



Dividend, dividend, dividend

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Top picks Taylor Wimpey, Barratt and Bovis

Over the last 4 years the Housebuilders have outperformed the FTSE by an average of >30% pa. Through this time the investment thesis has changed from earnings momentum to cash returns. However with dividends reaching as high as 8% with scope for greater longevity, upside potential to margins still suggesting upgrades to the mid range of consensus, and recent share price weakness creating another entry point, we remain positive on the sector. With mortgage approvals and house price inflation leveling off and the General Election creating uncertainty we acknowledge share price performance may be volatile. None the less we continue to see >20% upside in our key picks.

Dividend, dividend, dividend

We see dividends as the key attraction of the housebuilder stocks, with the sector yielding an average of 5% in 2015 and a high of 8% - the 3 largest cap stocks are among the top 10 dividend yielders in the FTSE100. We see scope for cash generation to surprise and believe the current intake margin on land should allow upside potential towards an average yield of 8%. With the extent of forward land buying to date, the continued flow of land expected reflecting the 'bulge' in planning permissions and the strength of balance sheets across the sector we see strong dividend yields sustainable on a medium term basis.

Recent stock weakness provides another opportunity to find value

Trading as low as 0.9x 2016 NTAV we see increasing value available in the sector - recent weakness in the share prices we view as offering a good entry point in the sector. For a sector yielding >5% and ROCE >20% we see this as too cheap.

Performance may prove volatile, but we see the housing market as supportive

Macro news flow may continue to make share prices in the sector volatile; sensitivities will include: the timing and scope of interest rate rises, mortgage approvals and house price inflation leveling off, the General Election creating uncertainty and potentially lumpy trading. However we continue to see as generally supportive housing market fundamentals - mortgage lending in 2015 up marginally YoY, strong lending competition containing mortgage costs increases, stamp duty reductions for most buyers; and strong industry themes - continued land buying at strong margins, build cost inflation moderating.

Upside momentum to forecasts remains

We believe upside earnings momentum is likely to be tamer in 2015 than previous but not over. While the wide range of consensus forecasts for the sector may require some narrowing in the coming months, we feel confident on the mid range expectations for volumes and selling prices and believe there remains scope for further upgrades in the sector at the margin level from the higher intake margin from new land as well as the benefit of previous house price inflation. We feel even more substantial upside may be seen at ROCE level where hurdle rates are being exceeded more significantly from the greater use of conditional land increasing asset turn.

Valuation and risk

Housebuilder price targets are based on adjusted NTAV. Sector risks arise from economic factors, such as the BoE interest rate, and unemployment and political factors, such as planning, infrastructure build, etc.

Key Changes

Company	Target Price	Rating
BDEV.L	506.00 to 517.00(GBP)	-
BKGH.L	2,877.00 to 2,749.00(GBP)	-
BVS.L	1,063.00 to 1,108.00(GBP)	-
BWY.L	1,778.00 to 1,793.00(GBP)	-

Source: Deutsche Bank

Top picks

Barratt Developments (BDEV.L),GBP426.10	Buy
Bovis Homes (BVS.L),GBP768.00	Buy
Taylor Wimpey (TW.L),GBP125.00	Buy

Source: Deutsche Bank

Companies Featured

Barratt Developments (BDEV.L),GBP426.10	Buy
Berkeley Group Hldgs (BKGH.L),GBP2,309.00	Hold
Bovis Homes (BVS.L),GBP768.00	Buy
Bellway (BWY.L),GBP1,711.00	Hold
Crest Nicholson (CRST.L),GBP346.10	Hold
Persimmon (PSN.L),GBP1,449.00	Hold
Redrow (RDW.L),GBP258.60	Hold
Taylor Wimpey (TW.L),GBP125.00	Buy

Source: Deutsche Bank

UK Housebuilders Outlook 2015

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Remaining positive on the UK Housebuilders

- For investors we see dividend yield remaining a significant theme in 2015—the 3 largest cap stocks are among the top 10 dividend yields in the FTSE100, paying out 5.0-8.5%. We see scope for cash generation to surprise through the year and believe the current investment in land should allow dividends to be better for longer.
- Trading as low as 0.9x 2016 NTAV we believe the UK Housebuilders are showing increasing value, with recent weakness in the share prices offering an interesting entry point to the sector.
- Macro news flow will continue to make the sector share prices volatile; sensitivities will include: the timing and scope of interest rate rises, mortgage approvals and house price inflation leveling off, the General Election creating uncertainty and potentially lumpy trading. However we continue to see as generally supportive housing market fundamentals – mortgage lending in 2015 up marginally YoY, strong mortgage competition, stamp duty reductions for most; and strong industry themes - continued land buying at strong margins, build cost inflation moderating. Given the threat of increasing political activity at the higher priced end of the market we remain more upbeat on the outlook for the UK as a whole, and more cautious on London (mansion tax from Labour, more differentiation in council tax of properties >£700K from Lib Dems).
- Upside earnings momentum is likely to be tamer in 2015 than previous but still not over. While the wide range of consensus forecasts for the sector may require some narrowing in the coming months, we believe there remains scope for further upgrades to the mid range of consensus at the margin level from the higher intake margin from new land as well as the benefit of previous house price inflation. We feel even more substantial upside may be seen at ROCE where hurdle rates are being exceeded more significantly reflecting the closer timing of land payments to build and the usage of deferred terms.
- Our top picks are **Barratt** and **Taylor Wimpey**, with **Bovis** our mid cap preference.



Valuations and earnings changes

Figure 1: Recommendation, price targets and upside of the UK Housebuilders (top picks shaded blue)

Name	Current price	DB Rec	New Price target	Upside/ (dside)	% change	Mkt Cap GBPm	Free float
Barratt Dev	425p	Buy	517p	21.6%	+2%	4,245	100%
Bellway	1735p	Hold	1793p	3.3%	+1%	2,381	100%
Berkeley Group	2337p	Hold	2794p	19.6%	nm	3,634	91%
Bovis Homes	770p	Buy	1108p	43.5%	+4%	1,031	100%
Crest Nicholson	354p	Hold	352p	-0.6%	-4%	886	95%
Persimmon	1456p	Hold	1617p	11.1%	2%	4,448	96%
Redrow	266p	Hold	327p	23.2%	na	968	60%
Taylor Wimpey	124p	Buy	165p	32.5%	na	3,964	100%
UK - average				19.1%			

Source: Deutsche Bank

Figure 2: Valuations of the UK Housebuilders

	Calendarised P/NTAV			Calendarised PE (x)			Calendarised Div yield (%)		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Barratt Dev	1.4	1.2	1.0	9.4	8.4	8.1	5.7%	6.9%	8.4%
Bellway	1.4	1.2	1.0	8.6	8.0	7.7	3.7%	4.1%	4.3%
Berkeley Group	1.9	1.5	1.3	10.2	9.0	8.5	7.7%	7.7%	7.7%
Bovis Homes	1.0	0.9	0.7	7.6	6.0	5.4	3.8%	5.5%	6.2%
Crest Nicholson	1.4	1.2	1.0	7.8	7.1	6.6	3.6%	4.5%	4.8%
Persimmon	1.9	1.6	1.3	10.9	9.4	9.1	6.5%	6.5%	7.9%
Redrow	1.1	0.9	0.8	6.4	5.7	5.4	2.4%	2.8%	3.0%
Taylor Wimpey	1.3	1.1	1.0	8.6	8.1	7.7	7.4%	6.5%	8.3%
UK - average	1.4	1.2	1.0	8.7	7.7	7.3	5.1%	5.6%	6.3%
UK ave. excl BKGH & PSN	1.2	1.0	0.9	8.1	7.2	6.8	4.4%	5.0%	5.8%

Source: Deutsche Bank, Company data, Thomson DataStream



Company score card

Figure 3: Key stock picking differentiators (blue showing varying degrees of positive, grey showing varying degrees of negative)

	Stock market liquidity*	Div yield 2015 >5%	Valuation < sector average	Significant strategic land	Strong use of Government land	Exposure to London	EPS growth > sector average	ROCE relative to sector
Barratt Dev	4,245							
Bellway	2,381							
Berkeley Group	3,634							
Bovis Homes	1,031							
Crest Nicholson	886							
Persimmon	4,448							
Redrow	968							
Taylor Wimpey	3,964							

Source: Deutsche Bank, * market cap shown in figures



Dividend yield – a key attraction

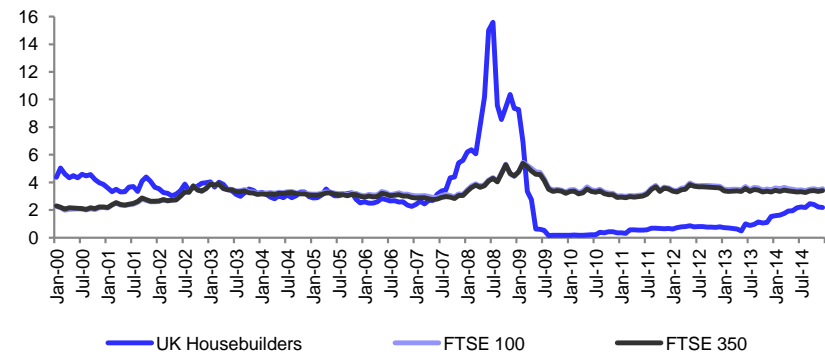
- In 2015 we forecast the sector to pay an average yield of 5.1%. However reflecting strong cash generation and moderating land spend we see further 'surplus' cash being generated which could be returned to shareholders. We calculate this could add up to a further 3% yield pa to some stocks.
- The longevity of sector cash returns remains pivotal. However given the land buying to date and the strong balance sheets in the sector we believe the companies can maintain strong cash returns to shareholders into the medium term.
- On current forecasts the larger stocks in the sector are expected to be in the top 10 dividend yielding stocks in the FTSE100.
- The highest yielding stocks are Barratt Developments, Berkeley Group, Persimmon and Taylor Wimpey.

Figure 4: DPS and yield forecasts (>5% shaded)

	Calendar DPS			Calendarised Div yield		
	2015E	2016E	2017E	2015E	2016E	2017E
Barratt Dev	24.2	29.3	35.8	5.7%	6.9%	8.4%
Berkeley	180.0	180.0	180.0	7.7%	7.7%	7.7%
Bellway	64.3	70.8	73.9	3.7%	4.1%	4.3%
Bovis	35.0	35.0	38.6	3.8%	5.5%	6.2%
Crest N	15.0	16.6	17.9	3.6%	4.5%	4.8%
Persimmon	95.0	95.0	115.0	6.5%	6.5%	7.9%
Redrow	6.5	7.4	8.0	2.4%	2.8%	3.0%
Taylor W	8.6	8.7	10.3	7.4%	6.5%	8.3%
Average	53.6	55.4	59.9	5.1%	5.6%	6.3%

Source: Deutsche Bank, Company data

Figure 5: Historic dividend yield of sector and FTSE100 and FTSE350



Source: Deutsche Bank Company data, DataStream



Dividends – better for longer

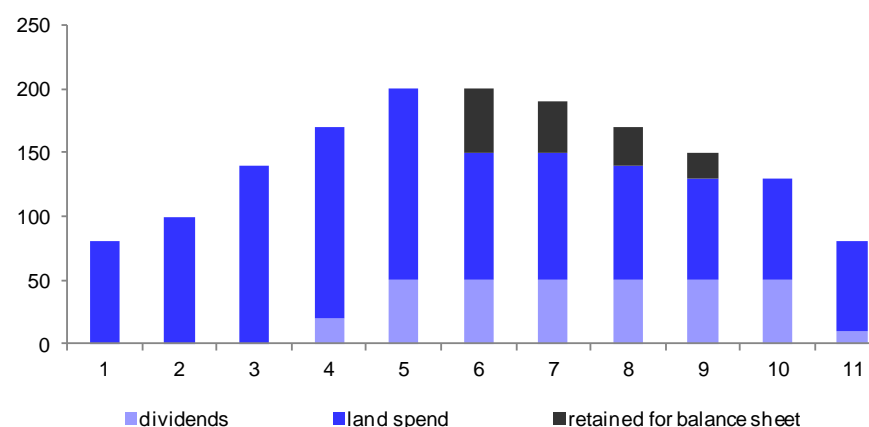
- With many of the companies nearing their targeted volume caps, we see the requirement for land purchasing to level off from 2015. The cash flow retained from this lower investment in land relative to cash flow generation we see driving improved cash returns to shareholders.
- The longevity of sector cash returns we believe pivots on the question of when cash flow stops being returned to shareholders and instead is diverted to build a war chest for the next cycle. We believe this only needs to occur when land buying starts to reduce below replacement, in which case it is that money saved which boosts the balance sheet while allowing the companies to still maintain strong cash returns to shareholders.

Figure 6: Plots bought or approved compared to completions

	2012	2013	2014E
Barratt Dev	95.6%	139.9%	151.3%
Berkeley	68.6%	80.8%	66.8%
Bellway	91.4%	124.0%	106.5%
Bovis	148.7%	132.8%	200.0%
Crest N	116.2%	73.7%	108.8%
Persimmon	149.4%	153.8%	198.4%
Redrow	148.2%	167.3%	169.6%
Taylor W	128.3%	158.9%	est 125%
Average	114.0%	128.9%	143.0%

Source: Deutsche Bank, Company data

Figure 7: Scenario of dividends across a cycle for a cash positive house-builder



Source: Deutsche Bank, Company data

Figure 8: 2015E land bank years relative to target

	Barratt Dev	Bellway	Berkeley Group	Bovis Homes	Crest Nicholson	Persimmon	Redrow	Taylor Wimpey
Completions 2015	15,000 + 750 jv	7,536	3,500	3,980	2,814	14,016	4,196	13,644
Target	16,000 incl jv	8-10,000	3-4,000	4-5,000	**4,200	14,000*	na	14,000
Land bank years	4.7	***5.1	6.4	4.6	6.8	5.8	4.1	5.6
Target	4.5 (1 conditional)	Na	Na	4	5-6	5	3.5	5.25 (1.25 conditional)

Source: Company data, * although this appears to have some upwards scope, ** DB ests based on 6 divisions and 300 PRS, *** including pipeline, excluding is 3.4 years



Dividends – upside potential

- On a scenario of 20% EBIT margins, when land purchasing is equivalent to replacement, then without evidence of significant land or house price inflation it implies after-tax cash flow to sales equivalent of approx 15%. This implies a dividend yield of >10% could be seen in the sector.
- We see many of the UK housebuilders continuing to generate 'surplus' cash. Were this 'buffer' of cash to be paid to shareholders this would imply almost 3% 'additional' yield pa over the period to 2017, driving selected yields in to >10%.

Figure 9: Net profit margins

	2012	2013	2014E	2015E	2016E	2017E
Barratt Dev	3.4%	5.4%	9.7%	11.8%	13.0%	13.2%
Berkeley	12.3%	15.3%	18.1%	17.5%	19.8%	19.3%
Bellway	7.9%	9.8%	12.9%	15.4%	15.6%	15.6%
Bovis	8.5%	10.8%	13.1%	14.6%	15.9%	16.2%
Crest N	15.6%	13.6%	14.2%	14.8%	14.4%	14.1%
Persimmon	9.4%	11.5%	13.6%	14.7%	15.1%	15.1%
Redrow	7.0%	9.1%	11.9%	12.6%	13.6%	14.0%
Taylor W	7.2%	9.1%	12.7%	14.6%	15.2%	15.8%
Average	8.9%	10.6%	13.3%	14.5%	15.3%	15.4%

Source: Deutsche Bank

Figure 10: Dividend yield forecast and potential

	Total DPS paid to end- 2017	Av annual yield to 2017	Net cash (debt)/ share FY 17	Total potential dividend	Potential average yield to 2017
Barratt Dev	89.3	7.0%	48.2	137.5	10.8%
Berkeley	540.0	7.7%	183.5	723.5	10.3%
Bellway	209.0	4.0%	122.0	331.0	6.3%
Bovis	118.9	5.2%	91.7	210.6	8.6%
Crest N	45.5	4.3%	17.0	62.5	5.8%
Persimmon	305.0	7.0%	168.7	473.7	10.8%
Redrow	21.9	2.7%	-28.1	21.9	2.7%
Taylor W	27.6	7.4%	19.3	46.9	12.4%
Average	nm	5.7%	nm	nm	8.5%

Source: Deutsche Bank, Company data



Cash flow, dividend and land bank key charts and historical data

Figure 11: Free cash flow/sales (before dividends)

	2012	2013	2014E	2015E	2016E	2017E
Barratt Dev	6.3%	3.2%	7.6%	7.3%	11.0%	8.4%
Berkeley	-15.8%	7.9%	9.6%	16.1%	12.3%	14.2%
Bellway	-2.8%	5.2%	-0.3%	0.1%	6.5%	10.3%
Bovis	-5.3%	-4.0%	-3.6%	8.7%	9.7%	13.3%
Crest N	4.2%	3.6%	-7.1%	8.1%	12.8%	6.1%
Persimmon	10.3%	11.3%	13.4%	13.6%	10.1%	12.0%
Redrow	-4.6%	-13.1%	-9.7%	-5.0%	0.4%	8.3%
Taylor W	3.7%	4.2%	7.2%	11.7%	12.6%	17.5%
Average	-0.5%	2.3%	2.1%	7.6%	9.4%	11.3%

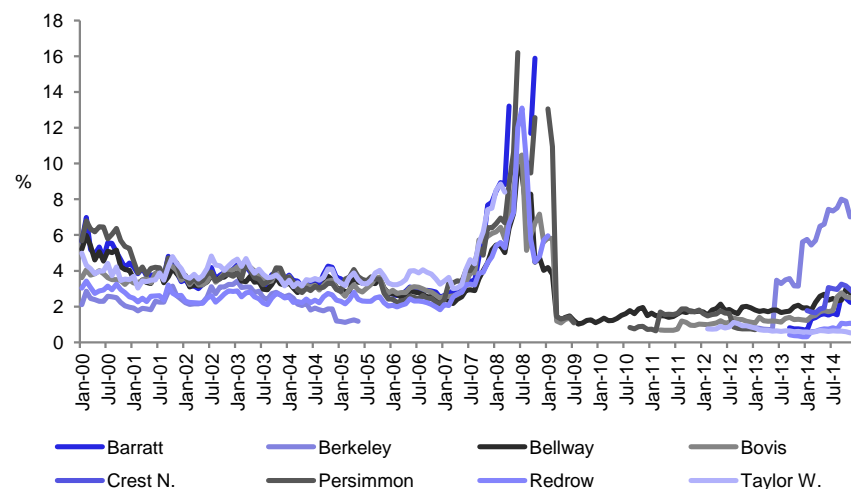
Source: Deutsche Bank, Company data

Figure 12: Consented land bank years over time

	2000	2005	2010	2013	2014e	2018e
Barratt Dev	3.0	4.3	5.5	4.4	4.7	4.6
Berkeley	6.2	11.9	12.8	6.9	6.4	6.4
Bellway*	2.7	3.2	3.8	5.8	5.1	5.0
Bovis	4.3	4.9	7.0	5.2	4.8	4.5
Crest N	na	6.7	8.5	7.5	7.2	6.0
Persimmon	4.4	5.0	6.3	6.5	6.0	5.7
Redrow	na	3.6	5.1	5.0	4.6	4.0
Taylor W	4.5	6.0	6.7	6.1	5.9	5.4
Average	4.2	5.7	7.0	5.6	5.3	4.9

Source: Deutsche Bank, Company data, * including pipeline land

Figure 13: Dividend yield over cycle by stock, %



Source: Deutsche Bank, Company data, Thomson DataStream

Figure 14: Net debt(cash)/equity

	2000	2005	2010	2013	2014e	2018e
Barratt Dev	1.3%	-20.9%	13.6%	1.8%	-2.2%	-11.5%
Berkeley	14.6%	41.1%	-36.7%	-3.4%	-9.0%	-14.5%
Bellway	5.2%	24.6%	-4.4%	2.1%	-0.4%	-8.3%
Bovis	21.0%	10.3%	-7.3%	2.3%	8.0%	-16.0%
Crest N	0.0%	69.0%	-307%	-9.0%	7.5%	-7.7%
Persimmon	27.7%	14.6%	2.8%	-10.0%	-16.6%	-22.5%
Redrow	4.5%	22.8%	10.8%	14.9%	24.8%	3.9%
Taylor W	5.7%	23.7%	35.9%	-0.2%	-5.3%	-24.8%
Average	11.4%	23.1%	-36.5%	-0.2%	0.8%	-12.7%

Source: Deutsche Bank, Company data



Dividend yield relative to FTSE

- In 2015 we forecast the 3 largest housebuilders to be in top 10 of dividend payers in the FTSE100.
- Dividend yields of 5.7-6.9% we believe will be a significant attraction and scope to become a valuation focus

Figure 15: Top 10 FTSE100 stocks ranked by 2015 div yield (blue shaded cells equals over <1x div cover or >100% fcf being paid out, grey is housebuilder yields >5%)

Company	Sector	Market Cap 2014	Dividend yield			Dividend cover			FCF/dividend		
			2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Direct Line Insurance...	Nonlife Insurance	4,384	8.9%	8.6%	NA	1.27	0.97	NA	NA	NA	NA
Taylor Wimpey	Consumer Disc	3,964	6.9%	7.0%	8.3%	1.64	1.74	1.55	78%	63%	58%
Persimmon PLC	HH Good & Home Const	4,448	6.5%	6.5%	7.9%	1.43	1.65	1.42	76%	92%	90%
Admiral Group PLC	Financial Services	3,973	6.1%	6.2%	NA	1.04	1.06	NA	NA	NA	NA
SSE PLC	Electric Power	14,289	6.0%	6.1%	6.3%	1.19	1.17	1.19	173%	244%	186%
Barratt	Consumer Disc	4,245	5.7%	6.9%	8.4%	1.71	1.69	1.45	151%	78%	105%
GlaxoSmithKline PLC	Healthcare	67,939	5.7%	4.2%	4.4%	0.59	1.01	1.07	124%	46%	51%
Legal & General	Financial Services	5,326	5.6%	5.7%	NA	0.07	0.12	NA	NA	NA	NA
Friends Life Group Ltd	Life Insurance	14,790	5.3%	5.6%	NA	1.59	1.45	NA	NA	NA	NA
Royal Mail PLC	Industrial Transport	4,320	5.3%	5.3%	NA	1.18	1.05	NA	198%	142%	NA

Source: Deutsche Bank, reuters

Figure 16: Other housebuilder stocks in FTSE250 (blue shaded cells equals over <1x div cover or >100% fcf being paid out, grey is housebuilder yields >5%)

Company	Sector	Market Cap 2014	Dividend yield			Dividend cover			FCF/dividend		
			2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Bellway	HH Good & Home Const	2,381	3.7%	4.1%	4.3%	2.99	2.99	2.99	nm	80%	51%
Berkeley	HH Good & Home Const	3,634	7.7%	7.7%	7.7%	1.40	1.37	1.51	81%	102%	79%
Bovis	HH Good & Home Const	1,031	4.5%	5.1%	8.4%	2.91	3.33	2.22	57%	49%	55%
Crest Nicholson	HH Good & Home Const	861	4.2%	4.7%	5.0%	2.96	2.96	2.91	61%	38%	81%
Redrow	HH Good & Home Const	962	2.4%	2.8%	3.0%	6.00	6.00	6.00	-50%	195%	26%

Source: Deutsche Bank



Timing of dividends

- Dividend payments range across the calendar. With the larger yields at differing times of the year may imply different seasonality of stock price performance

Figure 17: Ex-dividend calendar (the payments as part of longer term programme or specials shaded grey)

January			
February			
March		Bovis Final	Crest Nicholson Final
April		Barratt Interim	Taylor Wimpey Final
May		Bellway Interim	Persimmon Final
June	Taylor Wimpey Special		
July			
August	Berkeley Final	Taylor Wimpey Interim	
September	Bovis Interim	Crest Nicholson Interim	Redrow Final
October	Barratt Final & Special		
November	Persimmon Interim		
December	Berkeley Interim	Bellway Final	

Source: Deutsche Bank

Figure 18: Ex-dividend dates by company

Payment dates	Interim Dividend	Full Year Dividend	Special Dividend
Barratt	April	October	Payable with final
Berkeley	December	August	Long term dividend programme paid as normal div
Bellway	May	December	
Bovis	September	March	
Crest Nicholson	September	March	
Persimmon	November	May	Capital returns paid at times of interim and final
Redrow	March	September	
Taylor Wimpey	August	April	June

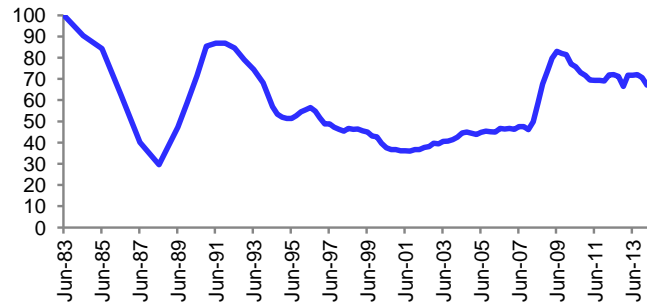
Source: Deutsche Bank



Sustainability of returns underestimated

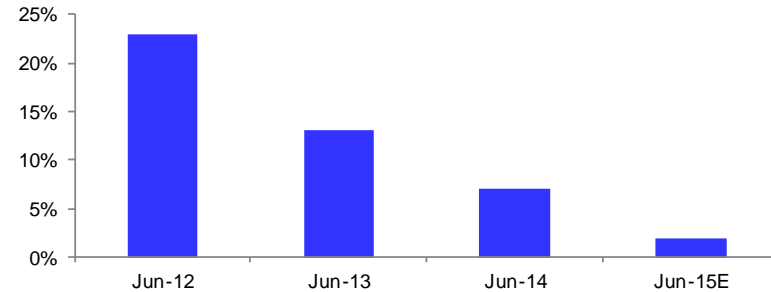
- Limited competition from smaller developers in the land market has offered a 'once in a life-time' opportunity in the land market for the listed housebuilders to buy good quality land at reasonable prices. Barriers to entry for smaller players include financing but also issues of length of time and cost of achieving planning, ability to source and cost of materials and skilled labour. The larger developers have taken significant market share since 2009.
- This opportunity has lasted longer than expected with the intake margin on new land reported to be as strong as seen since 2010. Most listed housebuilder have almost entirely 'refreshed their land banks

Figure 19: House prices/ land prices



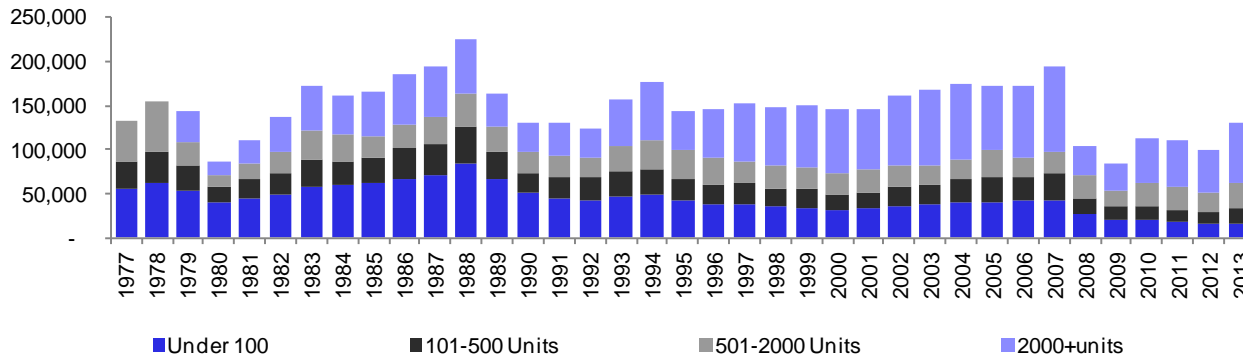
Source: Deutsche Bank, Company data

Figure 20: % of provisioned land in land bank of Redrow



Source: Company data

Figure 21: Housing starts by size of developer



Source: DCLG and NHBC



Longevity of profitability dictated by land market

- Land costs to the housebuilders for the coming 12-24 months ought to be largely set. Listed developers own or control almost all of the land required for 2014-16. Some have their almost all their land requirements for 2017. This land has been bought at margins or controlled which do not include the benefit of future house price inflation and so ought to provide comfort on the sustainability of margins in the sector
- National Planning Policy Framework has resulted in increased levels of land achieving planning. With only 57% of local authorities having adopted 5 year plans in place we see this “bulge” in land supply continuing, and view this as providing continued opportunity for the housebuilders to secure their forward land requirements

Figure 22: Consented land bank years by company

	2012	2013	2014E	2015E	2016E
Barratt	4.3	4.4	4.7	4.7	4.6
Berkeley	7.8	6.9	6.4	6.4	6.4
Bellway	3.4	3.4	2.8	3.0	3.0
Bovis	5.8	5.2	4.8	4.6	4.8
Crest Nicholson	9.0	7.5	7.2	6.8	6.4
Persimmon	6.9	6.5	6.0	5.8	5.7
Redrow	5.0	5.0	4.6	4.1	4.0
Taylor Wimpey	6.1	6.1	5.9	5.6	5.5

Source: Deutsche Bank, Company data

Figure 23: Land owned and controlled by company

	2015E	2016E	2017E	2018E
Barratt	100%	100%	100%	na
Berkeley	na	na	na	na
Bellway	100%	80%	na	na
Bovis	*100%	*85%	*70%	na
Crest Nicholson	100%	96%	na	na
Persimmon	100%	*90-100%	na	na
Redrow	100%	90%	80%	na
Taylor Wimpey **	100%	100%	100%	95%

Source: Company data and Deutsche Bank, * Db ests, **in 2016 approx 10% is without planning, 2017 33%, 2018 50%



Strategic land ought to be supportive

- Across the sector we see a number of companies taking significant amounts of their land requirements from their strategic pipelines, this reflects and increased focus on strategic land but also the benefit of the changes in planning brought by the NPPF.
- Strategic land is land which is bought without planning, which the housebuilder takes the risk and responsibility to bring through the planning system. Homes built on strategic land can bring 3-4ppt higher margin than those built on land from the open market (strategic land bought via option producing approx 2-3ppt higher margin, buying the land with freehold title yielding 7-19ppt additional margin).
- However of equal importance is that for those with strong, productive strategic pipelines a significant portion of the land required in a period can be drawn from that already owned or controlled. This significantly reduces the pressure on those buying in the open markets, allowing them to prioritise the best sites. This we see as key to reassuring on the longevity of returns

Figure 24: Strategic land bank years by company (shaded = >5 years)

	2012	2013	2014E	2015E	2016E
Barratt	4.8	4.5	4.9	4.6	4.5
Berkeley	na	na	na	na	na
Bellway	2.6	2.5	2.2	2.1	1.9
Bovis	8.7	8.2	7.1	5.3	5.0
Crest Nicholson	6.7	6.6	5.8	5.1	4.8
Persimmon	6.5	5.7	5.1	4.9	4.5
Redrow	9.6	10.7	10.5	8.5	7.4
Taylor Wimpey	8.2	8.9	9.3	8.7	8.0

Source: Deutsche Bank, Company data

Figure 25: Conversion rates of strategic land through land bank

	Strategic land as % of land intake				Target strategic land as % of completions
	2011	2012	2013	2014E	
Barratt	10%	12%	14%	24%	20% by FY 16
Bellway	5%	5%	5%	10%	*
Bovis	39%	39%	32%	47%	**35%
Crest Nicholson	49%	53%	13%	27%	30%
Persimmon	52%	38%	33%	24%	25%
Redrow	9%	55%	21%	35%	Na
Taylor Wimpey	34%	12%	96%	62%	40%

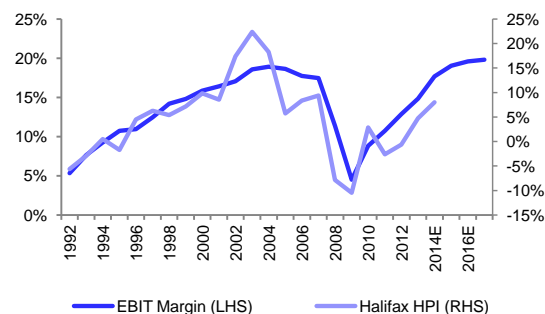
Source: Deutsche Bank, Company data, * Db ests, *Bellway – No strategy target, but company says 5-10% of completions typically originate from a strategic land source.



Scope for upside in margin from better land markets

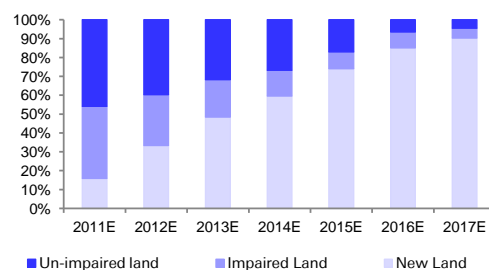
- Growth in gross margin is expected to moderate from 2015, as the reported margin begins to near the hurdle margin on new land. However we continue to believe there is further upside potential in margins. :
- Land buying has been done in excess of reported hurdle levels over the past year (or hurdle rates have moved up), with increases in land costs not keeping pace with house price inflation. To date new land has been reported at completing at up to 450bps ahead of the margin targeted when the land was bought.
- The achievement of ROCE tends to be lagged reflecting the upfront investment required in a site before any sales can be achieved, momentum in ROCE should continue to be evident through 2015. However with ROCE appearing to be beating hurdle by even more substantial amounts (significantly aided by the greater use of conditional land and the usage of deferred terms) we see much greater scope for upside surprise.

Figure 26: EBIT margin of the sector



Source: Deutsche Bank, Company data

Figure 27: Completions by land type



Source: Deutsche Bank, Company data

Figure 28: ROCE for the Housebuilders

	2015E	2016E	2017E
Barratt	24.0%	26.5%	26.3%
Berkeley	31.3%	31.1%	32.8%
Bellway	23.0%	21.8%	21.0%
Bovis	17.7%	20.9%	22.1%
Crest Nicholson	25.8%	26.3%	26.1%
Persimmon	32.5%	34.9%	33.6%
Redrow	19.4%	19.0%	18.5%
Taylor Wimpey	25.8%	26.5%	27.7%

Source: Deutsche Bank, Company data

Figure 29: Gross margin and ROCE on fully traded land bought since downturn (targeted levels shown in brackets)

	Barratt Dev	Bellway	Berkeley Group	Bovis Homes	Crest Nicholson	Persimmon	***Redrow	Taylor Wimpey
Gross margin	21% (20%)	21%	Na	*27% (25%)	** (22-23%)	(23%)	23% (23%)	27% (22.6%)
ROCE	39% (25%)	25%	Na	*25-30% (20%)	(26%)	(>30%)	23% (20%)	(25%)

Source: Company data, Deutsche Bank * based on appraisal rather than completions, ** on new consented land, this has been increased to reflect what is being achieved, *** targets derived from 2017 targets, with gross margin calculated on the basis of 5% admin costs



Scope for upside in margin from house price inflation

- Since summer 2013 house price inflation has re-emerged in the UK, with the Office of National Statistics reporting house prices up 11% since that time (Halifax +10%). During that time build cost inflation has been approx 3-5%.
- This house price inflation we believe is now being reflected in part through the P&L although at least partially offset by build cost inflation
- Further house price inflation we believe could provide the additional margin potential. 1ppt of house price inflation which falls unhindered through the P&L adds approx 5% to PBT.

Figure 30: EBIT margin based on different levels of house and cost inflation (based on initial purchase as 20% EBIT margin)

Assuming no cost inflation

House price inflation	1%	2%	3%	5%	8%	10%	12%
EBIT margin no cost inflation	20.8%	21.6%	22.3%	23.8%	25.9%	27.3%	28.6%

Assuming 3% build cost inflation

House price inflation	1%	2%	3%	5%	8%	10%	12%
EBIT margin with 3 % build cost inflation	19.3%	20.0%	20.7%	22.1%	24.2%	25.5%	26.7%

Assuming 5% build cost inflation

House price inflation	1%	2%	3%	5%	8%	10%	12%
EBIT margin with 5 % build cost inflation	18.3%	19.0%	19.8%	21.2%	23.2%	24.5%	25.8%

Source: Deutsche Bank

Figure 31: House price inflation in the UK by region

	UK ex Lon	UK ex Lon/SE	England	NE	NW	Y&H	EM	WM	E	Lon	SE	SW	Wales	Scotland
July 2013-Nov 2014	10.1%	8.8%	13.3%	6.1%	8.4%	8.2%	9.0%	7.0%	12.0%	20.4%	13.6%	9.6%	6.5%	6.5%
July 2010--Nov 2014	9.3%	7.0%	16.6%	1.6%	4.8%	5.3%	6.7%	5.8%	14.4%	36.1%	15.8%	8.2%	7.6%	1.2%

Source: ONS



Housing market remains supportive

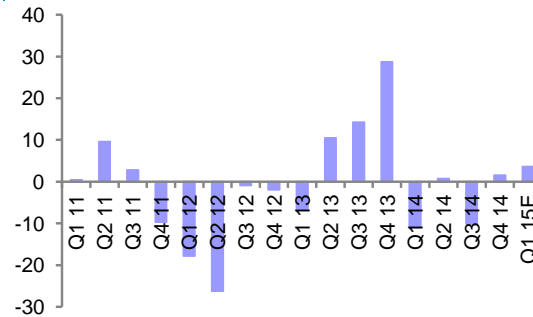
- Our banks team forecast mortgage loan growth to return to 2-4% over the coming 5 years – positive although not as strong as the CML forecast of 6-9% 2015-16. Competition from mortgage lenders we believe could constrain the extent of the pass through of base rate rises to new mortgages. The housebuilders report mortgage availability and range continues to improve.
- Lenders have ambitions to lend (BoE Credit Conditions reporting increased expectations to lend in Q1 15). The question is the customers’ desire (demand for secured credit down in Q4 15). But 60,000 loan approvals in November we believe to be a healthy level for the industry and the housebuilders.
- Stamp duty changes reduce the tax paid for 98% of all homes bought with mortgages, should provide support
- Under-build continues to restrict supply to the market, and this we see creating scope for house price inflation

Figure 32: CML mortgage and housing transaction forecasts

	2015E	2016E
Gross mortgage lending £bn	220	240
% change	6.3 %	9.1%
Net mortgage lending £bn	32	38
% change	28.0%	18.8%
Housing transactions m	1.1	1,18
% change	-3.7%	0.0%

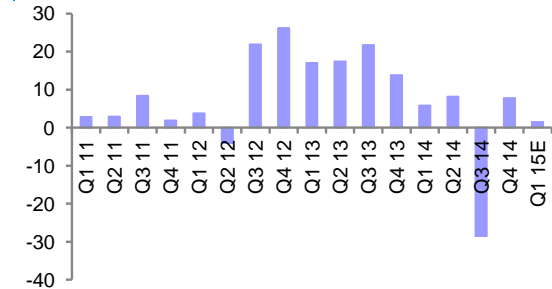
Source: Bank of England

Figure 33: Lenders view of proportion of mortgage applications approved



Source: Bank of England

Figure 34: Credit conditions – view on availability of secured credit

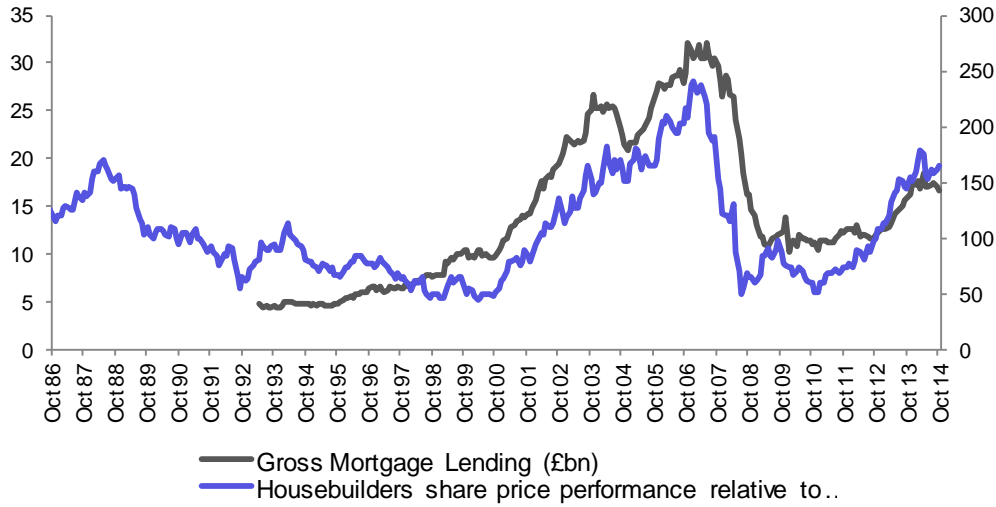


Source: Bank of England



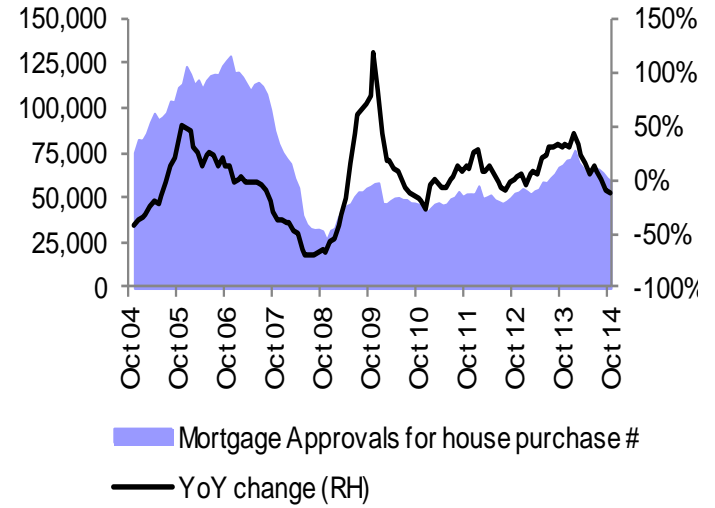
Key mortgage charts

Figure 35: Gross mortgage lending and share price performance of the housebuilders



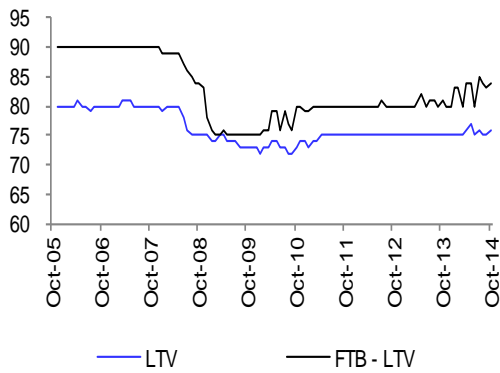
Source: BoE

Figure 36: Mortgage approval for house purchase



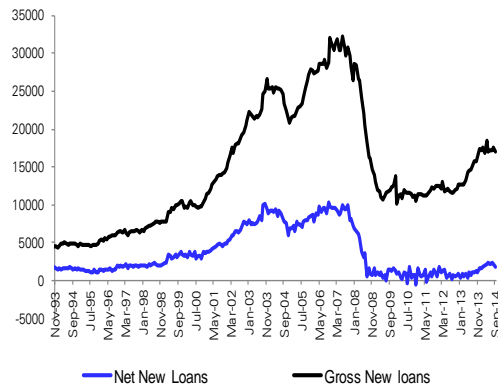
Source: BoE

Figure 37: UK mortgage loan to values



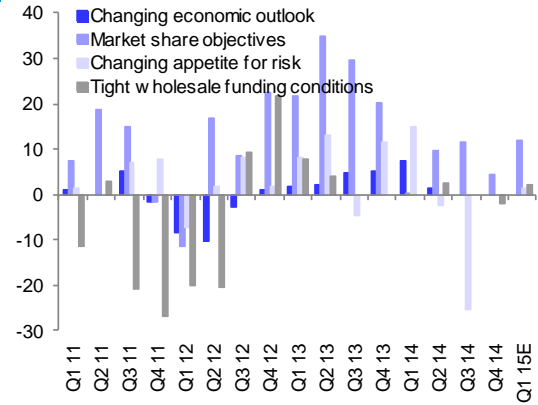
Source: BoE

Figure 38: Gross and Net mortgage lending approvals £m SA



Source: BoE

Figure 39: Mortgage factors contributing to credit availability



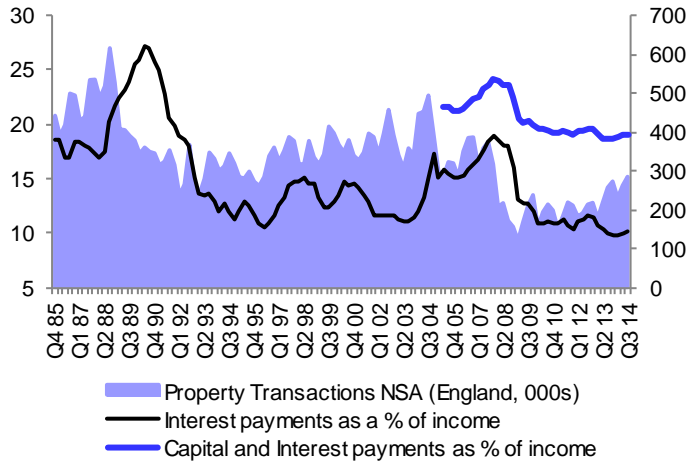
Source: BoE



Affordability below long run average even with 200bps increase in mortgage rates

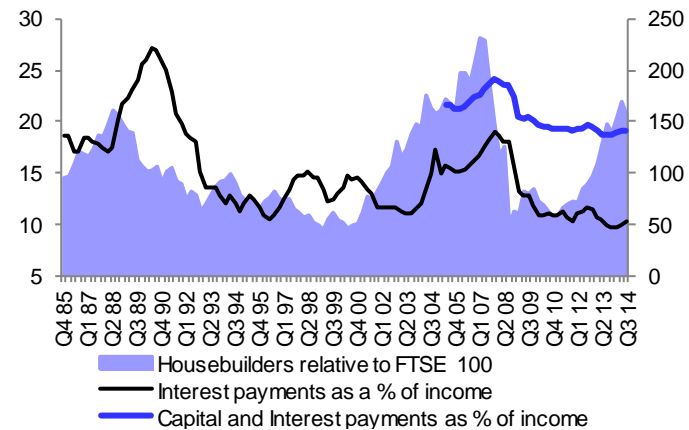
- Historically, there is a positive relationship between Housebuilder share prices and the level of interest rates (the key link in this relationship being GDP). **BUT** this didn't work hold true through the mid of 2014. The macro sensitivity remains one of the key risks in the sector despite our view the impact on affordability is over-played
- DB economists now forecast the first UK base rate increase in Aug 2016 (25bps), with rates moving to 2% by Dec 16, and 2.5% by Dec 17.
- But CML reports monthly capital and interest mortgage payments a 7-8 year low and Crest Nicholson's analysis suggests that adding 200bps to mortgage rates move the Halifax calculation of interest and capital repayments as a percentage of disposable income from 28% to 34%, the long run average being 36%

Figure 40: Monthly payments relative to property transactions



Source: BERR

Figure 41: Affordability and share price performance



Source: Deutsche Bank, Company data



Mortgage competition may lessen impact of rate rises

- UK mortgage is still one of the highest ROTE products available to a UK retail bank in its lending portfolio. With market share ambitions and increased appetite for risk increasing we see the possibility that the full extent of increases may be may not be passed onto mortgage customers.

Figure 42: Mortgage rate spread over deposit rate



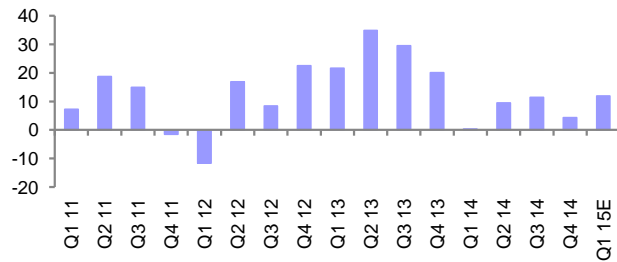
Source: Datastream

Figure 43: ROTE of mortgages compared to other products

	Mortgages	Credit cards	Personal loans	Total
Income yield	3.3%	13.2%	8.0%	4.3%
Funding cost	-1.4%	-1.4%	-1.4%	-1.4%
Net income	1.8%	11.7%	6.6	2.8%
Costs (45% cost/income)	-0.8%	-5.3%	-2.9%	-1.3%
Pre provision profit	1.0%	6.4%	3.6%	1.5%
Impairments	-0.1%	-4.0%	-3.0%	-0.5%
PBT	0.9%	2.4%	0.6%	1.1%
Average balances (£bn)	1271	56	102	1529
Industry Pre tax profit £m	11.3	1.4	0.6	15.9
RWA/loans	18%	110%	110%	28%
RoA	0.7%	1.9%	0.5%	0.9%
Leverage (12% core tier 1)	46	8	8	30
Leverage ratio (12% CT)	2.2%	13.2%	13.2%	3.4%
ROTE	32%	19%	3%	26%

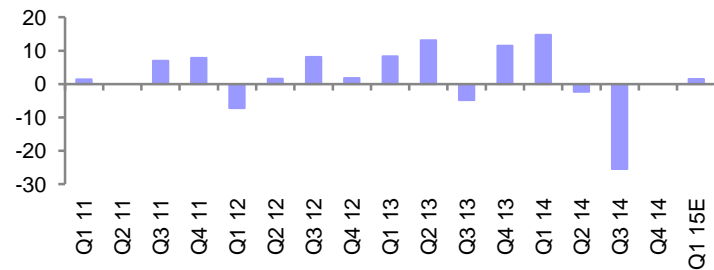
Source Deutsche Bank, Company data

Figure 44: Market share objective as a driver of mortgage lending



Source: Bank of England

Figure 45: Changing appetite for risk as a driver of mortgage lending



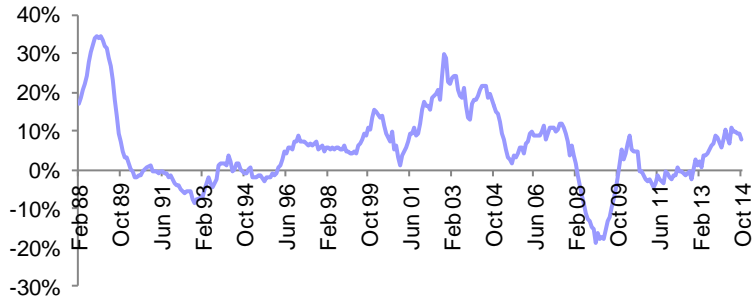
Source: Bank of England



House price inflation – the story so far

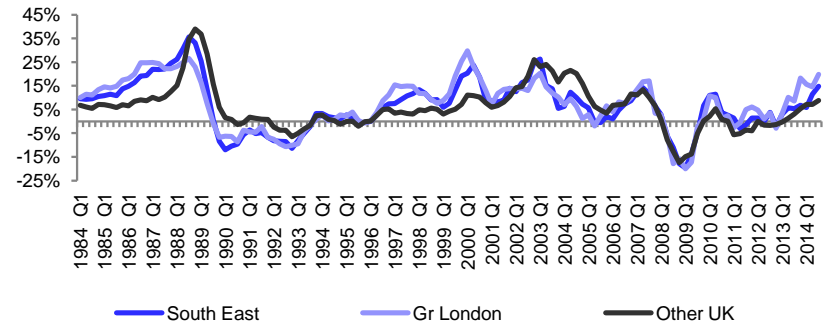
- House price inflation through 2014 averaged approx 8%, although with significant regional variation.
- House price inflation into 2015 is seen to be moderating but still positive. DB ests forecast 1.5% HPI in 2015, RICS views the change in stamp duty adding 2-5% onto price expectations for 2015.

Figure 46: House price inflation



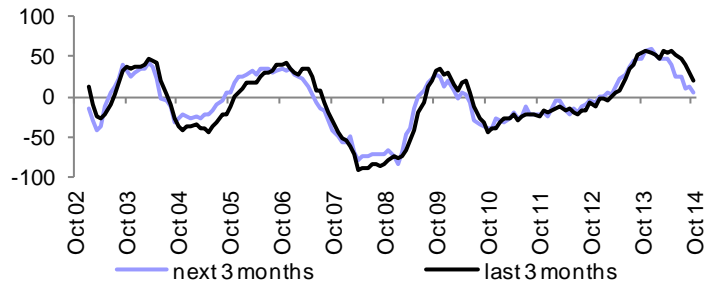
Source: Halifax

Figure 47: Annual house price inflation for London, SE and UK



Source: Deutsche Bank, Halifax

Figure 48: RICS price expectations please widen chart to fit space



Source: RICS

Figure 49: House price expectations

	2015E
RICS	*3%
UK treasury OBR	7.4%
CEBR	-0.6%
Savills	2%
Halifax	3-5%
Hometrack	2%

Source: De, Company data, set before the change in stamp duty announced

Figure 50: House price inflation in the UK by region

	UK ex Lon	UK ex Lon/SE	England	NE	NW	Y&H	EM	WM	E	Lon	SE	SW	Wales	Scotland
July 2013-Nov 2014	10.1%	8.8%	13.3%	6.1%	8.4%	8.2%	9.0%	7.0%	12.0%	20.4%	13.6%	9.6%	6.5%	6.5%
July 2010--Nov 2014	9.3%	7.0%	16.6%	1.6%	4.8%	5.3%	6.7%	5.8%	14.4%	36.1%	15.8%	8.2%	7.6%	1.2%

Source: ONS



Under-build forecast to support house price inflation

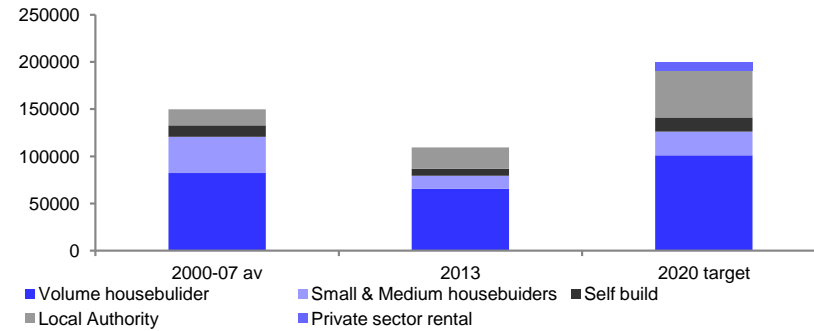
- In 2014 we anticipate approx 140,000 housing starts in England.
- This compares to the lowest political target of 200,000. In 2004 the Barker Review reported that 240,000 new homes were required pa in order to avoid house price inflation. DB ests forecast starts to reach 150,000 by 2017

Figure 51: England housing starts and transactions

	2014E	2015E	2016E	2017E
Housing Starts	140,000	142,800	144,942	147,116
YoY Growth	13.4%	2.0%	1.5%	1.5%
Housing transactions	1,225	1,225	1,250	1,274
YoY Growth	10.0%	0.0%	2.0%	2.0%

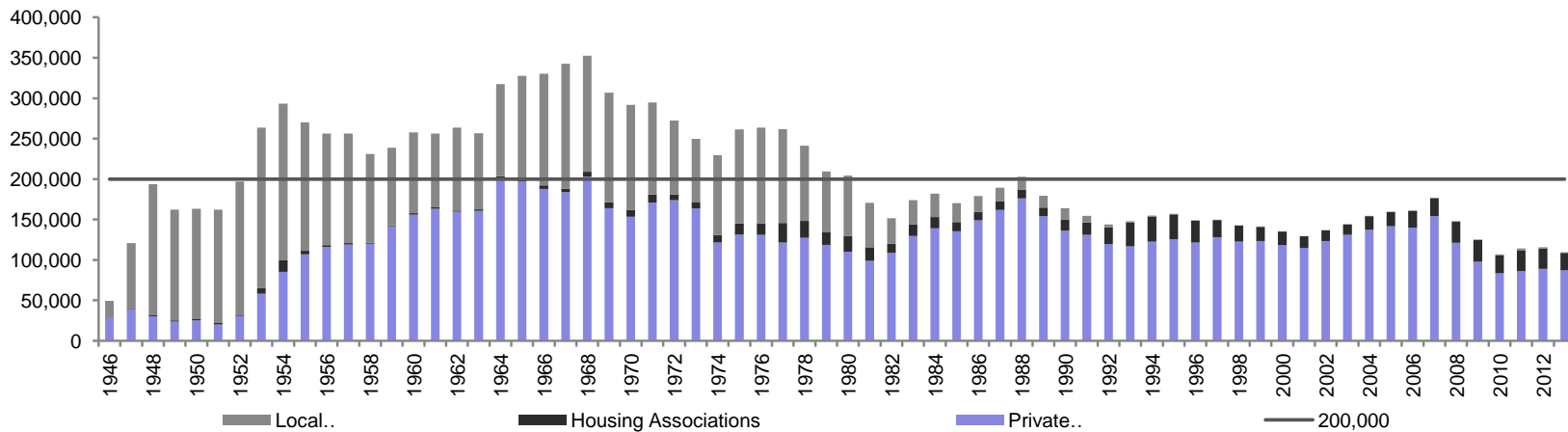
Source: Deutsche Bank

Figure 52: Labour commissioned Lyons review of meeting >200,00 new housing starts



Source: Lyons Report 2014

Figure 53: Annual private and social completions in England, by tenure



Source: Deutsche Bank, Lyons Report, DCLG



DB est in line with consensus -scope for further upside

- DB forecasts are approximately in line with consensus for 2015 and 2016 although lag by 3-7% for 2017 across selected stocks.
- However there remains a wide range to consensus. Should those with top end expectations driven by ambitious volumes revert their forecasts nearer to the mean this may impact sector sentiment short term.
- However we believe upside momentum to earnings should be available to the mid range of consensus.

Figure 54: DB ests compared to consensus

	DB PBT ests			% diff from consensus		
	2015E	2016E	2017E	2015E	2016E	2017E
Barratt Dev	533	622	653	-1.7%	-2.6%	-5.5%
Bellway	333	363	379	3.5%	1.5%	-7.0%
Berkeley Group	440	501	555	-6.4%	1.5%	3.9%
Bovis Homes	171	216	239	-0.7%	6.1%	-1.0%
Crest Nicholson	139	155	169	-3.7%	-12.4%	-0.1%
Persimmon	533	611	636	-6.0%	-4.8%	-0.8%
Redrow	178	205	219	8.5%	3.7%	-3.1%
Taylor Wimpey	601	642	678	1.2%	-4.8%	-6.3%
Average	376	414	441	1.1%	-2.1%	-2.9%

Source: Deutsche Bank, Thomson Reuters



A summary of forecast assumptions

- DB ests we believe to remain conservative: flat selling rates, minimal house price inflation (selling price upside largely driven by mix and previous house price inflation) entirely offset by build cost inflation.

Figure 55: DB ests for the drivers of volumes and average selling price

% change in sales rate per site per week	FY 15	FY 16	FY 17	% change in active sites	FY 15	FY 16	FY 17
Barratt Dev	-11.6%	0.0%	0.0%	Barratt Dev	5.0%	3.7%	4.0%
Bellway	0.0%	0.0%	0.0%	Bellway	5.0%	7.0%	7.0%
Bovis Homes	0.8%	3.4%	0.0%	Bovis Homes	9.2%	11.2%	6.7%
Crest Nicholson	0.0%	0.0%	0.0%	Crest Nicholson	16.3%	6.0%	7.5%
Redrow	9.5%	4.0%	3.2%	Redrow	8.3%	10.6%	9.6%
Taylor Wimpey	-4.3%	0.0%	0.0%	Taylor Wimpey	5.0%	4.0%	0.0%
Average	3.1%	1.5%	0.0%	Average	5.6%	6.2%	4.8%
% change in average selling price	FY 15	FY 16	FY 17				
Barratt Dev	5.6%	5.0%	2.0%				
Bellway	5.1%	1.8%	2.0%				
Bovis Homes	7.4%	6.8%	2.5%				
Crest Nicholson	7.9%	7.1%	1.8%				
Persimmon	4.1%	3.2%	2.0%				
Redrow	6.8%	-1.4%	1.9%				
Taylor Wimpey	8.4%	0.9%	1.8%				
Average	6.2%	2.7%	2.0%				

Source: Deutsche Bank

Figure 56: Assumptions included in DB Housebuilders forecasts

	FY 15	FY 16	FY 17	
House price inflation	1%	1%	1%	Movement in average selling price largely from mix and previous house price inflation
Land cost inflation	0%	0%	0%	Given land buying out to 2017 already being achieved at hurdle rate
Build cost inflation	3-5%	3%	3%	
Of which material cost inflation	0%	1%	1%	
Of which labour cost inflation	8%	2%	2%	Absorbed by house price inflation
Sales rates	3%	1%	1%	

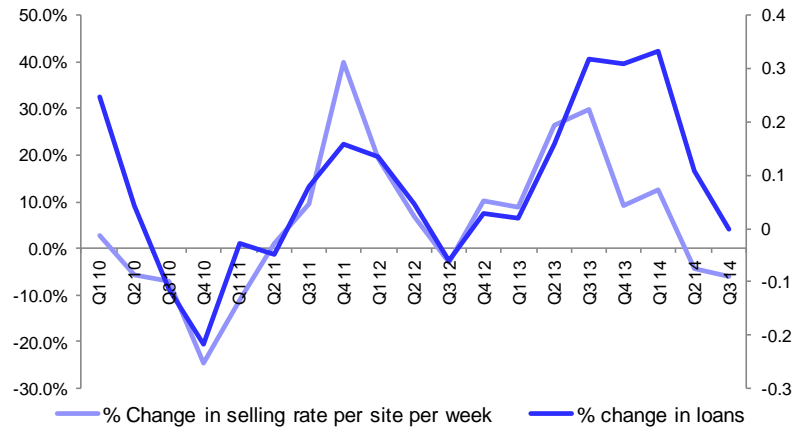
Source: Deutsche Bank



Housebuilder volumes only require mortgage lending to remain consistent at current levels

- Since Q2 14 selling rates have levelled off back to levels of mid 2013.
- Current selling rates are sufficient to achieve DB ests for completions for 2015 and beyond
- The companies highlight the current build rates are dictated by constraint of build rates and also the priority of price over volumes. Investors will look for reassurance on the sustainability of selling rates (net of cancellations) and the FY 14 reporting in February/March will provide an important update on spring selling.
- With our expectation of flat selling rates for 2015, outlet growth remains key for those seeking volume growth. With most of the land for 2015 having detailed planning, outlet counts for the coming 12 months we believe have reasonable transparency. However with the difficulty in accelerating land through planning or sourcing materials and labour for faster build, as well as premise of maximising value capture, we believe it is unlikely for volumes to beat consensus estimates.

Figure 57: YoY change in sales rates per site per week and YoY change in mortgage approvals for house purchase



Source: BoE, company data

Figure 58: Private selling rates per site per week and DB ests for 2015

	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	2015E
Barratt	0.68	0.72	0.66	0.67	0.77	0.66	0.63	0.61
Bovis	0.57	0.61	0.62	0.56	0.69	0.61	0.58	0.54
Redrow	0.78	0.78	0.77	0.63	0.82	0.58	0.65	0.66
Taylor Wimpey	0.67	0.67	0.65	0.51	0.75	0.67	0.60	0.66
Average	0.68	0.70	0.67	0.59	0.73	0.66	0.63	0.63

Source: Deutsche Bank, Company data,



Price expectations largely reflecting historic house price inflation and mix

- DB ests include 6.5% increase in average selling price in 2015 driven almost entirely driven by mix benefit and house price inflation already captured.
- DB forecasts for 2016 and 2017 include expectation of approx 1% house price inflation with the benefit offset by build cost inflation.

Figure 59: Breakdown of average selling price

	Average selling price			% change in ASP		ASP on land bank	
	2015E	2016E	2017E	2015E	2016E	2017E	2014
Barratt Dev	232,293	243,909	248,788	5.6%	5.0%	2.0%	227K*
Berkeley Group	525,000	532,875	575,505	24.1%	1.5%	8.0%	419K
Bellway	224,097	228,048	232,608	5.1%	1.8%	2.0%	210K^
Bovis Homes	230,877	246,608	252,724	7.4%	6.8%	2.5%	215K
Crest Nicholson	264,070	282,878	287,958	7.9%	7.1%	1.8%	256K
Persimmon	199,663	206,021	210,141	4.1%	3.2%	2.0%	177K
Redrow	255,677	252,129	256,872	6.8%	-1.4%	1.9%	NA
Taylor Wimpey	229,040	231,137	235,310	8.4%	0.9%	1.8%	211K
Average	270,090	277,950	287,488	8.7%	3.1%	2.7%	245K
Average excl Berkeley	233,674	241,533	246,343	6.5%	3.3%	2.0%	216K

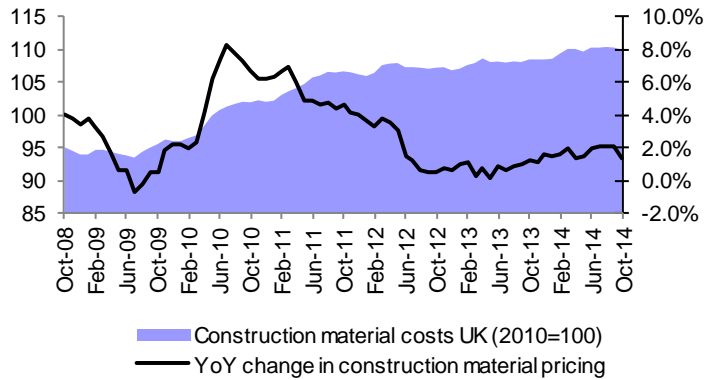
Source: Deutsche Bank, Company data* £237K including conditional land ^Top tier of land bank only



Build cost inflation under control

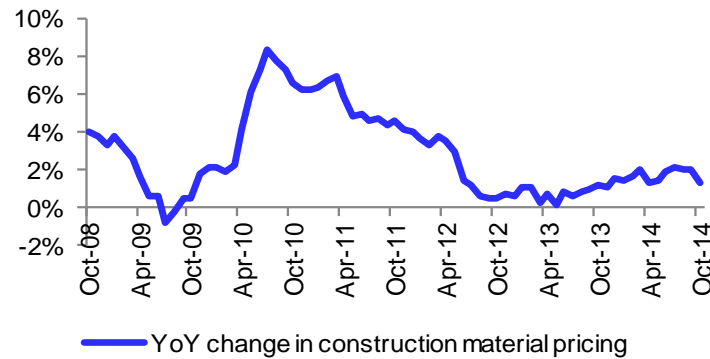
- Build costs are approx 50% of selling price, approx 25% labour costs and 25% material costs.
- Over the past year build costs have increased by 3-5% for the listed housebuilders (significantly more in London) – material costs in the UK as a whole are flat, with labour costs up 8-10%. In recent months build cost inflation is reported to have moderated. Guidance remains 3-5% increase in build costs in 2015 but we see potential for this to reduce.

Figure 60: Material cost inflation for a new build home



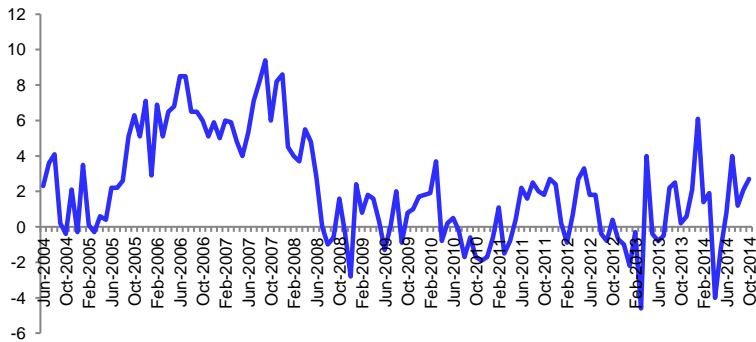
Source: BERR

Figure 61: Change in construction material cost



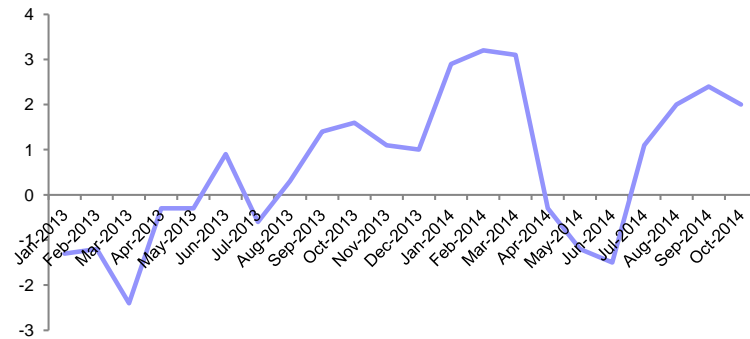
Source: Deutsche Bank, Company data

Figure 62 YoY change in construction wages



Source: ONS

Figure 63. Month on month change in construction labour wages



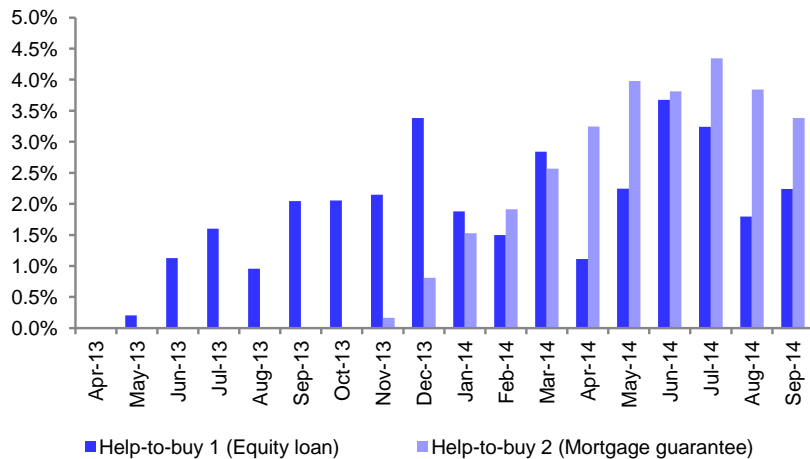
Source: ONS



Political uncertainty overplayed

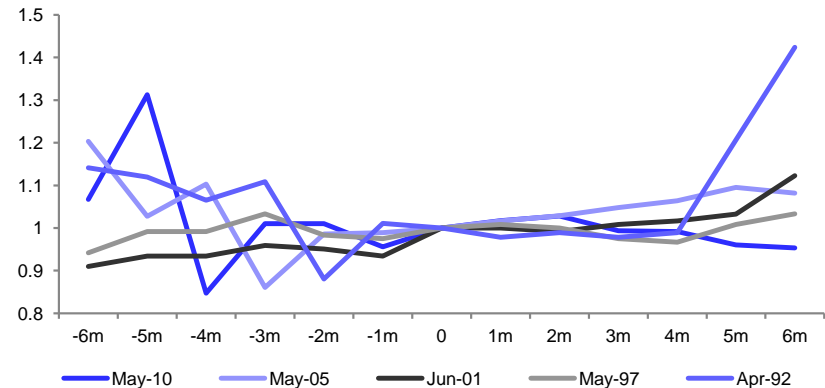
- Ahead of the next General Election in May 2015 we believe the sector may be subject to some 'mud-slinging' due to improved profitability of the industry and the continued evidence of underbuild in the UK
- But with little difference between the housing policies of the main political parties at this time, we see less of an impact this time. Questions of how policies may adapt within any potential coalition may prove key
- In the months prior to General Election the housing market tends to slow, although it recovers relatively quickly afterwards. This may give us some Q2 weakness in trading data (making the selling season to April important). Planning also tends to see an impact with major planning decisions potentially delayed until after the election. This is already been seen in part but has been accommodated in company strategy in almost all cases
- Recent changes in stamp duty helpful – less tax paid by buyer for properties up to £937,000.

Figure 64: Help to Buy 1 and Help to buy 2 as % transactions



Source: DCLG

Figure 65: Impact of general election on housing transactions



Source: Deutsche Bank, Company data



Housing policy summary

Figure 66: A summary of the current housing policies of the main political parties

Political party	Conservative Party	Labour Party	Liberal Democrats	SNP
Help to buy	Instigated Help to Buy. HTB1 running to 2020, HTB2 until 2016	Looking to keep HTB1 but Ed Balls has discussed bringing down cap to £300K and restrict to FTB. Dislike HTB2	Instigated HTB	Help to Buy in Scotland less budget than England/Wales
Housing targets	Not explicit target but don't disagree with housing requirement levels	*200,000	*300,000	
Taxation	Recent movement of stamp duty to progressive system implies less tax paid on homes <£937K	Annual mansion tax for homes >£2m - £3K for homes £2-3m, not known above £3m	Annual mansion tax for homes >£2m – 1% of value above £2m	Stamp duty is Scotland will become progressive but inflection point much lower at £330K
Planning	Instigated NPPF but could be election sensitivity	Would largely keep NPPF, and talking harder line on adherence by local authorities. 'Use it or be fined' to developers with land with planning being discussed	Instigated NPPF. Strong advocator of garden towns/cities	
Funding	Funding for lending scheme for SME, Help to Build to support small builders, Right to Buy council homes to help fund increased affordable. New Homes Bonus to reward LA who build,	Traditionally more significant funds towards affordable/social housing. Proposal to extend loan guarantees to housing associations	Willing to borrow money to fund affordable housing	Cancelled Right to Buy council houses
Land release	150,000 homes total 2015-2020	200,000		
Other	20% discounted HTB homes to first time buyers could be key policy tool, deemed consent being discussed – streamlining of discharge of planning obligations, streamlining of build regs, smaller developments (<10 units) seeing more focused loosening environmental and planning requirements. Pilot study looking at becoming a housebuilder	Previously strong supporter of housebuilders, but increase in rhetoric in favour of smaller businesses. Previous talk of rent caps gets reduced focus. Proposing councils could designate Housing Growth Areas and restrict sales to only FTB	Favour increased levels of social housing. Talks of increasing council tax for houses >£700K. Heavily involved in pilot study looking at becoming a housebuilder	

Source: Party policy documents, * excluding Scotland



Valuation – another opportunity

- With the increases in earnings expectations through the past 12 months and recent share price weakness the sector now trade at an average 1.15x 2016 NTAV. However there is significant range in the sector.
- On P/NTAV 2016 - our preferred valuation - we see value in Taylor Wimpey, Barratt and Bovis (our favoured plays) as well as Redrow.

Figure 67: Valuation of dividend, GBP

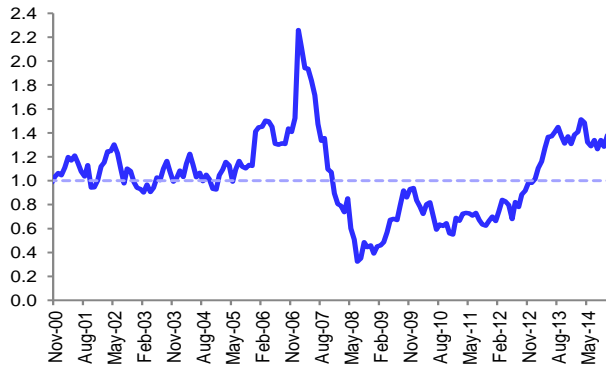
	Calendarised P/NTAV			Calendarised PE (x)			Calendarised Div yield (%)		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Barratt Dev	1.4	1.2	1.0	9.4	8.4	8.1	5.7%	6.9%	8.4%
Bellway	1.4	1.2	1.0	8.6	8.0	7.7	3.7%	4.1%	4.3%
Berkeley Group	1.9	1.5	1.3	10.2	9.0	8.5	7.7%	7.7%	7.7%
Bovis Homes	1.0	0.9	0.7	7.6	6.0	5.4	3.8%	5.5%	6.2%
Crest Nicholson	1.4	1.2	1.0	7.8	7.1	6.6	3.6%	4.5%	4.8%
Persimmon	1.9	1.6	1.3	10.9	9.4	9.1	6.5%	6.5%	7.9%
Redrow	1.1	0.9	0.8	6.4	5.7	5.4	2.4%	2.8%	3.0%
Taylor Wimpey	1.3	1.1	1.0	8.6	8.1	7.7	7.4%	6.5%	8.3%
UK - Average	1.4	1.2	1.0	8.7	7.7	7.3	5.1%	5.6%	6.3%
UK Ave. excl BKGH & PSN	1.2	1.0	0.9	8.1	7.2	6.8	4.4%	5.0%	5.8%

Source: Deutsche Bank, Company data, Thomson DataStream



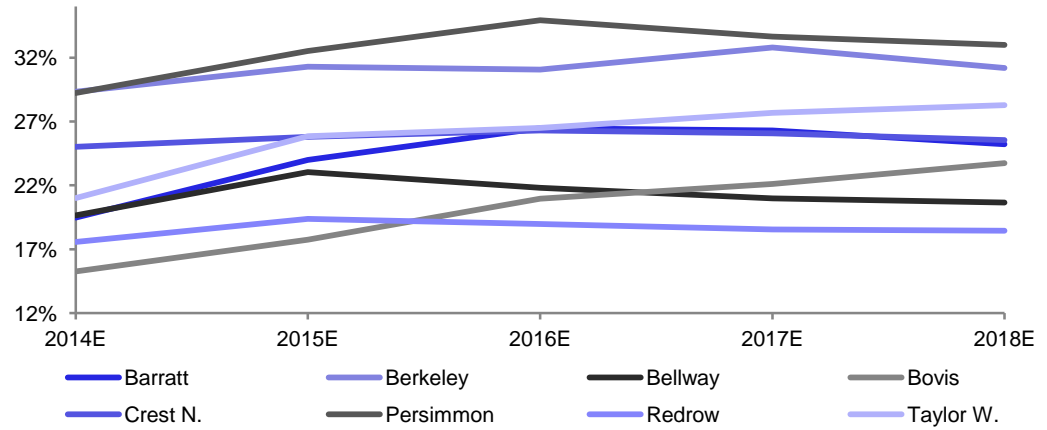
P/NTAV remains our favoured valuation measure

Figure 68: Historical one year P/NTAV



Source: Datastream

Figure 69: ROCE in the sector 2014E-2018E (by company)



Source: Deutsche Bank, Company data

Figure 70: Historical one year forward P/NTAV and current valuations

	Peak	Trough	Jan 10	Jan 11	Jan 12	Jan 13	Jan 14	P/NTAV 15	P/NTAV 16
Barratt	1.80	0.33	0.5	0.5	0.42	0.91	0.82	1.4	1.2
Berkeley	2.36	0.98	1.3	1.3	1.49	1.96	1.61	1.9	1.5
Bellway	1.65	0.43	0.9	0.8	0.75	1.01	0.92	1.4	1.2
Bovis	1.86	0.54	0.8	0.89	0.75	0.95	0.87	1.0	0.9
Crest N.	na	na	na	na	na	na	1.71	1.4	1.2
Persimmon	2.76	0.36	0.9	0.9	0.86	1.32	1.05	1.9	1.6
Redrow	2.46	0.35	1.0	0.9	0.75	1.02	0.92	1.1	0.9
Taylor W	1.71	0.28	0.7	0.6	0.63	0.97	0.94	1.3	1.1

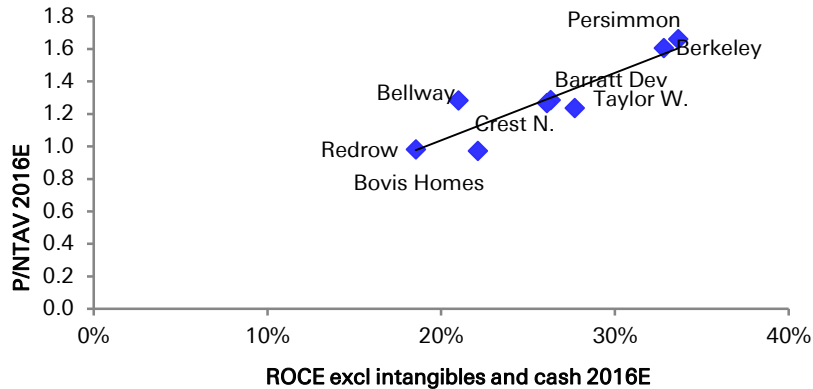
Source: Deutsche Bank, Company data



NTAV vs ROCE

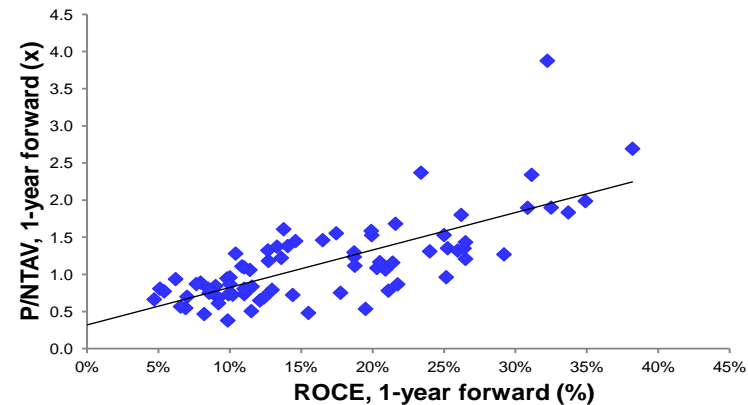
- Historically there is a positive correlation between P/NTAV to ROCE, although investors have not looked to pay for the full extent of ROCE created by house price inflation. However for a stock creating ROCE which are more than double its cost of capital (est 10% pre tax) without the benefit of house price inflation, then we believe there remains upside to P/NTAV remains

Figure 71: P/NTAV vs ROCE scatter chart (2016)



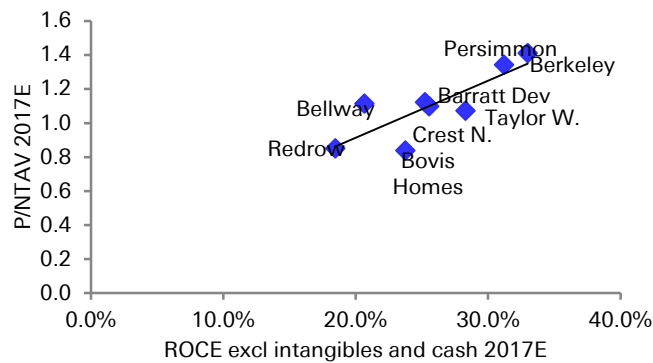
Source: Deutsche Bank and reuters

Figure 72: P/NTAV vs ROCE scatter chart



Source: Deutsche Bank, Company data, Thomson Datastream

Figure 73: P/NTAV vs ROCE scatter chart (2017)



Source: Deutsche Bank and reuters

Figure 74: Upside to implied share price based on alternative levels of calendarised 2016 NTAV

	110%	120%	130%	140%	150%	175%	200%
Barratt	-7.3%	1.1%	9.6%	18.0%	26.4%	47.5%	68.6%
Berkeley	-29.7%	-23.3%	-16.9%	-10.5%	-4.1%	11.8%	27.8%
Bellway	-2.7%	6.2%	15.0%	23.9%	32.7%	54.8%	76.9%
Bovis	28.4%	40.1%	51.7%	63.4%	75.1%	104.2%	133.4%
Crest N.	-4.7%	3.9%	12.6%	21.3%	29.9%	51.6%	73.2%
Persimmon	-28.9%	-22.4%	-16.0%	-9.5%	-3.0%	13.1%	29.3%
Redrow	23.3%	34.5%	45.7%	56.9%	68.1%	96.1%	124.1%
Taylor W.	-3.3%	5.5%	14.3%	23.1%	31.8%	53.8%	75.8%

Source: Deutsche Bank and reuters



Valuing using a balance of P/NTAV and DCF

- With the strong dividends in the sector now difficult to ignore, we believe it is intuitive to look at a model which combines P/NTAV and a DCF of dividends.
- If we deduct the dividend received to FY 17 from the 'in' price of the stocks, our calculations show that the sector is trading on 0.8-1.3x 2017 NTAV. The question this raises is what the outlook is for ROCE from 2017?, however with land being bought in 2015 contributing to the P&L from 2017 onwards, we believe as investors gain increasing confidence on the longevity of returns this will highlight further value.
- On this analysis Bovis, Redrow and Taylor Wimpey all trade below 1x 2017 NTAV, with Barratt at 1x.

Figure 75: Valuation of dividend, GBp

	Calendarised ex div						Total DPS paid to end- 2017	Net cash (debt)/ share, FY 17	Total potential dividend	Current share price less potential DPS	Implied 2017 P/NTAV, x
	H1 15	H2 15	H1 16	H2 16	H1 17	H2 17					
Barratt	2.0	22.2	9.1	20.2	11.1	24.7	89.3	48.2	137.5	287.5	0.9
Berkeley	0.0	180.0	0.0	180.0	0.0	180.0	540.0	183.5	723.5	1613.5	1.3
Bellway	8.0	56.3	21.8	49.0	22.7	51.2	209.0	122.0	331.0	1404.0	0.9
Bovis	23.0	6.0	29.0	13.2	25.4	22.3	118.9	91.7	210.6	558.9	0.6
Crest N.	7.6	5.0	10.0	5.8	10.8	6.3	45.5	17.0	62.5	291.5	1.0
Persimmon	95.0	0.0	95.0	0.0	115.0	0.0	305.0	168.7	473.7	982.3	1.2
Redrow	2.3	4.2	2.5	5.0	2.7	5.3	21.9	-28.1	21.9	243.7	0.7
Taylor W.	8.4	0.8	7.8	0.3	10.0	0.3	27.6	19.3	46.9	77.2	0.8

Source: Deutsche Bank, Company data, Thomson DataStream



Price target calculations of sector

- We set our price targets based on P/NTAV, discounting back to our 12 month price target using 8% discount rate.
- We based our price targets on 2021 for those with longer term shareholder returns programmes in place, 2016 for those with more short term strategies announced.

Figure 76: Price targets in sector

	Bellway	Bovis	Crest Nicholson	Redrow		Barratt	Berkeley Group	Persimmon	Taylor Wimpey
2016 NAV/share	1283	828	270	266	2021 NAV/share	530	1703	1276	126
2016 intangible	0	0	11	1	2021 intangible	89	11	71	0.1
2016 NTAV /share	1283	828	259	265	2021 NTAV /share	442	1693	1205	126
Multiple of NTAV	1.4	1.4	1.4	1.4	Multiple of NTAV	1.3	1.7	1.5	1.5
Value of 2016 NTAV	1796	1155	362	371	Value of 2021 NTAV	574	2878	1807	189
Discounted NTAV	1728	1070	342	318	Discounted NTAV	378	1849	1139	110
Pension	0	0	-1	-1	Pension	0	0	0	-0.5
Other	0	0	0	0	Other	0	4	0	0
Dividend to 2016E	64	35	12	10	Dividend to 2021E	142	941	478	55
Implied price	1793	1105	352	327	Implied price	520	2749	1617	164

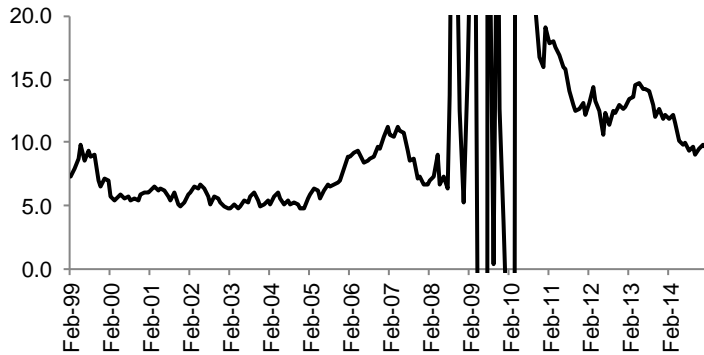
Source: Deutsche Bank



Alternative methods of valuation

- Within the sector we remain cautious of placing too much emphasis on PE (the EPS we see being a poor reflection of cash). However on this basis stronger value appears apparent at Taylor Wimpey, Bellway and Persimmon.
- Increasingly we see dividend yield as being used as a valuation method for the sector. Placing the sector on a 100bps premium yield to the FTSE100 suggests even stronger value

Figure 77: Historic one year ahead PE



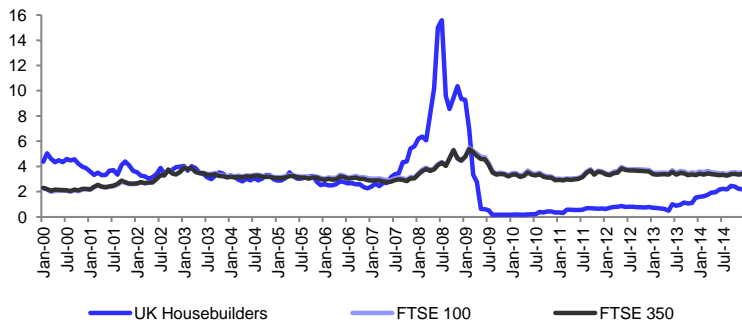
Source: Deutsche Bank

Figure 78:Upside in implied share price based on alternative levels of 2016 PE

	7	8	9	10	11	12	13
Barratt	-16%	-4%	8%	20%	32%	43%	55%
Berkeley	15%	32%	48%	65%	81%	98%	114%
Bellway	-36%	-27%	-18%	-9%	0%	9%	18%
Bovis	17%	34%	50%	67%	84%	101%	117%
Crest N.	-1%	13%	27%	41%	55%	69%	83%
Persimmon	-24%	-14%	-3%	8%	19%	30%	40%
Redrow	17%	34%	51%	68%	85%	101%	118%
Taylor W.	-11%	2%	15%	28%	40%	53%	66%

Source: Deutsche Bank

Figure 79: Historic dividend yield of sector and FTSE100 and FTSE350



Source: DCLG

Figure 80: Upside in implied share price based on alternative 2015E div yield

	3%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
Barratt	90%	63%	42%	27%	14%	4%	-5%
Berkeley	246%	196%	159%	131%	107%	89%	73%
Bellway	-8%	-21%	-31%	-39%	-45%	-50%	-54%
Bovis	52%	30%	14%	1%	-9%	-17%	-24%
Crest N.	41%	21%	6%	-6%	-15%	-23%	-29%
Persimmon	117%	86%	63%	45%	30%	19%	9%
Redrow	-19%	-30%	-39%	-46%	-51%	-56%	-59%
Taylor W.	131%	98%	73%	54%	39%	26%	16%

Source: Deutsche Bank, Company data





Industry comparables

Figure 81: Calendarised Completions of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014	2015E	2016E	2017E
Barratt	13907	14182	14488	14804	19018	16437	11400	11129	11399	12605	14114	14596	15250	15655	15834
Bellway	6536	6812	7029	7423	7626	5318	4613	4680	5045	5368	6300	6856	7756	8131	8293
Berkeley	3768	3158	2432	2711	3180	2170	1698	2539	3056	3895	3967	3047	3633	3833	3900
Bovis	2482	2700	2702	3123	2930	1817	1803	1901	2045	2355	2813	3650	3980	4389	4673
Crest Nicholson	na	2506	2505	3000	3196	2667	1833	1594	1580	1930	2218	2510	2846	3047	3306
Persimmon	12163	12360	12636	16701	15905	10202	8976	9384	9360	9903	11528	13509	14016	15227	15552
Redrow	4057	4399	4338	4872	4720	2267	1926	2633	2482	2492	3190	3932	4453	4757	4852
Taylor Wimpey	10819	13092	12516	13165	20271	19029	15166	14238	10289	11042	11814	12674	13644	13912	13912
Total (UK)	53,732	59,209	58,646	65,799	76,846	59,907	47,415	48,098	45,256	49,590	55,944	60,774	65,579	68,952	70,324

Source: Deutsche Bank and Company data

Figure 82: Calendarised Completions growth of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	8.2%	2.0%	2.2%	2.2%	28.5%	-13.6%	-30.6%	-2.4%	2.4%	10.6%	12.0%	3.4%	4.5%	2.7%	1.1%
Bellway	5.3%	4.2%	3.2%	5.6%	2.7%	-30.3%	-13.3%	1.5%	7.8%	6.4%	17.4%	8.8%	13.1%	0.0%	0.0%
Berkeley	7.6%	-16.2%	-23.0%	11.5%	17.3%	-31.7%	-21.7%	49.5%	20.4%	27.5%	1.8%	-23.2%	19.3%	5.5%	1.7%
Bovis	-7.8%	8.8%	0.1%	15.6%	-6.2%	-38.0%	-0.8%	5.4%	7.6%	15.2%	19.4%	29.8%	9.1%	10.3%	6.5%
Crest Nicholson	na	na	na	19.8%	6.5%	-16.5%	-31.3%	-13.0%	-0.9%	22.1%	14.9%	13.2%	13.4%	7.1%	8.5%
Persimmon	-1.5%	1.6%	2.2%	32.2%	-4.8%	-35.9%	-12.0%	4.5%	-0.3%	5.8%	16.4%	17.2%	3.8%	8.6%	2.1%
Redrow	-2.2%	8.4%	-1.4%	12.3%	-3.1%	-52.0%	-15.0%	36.7%	-5.7%	0.4%	28.0%	23.3%	13.3%	6.8%	2.0%
Taylor Wimpey	29.3%	21.0%	-4.4%	5.2%	54.0%	-6.1%	-20.3%	-6.1%	-27.7%	7.3%	7.0%	7.3%	7.7%	2.0%	0.0%
Total (UK)	5.5%	3.7%	-2.6%	13.0%	11.9%	-28.0%	-18.1%	9.5%	0.4%	11.9%	14.6%	10.0%	10.5%	5.4%	2.7%

Source: Deutsche Bank and Company data

Figure 83: Calendarised ASP of UK Housebuilders

	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013	2014	2015E	2016E	2017E
Barratt	167839	170833	166782	196286	176500	159094	178568	180704	182434	204889	227564	240545	248660	253321
Bellway	165611	163644	171847	173940	161484	153979	169299	182409	188806	205143	207459	230760	na	na
Berkeley	310069	355504	288903	279536	393120	340951	263458	276471	333050	392160	581992	434872	na	na
Bovis	197900	175550	183700	179500	150800	154600	160700	162400	170691	195100	215001	230877	246608	252724
Crest Nicholson	210000	225000	199000	198000	179000	165000	187000	189803	205611	233318	244684	264070	282878	287958
Persimmon	172431	180892	188129	189558	172994	158272	169339	166142	175640	181861	190500	198272	204575	208667
Redrow	166165	165855	161421	159980	145715	141691	158303	179123	198638	222078	223398	258853	na	na
Taylor Wimpey	198635	204273	206994	189613	172971	165039	180003	171710	181226	191030	211314	229040	231137	235310
Sector Average (UK)	198581	205194	195847	195801	194073	179828	183334	188595	204512	228197	262739	260911	242772	247596

Source: Deutsche Bank and Company data



Figure 84: Calendarised ASP growth of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	11.4%	4.7%	1.8%	-2.4%	17.7%	-10.1%	-9.9%	12.2%	1.2%	1.0%	12.3%	11.1%	5.7%	3.4%	1.9%
Bellway	16.4%	7.1%	-1.2%	5.0%	1.2%	-7.2%	-4.6%	9.9%	7.7%	3.5%	8.7%	1.1%	11.2%	na	na
Berkeley	na	3.2%	14.7%	-18.7%	-3.2%	40.6%	-13.3%	-22.7%	4.9%	20.5%	17.7%	48.4%	-25.3%	na	na
Bovis	9.6%	7.1%	-11.3%	4.6%	-2.3%	-16.0%	2.5%	3.9%	1.1%	5.1%	14.3%	10.2%	7.4%	6.8%	2.5%
Crest Nicholson		0.0%	7.1%	-11.6%	-0.5%	-9.6%	-7.8%	13.3%	1.5%	8.3%	13.5%	4.9%	7.9%	7.1%	1.8%
Persimmon	11.8%	11.4%	4.9%	4.0%	0.8%	-8.7%	-8.5%	7.0%	-1.9%	5.7%	3.5%	4.8%	4.1%	3.2%	2.0%
Redrow	5.0%	10.1%	-0.2%	-2.7%	-0.9%	-8.9%	-2.8%	11.7%	13.2%	10.9%	11.8%	0.6%	15.9%	na	na
Taylor Wimpey	-2.6%	5.6%	2.8%	1.3%	-8.4%	-8.8%	-4.6%	9.1%	-4.6%	5.5%	5.4%	10.6%	8.4%	0.9%	1.8%
Total (UK)	7.4%	6.2%	2.3%	-2.5%	0.5%	-3.6%	-6.1%	5.6%	2.9%	7.6%	10.9%	11.5%	4.4%	4.3%	2.0%

Source: Deutsche Bank and Company data

Figure 85: Sales of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	2,171	2,516	2,485	2,431	3,046	3,555	2,285	2,035	2,035	2,323	2,606	3,157	3,520	3,816	3,969
Bellway	954	1,093	1,178	1,240	1,354	1,150	684	768	886	1,004	1,111	1,486	1,715	1,865	1,939
Berkeley	1,151	1,272	794	918	918	991	702	615	743	1,041	1,373	1,621	1,863	1,997	2,269
Bovis	478	559	521	597	556	282	282	299	365	425	556	792	926	1,085	1,184
Crest Nicholson	na	631	699	691	405	544	238	284	319	408	526	618	762	870	955
Persimmon	1,883	2,131	2,286	3,142	3,015	1,755	1,421	1,570	1,535	1,721	2,086	2,576	2,799	3,137	3,268
Redrow	608	670	780	770	834	650	302	397	453	479	605	865	1,118	1,188	1,234
Taylor Wimpey	2,669	3,312	3,477	3,572	4,143	3,468	2,596	2,603	1,808	2,019	2,296	2,698	3,145	3,236	3,294

Source: Deutsche Bank and Company data

Figure 86: Sales growth of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	20.7%	15.9%	-1.2%	-2.1%	25.3%	16.7%	-35.7%	-10.9%	0.0%	14.1%	12.2%	21.1%	11.5%	8.4%	4.0%
Bellway	23.4%	14.5%	7.8%	5.3%	9.2%	-15.1%	-40.5%	12.4%	15.3%	13.3%	10.6%	33.8%	15.4%	8.8%	4.0%
Berkeley	17.8%	10.6%	-37.6%	15.5%	0.1%	8.0%	-29.2%	-12.4%	20.7%	40.2%	31.8%	18.1%	14.9%	7.2%	13.7%
Bovis	3.7%	16.9%	-6.8%	14.6%	-7.0%	-49.2%	-0.3%	6.1%	22.2%	16.6%	30.7%	42.4%	16.9%	17.2%	9.1%
Crest Nicholson	na	0.0%	10.7%	-1.2%	-41.4%	34.4%	-56.2%	19.4%	12.2%	27.9%	28.8%	17.6%	23.2%	14.1%	9.8%
Persimmon	10.0%	13.2%	7.2%	37.5%	-4.0%	-41.8%	-19.1%	10.5%	-2.2%	12.1%	21.2%	23.5%	8.6%	12.1%	4.2%
Redrow	6.0%	10.2%	16.5%	-1.3%	8.3%	-22.1%	-53.6%	31.5%	14.1%	5.8%	26.3%	42.9%	29.3%	6.2%	3.9%
Taylor Wimpey	20.9%	24.1%	5.0%	2.7%	16.0%	-16.3%	-25.1%	0.3%	-30.5%	11.7%	13.7%	17.5%	16.6%	2.9%	1.8%
Sector Average	14.7%	13.2%	0.2%	8.9%	0.8%	-10.7%	-32.5%	7.1%	6.5%	17.7%	21.9%	27.1%	17.1%	9.6%	6.3%

Source: Deutsche Bank and Company data

Figure 87: EPS growth of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	30.3%	24.8%	1.5%	1.3%	6.8%	-34.5%	-119.7%	84.1%	207.1%	200.6%	78.1%	114.1%	36.1%	19.7%	5.0%
Bellway	34.8%	20.2%	4.5%	3.3%	6.2%	-28.1%	-83.1%	67.8%	40.0%	57.6%	36.2%	57.0%	37.6%	10.2%	4.4%
Berkeley	9.5%	12.7%	-10.1%	43.5%	-32.9%	1.7%	-42.6%	-10.5%	19.9%	29.3%	54.3%	34.2%	7.3%	21.7%	10.7%
Bovis	17.0%	18.9%	-20.6%	14.1%	-9.1%	-87.3%	-52.3%	140.9%	46.0%	75.2%	65.6%	73.0%	29.7%	27.9%	11.0%
Crest Nicholson	na	na	-2.4%	0.9%	na	na	na	na	na	-92.9%	1.8%	19.7%	28.3%	10.9%	7.8%
Persimmon	29.8%	31.1%	4.6%	12.8%	3.4%	-74.4%	-94.1%	nm	48.6%	45.2%	48.0%	46.0%	17.7%	15.1%	4.2%
Redrow	14.1%	16.7%	10.9%	-12.9%	0.1%	-47.7%	-153.3%	-101.1%	nm	143.5%	40.4%	86.1%	37.6%	15.1%	7.1%
Taylor Wimpey	41.0%	23.2%	2.1%	0.5%	-38.7%	-123.9%	-41.2%	-113.9%	452.1%	38.1%	43.0%	63.0%	34.7%	6.9%	5.6%
Sector Average	25.2%	18.5%	-1.2%	7.9%	-9.2%	-56.3%	-83.7%	11.2%	38.6%	42.3%	45.9%	61.6%	28.6%	15.9%	7.0%

Source: Deutsche Bank and Company data



Figure 88: Gross Profit margins of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	16.4%	18.2%	19.2%	20.2%	19.7%	19.2%	5.7%	9.1%	11.2%	12.7%	13.8%	16.8%	19.0%	20.0%	20.0%
Bellway	22.5%	24.1%	23.9%	23.6%	23.0%	21.2%	12.7%	11.7%	13.5%	16.1%	18.3%	21.3%	24.1%	24.0%	24.0%
Berkeley	27.4%	24.1%	28.8%	25.2%	29.3%	30.7%	28.5%	27.0%	28.2%	28.4%	29.4%	31.4%	31.0%	31.2%	31.5%
Bovis	35.5%	34.8%	32.5%	31.8%	31.1%	22.4%	16.0%	17.9%	19.8%	22.8%	23.4%	24.8%	26.7%	28.0%	28.0%
Crest Nicholson	na	22.5%	21.7%	21.1%	20.0%	12.6%	13.9%	27.5%	28.6%	27.4%	26.9%	27.0%	27.0%	26.0%	25.5%
Persimmon	24.4%	27.3%	26.4%	23.5%	24.4%	15.1%	8.7%	12.4%	14.5%	17.5%	20.2%	22.3%	23.5%	24.0%	24.0%
Redrow	24.7%	25.8%	25.2%	23.1%	21.9%	18.5%	1.8%	10.5%	14.2%	17.3%	18.8%	21.7%	22.0%	23.5%	24.0%
Taylor Wimpey	19.4%	20.0%	18.6%	17.9%	16.9%	9.5%	8.9%	14.0%	15.9%	17.6%	19.6%	24.1%	26.4%	27.1%	27.6%
Sector Average	24.3%	24.6%	24.5%	23.3%	23.3%	18.7%	12.0%	16.3%	18.2%	20.0%	21.3%	23.7%	25.0%	25.5%	25.6%

Source: Deutsche Bank and Company data

Figure 89: EBIT margin of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	13.8%	14.9%	15.7%	17.0%	16.9%	15.5%	1.5%	4.4%	6.6%	8.2%	9.7%	13.0%	15.5%	16.7%	16.8%
Bellway	18.1%	19.5%	19.5%	19.3%	18.7%	16.1%	6.7%	6.7%	8.5%	11.4%	13.6%	17.2%	20.0%	19.9%	19.9%
Berkeley	18.7%	16.7%	19.5%	17.5%	19.3%	20.8%	17.8%	17.3%	18.3%	18.8%	20.4%	23.1%	22.6%	22.9%	23.2%
Bovis	27.0%	26.7%	24.0%	23.7%	22.4%	7.5%	6.2%	7.2%	9.2%	12.2%	14.9%	17.3%	19.1%	20.4%	20.7%
Crest Nicholson	na	14.7%	13.9%	13.8%	13.9%	4.5%	5.8%	16.6%	17.6%	17.9%	18.5%	19.0%	19.3%	18.5%	18.2%
Persimmon	20.3%	23.4%	23.1%	20.3%	21.8%	11.3%	4.0%	8.2%	10.0%	13.0%	16.0%	18.1%	19.3%	19.7%	19.7%
Redrow	18.7%	19.8%	19.7%	17.2%	16.4%	13.0%	-7.4%	3.2%	6.9%	10.0%	12.2%	15.9%	16.6%	18.0%	18.5%
Taylor Wimpey	13.5%	15.5%	13.7%	13.2%	10.5%	2.5%	1.5%	7.1%	8.8%	11.3%	13.5%	17.8%	19.8%	20.6%	21.3%
Sector Average	18.6%	18.9%	18.6%	17.7%	17.5%	11.4%	4.5%	8.8%	10.7%	12.9%	14.8%	17.7%	19.0%	19.6%	19.8%

Source: Deutsche Bank and Company data

Figure 90: Net Profit margin of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	9.5%	10.4%	10.7%	11.3%	10.4%	7.7%	-3.6%	-1.2%	1.3%	3.4%	5.4%	9.7%	11.8%	13.0%	13.2%
Bellway	12.2%	13.0%	12.7%	12.6%	12.3%	10.4%	3.0%	4.7%	5.7%	7.9%	9.8%	12.9%	15.4%	15.6%	15.6%
Berkeley	13.4%	12.7%	17.7%	22.0%	14.8%	13.9%	12.3%	12.9%	12.8%	12.3%	15.3%	18.1%	17.5%	19.8%	19.3%
Bovis	18.1%	18.2%	15.6%	15.9%	15.6%	3.9%	1.9%	4.7%	5.6%	8.5%	10.8%	13.1%	14.6%	15.9%	16.2%
Crest Nicholson	na	8.7%	7.7%	7.9%	na	na	na	na	12.6%	15.6%	13.6%	14.2%	14.8%	14.4%	14.1%
Persimmon	13.0%	15.2%	15.1%	12.6%	13.8%	6.0%	0.4%	4.7%	7.2%	9.4%	11.5%	13.6%	14.7%	15.1%	15.1%
Redrow	12.2%	13.0%	12.4%	10.9%	10.1%	6.8%	-10.2%	0.1%	3.0%	7.0%	9.1%	11.9%	12.6%	13.6%	14.0%
Taylor Wimpey	8.2%	8.5%	8.2%	8.1%	6.1%	-2.9%	-4.2%	0.7%	5.8%	7.2%	9.1%	12.7%	14.6%	15.2%	15.8%
Sector Average	12.4%	12.5%	12.5%	12.7%	11.9%	6.5%	-0.1%	3.8%	6.8%	8.9%	10.6%	13.3%	14.5%	15.3%	15.4%

Source: Deutsche Bank and Company data

Figure 91: ROCE of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	25.9%	26.4%	25.5%	26.1%	16.6%	13.1%	0.9%	2.6%	4.1%	5.9%	8.2%	13.2%	16.3%	18.5%	18.7%
Bellway	26.9%	27.0%	23.9%	22.1%	22.4%	14.7%	3.7%	4.5%	6.4%	9.6%	12.2%	18.9%	22.0%	20.9%	20.1%
Berkeley	17.5%	17.0%	12.4%	15.1%	20.7%	26.2%	15.7%	11.8%	13.9%	18.2%	22.1%	24.8%	24.4%	24.6%	26.3%
Bovis	26.1%	27.0%	20.6%	22.9%	18.5%	2.8%	2.7%	3.5%	5.0%	7.3%	10.6%	15.3%	17.7%	20.9%	22.1%
Crest Nicholson	na	na	17.7%	17.5%	7.7%	3.9%	5.3%	18.6%	17.9%	18.7%	23.0%	23.3%	24.4%	25.1%	25.4%
Persimmon	27.8%	30.6%	27.2%	25.7%	22.0%	7.2%	2.5%	6.1%	7.4%	10.6%	14.9%	19.9%	21.6%	23.3%	22.8%
Redrow	30.4%	27.8%	27.3%	20.2%	18.2%	10.7%	-3.5%	2.5%	5.8%	7.9%	10.6%	16.3%	17.9%	17.6%	17.4%
Taylor Wimpey	23.8%	26.7%	24.3%	22.6%	14.3%	2.5%	1.6%	8.2%	7.2%	11.5%	14.6%	21.0%	25.8%	26.5%	27.7%
Sector Average	25.5%	26.1%	22.4%	21.5%	17.5%	10.2%	3.6%	7.2%	8.5%	11.2%	14.5%	19.1%	21.3%	22.2%	22.5%

Source: Deutsche Bank and Company data



Figure 92: ROCE excl goodwill of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	40.0%	42.8%	39.5%	32.4%	21.4%	15.9%	1.0%	3.4%	5.6%	8.2%	11.5%	19.5%	24.0%	26.5%	26.3%
Bellway	31.4%	31.9%	26.9%	23.4%	22.7%	15.5%	4.0%	5.1%	7.2%	10.0%	12.4%	19.7%	23.0%	21.8%	21.0%
Berkeley	17.9%	19.4%	16.5%	21.5%	27.3%	30.5%	21.4%	20.7%	19.3%	19.4%	23.3%	29.3%	31.3%	31.1%	32.8%
Bovis	26.1%	27.0%	20.6%	22.9%	18.6%	2.9%	2.7%	3.5%	5.0%	7.3%	10.6%	15.3%	17.7%	20.9%	22.1%
Crest Nicholson	na	na	20.8%	21.4%	11.1%	4.6%	5.0%	29.0%	23.0%	22.0%	26.0%	25.0%	25.8%	26.3%	26.1%
Persimmon	32.6%	37.7%	33.6%	32.8%	28.2%	8.7%	3.1%	8.1%	9.8%	14.4%	21.1%	28.9%	32.7%	35.1%	33.9%
Redrow	31.3%	29.4%	29.0%	22.2%	19.5%	12.2%	-3.9%	2.6%	6.2%	8.7%	11.6%	17.6%	19.4%	19.0%	18.5%
Taylor Wimpey	28.1%	24.5%	23.5%	32.1%	2.9%	1.2%	7.1%	4.2%	7.2%	11.5%	14.6%	21.0%	25.8%	26.5%	27.7%
Sector Average	29.6%	30.4%	26.3%	26.1%	19.0%	11.4%	5.0%	9.6%	10.4%	12.7%	16.4%	22.0%	25.0%	25.9%	26.0%

Source: Deutsche Bank and Company data

Figure 93: ROE of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	22.7%	23.3%	21.3%	17.9%	10.3%	3.0%	-20.1%	-4.1%	-0.5%	2.3%	2.4%	9.2%	11.4%	12.8%	12.7%
Bellway	21.3%	21.3%	19.1%	17.2%	16.1%	2.7%	-2.8%	3.5%	4.7%	7.0%	8.9%	14.0%	16.9%	16.5%	15.4%
Berkeley	14.6%	14.2%	18.4%	14.5%	17.3%	20.2%	10.7%	9.3%	10.2%	14.4%	15.9%	20.3%	25.2%	22.5%	22.5%
Bovis	18.6%	18.9%	13.6%	14.5%	12.0%	-9.3%	0.5%	2.0%	3.2%	5.4%	7.4%	11.6%	13.7%	15.5%	15.3%
Crest Nicholson	na	16.7%	20.5%	19.3%	-16.8%	108.8%	65.1%	27.9%	14.1%	18.4%	14.0%	16.6%	18.7%	18.2%	17.4%
Persimmon	20.8%	23.1%	20.4%	19.5%	17.6%	-40.2%	4.6%	6.6%	5.9%	8.5%	12.6%	16.1%	17.9%	19.0%	18.6%
Redrow	24.6%	23.1%	21.3%	16.4%	14.6%	-34.6%	-34.2%	0.1%	2.9%	5.4%	8.8%	14.8%	17.0%	16.8%	15.6%
Taylor Wimpey	12.7%	16.5%	14.8%	13.8%	-5.6%	-113.4%	-42.7%	14.2%	3.0%	11.6%	10.7%	13.6%	17.4%	17.1%	16.9%
Sector Average	19.3%	19.6%	18.7%	16.6%	8.2%	-7.8%	-2.4%	7.4%	5.5%	9.1%	10.1%	14.5%	17.3%	17.3%	16.8%

Source: Deutsche Bank and Company data

Figure 94: CFROA of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	16.8%	18.5%	15.9%	15.0%	8.8%	9.8%	0.8%	2.0%	2.9%	4.2%	5.6%	8.5%	10.7%	12.3%	12.3%
Bellway	19.4%	20.1%	17.3%	16.3%	15.9%	11.8%	3.7%	4.2%	5.5%	7.6%	9.4%	13.3%	15.7%	15.7%	15.6%
Berkeley	14.4%	16.3%	12.6%	18.5%	14.7%	15.9%	10.1%	7.8%	7.5%	9.2%	11.7%	13.4%	14.3%	15.0%	16.7%
Bovis	19.4%	19.8%	14.3%	17.8%	13.2%	3.7%	2.6%	2.6%	3.7%	5.3%	7.7%	10.8%	13.8%	15.9%	17.5%
Crest Nicholson	na	9.1%	11.8%	11.8%	4.3%	14.7%	6.8%	10.5%	9.9%	11.4%	13.1%	13.3%	15.6%	16.8%	16.8%
Persimmon	19.6%	21.7%	19.7%	17.3%	16.1%	6.6%	2.4%	5.1%	6.2%	8.8%	12.0%	16.7%	19.0%	20.5%	20.9%
Redrow	19.0%	17.9%	19.3%	14.9%	13.1%	10.0%	-2.9%	2.1%	4.5%	5.9%	7.4%	11.1%	13.0%	13.2%	13.7%
Taylor Wimpey	11.1%	15.8%	13.4%	12.4%	6.0%	15.1%	1.0%	4.6%	5.0%	6.8%	9.0%	13.6%	17.2%	18.1%	19.3%
Sector Average	17.1%	17.4%	15.5%	15.5%	11.5%	10.9%	3.1%	4.9%	5.7%	7.4%	9.5%	12.6%	14.9%	15.9%	16.6%

Source: Deutsche Bank and Company data

Figure 95: Financial Gearing of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	-9.0%	-17.0%	-20.9%	-2.3%	65.9%	83.6%	90.7%	19.7%	16.9%	9.3%	2.5%	-3.0%	-9.5%	-14.7%	-14.9%
Bellway	7.5%	9.3%	24.6%	19.2%	10.8%	23.7%	5.9%	-4.4%	1.5%	5.3%	2.1%	-0.4%	4.1%	1.7%	-3.6%
Berkeley	13.5%	-12.7%	41.1%	-26.3%	-10.6%	0.7%	-36.3%	-37.5%	-4.6%	5.3%	-3.4%	-9.1%	-12.0%	-11.1%	-13.7%
Bovis	18.6%	3.1%	10.4%	-15.1%	6.2%	15.8%	-16.2%	-7.3%	-7.0%	-2.5%	2.3%	8.0%	3.9%	-1.6%	-9.8%
Crest Nicholson	na	54.3%	69.0%	51.8%	-274.2%	-173.8%	-249.2%	-237.4%	16.6%	9.5%	-9.6%	7.9%	4.3%	-5.3%	-5.1%
Persimmon	27.9%	11.3%	14.6%	27.7%	28.0%	46.2%	15.4%	2.8%	-2.2%	-10.1%	-10.0%	-16.6%	-19.4%	-18.8%	-19.2%
Redrow	30.9%	34.7%	22.8%	25.3%	30.8%	55.2%	73.2%	10.9%	16.5%	2.5%	15.0%	24.9%	27.9%	24.9%	13.9%
Taylor Wimpey	60.9%	40.2%	29.2%	22.5%	49.1%	91.5%	50.2%	36.0%	6.4%	3.0%	-0.2%	-5.3%	-8.6%	-12.5%	-19.6%
Sector Average	21.5%	15.4%	23.8%	12.8%	-11.8%	17.9%	-8.3%	-27.2%	5.5%	2.8%	-0.2%	0.8%	-1.2%	-4.7%	-9.0%

Source: Deutsche Bank and Company data



Figure 96: Financial Gearing incl land creditors of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	-9.0%	18.5%	21.7%	34.0%	99.4%	111.6%	123.4%	47.9%	51.3%	44.2%	36.6%	29.2%	22.9%	16.9%	14.4%
Bellway	23.1%	26.4%	37.8%	29.5%	26.3%	37.0%	17.3%	1.6%	9.3%	16.0%	8.9%	5.7%	9.4%	6.4%	0.6%
Berkeley	0.0%	0.0%	0.0%	0.0%	0.0%	17.8%	-26.6%	-29.9%	2.7%	16.7%	10.4%	5.7%	2.8%	2.7%	-1.1%
Bovis	18.6%	3.1%	24.9%	0.2%	15.0%	21.8%	-11.3%	7.2%	10.7%	16.7%	20.9%	30.8%	20.7%	16.8%	4.5%
Crest Nicholson	na	167.6%	121.6%	89.6%	-326.8%	-192.4%	-317.4%	-273.0%	39.2%	37.9%	17.7%	31.9%	25.3%	13.0%	10.9%
Persimmon	46.8%	29.4%	32.0%	56.6%	52.0%	80.0%	31.9%	16.5%	10.0%	2.2%	5.6%	-7.6%	-11.7%	-10.9%	-13.6%
Redrow	30.9%	57.5%	41.5%	40.5%	52.2%	78.2%	91.4%	19.5%	26.3%	21.9%	35.5%	47.7%	52.3%	49.9%	34.1%
Taylor Wimpey	81.7%	51.4%	44.7%	43.9%	77.9%	130.2%	72.0%	56.3%	23.2%	21.9%	15.3%	9.6%	5.3%	0.3%	-7.7%
Sector Average	27.5%	44.2%	40.5%	36.8%	-0.5%	35.5%	-2.4%	-19.2%	21.6%	22.2%	18.9%	19.1%	15.9%	11.9%	5.3%

Source: Deutsche Bank and Company data

Figure 97: Interest Coverage of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	30.0	47.7	32.7	18.8	8.5	3.8	0.2	0.8	1.5	2.4	3.7	6.9	10.4	14.0	15.6
Bellway	29.0	27.6	14.1	13.0	14.1	9.7	2.9	7.5	9.3	12.3	14.9	25.1	33.7	41.3	48.3
Berkeley	20.1	43.5	19.0	22.2	-42.8	22.5	35.5	-24.5	93.3	21.0	35.0	54.6	70.6	91.9	264.5
Bovis	21.1	36.3	14.1	24.6	156.5	4.7	1.8	6.9	7.6	19.6	19.5	24.6	30.5	38.3	42.3
Crest Nicholson	na	-7.3	-4.9	-5.0	-0.9	-1.1	-0.7	-0.6	-0.7	-7.9	9.6	-11.9	-18.5	-27.0	-35.0
Persimmon	13.1	16.6	16.3	9.0	9.1	2.8	1.1	3.9	31.2	-117.5	95.2	134.8	153.2	175.6	182.8
Redrow	15.2	15.6	12.4	11.7	9.1	4.8	-0.9	1.2	5.5	9.9	13.9	18.0	23.4	23.9	25.5
Taylor Wimpey	8.2	4.8	7.5	7.4	4.0	4.7	0.3	1.6	2.3	5.1	7.0	17.2	22.3	23.8	25.1
Sector Average	19.5	23.1	13.9	12.7	19.7	6.5	5.0	-0.4	18.8	-6.9	24.8	33.7	40.7	47.7	71.2

Source: Deutsche Bank and Company data

Figure 98: Dividend per share of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	14.4	17.3	21.6	27.0	31.0	35.7	12.2	na	na	na	na	2.5	10.3	24.2	29.3
Bellway	15.8	2na	25.0	31.3	34.5	43.1	24.1	9.0	1na	12.5	2na	3na	52.0	64.3	70.8
Berkeley	16.5	19.2	22.3	16.5	na	na	na	na	na	na	15.0	74.0	18na	18na	18na
Bovis	14.0	16.4	2na	25.0	3na	35.0	17.5	na	3.0	5.0	9.0	13.5	35.0	35.0	38.6
Crest Nicholson	na	12.3	12.9	14.2	13.0	na	na	na	na	na	6.5	11.7	15.0	16.6	17.9
Persimmon	15.2	18.3	27.5	31.0	46.5	51.2	5.0	na	7.5	1na	75.0	7na	95.0	95.0	115.0
Redrow	6.1	7.5	9.0	10.8	13.0	15.6	9.3	na	na	na	na	1.0	3.0	6.5	7.4
Taylor Wimpey	7.4	8.9	11.1	13.4	14.8	15.8	na	na	na	0.4	0.6	2.3	8.6	8.7	10.3
Sector Average	12.7	15.0	18.7	21.1	22.8	24.5	8.5	1.1	2.9	4.4	21.2	17.5	31.3	35.8	41.3

Source: Deutsche Bank and Company data

Figure 99: Dividend Coverage of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	6.1	6.4	5.2	4.2	3.9	2.2	-1.3	na	na	na	na	12.2	4.0	2.0	1.8
Bellway	6.7		5.3	4.4	4.2	2.4	0.7	3.3	4.1	5.2	4.4	4.6	3.7	3.3	3.1
Berkeley	7.0	6.8	5.2	10.1	na	na	na	na	na	na	9.4	2.5	1.1	1.4	1.5
Bovis	5.3	5.3	3.5	3.2	2.4	0.3	0.3	na	5.2	5.4	5.0	5.7	2.9	3.7	3.7
Crest Nicholson	na	na	3.9	3.7	na	na	na	na	na	na	4.4	3.0	3.0	3.0	3.0
Persimmon	5.7	6.2	4.3	4.3	3.0	0.7	0.4	na	4.9	5.3	1.0	1.7	1.4	1.6	1.4
Redrow	7.7	7.3	6.7	4.9	4.1	1.8	-1.6	na	na	na	na	28.2	12.9	6.9	6.4
Taylor Wimpey	5.4	5.5	4.5	3.7	2.1	na	na	na	na	12.0	10.6	4.7	1.7	1.8	1.6
Sector Average	6.3	6.3	4.8	4.8	3.3	1.5	-0.3	3.3	4.7	7.0	5.8	7.8	3.8	3.0	2.8

Source: Deutsche Bank and Company data



Figure 100: Consented land bank of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	45,300	56,335	61,063	66,500	86,400	78,700	68,000	62,340	60,083	54,209	57,654	66,570	70,500	71,300	72,726
Bellway	18,400	20,700	22,500	22,600	23,500	22,500	19,260	17,602	18,086	17,636	18,991	19,434	22,608	24,191	24,675
Berkeley	25,850	26,654	27,278	23,819	30,128	31,365	30,044	28,099	27,026	26,021	25,684	24,006	22,400	23,680	24,960
Bovis	10,315	11,528	13,138	16,195	17,253	13,771	12,279	13,284	13,039	13,776	14,638	17,669	18,310	21,068	21,498
Crest Nicholson	na	na	na	na	17,022	15,445	12,823	13,615	14,772	16,959	16,388	17,637	19,135	19,244	20,476
Persimmon	57,222	59,947	63,336	80,085	78,863	69,279	60,454	58,862	63,335	68,200	74,407	80,970	81,954	86,794	88,646
Redrow	14,000	15,000	15,800	16,750	20,200	16,450	13,130	13,170	11,190	12,356	14,162	16,724	17,206	18,841	19,218
Taylor Wimpey	62,085	63,701	75,159	68,662	129,251	106,216	97,052	95,719	66,932	67,224	72,325	74,651	76,007	77,209	75,712
Sector Average	33,310	36,266	39,753	42,087	50,327	44,216	39,130	37,836	34,308	34,548	36,781	39,708	41,015	42,791	43,489

Source: Deutsche Bank and Company data

Figure 101: Consented land bank years of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	3.4	4.0	4.3	4.6	5.0	4.2	5.2	5.5	5.4	4.3	4.4	4.7	4.7	4.6	4.6
Bellway	2.9	3.1	3.2	3.2	3.1	3.4	4.4	3.8	3.7	3.4	3.4	2.8	3.0	3.0	3.0
Berkeley	7.3	7.0	11.9	7.9	10.6	9.9	2na	12.8	10.6	7.8	6.9	6.4	6.4	6.4	6.4
Bovis	4.2	4.3	4.9	5.2	5.9	7.6	6.8	7.0	6.4	5.8	5.2	4.8	4.6	4.8	4.6
Crest Nicholson	na	6.0	6.7	5.5	5.2	5.5	6.8	8.5	9.7	9.0	7.5	7.2	6.8	6.4	6.3
Persimmon	4.7	4.9	5.0	4.8	5.0	6.8	6.7	6.3	6.8	6.9	6.5	6.0	5.8	5.7	5.7
Redrow	3.5	3.5	3.6	3.5	4.2	4.2	6.2	5.1	4.3	5.0	5.0	4.6	4.1	4.0	4.0
Taylor Wimpey	5.7	4.9	6.0	5.2	6.4	5.6	6.4	6.7	6.5	6.1	6.1	5.9	5.6	5.5	5.4
Sector Average	4.5	3.6	4.3	4.2	5.8	5.6	6.5	6.4	6.4	6.0	6.0	5.8	5.5	5.5	5.4

Source: Deutsche Bank and Company data

Figure 102: Strategic land bank of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	na	na	na	na	na	na	47,200	60,000	62,500	61,000	59,800	69,200	69,200	69,200	69,200
Bellway	na	na	na	na	na	na	14,000	15,000	13,000	13,500	14,175	14,884	15,628	15,628	15,628
Berkeley	na	na	na	na	na	na	na	na	na	10,000	11,000	na	na	na	na
Bovis	22,152	22,831	22,359	24,719	24,868	18,972	16,363	17,325	17,845	19,318	20,108	19,499	20,084	20,687	21,308
Crest Nicholson	na	13,182	15,733	15,882	16,132	17,759	18,330	16,726	14,259	12,623	14,325	14,325	14,325	14,325	14,325
Persimmon	82,000	78,800	76,000	92,648	85,700	80,000	76,000	69,200	66,000	64,400	65,200	68,460	68,460	68,460	68,460
Redrow	2,000	2,400	1,500	4,250	24,900	26,150	22,800	21,900	22,150	22,790	26,024	25,245	25,750	26,265	26,790
Taylor Wimpey	90,000	84,000	80,000	79,000	102,892	89,394	84,479	76,626	84,236	98,659	109,974	109,777	109,584	106,109	102,808
Sector Average	49,038	33,536	32,599	36,083	50,898	46,455	39,882	39,540	39,999	37,786	40,076	45,913	46,147	45,811	45,503

Source: Deutsche Bank and Company data

Figure 103: Strategic land bank years of UK Housebuilders

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Barratt	na	na	na	na	Na	na	3.6	5.3	5.6	4.8	4.5	4.9	4.6	4.5	4.4
Bellway	na	na	na	na	Na	na	na	3.3	2.6	2.6	2.5	2.2	2.1	1.9	1.9
Berkeley	na	na	na	na	Na	na	na	na	na	na	na	na	na	na	na
Bovis	8.1	8.9	8.5	8.3	7.9	8.5	10.4	9.1	9.1	8.7	8.2	7.1	5.3	5.0	4.7
Crest Nicholson	na	5.2	6.5	5.4	4.9	6.3	9.8	10.4	9.4	6.7	6.6	5.8	5.1	4.8	4.4
Persimmon	6.7	6.4	6.0	5.5	5.4	7.8	8.5	7.4	7.1	6.5	5.7	5.1	4.9	4.5	4.4
Redrow	Na	na	0.6	0.3	0.9	5.2	7.8	13.4	9.9	9.6	10.7	10.5	8.5	7.4	6.6
Taylor Wimpey	na	8.3	6.4	6.4	6.0	5.1	4.7	5.6	5.4	8.2	8.9	9.3	8.7	8.0	7.6
Sector Average	7.4	7.2	4.7	4.3	5.0	6.6	7.5	7.8	7.0	6.7	6.7	6.4	5.6	5.2	4.9

Source: Deutsche Bank and Company data



Appendix 1

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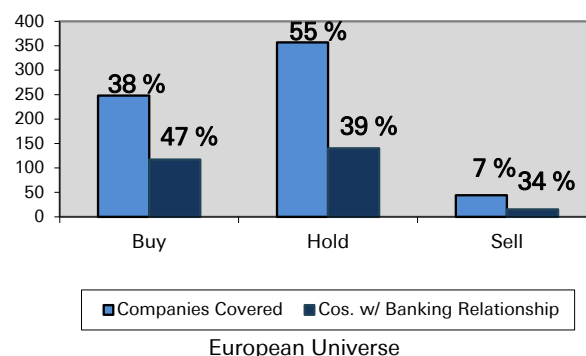
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