



**BJI view:** buy

**Description**

Persimmon (LSE:PSN) is the third largest UK homebuilder, with 9,922 completions in 2023. They build a mix of private and affordable housing units with an average selling price below competitors. Following increases in rates since 2022, all homebuilders have cut back on completions. However, we believe there is a fundamental housing shortage in the UK and that over time, completions and margins will normalise. We expect Persimmon’s completions to grow back towards 14,000 per year with margins recovering from 13% towards the long-term average of 19%. The market is placing too much short-term emphasis on higher rates and undervaluing the long-term intrinsic value of the business.

**Strengths**

- Average selling price 20% below competitors
- Well capitalised with no debt and can outlast market downturns
- The UK government has a political incentive to support homebuilding and first-time buyers (gov wants to build 300k homes per year vs 200k currently)
- Fundamental housing shortage, 65% of people own a home but 86% of people prefer to own if possible
- House prices tend to keep pace with inflation in a higher rate / higher inflation environment

**Risks**

- Higher for longer rates may delay the timing of a market recovery
- We expect Persimmon to have already funded all provisions for cladding but there may be further provisions required

**Competitive advantages**

They have large enough scale to remain profitable throughout market downturns, no debt, and a 6-year landbank. Persimmon will be well positioned to take advantage of a recovery in the housing market when it comes.

**Why does this opportunity exist?**

In short, the market has over-reacted to short-term concerns on rates, and is failing to take a long-term view of the business fundamentals. While higher rates have resulted in a pullback in completions and lower margins, we expect a return to normality on both completions and margins over time based on the fundamental housing shortage. If necessary, we expect that mortgage terms will lengthen to reduce monthly payments.

**Management**

Dean Finch has served as the CEO of Persimmon since 2020, and was CEO of National Express Group from 2010-20. Inside ownership is low with the entire inside ownership at 0.4%. Insider transactions show the CEO purchasing shares in March 2024 with no insider sales over the last 12 months.

Share Price GBP	£10.92
Market Cap	£3.4 bn
Revenue 2023	£2.5 bn
Operating profit (loss) 2023	£338m
Profit (loss) after tax 2023	£256m
Dividend yield	5.2%
Average Daily Trading Volume	1,129,328
Inside ownership	0.4%
Completions 2023	9,922

CAGR since IPO	4.7%
P/E (TTM)	14.6
P/E (FWD)	12.3
Operating margin 2023	13%
FCF yield	8.7%
Capex / sales	1.4%
ROE	7.5%
ROIC	6.7%

Long-run annual completions	14,000
Average operating margins	19%

Debt / equity	0%
P/B	1.1



Source: tradingview.com