Bellway p.l.c.

Trading Update

Thursday 9 February 2023

Bellway p.l.c. ("Bellway" or the "Group") is today issuing a trading update for the six months ended 31 January 2023 ahead of its Interim Results announcement on Tuesday 28 March 2023.

Highlights

- Robust first half performance, with record completions of 5,695 homes (2022 – 5,694 homes) and a 1.6% increase in the average selling price to £316,900 (2022 – £311,849).
- The overall reservation rate reduced by 31.7% to 138 per week (2022 – 202), with weaker private demand partially offset by the Group's programme of accelerating the construction of social homes.
- Elevated mortgage rates and the end of Help-to-Buy have contributed to a 43.8% decrease in the private reservation rate to 91 per week (2022 – 162).
- The combination of strong volume output and the decrease in reservation rates has resulted in a lower, yet still sizeable forward order book, which comprises 5,108 homes (2022 – 6,628 homes), with a value of £1,386.8 million[3] (2022 – £1,940.9 million).
- Visitor numbers and reservation rates in January have improved from the levels in the fourth quarter of calendar year 2022 and, if sustained through the spring, the Group is on track to deliver full year volume output of around 11,000 homes (31 July 2022 – 11,198 homes).
- Reflecting the strength of our land bank and a more cautious approach towards land investment, 2,428 plots (2022 – 8,660 plots) were contracted in the period.
- The balance sheet is resilient, with net cash of £292 million[4] (2022 – £195.8 million) and low adjusted gearing, inclusive of land creditors, of only 2%[5] (2022 – 4.5%).

Jason Honeyman, Chief Executive, commented:

"Bellway has delivered another strong performance, with our teams and supply chain partners demonstrating their ongoing commitment to provide high quality homes and service for our customers.

Following our Preliminary Results in October 2022, we experienced a period of weaker trading through to the end of December, with affordability constrained by higher mortgage rates and economic uncertainty affecting consumer confidence. Since the start of the new calendar year, mortgage rates have fallen from their recent peak, and we have been encouraged by a seasonal increase in visitor levels and an improvement in reservations.

Looking ahead, Bellway's experienced team and operational strength will enable us to navigate through changing market conditions. The Group has a robust balance sheet, with substantial cash resources and it is well-placed to invest, when compelling market opportunities arise, to continue to deliver returns for shareholders in the future."

Market and current trading

Customer demand in the first half was affected by the challenging economic backdrop and rising mortgage rates. These issues have been compounded for first-time buyers given the recent expiry of Help-to-Buy and the shortage of affordably priced, higher loan-to-value mortgage products.

While softer private demand was partially offset by the Group's programme of accelerating the build of social homes, the overall reservation rate decreased by 31.7% to 138 per week (2022 – 202) and the cancellation rate increased to 20% (2022 – 13%). The use of Help-to-Buy, which was available to customers in England up to 31 October 2022, fell to 4% of total reservations (2022 – 18%) over the six-month trading period.

The private reservation rate reduced to 91 per week (2022 – 162), with the weakest demand experienced in the fourth quarter of calendar year 2022, when the private reservation rate was down by 60%. This was followed by a modest increase in the private reservation rate in January 2023 to 107 per week (January 2022 – 195). The reservation rate sequentially improved throughout each week in January 2023, reflecting both a seasonal pick-up, and some easing of affordability pressures, as both wage rises and the recent fall in mortgage rates began to take effect.

The Group operated from an average of 238 outlets in the period (2022 – 247), broadly in line with our expectations and a modest increase on the closing position of 235 outlets at 31 July 2022.

While still lower than the start of the prior calendar year, we have been encouraged by visitor numbers at our outlets in January 2023, which were significantly ahead of the levels in the fourth quarter of calendar year 2022. Website traffic and enquiries have also been strong, providing some grounds for optimism for the spring selling season. Overall, headline pricing across our divisions has remained robust, although in some instances, targeted incentives are being used to secure reservations.

The Group entered the financial year with a strong forward order book position which supported the high level of first half completions. While the volume output and the lower reservation rate in the period have resulted in the forward order book reducing, it still comprises a sizeable 5,108 homes (2022 – 6,628 homes), with a value of £1,386.8 million[3] (2022 – £1,940.9 million). Contracts are exchanged on 72% of plots within the order book (2022 – 66%).

Results

Bellway has delivered a robust first half performance, with housing revenue expected to increase to over £1,800 million (2022 – £1,775.7 million) and record completions of 5,695 homes (2022 – 5,694 homes) were slightly ahead of the prior half-year.

At our Preliminary Results in October 2022, we guided that the construction of social housing would be accelerated in the first half, as part of the Group's cash preservation priorities. This led to a lower proportion of private completions, which reduced to 79% of the total (2022 – 83%).

Notwithstanding this, and supported by geographic and product mix changes, the overall average selling price rose by 1.6% to £316,900 (2022 – £311,849). We continue to expect the overall average selling price to moderate in the second half of the year, primarily reflecting a further increase in the proportion of social homes, together with mix changes.

Build cost inflation persists across the sector, particularly where energy forms a large component of the cost base, although, Bellway's strong commercial disciplines and renegotiation of terms with its supply chain partners have helped to offset some of these pressures.

Land investment

Due to the more uncertain economic backdrop, and the depth of the Group's land bank, Bellway's activity in the land market has been markedly lower than the prior half-year and sites are only being contracted where they offer compelling and enhanced financial returns. The Group contracted to purchase 2,428 plots (2022 – 8,660 plots) across 16 sites (2022 – 45 sites) with a total contract value of £197.3 million (2022 – £567.8 million).

During the period, the Group also decided not to proceed with the purchase of 418 plots across 3 previously approved sites. In the near term, while our experienced land teams continue to engage with vendors, we remain highly selective and overall plots contracted in financial year 2023 are expected to be materially below volume output.

Notwithstanding this, the disciplined expansion of our land bank in recent years has provided vital strategic flexibility and combined with our strong cash resources and strategic land holdings, Bellway has an excellent foundation to deliver further returns for shareholders in the future.

Financial position

Bellway retains a strong balance sheet and net cash has increased to £292 million[4] (31 January 2022 – £195.8 million, 31 July 2022 – £245.3 million). During the first half, expenditure on land, including payment of land creditors, was £231 million (2022 – £579 million), primarily comprising cash payments on contracts approved in the previous two financial years.

Committed land obligations are modest, at around £370 million (2022 – £349.0 million) and adjusted gearing, inclusive of land creditors, remains low at only 2%[5] (2022 – 4.5%).

In addition to the net cash position, the Group has access to significant levels of committed debt finance, totalling £530 million. This matures in stages, over the medium and long term, with the Group having extended the maturity date on tranches totalling £225 million in the period.

Building safety

Bellway remains fully committed to acting responsibly with regards to building safety and good progress is being made on the remediation of legacy developments through our Building Safety division. As previously announced, in the period between 2017 and up to 31 July 2022, the Group set aside £513.7 million to remediate legacy apartment blocks.

In April 2022, the Group signed up to the Building Safety Pledge (the "Pledge") and the Government has recently published the proposed Self-Remediation Terms (the "SRT"), which will convert the principles of the Pledge into a binding agreement for the housebuilding industry.

The SRT sets out the standards required for internal and external works on legacy buildings, therefore providing greater clarity for future remediation. The terms also include a requirement to reimburse the Department for Levelling Up, Housing and Communities ("DLUHC") for the costs of remediation already carried out through the Government's Building Safety Fund and their ACM Fund.

To date, DLUHC has paid out £19.5 million through these funds in relation to works carried out on Bellway legacy buildings. Under the terms of the SRT, the Group would be required to reimburse DLUHC for these works in due course, the costs of which have been fully provided for in the prior financial year.

The Government expects the SRT to be signed by 13 March 2023, with consequences for developers not signing or meeting this deadline. In this regard, a Responsible Actors Scheme ("RAS") is also to be brought into law in England, giving Government powers to block development. Under the proposed law, eligible developers declining to join the RAS could be prevented from commencing developments for which they have planning permission, and from receiving building control approval for construction that is underway.

We are reviewing the detail of the proposed SRT and, given that its obligations in respect of the required standard of remediation broadly reflect the commitments made in the Pledge, the Board does not anticipate its terms would result in any movement in the Group's legacy building safety improvements provision. At the same time, we continue to review work schedules and refine cost estimates as a result of entering into the Pledge and an update on progress will be included with our Interim Results on 28 March 2023.

Outlook

While trading during the period has been challenging, the Group retains a strong order book, and we are encouraged by the enquiry levels and the modest improvement in sales rates in the new calendar year. Throughout January, reservations have increased week-on-week and, if these most recent sales rates are sustained through the spring selling season, the Group is on track to deliver full year volume output of around 11,000 homes (31 July 2022 – 11,198 homes).

As the near-term economic outlook remains uncertain, we continue to take actions to maintain the Group's balance sheet resilience. The measures include a freeze on new recruitment, limiting land approvals and a highly disciplined approach to production expenditure, as we align investment in work-in-progress to sales demand.

Preserving the strength of our balance sheet will enable the Group to respond to future changes in the housing market, deliver against the priorities in our 'Better with Bellway' sustainability strategy and meet our commitments in relation to legacy building safety.

There is a shortage of high quality, energy efficient and affordable homes across the country and Bellway will continue to play an important role in increasing housing supply in the years ahead.

Notes:

1 All figures relating to completions, order book, reservations, cancellations, and average selling price exclude the Group's share of its joint ventures unless otherwise stated.
2 Comparatives are for the half-year ended 31 January 2022 or as at 31 January 2022 ('2022') unless otherwise stated.
3 Order book is the total expected sales value of reservations that have not legally completed.
4 Net cash is cash plus cash equivalents, less debt financing.
5 Adjusted gearing is the total of net cash and land creditors divided by total equity.

For further information, please contact:

Bellway p.l.c.
Keith Adey, Group Finance Director
0191 217 0717

Gavin Jago, Group Investor Relations Director
0191 217 0717

Media enquiries
Paul Lawler, Group Head of Communications
paul.lawler@bellway.co.uk
07813 392 669

Ged Brumby
ged.brumby@edelmansmithfield.com
07540 412 301

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