Bellway p.l.c.

Trading Update

Tuesday 9 February 2021

Bellway p.l.c. is today issuing a Trading Update for the six months ended 31 January 2021 ahead of its Interim Results announcement on Wednesday 24 March 2021.

Highlights

- Record first half volume output, with the completion of 5,656 new homes (2020 – 5,321), a rise of 6.3%.
- Strong underlying demand, with a 3.3% increase in the private reservation rate to 156 per week (2020 – 151), building upon last year's robust first half trading performance.
- Record half year investment in land providing a strong platform for growth and margin recovery in future years, with 8,848 plots contracted (2020 – 7,005 plots) across 54 sites (2020 – 41 sites) at attractive rates of return.
- Strong balance sheet with net cash of £346 million[3] (2020 – £4.6 million) providing resilience and flexibility.
- A robust forward sales position, with an order book comprising 5,889 homes (2020 – 4,598 homes) and a value of £1,625.3 million[4] (2020 – £1,163.1 million).
- Housing completions for the full year to 31 July 2021 are now expected to increase to around 9,800 homes (31 July 2020 – 7,522) and the underlying operating margin[5] for the full year is expected to improve by at least 200 basis points (31 July 2020 – 14.5%).

Jason Honeyman, Chief Executive, commented:

"Bellway's priority remains the health, safety and wellbeing of our colleagues and subcontractors, whose collective efforts are enabling the Group to proceed responsibly as businesses throughout the UK plan their recovery from the worldwide pandemic.

In the context of challenging circumstances, the Group has delivered an excellent first half performance, achieving growth in volume to a record level, while maintaining high build standards and a focus on customer service. I am therefore delighted that Bellway continues to maintain its five-star homebuilder[6] rating. While uncertainty remains in the wider economy, the underlying demand for good quality new homes remains robust and we have therefore made further, disciplined investment in attractive land opportunities.

Looking forward, we have a sizeable forward order book, which provides a solid platform for the second half of the financial year and beyond. In addition, our balance sheet is strong, with significant cash resource and this provides the Group with the necessary resilience and flexibility to respond positively to the evolving economic environment."

Market conditions and trading

The housing market remains robust, supported by good affordability, low interest rates and the temporary stamp duty holiday. Bellway has delivered a positive six-month trading period, benefiting from its elevated investment in work-in-progress at the start of the financial year, together with ongoing customer demand for our mid-market, high quality housing.

Sales rates were more pronounced at the start of the financial year, given the pent-up demand arising from the Spring national 'lockdown'. The reservation rate slowed during November, as the sector transitioned to the new Help-to-Buy rules and more widespread 'lockdown' measures were reintroduced. Despite the escalation of these 'lockdown' measures in the new calendar year, sales rates have since recovered to a more normalised level, boosted by the effective transition to the new Help-to-Buy scheme, which has been well received by our customers.

For the whole period, the private reservation rate rose by 3.3% to 156 per week (2020 – 151), and the overall reservation rate was resilient at 191 per week (2020 – 194). In line with respective Government guidance, sales centres have remained open in England and Scotland on an appointment only basis but are closed except for essential visits in Wales. The cancellation rate remained low, at just 14% (2020 – 13%).

Progress has also continued on construction sites, with strict COVID-secure policies in place and no discernible effect on the supply chain as a result of the UK's new trading arrangements with the EU. This, together with strong on-site organisation, has enabled the Group to increase average active outlets to 278 (2020 – 274).

The pricing environment has remained firm, with some modest house price inflation benefiting selected sites in localities where demand is particularly strong, with this most pronounced on developments in the north west of England and the Midlands.

Results

Bellway has achieved an excellent first half performance, with housing revenue rising by over 12% to around £1,715 million (2020 – £1,524.8 million), in part driven by strong growth in the number of homes sold, which rose by 6.3% to 5,656 (2020 – 5,321). In addition, the Group has a substantial forward order book comprising 5,889 homes (2020 – 4,598 homes), with a value of £1,625.3 million[4] (2020 – £1,163.1 million), with this primarily expected to contribute to completions over the next 12 months.

The robust growth in volume is a result of the exceptionally high order book and elevated construction progress at the start of the financial year, in part a consequence of the COVID-19 related completion delays in the year ended 31 July 2020. The very strong first half completion performance has reduced levels of work in progress and this, together with our ongoing focus on build quality, will result in a lower level of completions in the second half of the financial year.

The average selling price rose by 5.8% to around £303,200 (2020 – £286,570), influenced by a greater proportion of private housing completions, which rose to 78% of the total (2020 – 77%). The Group also deliberately accelerated the construction and sales completion of higher value homes in advance of the change in the Help-to-Buy price caps, which become effective from 1 April 2021. The increase in the average selling price is therefore a temporary change and as a result, for the full year, the average selling price is expected to be in line with the prior year (31 July 2020 – £293,054).

Legacy building safety improvements

As previously reported, Bellway has identified a number of developments, which were given building regulation approval at the time of construction, but where the building materials used may not fully comply with the most recent Government guidance in relation to fire safety. In that regard, the Group is continuing to help building owners where it may have a legal liability and fire remedial works are required and remains engaged with third parties to seek constructive solutions to these issues. This is a complex area and a further update will be provided with the release of the Interim Results.

Land buying

Given the strong underlying demand for new homes, we have continued our programme of land acquisition, with our land teams tasked with identifying attractive investment opportunities which meet our minimum hurdle rates in respect of both gross margin and return on capital employed.

Accordingly, the Group has contracted to acquire 8,848 plots (2020 – 7,005 plots) across 54 sites (2020 – 41 sites) in good quality locations, with a contract value of £452.8 million (2020 – £408.2 million), a record half year investment. 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 £351 million (2020 – £397 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 investment strategy, will contribute to the recovery in both volume and operating margin in the years ahead.

Funding and liquidity

The Group benefits from a strong balance sheet and notwithstanding the investment in land, net cash has risen to £346 million[3] (2020 – £4.6 million) because of the elevated level of completions and the reduction in work-in-progress. This substantial cash resource is in the context of undrawn, committed bank facilities of £495 million and £130 million of US Private Placement loan notes which are expected to be fully drawn from 17 February 2021. In addition, land creditors remain low at around £370 million (2020 – £274.9 million). This strong position provides substantial capacity to continue investing in land and work-in-progress.

Outlook

There remains uncertainty in the wider economy, with the ongoing threat of COVID-19 presenting a risk of future disruption to operations and, if employment conditions worsen, customer demand. In addition, the end of the stamp duty holiday and the changes in the Help-to-Buy rules will make it more difficult for some customers to achieve the necessary deposit requirements to purchase a new home.

Nevertheless, the roll out of the COVID-19 vaccine provides some optimism and there remains an underlying requirement for new homes in the UK, with Government support for the housing market to remain open during the current 'lockdown' restrictions. This support, together with the strong first half trading performance and continued customer demand means that the Board now expects Bellway to complete around 9,800 homes (31 July 2020 – 7,522) in the current financial year. The completion profile will be weighted towards the first half because of the strong work-in-progress position at the start of the year. In addition, the first six months has benefitted from the exceptional sales rate experienced in Summer 2020, which arose from pent up demand after the first national 'lockdown', with further support provided by the stamp duty holiday.

With this expected increased level of output, the underlying operating margin[5] for the full year is likely to improve by at least 200 basis points (31 July 2020 – 14.5%). There is expected to be a stronger operating margin in the first half of the financial year, with the heavier weighting of both completions and average selling price resulting in a more efficient absorption of administrative and selling overheads.

Beyond this financial year, Bellway is in a robust position. Its long-term approach, strong operational focus and offering of high-quality homes should enable it to continue meeting underlying market demand. At the same time, our strong financial position and flexible capital structure provides ongoing resilience to respond to any unexpected changes in the economic environment.

[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 2020 or as at 31 January 2020 ('2020') unless otherwise stated.

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

[4] Order book is the total expected sales value of reservations that have not legally completed.

[5] Pre-exceptional operating margin is the pre-exceptional operating profited divided by total revenue.

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

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