Urban & Civic (UANC LN)

Landed Gentry: Initiating with BUY Recommendation

BUY
Price target 388.00p
Price 335.00p^

Key Takeaway

Urban & Civic has led the development of providing strategic land for housebuilders. The business is now in build out mode and our sum of the parts valuation gives a PT of 388p initiating with BUY.

UANC is the result of reversing the Private Equity backed business into the quoted property group Terrace Hill. The business straddles the commercial property and house building sector with challenging operating, accounting and valuation complexities. The partnership of Nigel Hugill (CEO) and Robin Butler (MD) bring the highly successful management team behind Chelsfield noted for its savvy land assembly and planning successes. UANC has innovated and proven the strategic land model which has now gained widespread acceptance with the house builders from regional to national with *"... a novel license model, UANC provides serviced plots in optimum parcel sizes on strategic sites for housebuilders to commence construction."* It's a payment plus an overage trading system with risk minimised by UANC retaining control and ownership of the land through construction until the sale. It's a symbiotic relationship with UANC harvesting the planning gain and the house builders sourcing rapidly accessibly consented land. This cuts out the expensive and time-consuming site finding, purchase, planning and servicing stages from the critical path analysis enabling house builders to double volumes.

As UANC has matured, the business model has simplified and the shorthand equity valuation is to ascribe an all up balance sheet valuation (valuers apply a discount to the sum of lots of small parts) of c.£4. A more sophisticated modeling and valuation approach is required. UANC is three businesses for the price of one: 1) the legacy Terrace Hill commercial operations is in profitable run off mode, 2) Catesby Estates plc is a *"specialist strategic land promotion and infrastructure business, focusing on the delivery of residential planning consents on predominantly greenfield sites and, ultimately the onward sale to housebuilders"* and 3) strategic land, harvesting a profits stream with proven demand from house builders now offsetting what was seen as absorption risk. UANC requires a composite NAV valuation for the investment business and a DCF for the land sales dependent on assumptions on the replenishability of Alconbury, Rugby etc inventory sold with a backstop of forward sales. Unserviced land is discounted at a 250-350bps higher rate than contracted plots and a justified large site discount is applied meaning potentially large unrecognised value unwound as each site matures.

GBp	Prev.	2017A	Prev.	2018E	Prev.	2019E	Prev.	2020E
Recurring Profit (B)	--	0.3	--	4.1	--	1.3	--	6.2
Dividend	--	3.20	--	3.50	--	3.90	--	4.30
Div. Yield		0.96%		1.04%		1.16%		1.28%
NAV	--	292.0	--	331.0	--	374.0	--	403.0
P/NAV		1.1x		1.0x		0.9x		0.8x
EPS								
FY Dec	--	4.80	--	6.80	--	2.70	--	6.00
FY P/E		69.8x		49.3x		NM		55.8x

Financial Summary

Net Debt (MM):	89.6p

Market Data

52 Week Range:	348.00p - 237.00p
Total Entprs. Value (MM):	£486.7
Market Cap. (MM):	£485.8
Shares Out. (MM):	145.0
Float (MM):	94.7
Avg. Daily Vol.:	221,915

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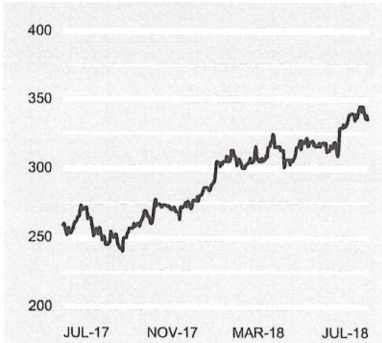
Price Performance



^Prior trading day's closing price unless otherwise noted.

Urban and Civic plc (UANC LN)

BUY: 388p Price Target

Scenarios

Base Case

- Absorption continues to accelerate at mature strategic sites such as Alconbury and Rugby with completions on each site increasing up to 400 per annum.
- Prior's Hall fair valued (up from acquisition cost in 1h18 books) at £10,500 per unserviced plot (below Rugby's £11,500 at a similar house price).
- No valuation uplift assumption in Waterbeach Barrack site which could achieve planning permission in FY19.
- 3% House Price growth at Alconbury and Rugby, 9.4% discount rate for unserviced land from FY19 onwards.
- Price Target: 388p.

Upside Scenario

- Waterbeach Barracks achieves planning meaning it is market-to-market which we estimate could add 31p to NAV (pre-deferred tax).
- Long term House Price growth accelerates to 5% per annum (absorption kept constant).
- Price Target: 440p.

Downside Scenario

- House price growth reduces to 0% at Alconbury and Rugby meaning reduced valuation uplift.
- Cost inflaton rises from 2.0% to 3.0% at Alconbury and from 2.25% to 3.0% Rugby.
- Completions on major sites reduced to 200 per annum.
- Planning permission not achieved in the shorter term at Waterbeach Barracks meaning further resources required without planning gains in the near-term.
- Price Target: 320p.

Investment Thesis / Where We Differ

- Sum of the parts model built up on NAV for commercial properties and discounted cashflow.
- Equity valuation includes 'double discount' in unserviced land which over time will continue to unwind.
- Regional house prices to continue to outperform London with early state strategic sites likely to see above average growth.
- Model to continue to attract house builders meaning an acceleration in absorption.

Catalysts

- Binary events such as Planning Permission at Waterbeach Barracks and Manydown could provide material valuation uplifts on a near and longer term basis.
- Accelerating Housing absorption key to building further organic growth potential in the near term.
- Continuing to acquire further sites key for long-term sustainability of the business model.

Long Term Analysis

Long Term Financial Model Drivers

Long term house price growth p/a	**3.0%**
Long term house cost inflation growth p/a	**2.0/2.25%**
FY19 Unserviced value per plot Alconbury	**£27,500**
FY19 Unserviced value per plot Rugby	**£20,000**

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Executive Summary

Leading in Straegic Land

Maturing in build-out mode

Urban & Civic (UANC) has led the UK property industry's development of a novel business model establishing the role of strategic land provider for housebuilders in the UK. The business is now in build-out mode which will see UANC grow from its current £490m equity market capitalisation which it has been successful in doing organically to date. The result of reversing the Private Equity backed UANC into the quoted property vehicle Terrace Hill has resulted in a business which straddles the commercial property and housebuilding sectors and the earlier challenging operating, accounting and valuation complexities are reducing.

Strong Management Team

UANC joins the UKs public real estate market MidCap stocks which have a deeper management talent pool than most of the REIT majors which are regressing to leveraged beta boys and rent collection models but, in our view, too late in the cycle. The partnership of Nigel Hugill (CEO) and Robin Butler (MD) plus David Wood (CFO) has been reformed at UANC. This reconstitutes the successful Chelsfield management team which was noted for its savvy land assembly and planning successes at the Merryhill shopping centres, Dudley, and the sites for the Westfield shopping centres at White City and Stratford, London amongst other big ticket wins.

Innovative business model

This new business has innovated and proven the strategic land model which has now gained widespread acceptance with the housebuilders commencing with the small volume regional builders and into the big time and now supplying the large volume national builders. UANC cites *"... under a novel license model, UANC provides serviced plots in optimum parcel sizes on strategic sites for housebuilders to commence construction."* It's a payment plus an overage trading system with risk minimised by retaining control and ownership of the land through construction until the sale to the end user. It's a symbiotic relationship with UANC harvesting the planning gain and the housebuilders accessing rapidly accessibly consented land. This takes out the expensive, time consuming and sometimes haphazard site finding, purchase, planning and servicing stages from the critical path analysis thus enabling housebuilders to typically double the rate of volumes.

Unrecognised alpha in the business

As the UANC business has matured, the model has been simplified and the shorthand equity valuation is to ascribe an all up balance sheet balance sheet valuation (valuers apply a discount to the sum of lots of small parts) of £4 which is ultimately achievable but not within the 12mth time horizon of our PT forecasts. A more sophisticated modelling and valuation approach is required than the REIT sector. In some respects UANC bears a resemblance to the Canary Wharf Group IPO in 1998 with an established investment portfolio, a current development programme and the land zoned for the build out of the estate driving the alpha of the business. The valuation gets progressively subjective from the surveyor's balance sheet valuation, the assumed end value less cost to complete, and then the tyranny of variables on the value achievable of the future delivery curve.

Sum-of-the parts valuation

UANC is a similar three part business with 1) the legacy Terrace Hill commercial operations which we think is a profitable run off rather than a management distraction, 2) acquired in 2015, Catesby Estates plc is a *"specialist strategic land promotion and infrastructure business, focusing on the delivery of residential planning consents on predominantly greenfield sites and, ultimately the onward sale to housebuilders"* was the IP entrée into the strategic land business and 3) strategic land harvesting a profits stream with proven demand from housebuilders now offsetting what was seen as limited absorption risk in regional mid –range focused on 'affordable Cambridge' and Rugby. UANC is really three businesses for the price of one and requires a composite valuation of NAV based for the investment business and an adjusted DCF for the land sales dependent on assumptions on the replenishability of the inventory sold with a defensive backstop of forward sales.

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Brief History of Urban and Civic

Management's strong track record

UANC was formed in 2009 by current management team, Nigel Hugill and Robin Butler (see appendix for further detail on management), receiving private equity backing from PE group GI Partners. The remit was to "*target strategic land and estate acquisitions of metropolitan or regional scale capable of sustaining new, or improved, places and environments.*" The Hugill-Butler 'Hutler' partnership has been together for [>25 years] originally at listed developer Chelsfield which assembled some of London's most recent iconic investment sites including Westfield London (White City) and Stratford and MerryHill, Dudley in the Midlands. When Chelsfield was sold in 2004 both moved on to LendLease where they were Executive Chairman and CEO of Lendlease Europe.

Alconbury demonstrates the model works

UANC's first acquisition was the strategic site, Alconbury Weald (formerly the 1,100 acre RAF Alconbury Airbase) which through additional acquisitions of adjacent farmland has grown to 1,400 acres. This site's development has a symbiotic relationship with the development of the wider business as Alconbury's master planning agreement affirmed the viability of UANC's business model. The site has grown in value from £27.5m at acquisition to £263m (including Capex) at March 2018 and now represents c. 45% of the group's property portfolio by value (please see p. 7 for further details).

UANC reversed into quoted developer Terrace Hill

Rather than IPO, UANC instead took the opportunity to reverse into listed business, Terrace Hill, in 2014 to create the enlarged Urban & Civic group. Terrace Hill had and has both a city and regional presence including London and Manchester. Although a reverse-takeover, mechanically Terrace Hill paid £95.3m for UANC and the enlarged group raised £170m of new equity which was split between £50m for placing of land investment, £30m in the Terrace Hill developments and £70m-£120m in development pipeline opportunities creating a NAV of c. £325m.

Commercial developments helpful capital but winding down

Since the amalgamation, the Terrace Hill part of the business has been in wind down although there remain some key sites particularly in Manchester which are/likely be developed out with third party capital through joint ventures. The commercial developments have been a source of capital for UANC, most notably the sale of a recently developed Hampton by Hilton hotel by Stansted Airport (Essex) which crystallised c. £8.5m of profit on cost with the capital and profit rotated into the acquisition of strategic site, Prior's Hall.

Land promotion Catesby added for planning intel

The final piece of the UANC jigsaw was the acquisition of Catesby which not only delivered a new strategic site in Newark, Nottinghamshire, but also provided the business with planning intelligence and a counter-cyclical business in land promotion which complements the strategic land portion of the business.

Further sites added for medium-to-long term business

Beyond the development of the early strategic land sites such as Alconbury Weald and Radiostation Rugby, strategic land acquisition has been a recent focus to ensure a sufficient long-term pipeline. Acquisitions in 2017 and 2018 included Prior's Hall (Northamptonshire), Manydown (Hampshire, to be acquired on planning approval) and Wintringham (Cambridgeshire) taking the total number of strategic land sites to 7 with an option for an 8th (Calvert). CEO Nigel Hugill has moved his expectations of total strategic sites UANC could have concurrently from 6-8 up to 12-14, with each site at various phased stages of maturity making the strategic land business less 'Alconbury centric'.

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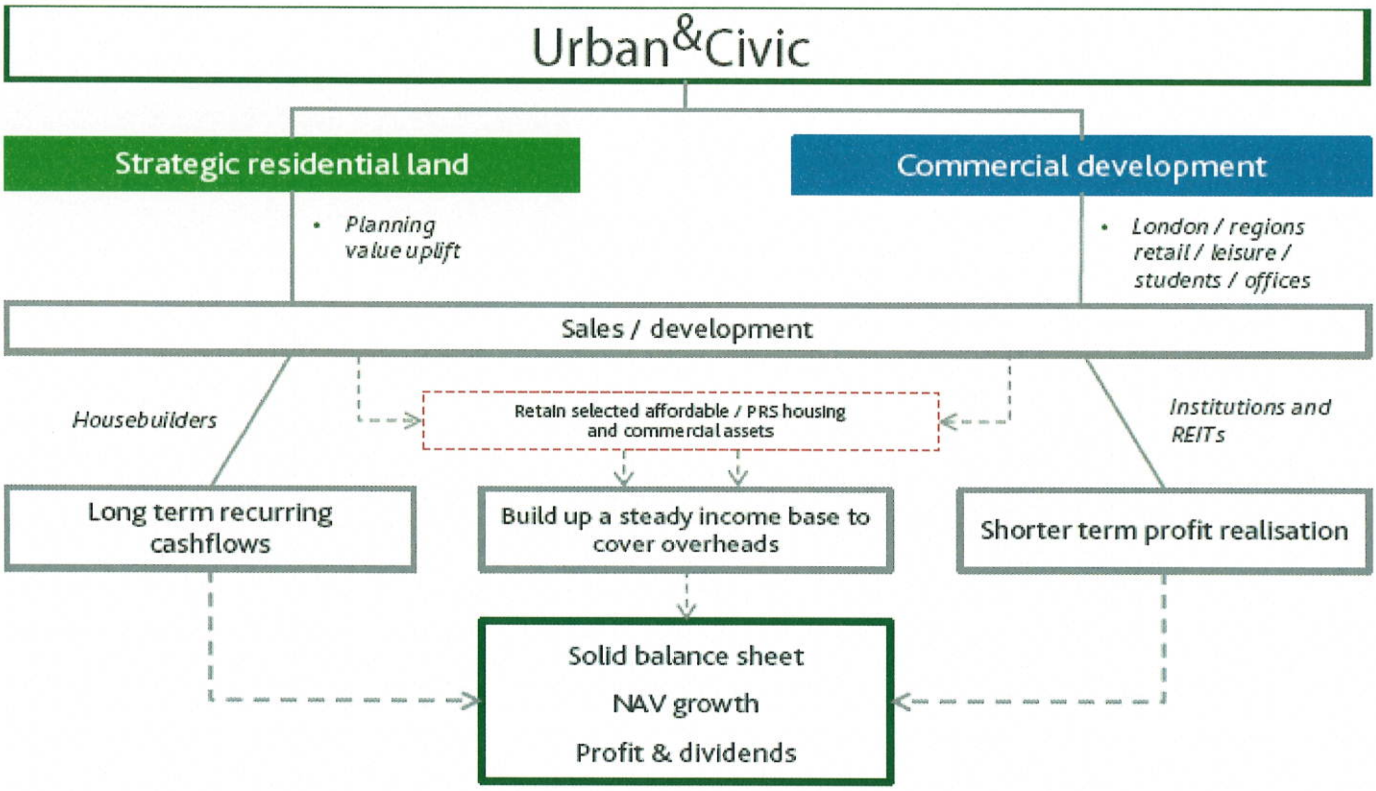
Hybrid structure

Structure of UANC

Exhibit 1 below shows the original structure of the enlarged UANC group on the reversal into Terrace Hill and with the exception of adding in Catesby, which sits more closely with the Strategic residential land, the group has largely followed this format. As discussed on p. 3, the balance of the business is increasingly tilting towards strategic land although this uses some of the commercial development expertise as will be discussed in Alconbury which £34m worth of commercial building's constructed including schools as a planning requirement. These commercial, through the build-up on other strategic sites should grow to provide a solid and stable income stream with a target of covering recurring overheads of the business. In the long-term rental income from affordable/PRS housing in the denser areas of strategic sites should contribute to these recurring costs too.

Exhibit 1: Urban and Civic Group Structure at listing



Source: Company Data

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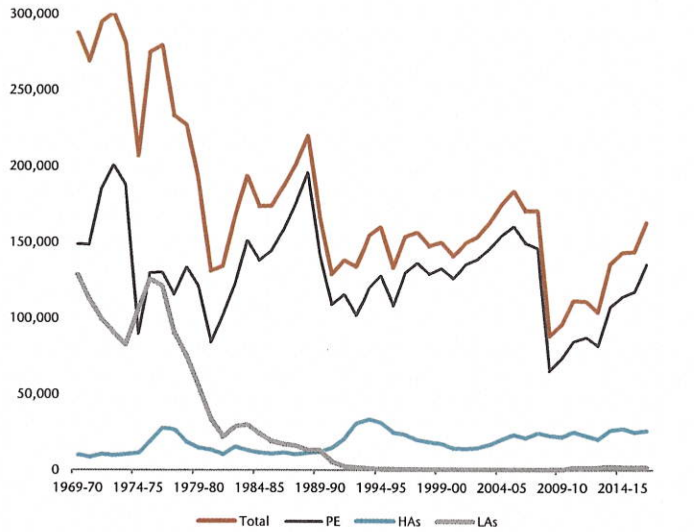
UK housing shortage an ongoing conundrum

The UK Real Estate market – too much commercial, not enough residential

Shortage of UK housing stock has been a never-ending UK saga and with Quantitative Easing (QE) repricing real assets to a level out of reach for much of the population, making quality housing affordable has been high on the agenda for the government and increasingly for other public and private investors. Public sector building has all but vanished and although the priovate sector is by far the largest contributor to building, it, along with housing associations, has not made up the gap left.

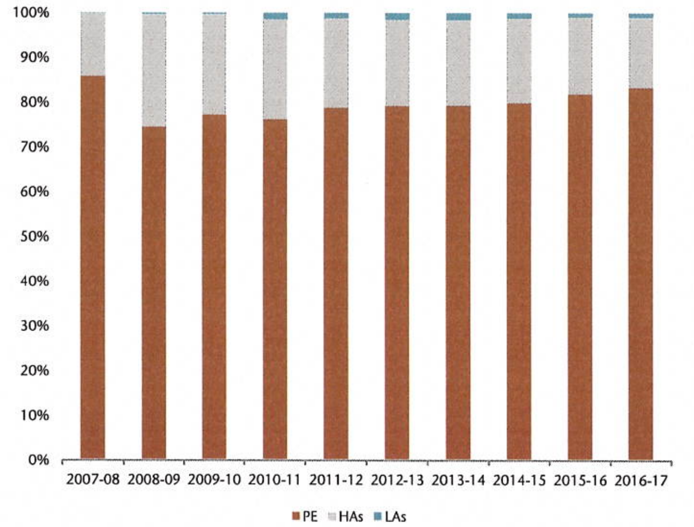
Exhibit 2: England Housing Completions (1969-to date)



Source: ONS

PE – Private Enterprise
HAs – Housing Associations
LAs- Local Authorities

Exhibit 3: England Housing Completions (by institution)



Source: ONS

Supply undershooting demand by up to 150,000 homes per annum

According to Savills, the UK faces a long-term structural undersupply of housing across all sectors and SVS estimate the need for 300,000 (government consensus 225-275k pa) net additional dwellings per year. Net average additional dwellings completed each year since 2001 has met less than half of this requirement (144,000), with the current trend rising towards 200,000 per year (see exhibit 4 below). Recent Conservative government policy had set a target of 1m new homes over five years to the end of 2020 (equating to 200,000 pa) with a further 500,000 to 2022 meaning that there is cross party political support to achieve this target although supportive help to buy, low interest rates, supportive planning policies etc etc have not delivered this.

UK population growth exacerbating demand issue

In addition to housing supply not keeping up with current demand, future demand is likely to keep increasing. As per exhibit 4, the UK population has increase by c. 13% since the mid-1990s and during this period the average household size decreased from 2.42 people to 2.36 before marginally rebouding. This creates a twin deficit in housing demand with the absolute numbers requiring housing increasing whilst the lower household size means a second increasing requirement for housing.

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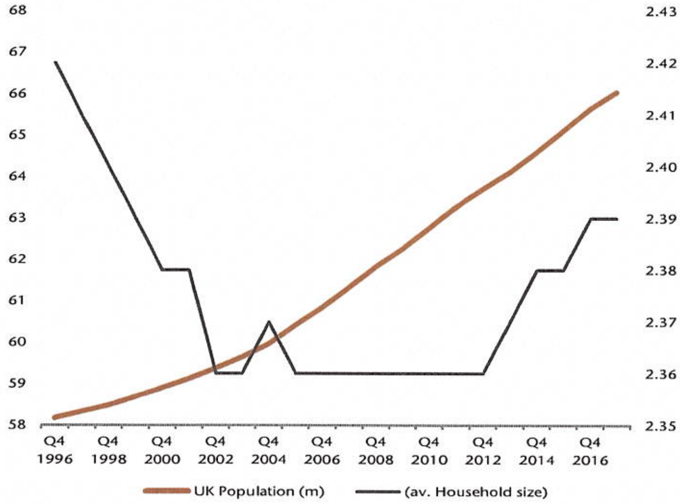
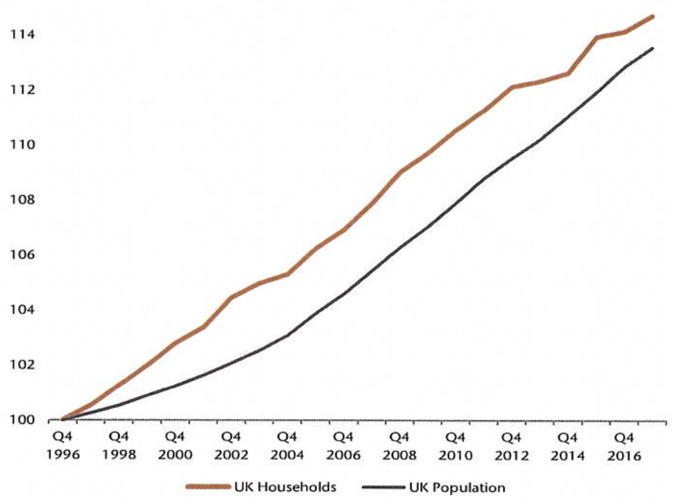
Exhibit 4: UK Population ('m) vs av. house size (RHS)



Source: ONS, DCLG

Exhibit 5: UK Housholders vs UK Population (rebased)



Source: ONS, DCLG

Household size has come down from historical levels

Exhibit 5 highlights this second deficit created by the lower size of households. Since 1996, the total number of UK households has grown by nearly 15% (to 27.2m) whilst the UK population by 13% (to c. 66m). This has been a key driver in the house price boom (partly through the splitting of dwellings) that has been seen since the early 1990s combined with the long-term decline in interest rates.

House price growth

UANC sites in areas expecting house price growth

House price growth is expected to continue in most regions aside from London and much of UANC's strategic land sites are in regions where growth is expected to be double digits over the next five years. Exhibit 6 below details estate agent, SVS residential property forecasts with East of England (including Cambridgeshire) and South East most relevant with growth expected to be +11.5% over five years in both regions.

Exhibit 6: Savills – Residential Valuation Growth by region (%)

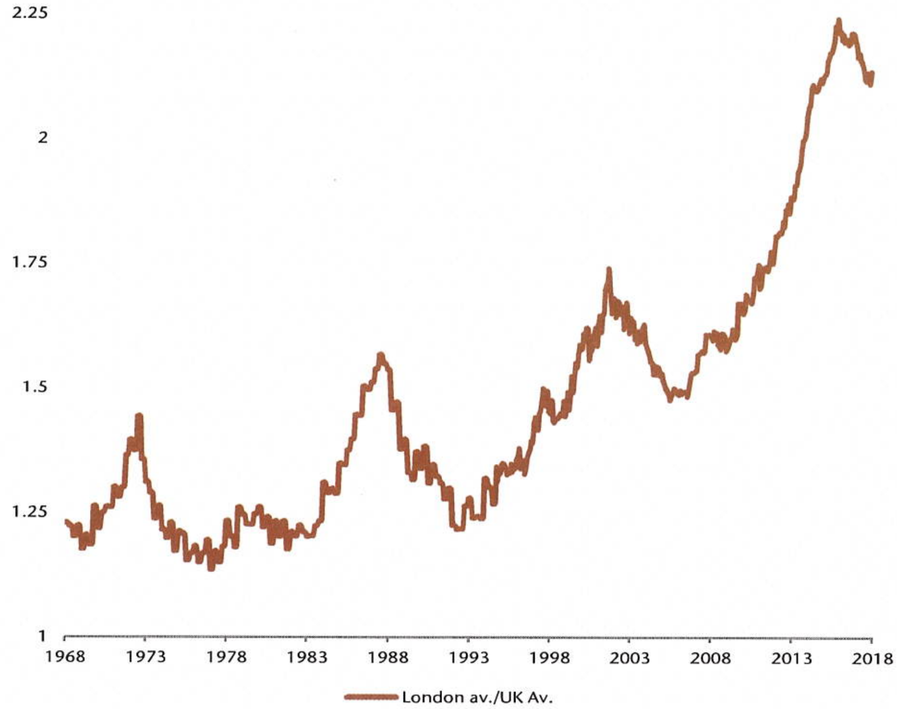
	2018	2019	2020	2021	2022	5yr
UK	1.0	2.5	5.0	2.5	2.5	14.2
London	-2.0	0.0	5.0	2.0	2.0	7.1
South East	0.5	2.5	4.0	2.0	2.0	11.5
East of England	0.5	2.5	4.0	2.0	2.0	11.5
South West	1.0	3.0	4.5	2.5	2.5	14.2
East Midlands	1.0	3.0	5.0	2.5	2.5	14.8
West Midlands	1.0	3.0	5.0	2.5	2.5	14.8

Source: Savills

Regions outperforming London in second half of the housing 'super cycle'

The UK residential property cycle tends to work in two halves with the first half generally starting in an economic recovery seeing London outstrip the regions whilst the second half of the cycle seeing a regional outperformance. Exhibit 7 below details the average London house price divided by the average UK house price since 1968. We are currently in our fourth super cycle for residential and have seemingly gone past the peak with respect London house price growth versus the rest of the country. Since mid-2017 UK property prices outside of London have seen growth outstripping London and this trend has continued through 2018.

Exhibit 7: London av. House Price/ UK av. House Price



Source: Land Registry

Current data supporting regional house price growth vs London

Underlying house price data continues to support the outlook for this trend with Savills forecasting (exhibit 6, p.6) that London house price growth will underperform all other regions by at least 4.4%. This is supported by the most recent house price data from Nationwide (Q2 2018) which saw annual house price growth +2.2% in the UK with East Anglia +2.5% and Outer South-east +2.4% whilst London saw pricing declines of -1.9%.

New build premium above long-term average likely aided by Help-to-buy

New build housing continues to benefit from an above average premium pricing of +17% versus the second hand market which is above the long-run average of +13-15%. Part of this is likely to be attributable to the Help-to-buy government scheme where prospective home owners outside of London can receive a government loan equal to 20% of a property's value (max. £300,000) which acts as equity for the first 5 years of ownership with the buyers only needing a 5% deposit. With average blended house prices of £293,000 and £261,000 at Alconbury and Rugby respectively, UANC's strategic land sites sit in the sweet spot for prospective Help-to-Buy owners.

Other government policies supporting UANC type stock

Other government housing policy is supportive of typical UANC stock too with first-time buyers currently enjoying a holiday from stamp duty paying 0% for the first £300,000 of homes that cost up to £500,000. This would save a first time buyer £2,750 stamp duty on purchasing a £300,000 property with current rates 0% (£0-£125,000; 2% £125,000 - £250,000; 5% £250,000 to £925,000)

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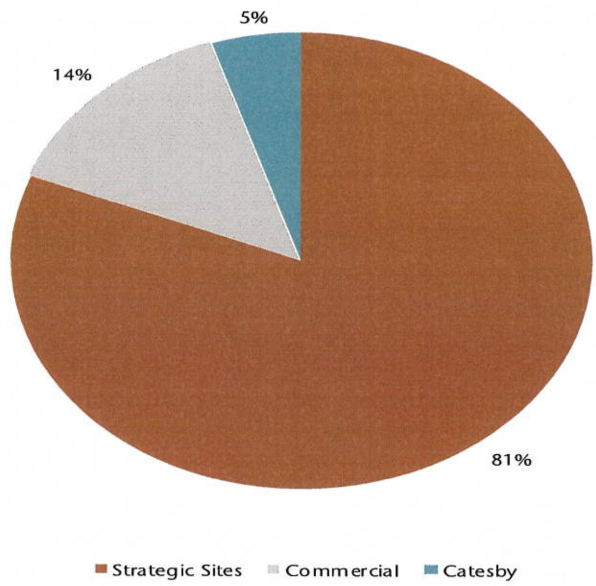
Overall Portfolio Structure

Exhibit 8: UANC Portfolio Valuation Share



Source: Company Data

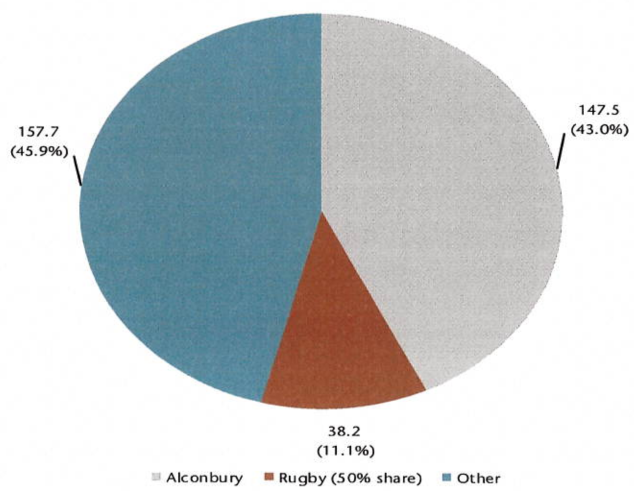
Strategic land the dominant play since inception

Following UANC's reversal into Terrace Hill, the combined group was focused in two areas with UANC's portfolio principally strategic land sites and Terrace Hill's commercial property, including a development book. As the strategic land sites, particularly the most advanced site Alconbury Weald have progressed, strategic land has become the dominant part of the portfolio with an 81% share of GAV.

Commercial property capital recycled into strategic sites

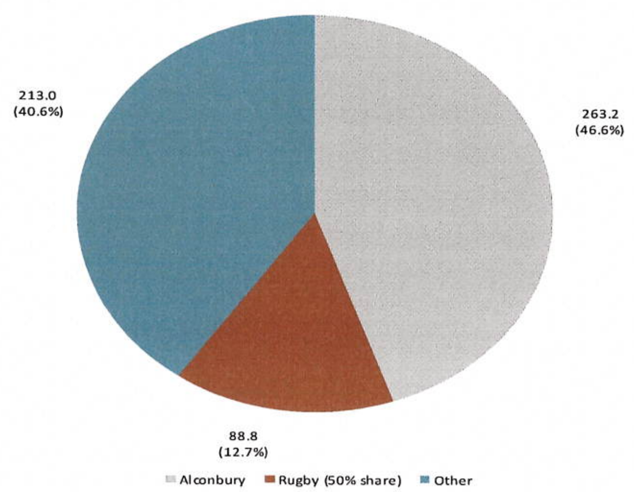
This will continue given that the majority of commercial assets now on strategic land sites are sold off with the capital recycled into the business. This was demonstrated post-FY17 with the £40m sale of a hotel by Stansted Airport (Essex) and a leisure asset in Feethams (Darlington) sold for £70m and the profit on cost (mainly from the Stansted hotel) was recycled towards the £40m acquisition of Priors Hall.

Exhibit 9: Prop Portfolio Sep 2015 (EPRA Values, £m)



Source: Company Data, Jefferies

Exhibit 10: Prop Portfolio March 2018 (EPRA Values, £m)



Source: Company Data, Jefferies

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Strategic Land – the master developer model

Large scale residential opportunities

Strategic land provides an opportunity for developers to realise planning value through the investment and build-out of identified sites. The focus for each land holding is weighted towards residential which is generally performed through the promotion of serviced land plots to housebuilders with a commercial element. The latter can add benefits through the planning process with respect to creating local employment whilst also providing a rental income stream which can balance the outgoing of recurring costs associated with UANC.

Key to unlocking early value is navigating the planning system

Following acquisition of early sites, UANC committed resources to planning to obtain approval with a broad overarching master planning agreement which for a site like Alconbury provides permission to build up to 5,000 homes. The planning process is complex given the scale of overall development and likely involves negotiations both at local and national level. This creates a sizeable barrier to entry with experience of the planning process and the resources to achieve the necessary approval that will meet required investment returns is critical.

Hurdles include community and infrastructure development

A significant part of any large residential development in England is the section 106 agreement which is effectively a community charge in return for planning approval. This often included a portion of affordable housing (either for sale or rent) and on larger sites can include community provisions such as schools, community centres, sport facilities and other green space. This can be part of the early infrastructure that is required to start before developing residential on site and often contributes to the riskiest part of the project where capital requirements are peaking prior to cash receipts from residential completions.

Exhibit 11: Alconbury Weald May 2015

Source: Company Data

Exhibit 12: Alconbury Weald October 2017

Source: Company Data

Alconbury a barometer of the companies master development credentials

Exhibits 11 and 12 highlight the early development following the start on site. Exhibit 11, a photo of Alconbury in May 2015, was in the early stages of site clearance and enabling with former Airforce buildings being dismantled. Exhibit 12 shows the development over the >2 year period infrastructure and a primary school completed prior housebuilding completions demonstrating the early peak capital requirements needs with little to no cashflows until housebuilders start on site. The model is flexible in that servicing of new parcels of land once a site has begun being developed can be done on a 'just-in-time' basis meaning that the sunk costs of preparation will not create a large build-up of inventory which should boost the internal rate of return.

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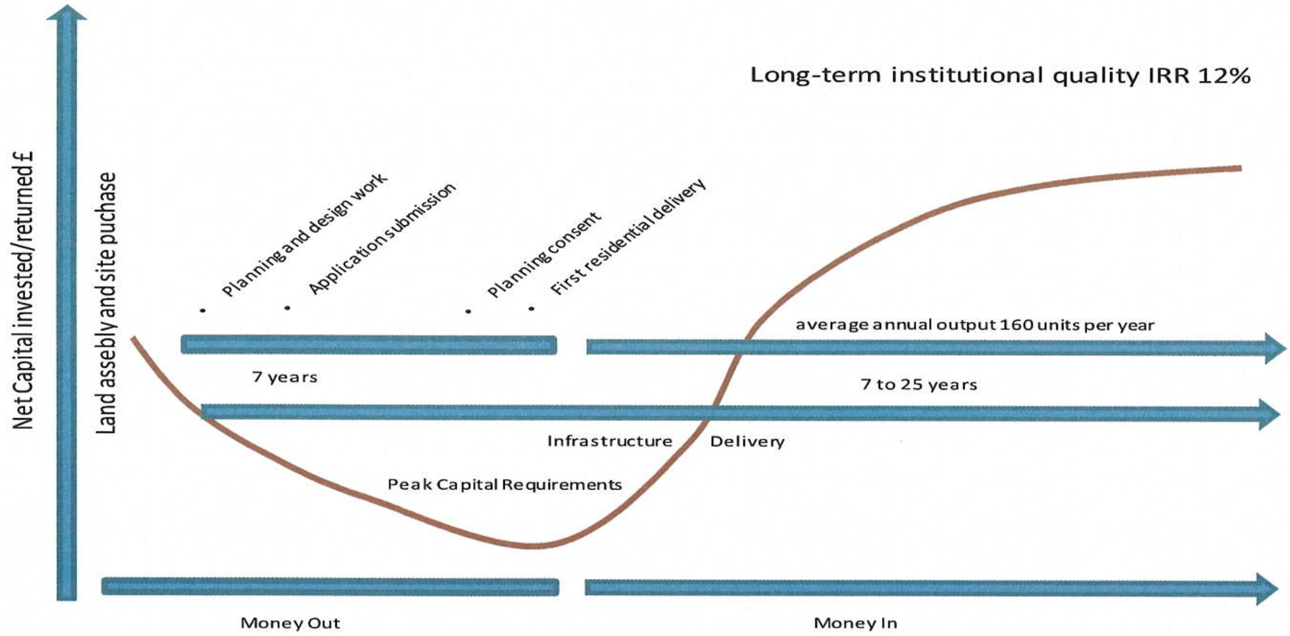
Up front capital a barrier to entry

This early capital requirement is a further barrier to entry and is detailed in exhibit 13 below. Taking a generic strategic land site, there could be a seven year period of cash outflows, from acquisition to peak capital requirement which as detailed previously is most likely when the initial infrastructure is being constructed prior to house builders arriving on site.

Exhibit 13: Illustration of Strategic Land timeline, capital requirements and long-term returns



Source: Company Data

A number of sites close to or past peak capital requirements

The key for the sustainability of UANC's business model as a cash generating machine is to have various sites at difference stages above the capital invested/returned curve. The business is beginning to move out of a nascent form with Alconbury having moved beyond peak capital requirement phase and has seen 102 sale completions so far which will accelerate as absorption levels increase. Rugby and Newark capital requirements are likely to peak over the next 12 months with Wintringham relatively close behind. Additionally the recently acquired Prior's Hall is at a more advanced stage than Alconbury meaning UANC could have four sites that are beyond peak capital requirement and realising cash returns on the original investment. As per exhibit 14 below which lists the strategic sites, UANC has only completed 227 of 21,222 consented units which highlights the future cash generating potential for the sites with planning permission.

Exhibit 14: UANC Strategic Sites

Strategic Site	Share	Total Units	Units remaining	Contracted	Under offer	Civic Living in delivery	Under Licence, offer or in delivery	Valuation per plot (£)		
								Mar-18	Sep-17	Change
Alconbury Weald	100%	5,000	4,898	391	375	138	18.5%	27,500	26,600	3.4%
RadioStation Rugby	50%	5,952	5,942	606	251		14.4%	19,300	18,100	6.6%
Priors Hall	100%	4,320	4,205	549	42		14.1%	7,700	7,700	0.0%
Newark	82.2%	3,150	3,150	237			7.5%	6,800	6,500	4.6%
Wintringham	33.3%	2,800	2,800		233		8.3%	21,300	140,00	52.1%
Consented		21,222	20,995	1,783	901	138	13.4%			
Waterbeach		6,500	6,500							
Manydown	25.0%	3,500	3,500							
Allocated		10,000	10,000							
Alconbury - Grange Farm		1,500	1,500					22,400	18,700	19.8%
Calvert²		5,000	5,000							
Strategic Sites Total		37,722	37,495	1,783	901	138	7.5%			

Source: Company Data

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Licences – Controlling the build-out process

Licences a method of control and security

UANC's method of build-out to this date has been through licensing a section of serviced land plots to each housebuilder. This provides the group with more control over development as they can have greater influence over characteristics such as build quality, type and style versus a block sale of unserviced land. Additionally, and most importantly, the licence set a minimum level of completions for each site per annum. This doesn't obligate the housebuilder to complete a minimum number of houses each year but it does contractually oblige them to pay UANC as if they had completed the minimum number of units irrespective of what has been built and prevents housebuilders from over landbanking.

Exhibit 15: Illustrative Example of Licences/Minimums

	Total Units Contracted	Minimums Per Annum	Price per minimum	Minimum Cash Receipts	Total Minimum Cash Receipts	Price per Completion	Top-up p/a minimums completed	Total Cash on Plot Completion
			£	£m	£m	£	£m	£m
Housebuilder 1	200	40	70,000	2.8	14.0	100,000	1.2	20.0
Housebuilder 2	160	40	70,000	2.8	11.2	100,000	1.2	16.0
Housebuilder 3	180	40	70,000	2.8	12.6	100,000	1.2	18.0
Total	540	120		8.4	37.8		3.6	54.0

Source: Company Data

Minimum cash flow received annually

Exhibit 15 illustrates how minimums work for each licence agreement. Using 'Housebuilder 1' as an example, the licence covers the build-out of 200 plots with a minimum of 40 units per annum. At a price of £70,000 per minimum, this contractually obliges the Housebuilding to pay £2.8m of cash per annum irrespective of how many units they actually build. Minimums maybe up 0.7-0.8x the total price of a completion so based on a scenario that the expected price to UANC is £100,000, the Housebuilder would pay an additional £30,000 on completion.

Cash flow risk reduced significantly

Minimums significantly reduce any cashflow risk which could be more relevant in a market downturn. As per our Housebuilder 1 example, UANC would be due £14.0m over the course of 5yr licence arrangement (200 units at a minimum 40 per annum). On the assumption that all plots developed by third parties are through licences, this means a severe downside of scenario with lower completions (ignoring housebuilder defaults) of a reduced cashflow period rather than no cashflow with lost revenue of £6.0m (£20.0m from completion of 200units less £14.0m minimums). In addition, this lowers the risk for UANC than a traditional housebuilder as they receive a minimum amount irrespective of an end sale whereas housebuilders retain risk until cash from a buyer has settled.

Counterparties are the major remaining risk

As implied in the previous paragraph, this is more risk reduction than risk transfer. Licences are not a guarantee in all scenarios and does leave UANC with counterparty risk. This is considered within the model with any licence minimums discounted by the WACC of the housebuilder counterparty. To mitigate this counterparty risk, each strategic site will have a number of housebuilders (Alconbury has licences with 4 housebuilders whilst Rugby has 3).

First cash payments contractually agreed by 18 months of agreeing terms

As a general rule, UANC allow the housebuilders 6 months between the signing of a licence agreement start of each year for minimums so in our example above Housebuilder 1 would needs to pay minimums for 40 units 18 months after the signing of the licence. In reality so far, the minimums haven't been relevant as housebuilders have been completing units at or above the minimums so UANC is receiving at or above the full pricing they expect to receive for the minimum number of units.

In the example above we have used an average price on completion of £100,000 which equates to a £30,000 overage on the minimum but in reality this is a moving figure with potential inbuilt upside through overages which provide UANC with a share of incremental gains above a certain price per sq ft. Again this will be down to the individual licence with the housebuilder.

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Exhibit 16: Cost per Plot in Land Bank – Listed UK House builders

	Plots	Av. Sales Price	Cost per Plot
Barratt	80,752	275,200	47,600
Bovis	19,341	277,400	52,000
Persimmon	98,712	213,262	29,292
Bellway	37,855	260,354	60,300
Redrow	26,400	309,800	72,000
Taylor Wimpey	76,503	253,000	39,400
UANC Unserviced Plot Values			
Alconbury	5,000	292,700	27,500
Rugby	5,952	261,000	19,300
Wintringham	2,800	289,500	21,300

Source: Company Data

Plots are attractive extensions to housebuilder models

There are two key reasons why UANC's licence model is attractive to the housebuilders. As per exhibit 16 above, the cost per plot in the major housebuilder's land banks is substantially above the value of unserviced land in Strategic sites (Alconbury £27,500; Rugby £19,300). Holding this land is a drag on return for the housebuilders and so building on serviced land can be an extension of the business without requiring to hold the undeveloped land which yields little, especially during the planning process.

Housebuilders avoid much of the onerous upfront infrastructure and planning hurdles

A further reason is in the servicing itself. As UANC do much of the infrastructure upfront, including key s. 106 requirements such as schools, this removes a large amount of early sunk capital requirements away from the house builders meaning that they can move in out of plots in a much faster time to completion than would be possible if they were having to put the infrastructure in themselves, potentially doubling their build rates.

Likely political goodwill as model particularly suits smaller housebuilders

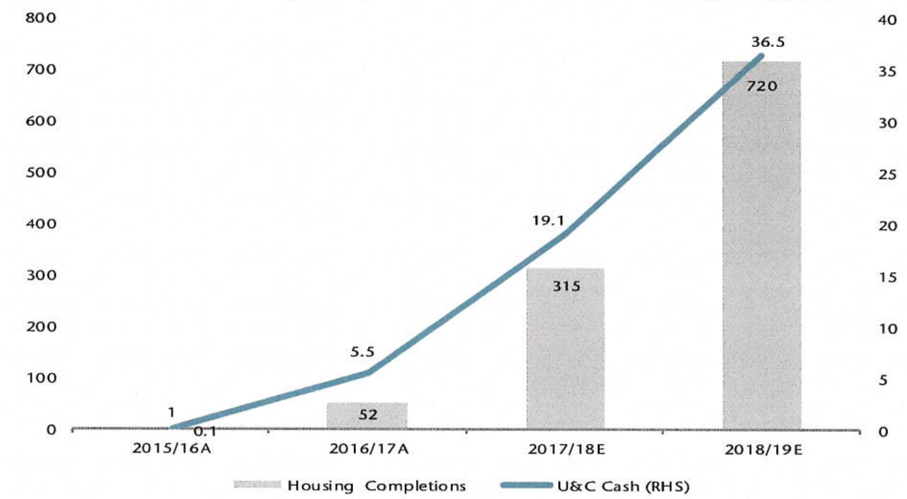
We see both these points being particularly attractive to smaller local and regional housebuilder who don't have the capital and balance sheet to holder large land banks and build infrastructure, which has already been demonstrated by the housebuilders UANC has had on site. We think this provides UANC with further credibility in the eyes of local and national government stakeholders who are keen to see growth in housing come from outside of the national quoted companies.

Absorption is key to growing

Next steps for the Strategic Sites

With up to 5 sites having or close to having housebuilders on site through licence, the key for creating additional value in UANC is accelerating absorption of serviced plots. The residential parts of the sites are valued on discounted cash flows meaning faster absorption rates can translate into a better day 1 valuation and as per exhibit 17, UANC is estimating a near doubling of cash receipts from completions from 2017/18E (from £19.1m to £36.5m)

Exhibit 17: UANC Housing Completions vs U&C Share of Cash (RHS)(£m)



Source: Company Data

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Higher absorption rates translate to higher cash....

The strategy for the stages at more developed sites, particular Alconbury, is to accelerate this absorption further. As per exhibit 17, the effect of the acceleration of housing completions, as one would be expect, is strongly correlated to cash receipts. With higher absorption, completions will accelerate leading to higher near-term cash and therefore lower discounts of future cash flows when taking into account the time value of money used to value sites such as Alconbury.

...as well as NPV positive

Exhibit 18 illustrates the difference accelerated absorption can have on the present value of cash flows. We use the example of 1,000 of net inflows over the course of ten years discounted at 7.5%. A moderate absorption scenario returns a NPV of c. 700 whilst an accelerated absorption scenario returns an NPV close to c. 738, a value +5.4% above that of the moderate absorption scenario. This assumes that absorption doesn't have an impact on pricing which is a consideration with an acceleration of housing completions.

Exhibit 18: Jefferies Illustration of Value - Accelerating Absorption

Moderate Absorption										
Year	1	2	3	4	5	6	7	8	9	10
Net Cash inflows	100	105	110	115	120	110	100	90	80	70
Total Cash inflows	1,000									
Discount (7.5%)	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5
Discount CF	93.0	90.9	88.5	86.1	83.6	71.3	60.3	50.5	41.7	34.0
NPV	699.8									

Accelerated Absorption										
Year	1	2	3	4	5	6	7	8	9	10
Net Cash inflows	120	130	150	150	130	110	90	60	40	20
Total Cash inflows	1,000									
Discount (7.5%)	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5
Discount CF	111.6	112.5	120.7	112.3	90.6	71.3	54.2	33.6	20.9	9.7
NPV	737.5									

Source: Company Data

Alconbury Weald

Former Airforce base

Alconbury, a former RAF base in Cambridgeshire, was acquired by a then private UANC in 2009 and with the purchase of neighbouring Grange Farm a year later, the site totals 1,432 acres of freehold land. By the time of the reversal into Terrace Hill, UANC had achieved planning consent subject to a final section 106 agreement with permission to build 5,000 houses and c. 3.1m sq ft of commercial property. This did not include Grange Farm (acquired in 2010) which has additional capacity of around 1,500 dwellings.

Community or section 106 agreements

The section 106 agreement was finalised and included 3 primary schools of which 1 was built as some of the first infrastructure on site. Other requirements include 3 community centres, a sports pavilion, green space, integrated health facilities and assistance with local enterprise. The affordable housing part requirement is a minimum of 12.5% which is increased if the group achieves a minimum IRR of 20%. Given the site was acquired in 2009, the likelihood of achieving a 20+% IRR is remote however the group remains flexible in building above the minimum 12.5% affordable housing allowance. This housing allowance will most likely comprise houses built-for-sale rather than affordable rent. The development is subject to a community infrastructure levy ("CIL") which is an optional levy local authorities in England and Wales are able to charge on new develops and are included in the cost of servicing land from a business model perspective.

Enterprise zone assists commercial development

The initial phase in Alconbury is ongoing with the initial plan for 1,100 homes to be built whilst 850,000 sq ft of commercial has been built. Part of the Alconbury site was designated an Enterprise Zone to encourage businesses to locate themselves there through incentives such as lower tax rates (the Isle of Dogs, including Canary Wharf, was originally designated an Enterprise Zone in the 1980s).

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Large pricing uplifts with development of site

Alconbury provides a strong example of how much pricing can move on as a site becomes more advanced. The site was originally appraised off an average price per sq ft of £220 and first completions in 2015 had moved to £260psf and the average blended price is now in the £290s. The site has benefitted from the wider uplift in house prices in Cambridgeshire however the site has achieved well above average growth rates as it has become established. Alconbury, along with Rugby, will be key with respect to increasing absorption rates given that the site is now beyond peak capital requirements.

Rugby Radiostation

JV share acquired as part of larger site

The 1,170 acre site near Rugby, Warwickshire, is a decommissioned (2003) former BT radio transmission site which was held in a JV between Aviva Global Investors and BT as a part of a larger 1,674 acre site. In 2014, UANC bought out BT's 50% share and the site already had planning permission for 6,200 homes which included land previously under option which lapsed but still left total units of 5,952 units. The remainder of the 1,674 acre site has been largely developed by US logistics developer Prologis including the Daventry International Rail Freight Terminal III site. The UANC site includes a provision for 1.3m sq ft of commercial space which will likely include some logistics space.

The section 106 agreement is similar to Alconbury with 3 primary schools and a secondary school and again a number of community focused developments with an additional focus on waste management and recycling. There is the same provision around affordable housing which is set at a minimum developer's IRR of 20% making an increased affordable provision above 12.5% unlikely to be an obligation.

'Cleaner' site than Alconbury

The site will be cheaper to service than Alconbury for two main reasons. Although it is a brownfield site, a very large proportion of the site was undeveloped which means there is little to demolish compared with a number of concrete hangers etc., at Alconbury. Additionally Warwickshire County Council chose not to impose a CIL levy which means no additional taxation. This reduced cost is partially offset by a lower pricing point with £274psf capital values for private houses versus £295psf at Alconbury however this differential could close as Rugby's development advances. Following the construction of a new road by Homes England, there is the likelihood of development at both west and east ends at the site which should support a significant acceleration in absorption rates.

Other and future sites

Exhibit 19: UANC Strategic Sites

Strategic Site	Share	Total Units	Units remaining	Contracted	Under offer	Civic Living in delivery	Under Licence, offer or in delivery	Valuation per plot (£) Mar-18	Sep-17	Change
Alconbury Weald	100%	5,000	4,898	391	375	138	18.5%	27,500	26,600	3.4%
RadioStation Rugby	50%	5,952	5,942	606	251		14.4%	19,300	18,100	6.6%
Priors Hall	100%	4,320	4,205	549	42		14.1%	7,700	7,700	0.0%
Newark	82.2%	3,150	3,150	237			7.5%	6,800	6,500	4.6%
Wintringham	33.3%	2,800	2,800		233		8.3%	21,300	140,00	52.1%
Consented		21,222	20,995	1,783	901	138	13.4%			
Waterbeach	DMA	6,500	6,500							
Manydown	25.0%	3,500	3,500							
Allocated		10,000	10,000							
Alconbury - Grange Farm		1,500	1,500					22,400	18,700	19.8%
Calvert		5,000	5,000							
Strategic Sites Total		37,722	37,495	1,783	901	138	7.5%			

Source: Company Data

UANC demonstrated ability to obtain further sites.....

With recent developments and acquisitions, UANC have demonstrated this is not a 'One-trick Pony,' with respect to Alconbury, but the site is dominant in the current valuation given it is at the most advanced stage of delivery. Alconbury is c. 47% of UANC's portfolio value (at March 2018) and we expect this dominance to remain persistence as cashflows at the site accelerate with Prior's Hall (held at cost at 1h18) and Rugby should increase in proportion to the remainder of the portfolio as cashflow increase at those sites whilst housebuilders are on site in Newark and expected to be contracted at Wintringham in the near term.

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.....with three completed over the past 2 financial years

The sustainability of the UANC business model requires a pipeline of strategic sites and UANC has acquired extensively over the past 12 months. Exhibit 19 details UANC's strategic sites of which Wintringham, Prior's Hall and Manydown were acquired in 2017 and 2018 highlighting the group's ability to source and successfully acquire new sites in competitive competition, with Manydown against a listed peer and a national housebuilder. Evidence from Alconbury provides UANC with a competitive edge with respect to the bidding as demonstrated by Manydown's local council:

"Urban&Civic's record of working with and listening to local communities and bringing forward early delivery of infrastructure and amenities is especially commendable. We look forward to building a strong and productive relationship with our new partner. The two councils will remain actively involved, working with Urban&Civic and the Wellcome Trust in years to come." Cabinet member for Manydown at Basingstoke and Deane Borough Council Cllr John Izett

The next step

Key to the business model

Strategic land is clearly the key of UANC's business model and the 6 months to March 2018 has been a game changer for the business, with the acceleration of completions. The increasing tangible evidence for the business model has started to be recognised in the share price which has seen growth of +34.5% since the last financial year end (30 September 2017).

Political buy-in

The political will is with there for large-scale developments, Rugby for example should meet 50% of the local council's housing quota to 2026 and the business model is helpful in accelerating growth for smaller housebuilders as they put no capital upfront for infrastructure. UANC can combine this acceptance with a sound business model creating just-in-time serviced land, minimising the time between infrastructure time from cash receipts whilst the long-term view is more impressive. Barratts took 11 years from acquisition to planning at Wintringham. UANC has seen this timeline significantly reduce and it has taken 2 years from planning consent to first housing completion again highlighting their unique experience. With this rapidity of refilling the pipeline for the long term this part of the business can increasingly be viewed like an indexed linked annuity with a long-dated land bank of 15yr+ income streams.

Catesby – counter-cyclical and strong intel

Land promotion business which is asset light

UANC acquired Catesby Property Group plc ("Catesby") in 2015 for £34m and the business specialises in residential land promotion in particular. Land promotion is a capital light business model where Catesby signs promotion agreements with landowners to use their expertise and financial resources to get land through the planning system. Catesby will then take a share of valuation uplifts from planning gains once a plot that has successfully achieved planning permission has been sold off to a housing developer.

Counter cyclical with planning intel

Catesby is effectively counter-cyclical to Strategic land sites as the model works best when the planning environment is 'easier' from a relative perspective which was the case when UANC acquired Catesby. The planning environment has since got a lot more restrictive meaning a slow rate of successful land promotion but this should make Strategic sites more attractive given the master planning agreement is in place and is an opportunity to increase absorption rates. Given the nature of its business, Catesby also provides a good source of market intelligence for UANC on the state of the planning environment.

Newark site included in purchase

In acquiring Catesby, UANC also gain a further strategic site with the 82% share in Newark. This is further beyond the usual 'sweet spot' that UANC focuses on with respect to distance from London and this is partially reflected by the value of its unserviced plots as per exhibit 19 which are currently valued at £6,800 per plot which compares poorly to Alconbury and Rugby in 2014 (£15,400 and £11,500 per plot respectively) with average house sales priced values at £205psf vs Alconbury £295psf and Rugby £274psf.

After negative valuation movements, valuations in the 6 months to March 2018 increased +4.6% (from FY17 £6,500 per plot) and the company highlighted how these were materially below the current realised sales values at the site.

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Other Properties (outside of Strategic Land)

Attractive commercial sites remain.....

UANC continues to hold some key property sites outside of their strategic land holdings with the largest concentration in Manchester City Centre (New Square and Deansgate). The Manchester sites were valued at £46.7m (Mar-18) and with other commercial sites valued at £79.8m with a leisure scheme in Bradford (Mar-18 value £17.4m) also a sizeable scheme.

....particularly in Manchester city centre

The two Manchester city centre schemes are residential focused with New Square, which is under construction, providing 351 apartments and 250 car-parking spaces. Construction commenced in April 2017 and the development has been de-risked in 2 ways. Firstly a 50% equity sale of the site, creating a JV with Greater Manchester Pension Fund which means 71% of the £49m of equity contribution to the project will come from UANC JV partner and with UANC's £8.8m spend advanced, there is no further capital investment expected due to a fixed price construction contract entered into with Lend Lease. Additionally, 129 (37%) of the total 351 apartments have been exchanged or reserved which equates to £34m (29% of based receipts) implying total receipts expected of £117m before overages.

Capital commitment likely to come from outside the group

The Deansgate site is at a pre-planning stage with consultation for a framework to outline uses, density, layout and building dimensions has come to an end which should lead to more certainty around a future detailed planning application. UANC expect the most likely scheme will be mixed-use with a 250-bed hotel and up to 600 apartments with provisions for commercial use such as retail and restaurants accompanied by car parking space. This could result in a similar JV agreement where half of the capital (value) is divested in return for the JV partner providing the majority/all of the development capital.

History of strong commercial completions with gains recycled

UANC's track record in delivery and rotating capital out of commercial sites has been strong with the Stansted hotel a particular example crystallising a 21% profit-on-cost (£8.5m profit on £39.8m cost). As discussed earlier, this new equity has been recycled into strategic sites in a similar vein to the likes of Unibail-Rodamco who use their office development business to create development profits to rotate into capex hungry shopping centres. Not all commercial developments are as successful Feethams, a legacy Terrace Hill development, sold for £21.6m modestly below book value (£22m). Given the location of the key remaining commercial sites for UANC, particularly in central Manchester, we expect properties to outperform.

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Capital Structure

Modest gearing levels

UANC has modest gearing with look-through gearing, not including JVs, (£106m drawn at 1h18) 22.9% of EPRA NAV. This grows to c. 28% when including UANC's share of the Rugby JV's £34.5m debt. We view this as a prudent level of debt given the increasing visibility on reliable cash inflows from forward sales that the company is beginning to receive from Alconbury which will increase substantially as site absorption increases along with Rugby and contributions from Prior's Hall.

Exhibit 20: UANC

Urban and Civic Debt	**Committed**	**Drawn**	**Undrawn**
	£m	£m	£m
Priors Hall – 15 year infrastructure loan	46.6	28.6	18.0
Alconbury – ten year infrastructure loan	45.7	31.2	14.5
Rugby – ten year infrastructure loan	36.7	34.5	2.2
Newark – six year infrastructure loan	12.1	12.1	0.0
HE Loans	141.1	106.4	34.7
Bradford - non-recourse 5yr investment loan (2.2% margin)	6.1	6.1	0.0
Corporate - three year revolving credit facility (2.75%-2.5% margin)	40.0	27.0	13.0
Newark – LEP grant	1.0	1.0	0.0
Total Debt	188.2	140.5	47.7
Joint Venture borrowings - off balance sheet (Rugby)	36.7	34.5	2.2
Subsidiary (gross of £1.6m of loan arrangement costs)	151.5	106.0	45.5

Source: Company Data

Attractive lending terms from Homes England

The profile of UANC's debt is very attractive with c. 76% of drawn debt received from Homes England (re-launch of Homes and Community Agency, "HCA") which is a non-departmental public body which has aims including funding of affordable housing. The attractive terms with each loan include the ability to roll-up interest (which is included in debt commitments above) which is charged at an av. 3.0% whilst the loans are only repayable on receipt of cash distributions. The loans do allow re-investment of proceeds and therefore the repayment can be deferred to later dates. The bulk of the remaining debts is in a corporate RCF providing the business with liquidity whilst the overall liquidity profile for UANC is strong with £45.5m of undrawn facilities whilst early stage developments, such as Waterbeach do not have debt secured against them.

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Valuation

Multiple Sources of Alpha

Sum-of-the-parts valuation

Given the nature of UANC, we value the group on a forward NAV basis which is built-up from a sum-of-the parts perspective. This is split between a NAV valuation for commercial property (including commercial in strategic land), a EPRA NAV contribution from Catesby and the most significant piece, a discounted cash flow for the largest residential sites on strategic land, mainly through Alconbury and Rugby along with potential valuation gains from other large sites such as Prior's Hall and Waterbeach.

Strategic Land Sites - residential

Exhibit 21: March 2018 Strategic land sites valuation inputs – residential

Significant Inputs	Alconbury	Rugby	Newark	Wintringham
House price - private (£psf)	295	274	205	290
House price - affordable (£psf)	200	170	125	200
Expected annual house price inflation(%)	3.00	3.00	3.00	3.00
Expected annual house cost inflation (%)	2.00	2.25	2.25	2.25
Land Price (£ per net developable acre)	1,450,000	1,245,000	670,000	1,350,000
Risk adjusted discount rate (%)	6.00-9.60	6.00-9.70	6.50-10.25	6.75-10.00
Unserviced plot value (£psf)	27,500	19,300	6,800	21,300

Source: Company Data

Key valuation in residential sites DCF

The discounted cash flow for each residential strategic site has two key components. The contracted units are valued by CBRE each year based on the minimum completions and these are discounted at the cost of capital for each housebuilder which, for example, is at the lower range of Alconbury's risk adjusted discount (6-9.6%) for the larger house builders. The remainder is valued based on the assumed yearly build out rate based on £ per net developable acre (£1,450,000 for Alconbury) which would equate to an undiscounted cash receipt of £100,000 per unit per completion with associated cost for servicing . This net cash flow is discounted at the highest discount rate (9.6% for Alconbury). The unserviced land plot value is not in the books as the residual value of cash receipts less costs to services as a further 'large site discount' is added. This implied discount as at March 2018 for three of the sites is detailed in exhibit X below:

Exhibit 22: Actual and Implied Wholesale Discounts – September 2017

	Alconbury Blended	Rugby blended	Wintringham blended	Comments
Average Sales Price	292,700	261,000	289,500	
Margin & construction & Cost	199,500	186,000	199,500	House builders typically require a profit margin of 20% on cost
Cost of servicing land	53,700	37,200	53,700	Cost of servicing and infrastructure per housing plot
Realised/implied disc. on unserviced land	12,000	18,500	15,000	Large site discount realised on sale of serviced plot
CBRE Valuation of unserviced land	27,500	19,300	21,300	Value in EPRA NAV of unserviced plots
Unsold Plots	4,900	5,942	2,800	
U&C Share of large site discount	59	55	14	Total U&C Share of Large Site discount £128m (88pps)

Source: Company Data

Large site discount

Taking Alconbury's 1h18 figures as an example, UANC would expect cash receipts of £93,200 per blended unit from a housebuilder for each completion. Deducting the cost of servicing leaves a residual incremental cash profit of £39,500 as the cost of Land is a sunk cost. However due to the large site discount this is valued at £27,500 for each unserviced plot that doesn't have planning consent. There is also no assumption around minimums as the valuers don't assume that licensing will continue on the future of sites. This implied discount is key to the intrinsic value within the UANC model where there is effectively a double discount both in terms of time value of money at the highest rate and in terms large site discount and each is unwound in a given year depending on timing and new contracts of unserviced land. This again highlights the important of increasing absorption as with accelerating of contract plots will come an acceleration in the unwinding of the large site discount.

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Key DCF Inputs

For our valuation of the Alconbury and Rugby we have used the same initial inputs as per March 2018 and applied these around our assumptions over absorption, house size and blend of private versus affordable housing. Exhibit 23 below details the key inputs to the discounted cashflow model below:

Exhibit 23: Next Year Discounted Cashflow Model Inputs (FY19)

	Alconbury	Rugby
Blended discount rate for contracted plots	7.0%	7.0%
Blended discount rate for unserviced land	9.4%	9.4%
Value per unserviced plot (£)	27,500	20,000
House price per sq ft (private)	304	278
House price per sq ft (affordable)	205	171
Average Private house size (sq ft)	1,050	1,000
Average Affordable house size	860	820
House price inflation per annum	3.0%	3.0%
House price cost inflation per annum	2.0%	2.3%
Unit Completions FY19	300	300
Unit Completions FY20	400	400
% private homes	87.5	87.5
Net Margin House builders	20%	20%

Source: Jefferies estimates

For the further sites we have also assumed the following:

- Prior's Hall to be fair valued for FY18 having been held at cost of acquisition at 1h18 with a £10.0m uplift to £10,500 per unserviced plot which is prudent given a similar expected pricing level to Rugby (£215psf September 2014) when unserviced land was valued at £11,500 per unserviced plot.

- Wintringham to close implied large site discount to current Alconbury (£15,000 vs £12,000) as it achieves a higher level of development.

- Newark to see similar gains as 1h17 over the next two financial years.

- Waterbeach and Grange Farm kept at cost but upside scenario below for Waterbeach being fair valued following a successfully planning application which could occur in late calendar year 2018 (FY2019).

Our sum of the parts valuation is set out below where we add our estimate of the EPRA uplift to the IFRS NAV reducing any future EPRA gains for deferred tax which UANC would be liable for after any reduction for losses carried forward.

Exhibit 24: JEF UANC Share Price Target Methodology

Sum of the Parts Valuation	**FY18**	**FY19**
IFRS NAV (p)	265.5	266.5
EPRA Uplift per share (p)	83.6	127.0
Current Large Site Discount - 10yr unwind	8.8	8.8
Sum of the Parts Valuation	358.0	402.3
Deferred Tax Net of Utilised B/f Losses	-3.3	-7.2
Adjusted NAV per share	354.6	395.1
Price Target = Spot +1 NAV		388

Sum of the Parts Valuation	**FY18**	**FY19**
IFRS NAV (p)	265.5	266.5
EPRA Uplift per share (p)	83.6	127.0
Current Large Site Discount - 10yr unwind	8.8	8.8
Waterbeach Barracks Planning Uplift		31.0
Sum of the Parts Valuation	358.0	433.3
Deferred Tax Net of Utilised Losses	-3.3	-12.8
Net NAV per share	354.6	420.5
Price Target = Spot +1 NAV		410

Source: Company Data

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As per exhibit 24, we have included an upside scenario that Waterbeach Barracks achieves planning permission in FY19 which we estimate could create a £45m valuation surplus (Alconbury a similar positioned site, created a £60m revaluation in the year it obtained planning permission). Wintringham, a much smaller site also achieved a gain £23m in the year of valuation (2,800 units vs 6,500 units) but is further away from higher value Cambridge.

Balance Sheet

Exhibit 25: UANC Summary Balance Sheet

Summary balance sheet Year end: March	FY2017 £m	FY2018E £m	FY2019E £m	FY2020E £m
Investment properties	79.1	106.8	105.5	106.5
Investment in JVs/Associates	76.8	83.5	86.9	93.5
Trading properties (at cost/realisable value)	289.7	307.4	332.4	352.4
Other assets (excluding cash)	41.6	64.7	72.4	79.0
Net debt	(81.7)	(121.7)	(154.7)	(187.6)
Other liabilities	(54.4)	(55.4)	(56.0)	(56.5)
Net assets	351.1	385.3	386.4	387.3
EPRA adjustments	67.5	114.7	176.2	219.4
Adjusted net assets	418.6	500.0	562.7	606.7
EPRA NNNAV per share (p)	292	331	375	405
IFRS NAV per share (p)	259	266	266	267
EPRA NAV per share (p)	304	344	388	418
Net debt/equity (on-balance sheet debt) (%)	19%	24%	27%	31%

Source: Company Data

Investment properties forecast to keep winding down

Investment properties represent a relatively small party of the valuation and we have valued these starting at NAV with assumptions around the underlying the market based on rental growth with no assumptions around yield compression or decompression. Investment properties outside of strategic land have been wounded down to one property in Bradford and given that UANC have completed their intended management initiatives, we expect this to be disposed of. We have assumed a disposal at book value for the asset in FY19 which has a knock-on effect to rental income in the income statement.

Key valuation uplifts are through EPRA uplifts

Other properties including trading properties outside of the strategic land sites, mostly made up of 2 sites in Manchester contributed £62.4m to the EPRA value at FY18. We have assumed that the majority of future valuation changes will be associated with future capex in which is likely to be provided by JV partners and therefore have assumed this as a valuation uplift at Manchester New Square at a similar rate to FY18 (c. £6m) over the next two years whilst leaving Deansgate at its current book value whilst planning is in the pipeline.

Debt to remain conservative through cash receipts from resi

Debt assumptions have been based on net of any sales received at capex. We expect this to continue to increase over the coming years as less developed sites reach peak capital requirement. As discussed in the debt section this capital has rolled-up interest which is paid on disposals. We have the assumption of a further strategic site acquired in FY19 using the recycled proceeds from Bradford and additional capital at a cost of £30m.

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Income Statement.

Reducing rental stream with commercial properties sold

We have assumed rental income to be reduced given the sale of commercial investment properties (Stansted and Feethams) in early FY18 and an expected sale of Bradford in FY19. The income statement treatment of minimums is 100% future minimums is recognised at the exchange of contracts, discounted to be present value. A cost of sales is also recognised which is the cost of servicing the land as well the cost of the land itself. Given the costs are sunk and the minimums are discounted to present value this creates a net revenue of around nil and have used this as a base assumption. There the net revenue receipt in our gross profit line is based on the overage from completion (c. 30% of the total receipt). We have assumed completions of 315 for FY18 and 720 for FY19 as per management guidance and we estimate 1,100 for FY20 based on an increased level of absorption with Alconbury and Rugby alone facilitating 400 unit completions each.

St able administration costs with interest increasing with debt deployment

We expect administration costs recognised in the income statement to be broadly stable with an inflationary increase of 3% per annum. Finance costs are calculated at the weighted average interest cost, increasing as further debt is deployed, topped-up for the amortisation debt issuance costs.

Exhibit 26: UANC Income statement estimates

Summary income statement **Year end: March**	**FY2017** **£m**	**FY2018E** **£m**	**FY2019E** **£m**	**FY2020E** **£m**
Net rental income	2.0	4.6	4.1	3.7
Trading/development net profits	9.6	12.6	7.9	11.8
Other income (JV mgt fees)	4.4	0.1	0.1	0.1
Admin expenses	(14.7)	(14.3)	(14.6)	(14.9)
EBITDA	1.3	3.1	(2.4)	0.9
JV/Associate result	1.3	2.0	5.0	7.5
Capitalised interest	0.9	2.0	3.0	3.0
Net interest payable	(1.9)	(3.0)	(4.3)	(5.2)
Recurring PBT (inc JV/Assoc rec PBT)	0.3	4.1	1.3	6.2
Movement in FV of derivatives	0.0	0.0	0.0	0.0
Revaluation surplus/(deficit)	4.9	6.7	3.2	3.2
Exceptional items	1.4	0.3	0.0	0.0
IFRS PBT	7.9	11.1	4.5	9.4
Tax	(1.1)	(1.3)	(0.6)	(0.6)
IFRS PAT	6.8	9.9	3.9	8.7
Adj EPS (p)	0.2	2.8	0.9	4.2
IFRS EPS (p)	4.8	6.8	2.7	6.0
DPS (p)	3.2	3.5	3.9	4.3

Source: Company Data, Jefferies estimates

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Accounting Treatment

Investment vs. Trading Property Assets

IFRS doesn't reconigse trading properties at fair value

As discussed in the valuation section, Strategic land is the most complex part of the process from a valuation perspective. The more advanced sites are split with the commercial property which is held for long-term rent fair valued and recognised as Investment Properties on the balance sheet. Residential (with the exception of potential rental properties held for the long-term such as parts of Waterbeach Barracks) are recognised as trading properties which under IFRS means that they measured at the lower of cost or net realisable value (deducting costs to sell) on the balance sheet.

EPRA allows the write-up to Fair Value of Trading properties

This split in recognition and the fact that residential is the most valuable long-term building block of each strategic site means a large and most likely, increasingly larger difference between IFRS NAV and EPRA NAV. EPRA NAV allows a write-up to fair value of trading properties net of tax to be crystallised and this is consistent with treatment by other REITs.

Planning the key to whether sites are fair valued or not

Whether strategic sites are fair valued in the EPRA NAV depends on the stage of planning highlighted by Wintringham which received a resolution to grant planning in March 2018 and was subsequently fair valued, having been in the EPRA value books at cost. Large sites valued at cost include Waterbeach which is an earlier stage at the planning process and recently acquired Prior's Hall which was in the books at cost but is expected to be fair valued in the year-end figures (September 2018).

Outside of the strategic sites, investment properties are held at fair value (both IFRS and EPRA), most notably Bradford whilst the majority of the Manchester assets are recognised as trading properties . Catesby's consolidated business is in the books at cost with land promotion assessed at various stages receiving an EPRA uplift.

Joint Ventures

Equity Accounting for JVs

Two of UANC's more advanced strategic sites are held in joint venture partnerships. Most notably is the Radiostation Rugby site, which is held in a 50:50 partnership with Aviva Investors, which contributed £88.8m or 15% to March 2018 EPRA property values. Wintringham (UANC 33%) is also held in a JV partnership with Nuffield Trust and Oxford University and contributed £21.7m or 4% to the EPRA property values. From a valuation perspective, UANC's share of NAV is under the same principles as the strategic sites held on the balance and hence the JVs will are revalued upwards for the EPRA NAV.

IFRS 15 (from year-ending September 2019)

Revenue recognition to change in FY19

Unlike most of the other REITs, incoming IFRS 15 will have significant effect on UANC's accounts. This is a change in accounting standards for revenue recognition (replacing IAS 18) and with respect to UANC, it changes the recognition of overages received from housebuilders which is income/cash received which is a share of the value of housing sold above a certain price per square foot. Previously revenue would only be recognised when the receipt of cash was virtually certain which broadly means when the minimums have been agreed. This meant that revenue recognition and receipt of cash from overages above the minimums were relatively closely matched, which is when the sale between the house builder and buyer has been agreed with the cash receipt following transaction completion.

Revenue to be increasingly recognised ahead of cash

Under IFRS 15, UANC will now have to estimate future overages based on likelihood of a future cash receipt and will have to recognising revenue at a much earlier stage, most likely once a contract for plots has been signed which will then be discounted back to present value. This will further detach the income statement from the underlying cashflow due to this early recognition of revenue and as a result we will increasingly be focused on the cashflow statement for the true economics of the income streams.

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Risks

Below is our assessment of key, but not exhaustive, risks in which we see UANC and our valuation of UANC could be affected by:

Recycling of Capital unable to meet future value

UANC's business model and valuation requires a certain number of plots to be contracted/sold to house builders each year. There is a risk that these sales do not meet expectation meaning lower cash in the more advanced sites which could mean valuation is downgraded and potentially mean slower build-out on less developed sites. We think this risk is mitigated by the licence model which has had recognition with the housebuilders. UANC's model also provides access to land for housebuilders without holding it on their books and could be attractive to them to continue building even in an economic downturn.

Valuation risk

The valuation is inherently subjective given the input assumptions round housing growth and the cost involved. As per the previous it also assumes as certain number of housing sales and completions each year. Alconbury and Rugby have demonstrated strong valuation growth as they have become more established however the past is not necessarily a good guide to the future. In our estimates we have used similar growth assumptions from valuer's CBRE and given the quality of the site and the further development, we see these as achievable.

Economic/business cycle risk

Further to the valuation risk above, an economic slowdown or recession could mean that inflationary expectations, particularly with respect to pricing. We believe the larger sites do have some protection in this instance given that the more developed a site gets, the potential for above inflationary gains however we would expect the higher priced growth above the Help-to-buy limit (£300,000 outside of London) to suffer in an economic downturn. UANC's cashflows are mitigated to a certain degree by the use of licence fees which secure roughly five years of cash flows at 0.7-0.8x the sales price. This does leave the group exposed to counterparty risk however this is mitigated by agreeing licences with a number of housebuilders at any one time.

Acquisition and Planning Risk

UANC's business model in the long term requires further strategic land site acquisitions and subsequently achieving planning permission. The group has recently demonstrated its ability to acquire new sites beyond the key Alconbury and Rugby and consented units remaining total 20,995 with an additional 10,000 plots in the planning permission process. To maintain the growth of the company planning permission is key on the further sites and whilst we have not assumed this in our valuation, we have detailed an upside scenario to demonstrate the additional value accretion. Given the history of the group and the planning expertise, we see planning risk as low however there is an additional risk that local/national government policy changes could make planning permission more difficult to gain or less valuation.

Key person risk

The management team, Nigel Hugill, Robin Butler and David Wood, are highly experienced in what is a management intensive business model and given its innovative nature we do not see much comparability across the real estate sector. This leaves the potential risk of business disruption if key persons were to leave. Although this would be a negative for the business, the management assembled a strong underlying team both in the topco and the underlying projects meaning. In addition, the two co-founders in the business currently own 1.5% of the business (Source: Thomson Reuters) meaning their interest is aligned with shareholders.

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Appendix

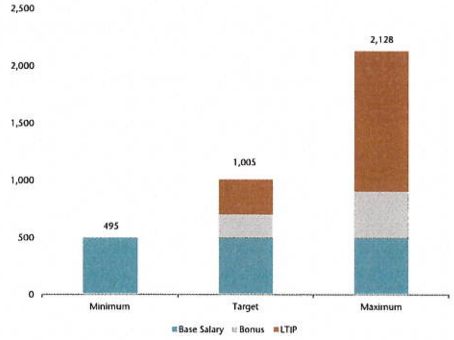
Executive and Non-executive Management Profiles

Execs	Position	Experience	External Appointments
Nigel Hugill	CEO	Nigel has held numerous senior positions within the property and regeneration industry over a career spanning 30 years, including serving as special policy adviser to Sir Bob Kerslake at the HCA. He was chief executive officer of Chelsfield plc from 1992 to 2005 and executive chairman of Lend Lease Europe from 2005 to 2008, having joined the company through the joint acquisition of the residential developer Crosby. He was presented with the Estates Gazette Lifetime Achievement Award in 2016.	Nigel is chairman of the Royal Shakespeare Company and the respected urban think tank Centre for Cities. He chairs the Estates Strategy Committee and is a member of Council of the London School of Economics
Robin Butler	MD	Robin joined Elliott Bernerd in 1985 and in 1986 became a founding director of Chelsfield plc and was a main board director until the sale of the business in 2004. At Chelsfield he was involved in regeneration projects of metropolitan scale and international significance, including Merry Hill, Paddington Basin, White City (now Westfield) and Stratford City in London. He joined Lend Lease Europe in 2005 and was appointed chief executive in 2006.	Robin is on the board of the Royal Academy of Music and is chairman of New Heritage, the regeneration body for Dudley MBC.
David Wood	FD	David joined Urban&Civic in April 2010, having previously held senior finance positions at Minerva plc, Multiplex Developments and Chelsfield plc. Having qualified as a chartered accountant with Deloitte & Touche, David has over 20 years of experience in the real estate sector.	
Non-execs	Position	Experience	External Appointments
Alan Dickinson	Chairman	Alan has spent more than 50 years in banking, originally joining the Royal Bank of Scotland in 1973, having started his career with Westminster Bank in 1968. A former chief executive of RBS UK, he is an experienced retail and corporate banker with a strong strategic focus and considerable experience of the corporate world and the impact of current and past economic cycles upon markets and market participants.	Alan is a non-executive director of Lloyds Banking Group, a governor of the charity Motability and a director of the England and Wales Cricket Board.
Duncan Hunter	SID	On leaving Oxford with a DPhil, Duncan joined Cazenove & Co in 1974, becoming a partner in 1981. As a managing director in the successor business, JPMorgan Cazenove, he led some of the firm's largest financial advisory mandates for M&A and equity offerings.	Duncan is executive chairman of EQL Capital.
Ian Barlow	NED	Ian was senior partner (London) at KPMG until his retirement in 2008. Other previous roles include chairman of WSP Group plc and Think London, the direct inward investment agency for London, and board member of the London Development Agency. Ian is a fellow of the Institute of Chartered Accountants in England and Wales and of the Chartered Institute of Taxation. He holds an MA in engineering science from the University of Cambridge.	Ian is a non-executive director of Smith & Nephew plc, The Brunner Investment Trust plc, Foxtons Group plc and Goodwood Estate Company Limited.
June Barnes	NED	June left the East Thames Group in 2014 after serving as group chief executive for over 16 years. She trained as a town planner and is also a member of the Chartered Institute of Housing. June has served on a number of boards and working groups over the years concerned with the built environment and poverty. She was chair of the London Sustainable Development Commission from 2005 to 2008 and, more recently, vice chair of the National Housing Federation, a board member of the Institute for Sustainability and a member of the London Mayor's Design Advisory Group.	June is a trustee of the Building Research Establishment and a member of the Jersey Architecture Commission.
Jon Di-Stefano	NED	Jon joined Telford Homes Plc as financial director in October 2002 where he built up a strong finance function and played a significant role in establishing relationships with the Group's banking partners and institutional investors. Jon became chief executive on 1 July 2011 and is responsible for the Group's strategic direction, the approach to risk management and all other long-term business planning. Prior to joining Telford Homes, he had one year with Mothercare following five years with Arthur Andersen.	Jon is chief executive of Telford Homes Plc.
Mark Tagliaferri	NED	Mark heads the London office of GI Partners, a leading alternative investment management firm with $12 billion in capital commitments from institutional investors around the world. Prior to joining GI, Mark spent six years with Nomura Principal Finance Group, which became Terra Firma Capital Partners, where he served as a senior partner. Previously, he was founder and chief executive of Dawnay Day Corporate Finance, a corporate finance advisory business that was ranked in the top five UK mergers and acquisitions boutiques during his tenure. His early career was with Deloitte & Touche, where he finished as head of its London M&A Advisory Practice.	Mark is managing partner of GI Partners and is the chairman of London Strategic Land.

Source: Company Data

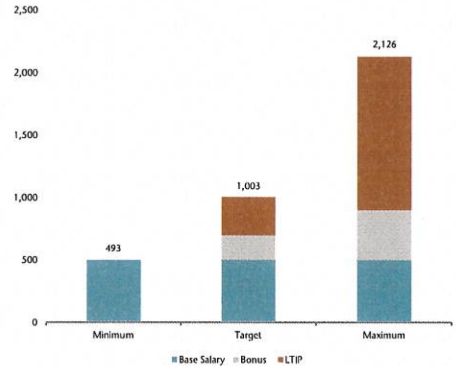
Please see important disclosure information on pages 27 - 30 of this report.

CEO Compensation Scenarios



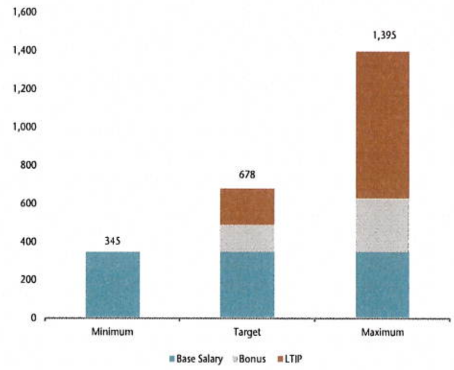
Source: Company Data

MD Compensation Scenarios



Source: Company Data

FD Compensation Scenarios



Source: Company Data

UANC compensation is a typical listed real estate company form with an annual bonus and long term incentive programme ('LTIP') which are share options that vest over a given period. Salary, pension and benefits are fixed for any given scenario. The annual person is up to 100% of base salary and paid in cash which is normally viewed on a one year period based in the majority on financial targets with the remainder personal/strategic. There is a clawback provision in operation.

The LTIP can be up to 300% of salary for CEO and MD and up to 275% for other executive directors. Shares are awarded on satisfaction of performance targets which is measured on a total shareholder return basis and/or other relevant measures, again with a clawback provision in operation. Awards are subject to a two-year holding period and there is an additional share ownership guideline which requires the CEO and MD to hold a minimum of 500% of their salary in UANC shares whilst any other executive director must hold at least 250% of their salary in UANC shares.

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Company Description

Urban & Civic

Urban & Civic is a regional UK property developer and strategic land bank.

Company Valuation/Risks

Urban & Civic

PT is based on a sum of the parts model with commercial operations based on a composite NAV and land sales in a DCF. Risks include declining house price growth and lower than expected absorption on major sites.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published	, 00:06 ET. July 5, 2018
Recommendation Distributed	, 00:10 ET. July 5, 2018

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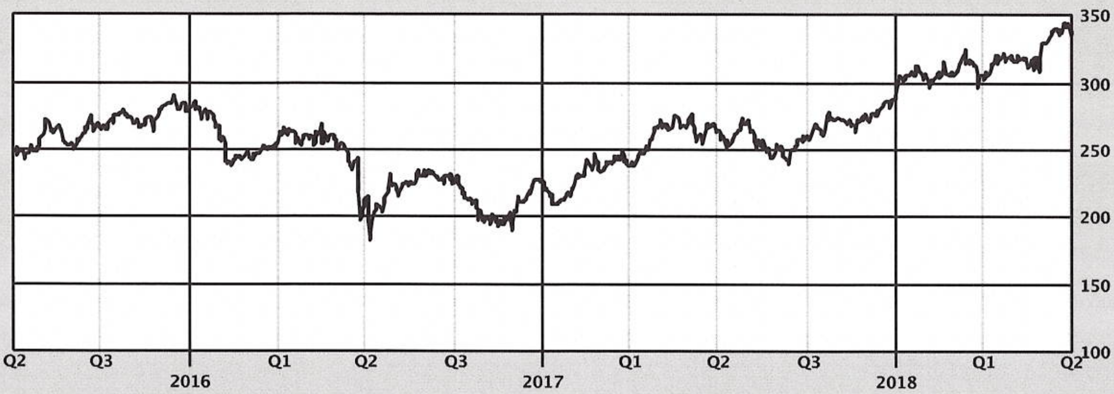
Other Companies Mentioned in This Report

- Urban & Civic (UANC LN: p335.00, BUY)

Rating and Price Target History for: Urban & Civic (UANC LN) as of 07-03-2018



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

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H: Hold

UP: Underperform

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			IB Serv./Past 12 Mos.		JIL Mkt Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Count	Percent
BUY	1122	53.74%	69	6.15%	15	1.34%
HOLD	834	39.94%	19	2.28%	1	0.12%
UNDERPERFORM	132	6.32%	1	0.76%	0	0.00%

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