Bellway p.l.c.

Trading Update

Thursday 7 February 2019

Bellway p.l.c. is today issuing a trading update for the six months ended 31 January 2019 ahead of its interim results announcement on Wednesday 27 March 2019.

Highlights

- Ongoing delivery of the Group's growth strategy, with total revenue expected to rise by over 12% to almost £1.5 billion (2018 – £1,324.4 million).
- Further volume growth, with the number of housing completions rising by 5.6% to 5,007 (2018 – 4,741).
- The average selling price has risen by 6.5% to £293,800 (2018 – £275,945).
- A record sales performance, with the weekly reservation rate rising by 2.8% to 183 (2018 – 178), the highest ever achieved by the Group in a first half trading period.
- A strong balance sheet, with modest net bank debt of £26.6 million[3] (2018 – £131.4 million).

Paul Hampden Smith, Chairman, commented:

"Bellway has delivered another strong trading performance, achieving growth in both volume and average selling price in the six month period. Further, disciplined investment in high quality land, together with a sizeable forward order book, ensure that the Group is well placed, over the longer term, to continue increasing its contribution to the supply of much needed new homes. While the forthcoming exit from the EU is providing a degree of wider economic uncertainty, Bellway's balance sheet is solid and the Group retains its ability to respond positively to opportunities in the land market as they arise."

Market conditions and trading

Demand for affordably priced new homes remains strong, supported by an environment of low interest rates and the availability of responsible, higher loan-to-value mortgages, provided through the Government's Help to Buy scheme.

Against this backdrop, customer interest in Bellway homes remains high. Evolving customer trends mean that digital sales platforms are growing in importance and as such, the recent investment in our new website has resulted in online visitor traffic increasing by 15%. This, together with our ongoing programme of site openings, enabled the Group to achieve a 2.8% increase in the average weekly sales rate, which, net of cancellations rose to 183 reservations per week (2018 – 178). This compares to a strong comparator period, during which reservations were 7.2% ahead of the equivalent six month period in the year before last. The private sales rate remained strong at 136 reservations per week (2018 – 136 per week), in line with the same period in the prior financial year. This is a robust performance given the ongoing discussions around our forthcoming exit from the EU, which has inevitably had some bearing on customer confidence in the wider economy.

This slight moderation in sentiment is reflected in the cancellation rate, which whilst still low, has risen marginally to 13% (2018 – 11%). In addition, the measured use of incentives has continued on certain sites. These have been generally focussed towards higher value plots, where the Group has limited exposure and where sales rates tend to be a little slower. Whilst part-exchange continues to be an important selling incentive, its use is well controlled, having been utilised in 7% of completions (2018 – 7%), similar to the prior period.

Overall, although the rate of house price inflation continues to moderate, the pricing environment remains firm, with modest increases still achievable on many affordably priced sites across the country.

Results

In the context of this trading environment, Bellway has delivered another robust financial performance, with total revenue expected to grow by over 12% to almost £1.5 billion. This has been driven by a 5.6% increase in the number of housing completions, which rose to 5,007 (2018 – 4,741), a strong result, in part driven by further investment in work in progress.

In addition, the Group achieved a 6.5% rise in the average selling price, which rose to £293,800 (2018 – £275,945). The increase was mainly driven by previous investment in areas of high demand, where average selling prices tend to be higher. In addition, the overall average selling price has been positively influenced by a greater number of completions from our flagship development at Nine Elms, Battersea. This site contributed 125 homes (2018 – 53) at an average selling price of £828,500 (2018 – £562,285).

For the full financial year, the Board still expects the average selling price to be slightly in excess of £290,000 (31 July 2018 – £284,937).

The operating margin in the first half of the financial year is expected to moderate to around 21.5% (2018 – 22.2%), as the benefit of historical house price inflation captured since land acquisition begins to diminish. Notwithstanding the continuing reduction in house price inflation, the operating margin for the current, full financial year should be maintained at around this level (31 July 2018 – 22.1%), followed by further, gradual moderation in FY20.

Land buying and financial position

The land market remained attractive throughout the trading period and Bellway has continued to selectively acquire sites on terms that meet its minimum hurdle rates in respect of gross margin and return on capital employed. Accordingly, the Group has contracted to acquire 5,980 plots (2018 – 6,726 plots) across 45 sites (2018 – 56 sites) at an anticipated gross margin of around 24% based on today's selling prices. The Group has temporarily slowed the rate of investment on a number of site acquisitions, pending the outcome of the UK's exit from the EU.

Bellway continues to be highly cash generative thereby facilitating continued reinvestment in land. Notwithstanding cash expenditure of some £403 million on land and land creditors (2018 – £403 million), the Group had modest net bank debt of £26.6 million[3] (2018 – £131.4 million), representing gearing of around 1%[4] (2018 – 5.7%).

Outlook

Bellway commences its second half trading period in a solid position. In addition to the 12% revenue growth and notwithstanding the 5.6% growth in the number of legal completions, the order book is strong, with a value of £1,171.3 million (2018 – £1,297.4 million), comprising 4,587 units (2018 – 4,629 units).

This, together with further controlled investment in work in progress should ensure that volume output for the full year exceeds last year's record of 10,307 new homes, although the rate of growth achieved will be determined by the strength of the traditionally strong spring selling season. Early signs suggest that customer demand and reservations will follow their usual seasonal trend, however, the Board remains cautious given the uncertainty regarding the UK's forthcoming exit from the EU and the extent to which this will affect wider customer confidence.

Longer term, the underlying requirement for affordably priced new homes remains strong. Bellway is well positioned to capture this demand with its strong balance sheet, flexible capital structure and operational capacity to continue its strategy of disciplined volume growth.

[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 2018 or as at 31 January 2018 ('2018') 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:
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