Bellway p.l.c.

Trading Update

Wednesday 8 August 2018

Bellway is today issuing a trading update for the year ended 31 July 2018 ahead of its preliminary results announcement on Tuesday 16 October 2018.

Highlights

- Bellway has broken through the 10,000 homes barrier for the first time in its history, completing the sale of 10,307 new residential dwellings (2017 – 9,644 homes), an increase of 6.9%.
- Substantial revenue growth of around 16% to almost £3 billion (2017 – £2,558.6 million), together with an anticipated operating margin of around 22% (2017 – 22.3%), should lead to another year of significant earnings growth.
- Strong sales demand during the year, with a 7.0% increase in the reservation rate to 200 per week (2017 – 187 per week).
- The growth in volume has been achieved whilst maintaining a sizeable forward order book, comprising 4,841 homes (2017 – 4,749 homes).
- Strong balance sheet with net cash of £99 million (2017 – £16.0 million), provides the Group with financial strength and flexibility.

Jason Honeyman, Chief Executive, commented:

“Bellway has responded positively to the favourable market conditions, completing the sale of over 10,000 new homes for the first time in its history, whilst retaining a clear focus on quality and customer care. In doing so, the Group has set a new earnings record and yet, having invested significantly in land, has ended the year with a strong net cash position. Trading has been robust and notwithstanding wider political and economic uncertainty in the UK, Bellway has both the financial and operational strength to respond opportunistically to future changes in market conditions.”

Market and current trading

There remains an underlying requirement for additional, good quality and affordably priced new housing. This is supported by the availability of Help to Buy and an environment of low interest rates, which despite the recent Bank of England decision, remain close to a historically low level.

The Group has taken an average of 200 reservations per week (2017 – 187 per week) throughout the year, an increase of 7.0%. As previously reported, trading in the first half of the financial year was particularly strong, driven by a continued programme of site openings. The sales rate since 1 February has followed the usual seasonal pattern, increasing to 222 reservations per week (2017 – 209 per week), and a year-on-year rise of 6.2%. Over the same second half trading period, the Group achieved a private reservation rate of 168 per week (2017 H2 – 168 per week), a robust performance given the strength of the comparator period, during which private reservations were 16.7% ahead of the equivalent six months in the year before last.

The pricing environment is stable, with many sites still able to achieve low, single digit increases, predominantly for affordably priced homes, located in areas of strong demand. As the year has progressed, the rate of house price inflation has moderated. In addition, higher value homes across the country have, at times, experienced slower sales rates and occasionally required a greater use of incentives, albeit the Group has intentionally limited its exposure at this upper end of the market.

Notwithstanding the more moderate rate of house price growth, cost increases across the Group are still being offset by house price gains. Nevertheless, the net inflationary enhancement to the margin, which has augmented results over recent years, is beginning to abate.

Overall, trading conditions are favourable and customer confidence appears robust, with this reflected in the cancellation rate, which remains low at just 11% for the full year (2017 – 11%).

Results

In the context of this trading environment, Bellway has grown total revenue by around 16% to a record of almost £3 billion (2017 – £2,558.6 million). In achieving this growth, the Group has completed the sale of 10,307 new homes (2017 – 9,644 homes), an increase of 663 compared to the prior financial year and broadly equivalent to the output of an additional, mature operating division. The proportion of private completions rose to 80% of the total (2017 – 78%) and this has had a positive influence on the overall average selling price, which rose by around 9.4% to a new high of £284,900 (2017 – £260,354). The Board expects there to be further, more moderate growth in the average selling price in the year ahead.

As previously reported, the operating margin for the full financial year is expected to be around 22% (2017 – 22.3%) and this, together with the rise in revenue, will result in substantial full year earnings growth.

Land buying and financial position

The land market remains favourable and continues to provide attractive opportunities. We remain selective and disciplined in our approach to land buying, using return on capital employed as a key assessment metric. Accordingly, the Group has contracted to purchase 12,962 plots (2017 – 11,613 plots) across 100 sites (2017 – 97 sites), with a focus on acquiring land in desirable locations with high demand, where the product is affordable in the context of localised market conditions. On average, the land acquired is expected to achieve a gross margin of around 24%, based on an assessment of selling prices and costs at the time of acquisition.

In addition to this land buying activity, and as a result of the efforts of our planning teams with regards to a number of previously owned sites, the Group now has detailed planning permission in place on all plots that are expected to contribute to next year's anticipated growth target.

Notwithstanding cash expenditure of some £784 million on land and land creditors (2017 – £655 million), the Group ended the year with net cash of £99 million[2] (2017 – £16.0 million).

Outlook

In addition to the strong growth in the number of completions, the Group has maintained a sizeable forward order book at 31 July, comprising 4,841 homes (2017 – 4,749 homes), with a value of £1,301.1 million (2017 – £1,296.3 million). This solid position should enable the Group to deliver further, more moderate growth in the year ahead.

Bellway retains an ability to be agile and respond positively to opportunities as they arise. Provided market conditions continue to remain attractive, the Group has the operational and financial strength to further expand the divisional network, thereby supporting additional growth in the years ahead.

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

2 Net cash is cash plus cash equivalents, less bank debt.

FOR FURTHER INFORMATION PLEASE CONTACT:

JASON HONEYMAN, CHIEF EXECUTIVE AND KEITH ADEY, FINANCE DIRECTOR FROM 7:00 AM ONWARDS ON 0191 217 0717.