

Bellway p.l.c.

Trading Update

Friday 7 February 2020

Bellway p.l.c. is today issuing a trading update for the six months ended 31 January 2020 ahead of its interim results announcement on Wednesday 25 March 2020.

Highlights

- Record first half volume output, with the completion of 5,321 new homes (2019 – 5,007), a rise of 6.3%.
- Strong demand for private homes, with an 11% rise in the private reservation rate to 151 per week (2019 – 136) and a 6% increase in the overall reservation rate to 194 per week (2019 – 183), building upon last year’s record performance for a first half trading period.
- Ongoing investment in land to facilitate further growth in the years ahead, with 7,005 plots contracted (2019 – 5,980 plots), on sites with attractive rates of return.
- Strong balance sheet and net cash of £4.6 million³ (2019 – net bank debt of £26.6 million), representing an ungeared⁴ position (2019 – gearing of 1.0%).
- A robust forward sales position, with an order book comprising 4,598 homes (2019 – 4,587 homes) and a value of £1,163.1 million (2019 – £1,171.3 million).
- Profit before tax for the full year is expected to be in line with market estimates⁵.

Paul Hampden Smith, Chairman, commented:

“Bellway continues to increase the supply of affordably priced, good value new homes, following another successful trading period in which it has achieved further volume growth. Constructing quality homes and maintaining high standards of customer service remain a priority for the Group. I am therefore delighted that Bellway continues to maintain its five-star⁶ homebuilder rating. Looking forward, a robust balance sheet, operational capacity for expansion and a strong order book should ensure that the Group is well placed to deliver additional, long term volume growth, thereby continuing our disciplined growth strategy.”

Market conditions and trading

Bellway has delivered another six month period of positive sales, benefitting from its investment in new outlets and ongoing demand for reasonably priced, high quality housing. Affordability remains good, supported by positive employment conditions, low interest rates and the availability of higher loan to value mortgage products, arising as a result of the government’s Help to Buy scheme.

Notwithstanding the political uncertainty in the latter half of 2019, customer interest remained resilient throughout the trading period. This interest has increased since the start of the calendar year, with renewed consumer optimism benefitting the housing market.

Against this backdrop, total reservations, net of cancellations, rose by 6% to 194 per week (2019 – 183), a record for a first half trading period. The cancellation rate remained low at 13% (2019 – 13%). Demand for private homes was also strong, with the private reservation rate rising by 11% to 151 per week (2019 – 136), albeit activity in the prior year was subdued somewhat due to heightened ‘Brexit’ uncertainty. Positive actions have also contributed to this rise. These include a 4.6% increase in the average number of active outlets to 274 (2019 – 262), following a continued programme of site openings, together with ongoing investment in our recently relaunched customer website.

The pricing environment remained firm, although there remains ongoing challenges in relation to higher priced homes. In addition, there continues to be upward pressure on construction costs across the wider sector. Bellway is implementing a number of ongoing initiatives in order to help mitigate these cost increases.

Results

Housing revenue rose by almost 4% to around £1,525 million (2019 – £1,471.2 million), mainly driven by strong growth in housing completions, which rose by 6.3% to 5,321 (2019 – 5,007). This was partially offset by a slight moderation in the average selling price, which decreased by 2.5% to around £286,500 (2019 – £293,832), reflecting mix changes in accordance with previous guidance.

The robust growth in volume not only reflects good on-site construction progress, but it should also lead to a more even spread of completions throughout the financial year, with expected volume growth in FY20 weighted towards the first half. This intentional approach will help to alleviate busier handover periods in H2, thereby enabling the Group to maintain its high standards of finish and ensure a positive experience for customers. The focus on quality, together with ongoing improvements in customer care, remain an integral part of how Bellway operates. This is reflective of our current HBF customer satisfaction survey results, which continue to be above the five-star⁶ threshold.

The moderation in the average selling price reflects, in part, a stronger rate of growth in lower value social homes as a result of on-site construction progress. In addition, Bellway has now almost fully traded out of its flagship development, The Residence, at Nine Elms in Battersea, completing the sale of just 20 apartments in the period (2019 – 125), at an average selling price of around £761,300 (2019 – £828,528). The overall average selling price in the period, excluding completions from Nine Elms, was around £284,700 (2019 – £280,142), a rise of 1.6%.

For the full year, the Board still expects the average selling price to be in excess of £285,000 (31 July 2019 – £291,968), in line with previous guidance.

Land buying and financial position

The land market remains attractive, with our land teams identifying further opportunities to buy sites in good quality locations, which meet our minimum hurdle rates in respect of both gross margin and return on capital employed. Accordingly, the Group has contracted to acquire 7,005 plots (2019 – 5,980 plots), a record half year investment, which should enable Bellway to continue increasing outlet numbers and the supply of new homes in the years ahead.

The Board remains mindful of the forthcoming introduction of the Help to Buy price caps and is therefore ensuring that new outlets are able to offer an affordable product mix to customers. Notwithstanding this, the Group continued to buy land at an average gross margin of around 23%, based on today's selling prices.

Bellway's balance sheet remains strong, with net cash of £4.6 million³ (2019 – net bank debt of £26.6 million), having spent around £397 million on land and land creditors (2019 – £403 million). The Group remains ungeared⁴ (2019 – gearing of 1.0%), thereby providing significant financial flexibility and capacity for future investment.

Outlook

In addition to the strong growth in volume, Bellway has a substantial order book comprising 4,598 homes (2019 – 4,587 homes), with a value of £1,163.1 million (2019 – £1,171.3 million). There remains some cost pressure affecting the wider industry, however, trading conditions are encouraging and early indications suggest that there will be a return of the usual, traditionally strong spring selling season. This, together with the sizeable forward sales position, should facilitate further, yet more moderate volume growth for the full financial year.

In an environment of flat house prices, the operating margin will continue to moderate towards a more normalised level, in line with previous guidance. As a result, the Board expects profit before tax for the full year to be in line with current market consensus⁵.

Over the medium and longer term, the underlying requirement for affordably priced new homes is expected to be strong. Bellway remains well placed to capture this demand, both from its current divisional structure and its longer term ability to expand beyond this. The Group's strong balance sheet, flexible capital structure and operational capacity underpin this strength and should enable the Group to create additional value for shareholders.

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 2019 or as at 31 January 2019 ('2019') unless otherwise stated.

³ Net cash / bank debt is cash and cash equivalents less bank debt.

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

⁵ Consensus PBT is £622 million using the average of £624 million on Bloomberg and £620 million on Reuters.

⁶ As measured by the Home Builders' Federation customer satisfaction survey.

FOR FURTHER INFORMATION PLEASE CONTACT:

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

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