Bellway p.l.c.

Trading update

Tuesday 14 June 2022

Bellway p.l.c. ("Bellway" or the "Group") is today issuing a trading update in respect of the period from 1 February to 5 June 2022.

Highlights

- Strong sales demand in the period, with an average of 253 reservations per week (2021 – 239 per week, 2020 – 158 per week), an increase of 5.9% compared to the equivalent period in the prior year.
- Ongoing positive price momentum continues to offset build cost inflation.
- Further investment in high quality land opportunities, with 13,496 plots[7] contracted since 1 August (2021 – 16,582 plots, 2020 – 10,079 plots), secures a platform for growth at attractive rates of return in the years ahead.
- Strong balance sheet and net cash of £160 million[2] (6 June 2021 – net cash of £408 million, 31 May 2020 – net debt of £157 million) provides financial resilience and capacity to invest for further growth.
- As announced at the Interim Results, the interim dividend has been increased to 45.0p per share (2021 – 35.0p, 2020 – nil), and will be paid on Friday 1 July 2022.
- Recognition as a five-star[5] homebuilder for the sixth consecutive year. The appointment of a new Customer Experience Director further cements our commitment to our Customer First approach.
- Substantial forward sales position, with the value of the order book rising by 27.3% to £2,404 million[3] (6 June 2021 – £1,889 million, 31 May 2020 – £1,568 million) and comprising 8,152 homes (6 June 2021 – 6,763 homes, 31 May 2020 – 6,038 homes).
- Consistent with previous guidance, housing completions for the full year are still expected to grow by around 10% to more than 11,100 homes (31 July 2021 – 10,138 homes, 31 July 2020 – 7,522 homes) at an anticipated average selling price in excess of £305,000 (31 July 2021 – £306,479, 31 July 2020 – £293,054). The underlying operating margin is expected to be around 18.5%[6] (31 July 2021 – 17.0%, 31 July 2020 – 14.5%).

Jason Honeyman, Group Chief Executive, commented:

"Bellway has delivered another strong trading performance and despite the wider macroeconomic uncertainty, the Group continues to perform well. Demand is strong, reservations are ahead of last year and our order book remains substantial. Customer satisfaction is high and we enjoy continued success as a five-star[5] homebuilder, as recognised in the HBF's Customer Satisfaction survey.

"The positive sales market and the further investment we have made in land provides a strong platform to enable the Group to continue its growth strategy in the years ahead."

Market and current trading

The demand for our high-quality new homes remains strong, supported by our well-designed, locally elevated 'Artisan Collection' product range and our continued investment in land in popular locations. The pricing environment is favourable and although modest interest rate rises and increasing fuel costs are contributing to a rise in the cost of living, our affordable and energy efficient new homes provide an attractive proposition for customers.

Since 1 February, the overall reservation rate rose by 5.9% to an average of 253 per week (2021– 239 per week, 2020 – 158 per week). The average private weekly reservation rate was 198 per week (2021 – 193 per week, 2020 – 120 per week), an increase of 2.6%, with this achieved from an average of 240 outlets (2021 – 266). Customer confidence is strong and the cancellation rate since 1 August remains low at 13% (2021 – 13%, 2020 – 15%).

Although the reservation rate has increased, the utilisation of Help-to-Buy continues to fall, having been used by customers in 16% of transactions (2021 – 22%, 2020 – 39%), with uptake most pronounced on apartment schemes in, and around, London, where the Group has reduced its exposure over recent years. While comparatively more expensive, the availability of responsible, higher loan-to-value mortgage lending is gradually improving. This, together with expected outlet growth in the next financial year, will help to mitigate the withdrawal of Help-to-Buy for completions beyond March 2023.

The continued positive trading conditions have led to a further strengthening of our already substantial forward order book, which has risen in value by 27.3% to £2,404 million[3] (6 June 2021 – £1,889 million, 31 May 2020 – £1,568 million) and comprises 8,152 homes (6 June 2021 – 6,763 homes, 31 May 2020 – 6,038 homes). This strong forward sales position supports further investment in work-in-progress and underpins our previously announced growth ambitions in respect of this financial year and next.

Production and cost control

As noted at the time of our Interim Results, cost issues persist across the wider sector, with rising energy prices, global supply chain constraints and increasing wage costs all resulting in upward pressure. Overall, build cost inflation has been offset by house price gains and we expect this trend to continue, with our strong forward sales position supporting our drive to optimise prices on future reservations.

Concerns with regards to material availability have generally eased over the course of this calendar year, although there can remain ad hoc shortages at a regional level, with bricks, blocks and roof tiles often on extended lead-in times. Good on-site disciplines and familiarity with our standard house type range help to ease these production constraints. We are also working collaboratively with our subcontractors and suppliers to manage supply chain volatility and challenges to construction programmes.

Further investment in land supports growth

Bellway has continued its programme of land investment and our experienced land teams have contracted to acquire some 13,496 plots[7] since 1 August 2021 (2021 – 16,582 plots, 2020 – 10,079 plots), across 76 sites[7] (2021 – 94 sites, 2020 – 56 sites), at attractive rates of return. The value of those plots contracted is £926 million[7] (2021 – £923 million, 2020 – £651 million) and the average gross margin, based upon revenue and cost at the time of acquisition, is around 23%.

The planning system remains slow, constrained by a COVID related backlog, with this continuing to have a dampening effect on outlet openings across the wider sector. Notwithstanding this, Bellway's strengthened land bank, arising from our proactive, yet disciplined investment in land over the past 24 months, is expected to lead to growth in outlet numbers in the next financial year.

Financial position

As at 5 June, the Group had net cash of £160 million[2] (6 June 2021 – net cash of £408 million, 31 May 2020 – net debt of £157 million), representing an ungeared[4] position (6 June 2021 – ungeared, 31 May 2020 – gearing of 5%). The Board expects Bellway to end the year with net cash of around £200 million[2] (31 July 2021 – £330.3 million, 31 July 2020 – £1.4 million), depending upon the timing of land opportunities.

As announced at the Interim Results, in addition to supporting ongoing growth, our strong balance sheet has facilitated a 28.6% increase in the interim dividend to 45.0p per share (2021 – 35.0p, 2020 – nil), and this will be paid on Friday 1 July 2022.

Putting customers first

As previously reported, we are delighted to have retained our status as a five-star[5] homebuilder for the sixth consecutive year, with 93.6% of customers stating that they would recommend a Bellway product to a friend, when responding to the HBF's Customer Satisfaction survey, eight weeks after their moving date.

We have recently appointed a new Customer Experience Director, whose task is to further enhance the customer journey, from the initial reservation process, right through to the post-completion service that we offer.

More broadly, we welcome the introduction of the New Homes Ombudsman later this calendar year and believe this will contribute to a further improvement in standards across the industry.

Building safety

Bellway has always taken its responsibilities seriously with regards to building safety, having previously commenced a programme of remediation works to deal with historical building safety issues. In that regard, since 2017 and up to 31 January 2022, the Group has already set aside a total of £186.8 million, in relation to apartment buildings over 11 metres in height, which were generally built within our 10-to-12 year warranty period.

On 7 April 2022, we announced that this commitment would be extended to include buildings constructed by the Group since 5 April 1992 and further pledged to reimburse any costs incurred to date by the Building Safety Fund and the ACM Fund. Our estimate of the cost of these additional commitments remains unchanged at around £300 million, in addition to the £186.8 million already set aside since 2017.

The additional cost is significant and, notwithstanding that all buildings secured regulatory consent at the time of construction, it demonstrates our comprehensive and responsible approach towards building safety. The amount is expected to be recognised as an adjusting item for the year ending 31 July 2022 and is in addition to our contribution to the Residential Property Developer Tax, which is broadly charged at 4% of taxable profits from April 2022.

We have appointed a Managing Director to lead our new Building Safety division, whose remit includes the proficient remediation of legacy schemes, in a cost-effective manner. This division will be separately resourced so as not to detract from day-to-day operations and growth prospects elsewhere in the Group.

Outlook

As a result of the ongoing strong trading performance and in line with previous guidance, the Board continues to expect the Group to deliver volume growth of around 10% this year, to over 11,100 homes (31 July 2021 – 10,138 homes, 31 July 2020 – 7,522 homes). The average selling price is expected to be over £305,000 (31 July 2021 – £306,479, 31 July 2020 – £293,054) and the underlying operating margin is expected to be around 18.5%[6] (31 July 2021 – 17.0%, 31 July 2020 – 14.5%). In addition, the Board still expects the Group to deliver further volume growth, in financial year 2023, to an annual output of around 12,200 homes.

More broadly, and while recognising the macroeconomic risks, Bellway is in a robust position. It benefits from a substantial order book, a strengthened land bank and a well-capitalised balance sheet. Bellway's responsible approach to business will continue to benefit our stakeholders over the longer term and ensures that the Group is well placed to generate further value for shareholders 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/debt is cash plus cash equivalents, less debt financing.
3 Order book is the total expected sales value of reservations that have not legal completed.
4 Gearing is net debt divided by total equity.
5 As measured by the Home Builders' Federation using the eight week NHBC Customer Satisfaction survey.
6 The underlying operating margin is the operating profit (before net legacy building safety expense) divided by total revenue.
7 Includes the Group's share of land contracted through joint venture partners comprising nil plots (2021 – 600 plots, 2020 – 203 plots), with a contract value of £nil (2021 – £32.7 million, 2020 – £15.3 million) across no sites (2021 – one site, 2020 – one site).

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