Bellway p.l.c.

Trading Update

Wednesday 9 August 2023

Bellway p.l.c. ('Bellway' or the 'Group') is today issuing a Trading Update for the year ended 31 July 2023 ahead of its Preliminary Results announcement on Tuesday 17 October 2023.

Highlights

- Housing revenue of around £3.4 billion (2022 – £3,520.6 million), in line with previous guidance.
- Total housing completions of 10,945 homes (2022 – 11,198), at an average selling price of £310,000 (2022 – £314,399).
- The underlying operating margin is expected to be around 16%[3] (2022 – 18.5%), with the reduction reflecting the effect of build cost and overhead inflation, extended site durations and the increased use of targeted sales incentives.
- The Group's programme of accelerating the construction of social homes partially offset weaker private demand, which was impacted by higher mortgage rates and the end of Help-to-Buy.
- The overall reservation rate reduced by 28.4% to 156 per week (2022 – 218) and the private reservation rate decreased by 35.9% to 109 per week (2022 – 170).
- Robust balance sheet provides continued resilience and strategic flexibility, with year-end net cash of £232 million[4] (2022 – £245.3 million) and low adjusted gearing, inclusive of land creditors, of only 3%[5] (2022 – 4.4%).
- The £100 million share buyback launched on 28 March 2023 is progressing well, with 2.9 million shares purchased at a cost of around £66 million.
- The combination of strong volume output and the decrease in reservation rates resulted in a lower, yet still sizeable year-end order book, with a value of £1,193.5 million[6] (2022 – £2,114.3 million), which comprises 4,411 homes (2022 – 7,223 homes).
- Strong recognition from our customers and employees, having retained our status as a five-star[7] homebuilder for the seventh consecutive year and 89% of our colleagues recommending Bellway as 'a great place to work'.

Jason Honeyman, Group Chief Executive, commented:

"Bellway has delivered a resilient performance, with volume output and housing revenue in line with expectations and supported by the strength of our order book at the start of the 2023 financial year. In a challenging operating environment, the result has also been achieved through the dedication of our colleagues, subcontractors, advisors, and supply chain partners.

The backdrop of macroeconomic uncertainty and cost of living pressures affected consumer demand during the year and, given affordability remains constrained by higher mortgage interest rates, underlying trading conditions are likely to remain challenging in the near term. To help mitigate this, and notwithstanding ongoing delays in the planning system, the depth of our land bank provides scope to deliver outlet growth in the current financial year and beyond.

Bellway's operational strength and experienced teams will enable the Group to successfully navigate changing market conditions and, supported by a strong balance sheet, it is well-placed to continue to deliver high quality homes to our customers and returns for shareholders."

Market and current trading

Notwithstanding low levels of unemployment and ongoing wage rises, customer demand during the year was affected by the volatility in mortgage interest rates. As reported in the Group's Interim Results, a promising start to the financial year was followed by a period of very challenging trading in the fourth quarter of calendar year 2022, when sales rates were impacted by sharp increases in borrowing costs. In early 2023, mortgage rates began to moderate, and we were encouraged by the levels of demand during the spring selling season. More recently, however, reservations in June and July 2023 were impacted by borrowing costs which rose to levels similar to those last autumn. To date, overall headline pricing has remained robust across our regions, though we continue to use targeted incentives to secure reservations.

The overall reservation rate was 28.4% lower than the prior year at an average of 156 per week (2022 – 218), and the Group has continued with its programme of accelerating the construction of social homes to help mitigate weaker private demand. The average private weekly reservation rate reduced by 35.9% to 109 (2022 – 170) and was achieved from an average of 238 outlets (2022 – 242). The overall cancellation rate for the full year has trended upwards and averaged 18% (2022 – 13%), with the increase largely driven by softer private customer demand.

In general, there remains good availability of mortgage products, although lenders' re-pricing activity in response to changes in interest rates has, at certain points during the year, affected the shorter-term availability of mortgage finance. The impact of rising interest rates has been particularly acute for customers requiring a higher loan-to-value mortgage, and exacerbated by the expiry of Help-to-Buy in England in March 2023.

The combination of strong volume output and lower reservation rates has led to a reduction in the value of the forward order book, yet it remains sizeable, with a value of £1,193.5 million[6] (2022 – £2,114.3 million) and comprises 4,411 homes (2022 – 7,223 homes).

Results

The Group has delivered housing revenue of around £3.4 billion (2022 – £3,520.6 million), a 3% reduction on the prior year and in line with previous guidance. Volume output was supported by the strong order book at the start of the financial year, and notwithstanding the reduction in underlying demand, completions reduced by only 2.3% to 10,945 (2022 – 11,198).

The overall average selling price decreased by over 1% to £310,000 (2022 – £314,399), primarily driven by a lower proportion of private completions, which reduced to 75% of the total (2022 – 82%). In the year ending 31 July 2024, the proportion of social completions will remain elevated and together with the ongoing disciplined use of incentives, we expect a further moderation in the average selling price.

The underlying operating margin for the 2023 financial year is expected to be around 16%[3] (2022 – 18.5%), and the reduction reflects the effect of build cost and overhead inflation, together with extended site durations and the increased use of sales incentives during a more challenging trading period.

Production and cost control

During the year, build cost inflation across the industry was driven by both labour and materials. The upward pressure on subcontract labour costs reflected underlying wage inflation and the elevated levels of construction activity required to deliver a robust volume output. While there has been an easing of energy costs in recent months, energy prices have remained the primary driver of overall building materials inflation. We have maintained tight control over production expenditure, and some of the cost pressures have been offset by the Group's strong commercial disciplines, and renegotiation of terms with our supply chain partners.

Since early 2023, build cost inflation has softened slightly from the high single digits reported in the first half of the financial year. Reducing demand for construction materials has also supported an improvement in product availability across the Group, and we continue to expect overall cost pressures to moderate in the months ahead. Notwithstanding this anticipated reduction, while inflation persists, it will place further downward pressure on profit margins in the current financial year.

Given the weaker trading backdrop and uncertain economic outlook, we continue to focus on maintaining Bellway's balance sheet resilience and we will maintain a highly disciplined approach to production expenditure in the year ahead. Following a review of overheads, we are also taking steps to reduce headcount across the Group. Importantly, to protect the long-term health of the business, these changes will not compromise the Group's ability to return to growth when trading conditions improve.

Land investment

The depth of Bellway's land bank, following our front-footed approach to investment in recent years, has enabled our land teams to remain highly selective in the land market in the current economic environment, without hindering the Group's long-term growth ambitions. Our cautious and targeted approach to investment and rigorous approval process continue to focus on securing land interests which offer compelling and enhanced financial returns and, where possible, have significant flexibility in the contract terms.

During the year, the Group has contracted to purchase 4,715 plots[8] (2022 – 19,089 plots) across 35 sites[8] (2022 – 107 sites) with a total contract value of £378.2 million[8] (2022 – £1,300.3 million). We have also continued to review previously contracted land and decided not to proceed with the purchase of 886 plots across 4 previously approved sites.

The disciplined growth of our land bank in recent years has provided vital strategic flexibility and, notwithstanding the ongoing delays in the planning system, the Group has a strong platform to deliver growth in outlet numbers in the current financial year and beyond. This is also supported by the significant expansion of our strategic land bank, which further underpins the Group's longer-term prospects, with a relatively low initial capital outlay.

Financial position and capital returns

Bellway has maintained a strong balance sheet with net cash of £232 million[4] at 31 July 2023 (2022 – £245.3 million). Average net cash was £192.0 million[9] during the year (2022 – £223.9 million), demonstrating the resilience of the Group's financial position throughout the period. Committed land obligations are lower than the prior year and remain modest, at around £335 million (2022 – £393.4 million) with low adjusted gearing, inclusive of land creditors, of only 3%[5] (2022 – 4.4%).

The Board continues to expect to maintain the total dividend for financial year 2023, in line with the prior year payment of 140.0p per share. The £100 million share buyback programme is progressing well, and 2.9 million shares have been purchased in the period at a cost of around £66 million.

In the year ahead, we will preserve balance sheet resilience through our ongoing disciplined approach to land and production expenditure, and the Board will continue to review the Group's capital requirements, with deployment targeted where it can best generate long-term value for shareholders.

'Better with Bellway'

We continue to make good progress, through a range of initiatives, to embed the 'Better with Bellway' sustainability strategy across the Group's operations. The strategy includes ambitious targets in respect of our three flagship areas of Carbon Reduction, Customers and Communities, and becoming an Employer of Choice.

Supported by several research projects underway across the business, strong headway has been made as we work towards a significant reduction in the Group's carbon emissions by 2030. We are also proud to have retained our position as a five-star[7] homebuilder for the seventh consecutive year, and there has been an excellent response to our most recent employee engagement survey in which 89% of colleagues said they would recommend Bellway as 'a great place to work'.

With regards to building safety and further to the Group signing the Self-Remediation Terms with the Department of Levelling Up, Housing and Communities ('DLUHC') on 13 March 2023, Bellway has recently been confirmed as a member of the Responsible Actors Scheme ('RAS') by DLUHC. The RAS was established under the Building Safety (Responsible Actors Scheme and Prohibitions) Regulations 2023 which came into force on 4 July 2023, and our membership reinforces Bellway's approach to acting responsibly on matters relating to building safety in legacy apartment schemes.

All our targets and KPIs in relation to 'Better with Bellway', together with further background information, are published on our website at www.bellwayplc.co.uk/sustainability.

Outlook

Bellway has delivered a robust performance in financial year 2023, however, the recent increase in mortgage rates through June and July 2023 has resulted in a weaker trading environment. In the current financial year, given the level of the order book and prevailing low reservation rates, legal completions are expected to decrease materially. We will provide an assessment of the potential volume outturn for financial year 2024 and a further update on the market outlook with the Preliminary Results on 17 October 2023.

In light of the current uncertain backdrop, we remain focused on maintaining the Group's strong cost control disciplines and balance sheet resilience. This will enable Bellway to respond to ongoing changes in the housing market, meet our commitments in relation to legacy building safety and deliver against the priorities in the 'Better with Bellway' sustainability strategy.

Looking beyond the near term, the Board is confident that Bellway's operational strengths and land bank depth leave the Group well-placed to capitalise on future growth opportunities when they arise.

Notes:

1 All figures relating to completions, order book, reservations, cancellations, and average selling price exclude the Group's share of its joint ventures.
2 Comparatives are for the year ended 31 July 2022 or as at 31 July 2022 ('2022') unless otherwise stated.
3 The underlying operating margin is the operating profit (before net legacy building safety expense and exceptional items) divided by total revenue.
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.
6 Order book is the total expected sales value of reservations that have not legally completed.
7 As measured by the Home Builders' Federation using the eight week NHBC Customer Satisfaction survey.
8 Includes the Group's share of land contracted through joint venture partners comprising nil plots (2022 – 237 plots), with a contract value of nil (2022 – £12.7 million) across no sites (2022 – 1 site).
9 Average net cash is calculated by averaging the net cash position at 1 August and each month end during the year.

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