Bellway p.l.c.

Trading Update

Thursday 8 February 2018

Bellway p.l.c. is today issuing a trading update for the six months ended 31 January 2018 ahead of its interim results announcement on Tuesday 20 March 2018.

Highlights

- Housing revenue is expected to rise by in excess of 14% to around £1.3 billion (2017 – £1,142.9 million).
- Further volume growth, with a 6.3% rise in the number of housing completions to 4,741 (2017 – 4,462).
- The average selling price has risen by almost 7.8% to a record £276,000 (2017 – £256,140).
- A 7.2% rise in the weekly reservation rate has contributed to a strong forward sales position, with the value of the forward order book growing by 15.7% to £1,297 million (2017 – £1,121 million).
- Significant investment in land with 6,726 plots contracted (2017 – 6,287 plots) on sites with attractive rates of return, supporting the Group's continued growth ambitions.

John Watson, Executive Chairman, commented:

"Bellway is continuing to make a sizeable contribution to the supply of much needed new homes and has delivered a further increase in both volume and average selling price in the six month trading period. Significant investment in land, together with ongoing plans to expand the divisional structure, should lead to a further increase in output and hence result in additional value creation for our shareholders."

Market conditions and trading

Market conditions continue to be favourable and customer demand for new homes remains strong. Notwithstanding the modest increase in the Bank of England base rate in November, mortgage rates remain low by historical standards, ensuring that the cost of financing a new Bellway home remains affordable. This, together with positive Government support, including new measures such as SDLT relief for most first time buyers, continues to provide financial support to purchasers and hence improve accessibility to mortgage finance.

In this positive trading environment, interest from customers remains high, with website traffic and visitors to sales outlets both ahead of last year. Reservations have followed their usual seasonal trend, with the quieter, albeit positive, summer period followed by an increase in activity over the autumn months. The Group has taken 178 reservations per week (2017 – 166), an increase of 7.2% compared to the same period last year and the cancellation rate, a barometer of customer confidence, remains low at under 11% (2017 – under 12%).

Results

The number of homes legally completed rose by 6.3% to 4,741 (2017 – 4,462), with all geographic regions in which the Group operates performing well. The average selling price of homes sold rose by almost 7.8% to £276,000 (2017 – £256,140), principally as a result of investment in higher value locations throughout the country, where stronger demand and robust pricing has influenced land acquisition over recent years. In addition, the overall average selling price has been further enhanced by the completion of 53 homes (2017 – nil) from our flagship development at Nine Elms in Battersea, where the average selling price in the period was £562,000.

For the full financial year, continued changes in mix, together with the further contribution of higher value apartments at Nine Elms, should mean that the overall average selling price will rise to in excess of £280,000 (31 July 2017 – £260,354).

As a result of the strong trading performance, housing revenue for the six months ended 31 January is expected to increase by over 14% to around £1.3 billion (2017 – £1,142.9 million). The operating margin for the first half of the year is expected to rise, to slightly above 22% (2017 – 22.0%), and the Group should be able to achieve an operating margin of around 22% for the full financial year (31 July 2017 – 22.3%), provided that current market conditions continue.

Further investment to secure future growth

The land market remains appealing and the Group has had a very successful period identifying further good quality opportunities at attractive rates of return. To that extent, Bellway has contracted to acquire 6,726 plots (2017 – 6,287 plots), with a total value of £401 million (2017 – £405 million), across 56 sites (2017 – 52 sites). The anticipated gross margin on those sites contracted is expected to be in excess of 24%, based on today's selling prices.

The prospect for further investment in additional, good quality land remains strong and the Group has a strong future pipeline of potential acquisitions, with heads of terms agreed on some 5,750 plots (2017 – 5,300 plots). All sites owned by the Group are being actively progressed through the planning system in order that construction can commence as quickly as possible and Bellway can continue increasing its output of new homes.

Financial position

The balance sheet remains strong, with net bank debt[3] of £131 million (2017 – £175.1 million), representing modest gearing[4] of under 6% (2017 – 8.9%). In accordance with the usual seasonal trading pattern, net bank debt[3] is expected to reduce by the end of the financial year.

Outlook

As a result of the strong trading performance, the forward order book, comprising 4,629 homes (2017 – 4,487 homes), has risen in value by 15.7% to £1,297 million (2017 – £1,121 million). Whilst growth this financial year will in part be determined by the outcome of the spring selling season, given the strength of the forward order book, the Board expects that the Group will be able to replicate the rate of volume growth achieved in the first half and in doing so, complete the sale of around an additional 600 homes for the year ending 31 July 2018.

Beyond this year, whilst the exit from the EU provides a degree of uncertainty across the wider economy, the fundamental parameters supporting the housing market remain strong. Previously announced plans to open a new twentieth division, located in Scotland, are progressing well and in addition, the Board continues to appraise expansion opportunities in other areas of the country. Provided capital can be invested in areas of strong demand, Bellway is well placed to deliver additional volume growth beyond this financial year, both from its existing structure and through the opening of new divisions.

[1] All figures relating to completions, order book, reservations, cancellations and average selling price exclude the Group's share of its joint ventures.

[2] All comparatives are to the prior year equivalent six month period ended 31 January 2017 or as at 31 January 2017 ('2017') unless otherwise stated.

[3] Net bank debt is cash and cash equivalents less bank debt.

[4] Gearing is calculated as net bank debt divided by total equity.

FOR FURTHER INFORMATION PLEASE CONTACT:
JASON HONEYMAN, CHIEF OPERATING OFFICER AND KEITH ADEY, FINANCE DIRECTOR FROM 7:00 AM ONWARDS ON 0191 217 0717.

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