Bellway p.l.c.

Annual General Meeting and Trading Update

Friday 11 December 2020

Final

Bellway p.l.c. ("Bellway" or the "Group") is holding its Annual General Meeting today, at 8.30 am and is issuing a Trading Update relating to the 17-week period from 1 August 2020 to 29 November 2020.

Highlights

- There is strong underlying demand for new homes, with a 6% increase in the reservation rate to 210 per week (1 August 2019 to 24 November 2019 – 199 per week).
- The forward sales position is substantial, with an order book comprising 6,186 homes (24 November 2019 – 5,770 homes) and a value of £1,766.7 million[3] (24 November 2019 – £1,488.6 million).
- Housing completions for the full year to 31 July 2021 are now expected to increase by around 25% (31 July 2020 – 7,522).
- The Group has made disciplined investment in high quality land to drive volume and margin recovery in the years ahead, with 4,163 plots contracted (1 August 2019 to 24 November 2019 – 3,229 plots) across 24 sites (1 August 2019 to 24 November 2019 – 20 sites) at attractive rates of return.
- Strong balance sheet, with net cash of £242.9 million[2] (24 November 2019 – net bank debt of £45.7 million) and substantial capacity to invest further in land. Land creditors remain low, at around £295 million (24 November 2019 – £242 million).
- As previously announced, the Board is recommending a final dividend of 50.0p per share in respect of the year ended 31 July 2020 (31 July 2019 – 100.0p per share) and expects to increase future dividend payments, commensurate with the recovery in earnings.

Jason Honeyman, Chief Executive, commented:

"Bellway's priority remains the health, safety and wellbeing of our colleagues and contractors, whose collective efforts are enabling the Group to proceed responsibly along the road to recovery.

Bellway is in a robust position and notwithstanding the recent widespread 'lockdown' restrictions throughout the country, sales demand is encouraging, and the order book is strong. We have substantial cash resources, considerable ability to continue investing in land and with our solid operational structure, we are determined to return the Group to its strategy of delivering long-term and sustainable growth."

Market and current trading

Consistent with the reintroduction of more widespread 'lockdown' measures throughout November, particularly in England, the Group has continued to prioritise the safety and wellbeing of our colleagues, customers and supply chain partners. All our selling outlets continue to operate with strict COVID-19 safety procedures, and this has enabled them to remain open throughout the whole trading period, on an appointment only basis, in line with Government guidance. We also retain a strong online and telephone sales presence.

The lending environment remains generally supportive, although it is still taking longer to obtain valuations and progress mortgage applications. In addition, outwith Help-to-Buy, the absence of higher loan-to-value lending makes it difficult to access the housing ladder for those with no more than a 5% deposit. The transition to the new Help-to-Buy rules has resulted in a short-term hiatus in the availability of the scheme, with this resulting in an understandable moderating effect on the reservation rate in recent weeks.

Interest rates remain low, aiding affordability and the temporary stamp duty holiday continues to provide valuable support to the whole housing market, with consequential benefits to the wider economy.

In the context of this overall trading environment, the underlying demand for good quality new homes remains encouraging, with reservations averaging 210 per week during the period (1 August 2019 to 24 November 2019 – 199 per week), an increase of 6% compared to last year. The cancellation rate remained low at just 14% (1 August 2019 to 24 November 2019 – 13%) and the pricing environment was firm across the country, with sales prices achieved on reservations in line with expectations.

Sales rates were more pronounced at the start of the financial year, given the pent-up demand arising from the Spring national 'lockdown'. As expected, while still resilient, the reservation rate slowed during November to an average of 164 per week (28 October 2019 to 24 November 2019 – 233 per week), a result of the reintroduction of more widespread 'lockdown' measures. This represents a decline of 30% compared to the same period last year, during which trading was particularly strong. Visitors to the Bellway website during this same period were significantly ahead, a reflection of the strong underlying customer sentiment.

Forward sales

The order book is substantial and with the strong sales demand, it has grown by 18.7% to £1,766.7 million[3] (24 November 2019 – £1,488.6 million). This represents 6,186 homes (24 November 2019 – 5,770 homes), of which 61% are contracted.

The robust forward sales position, together with the higher number of completions already achieved in the period and our focussed investment in work-in-progress, will result in volume output in the current financial year being weighted towards the first half trading period. As a result, the Board now expects that the number of homes sold for the half year ending 31 January 2021 will be similar to the equivalent period in the prior year (31 January 2020 – 5,321).

Longer term, risks remain with regards to the change in Help-to-Buy and stamp duty rules, together with the potential for ongoing economic uncertainty, both as a result of the disruption caused by COVID-19, together with the expiry of the 'Brexit' transition period on 31 December 2020.

Notwithstanding this, the Board is cautiously optimistic and now expects that Bellway will increase volume by around 25% for the year ending 31 July 2021 (31 July 2020 – 7,522), providing a solid platform for continued growth thereafter, subject to continuing market demand.

Land buying and financial position

The positive summer and autumn trading performance has provided reassurance and confirmed the strong underlying demand for new homes. Bellway has therefore continued its programme of land acquisition, with our land teams tasked with identifying attractive investment opportunities, following a brief pause in the prior financial year during the initial national 'lockdown'.

While adopting a disciplined approach, Bellway has contracted to acquire 4,163 plots (1 August 2019 to 24 November 2019 – 3,229 plots) across 24 high quality sites (1 August 2019 to 24 November 2019 – 20 sites), with a contract value of £184.0 million (1 August 2019 to 24 November 2019 – £184.8 million). The average forecast gross margin on land contracted is around 23%, based on expected costs and selling prices at the time of entering into the land contracts. The total cash spend on land, including payment of land creditors, was £176.6 million (1 August 2019 to 24 November 2019 – £225.4 million).

The sites acquired are geographically spread across the country and will enable Bellway to offer its customers an affordable product, with less reliance on Help-to-Buy. This responsible but front-footed approach to investment will contribute to the recovery in both volume and operating margin in the years ahead.

Funding and liquidity

The Group has a strong balance sheet, with net cash of £242.9 million[2] at 29 November 2020 (24 November 2019 – net bank debt of £45.7 million), representing an ungeared[4] position (24 November 2019 – gearing of 1.5%). This is in the context of committed, undrawn bank facilities of £495 million, which expire in tranches up to 31 December 2023. In addition, committed land obligations remain low, at around £295 million (24 November 2019 – £242 million).

While retaining a cautious approach towards gearing, the Group has entered into a contractual agreement to issue a sterling US Private Placement ('USPP') for a total amount of £130 million, as part of its ordinary course of business financing arrangements. Final closing and issuance of the associated notes is subject to various closing conditions that are customary for the USPP market. It is expected that the debt, which has maturity dates in seven and ten years, will be fully drawn from 17 February 2021, and has a weighted average fixed coupon of 2.7%. The financial covenants mirror those already included within the Group's existing banking agreements. The issuance will provide a diversified source of finance, securing longer term access to capital as the net assets of the Group continue to grow. Together with the committed bank facilities, the USPP will provide Bellway with significant capacity to invest in compelling land opportunities that meet or exceed its minimum financial acquisition criteria.

Dividend

The proposed final dividend of 50.0p per share (31 July 2019 – 100.0p), if approved at today's AGM, will be paid to shareholders on 8 January 2021. The Group is in a resilient position, with a robust balance sheet, strong order book and a well-established operating structure. The Board is therefore optimistic that it will be able to increase future dividend payments, commensurate with the recovery in earnings.

A Trading Update will be issued on Tuesday 9 February 2021 following the conclusion of the six-month trading period ending 31 January 2021.

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.
3 Order book is the total expected sales value of reservations that have not legally completed.
4 Gearing is net bank debt divided by total equity.

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