	155,558	176,682	204,554	205,593	182,363	-	185,927	-	-	188,552	185,283	184,436	184,191	184,203	184,274
% growth	n/a	13.6%	15.8%	0.5%	(11.3%)	n/a	6.6%	n/a	n/a	3.4%	(1.7%)	(0.5%)	(0.1%)	0.0%	0.0%
Total adjusted revenue	285	350	477	635	837	-	344	-	-	756	924	1,061	1,261	1,468	1,710
% growth	n/a	22.7%	36.2%	33.2%	31.9%	n/a	6.0%	n/a	(100.0%)	(9.7%)	22.2%	14.8%	18.8%	16.4%	16.5%
Adjusted operating profit	40	57	79	111	128	-	36	-	-	91	129	159	189	220	257
% margin	13.9%	16.2%	16.7%	17.4%	15.3%	n/a	10.6%	n/a	n/a	12.0%	14.0%	15.0%	15.0%	15.0%	15.0%
Asset turnover	n/a	4.4	4.6	5.0	5.1	n/a	3.3	-	-	3.2	3.4	3.7	4.0	4.0	4.0
ROIC	n/a	72.1%	76.7%	87.4%	78.3%	n/a	35.2%	n/a	n/a	38.4%	47.6%	55.5%	60.0%	60.0%	60.0%

Housebuilding

EBITA 2019	115
EBITA 2021	129
EV/EBITA multiple	6.0x
EV	776
Earned Cash	98
Net debt (net cash)	(60)
Equity	934
F/D Shares outstanding	527
Equity value per share	£1.77

Partnerships

EBITA 2019	128
EBITA 2025	257
EV/EBITA multiple	15.0x
EV	3,848
Earned cash	609
Net debt (net cash)	188
Equity	4,269
F/D Shares outstanding	527
Equity value per share	£8.10

Housebuilding + Partnerships per share	£9.87
Debt equivalents per share	(£0.06)
Cash equity placement per share	£0.47
Group items and cash adjustments	£0.19
Interest per share	(£0.02)
CPS value per share 2025	£10.46
Current share price	£4.67

MoM	2.2x
IRR	15.1%

		IRR Sensitivity Partnerships EV/EBITA				
		10.0x	13.0x	15.0x	17.0x	20.0x
HB EV/EBITA	2.0x	7.4%	11.0%	13.1%	15.1%	17.7%
	4.0x	8.7%	12.1%	14.1%	16.0%	18.5%
	6.0x	9.9%	13.1%	15.1%	16.9%	19.3%
	8.0x	11.0%	14.1%	16.0%	17.7%	20.1%
	10.0x	12.1%	15.1%	16.9%	18.6%	20.9%