Bellway p.l.c.

Trading Update

Friday 9 February 2024

Bellway p.l.c. ('Bellway' or the 'Group') is today issuing a trading update for the six months ended 31 January 2024 (the 'period') ahead of its Interim Results announcement on Tuesday 26 March 2024.

Highlights

- Housing revenue of over £1.25 billion (2023 – £1,804.9 million), in line with the Board's expectations.
- Total housing completions of 4,092 homes (2023 – 5,695) at an average selling price of £309,300 (2023 – £316,929).
- Headline pricing has remained firm, with ongoing use of targeted sales incentives to attract customers and secure reservations. Build cost inflation has moderated during the period.
- The private reservation rate increased by 15.4% to 105 per week (2023 – 91), representing a private reservation rate per outlet per week of 0.43 (2023 – 0.38). The overall reservation rate rose slightly to 140 per week (2023 – 138).
- The reduction in mortgage interest rates throughout the first half has led to encouraging levels of customer enquiries in the traditionally quieter winter trading period, and an improvement in the private reservation rate during January to 0.59 per outlet per week (January 2023 – 0.45).
- Bellway is building on the recent recovery in customer demand, having opened 34 new outlets in the period, and has plans to open over 40 additional new outlets in the second half of the financial year.
- The forward order book at 31 January comprised 3,970 homes (2023 – 5,108 homes), with a value of £1,012.5 million[3] (2023 – £1,386.8 million). This will support full year volume output of around 7,500 homes (31 July 2023 – 10,945 homes), which reflects the higher expected weighting of housing completions in the first half of financial year 2024.
- The Group is well-positioned to increase the order book by 31 July 2024, provided market conditions remain stable, and this, together with our programme of site openings, will serve as a platform for volume recovery from financial year 2025.
- Bellway's well-invested and high-quality land bank has enabled a cautious and targeted approach to land buying activity during the period.
- The Group has a resilient and well-capitalised balance sheet, with net cash of £77 million[4] (2023 – £292.5 million) and low adjusted gearing, inclusive of land creditors, of 5%[5] (2023 – 2.3%).

Jason Honeyman, Group Chief Executive, commented:

"Bellway has delivered another resilient performance in a period of challenging trading conditions. While the economic backdrop remains uncertain, the gradual reduction in mortgage interest rates through the first half has eased affordability constraints and we are encouraged by the seasonal pick-up in customer leads and an improvement in reservations since the start of the new calendar year.

We have maintained balance sheet resilience and, supported by the strength of our land bank, Bellway remains well-placed to capitalise on future growth opportunities and will continue to play an important role in increasing housing supply in the years ahead."

Market and current trading

Affordability steadily improved throughout the period, driven by wage increases, the easing of consumer price inflation and a gradual reduction in mortgage interest rates. This, together with good availability of mortgage products, has helped to improve overall customer demand since the summer of 2023, although affordability constraints remain relatively acute for those customers requiring higher loan-to-value mortgages.

The private reservation rate increased by 15.4% to 105 per week (2023 – 91), representing a private reservation rate per outlet per week of 0.43 (2023 – 0.38), including a modest contribution of 0.03 from bulk sales (2023 – nil). Overall, headline pricing has remained firm across our regions, and our sales teams also continue to use a range of targeted incentives to encourage further customer interest and secure reservations.

Trading patterns were less volatile than the comparator period when sharp changes in mortgage interest rates led to significant variations in customer demand. The improvement in affordability throughout the first half has also led to encouraging levels of customer enquiries in the traditionally quieter winter trading period. Together with early signs of a seasonal pick-up as we approach the spring selling season, this resulted in an improvement in the private reservation rate during January to 0.59 per outlet per week (January 2023 – 0.45).

Notwithstanding the higher demand for private housing, the overall reservation rate rose only slightly to 140 per week (2023 – 138), which partly reflects a planned reduction in social housing output in financial year 2025 from the current elevated levels. Customer confidence continued to improve which led to a lower cancellation rate of 16% (2023 – 20%) for the whole of the first half and a reduction to a normalised level of around 13% during January 2024.

The Group was operating from 246 outlets as at 31 January 2024, having opened 34 new sales outlets in the period and traded from an average of 243 (2023 – 238). This was in line with our expectations and despite the ongoing delays in the planning system, we remain on track to open over 40 additional new outlets in the second half of the financial year, supporting our plans for future volume recovery.

The forward order book at 31 January 2024 is lower, yet still sizeable, and comprised 3,970 homes (2023 – 5,108 homes), with a value of £1,012.5 million[3] (2023 – £1,386.8 million). The decrease in the order book reflects the lower opening position at 1 August 2023 and the higher expected weighting of housing completions in the first half of the current financial year. Given the levels of underlying customer demand and the recent improvement in affordability, the Group is well-positioned to increase the order book by 31 July 2024, provided market conditions remain stable.

Results

The Group has delivered housing revenue of over £1.25 billion (2023 – £1,804.9 million), in line with the Board's expectations. Total housing completions reduced by 28.1% to 4,092 homes (2023 – 5,695), with the decline reflecting the generally weaker trading conditions experienced since late summer 2022 and the lower order book at 1 August 2023.

The overall average selling price decreased by over 2% to £309,300 (2023 – £316,929), primarily driven by a lower proportion of private completions, which reduced to 75% of the total (2023 – 79%). We continue to expect an overall average selling price in the year ending 31 July 2024 of around £295,000 (31 July 2023 – £310,306), reflecting a further increase in the proportion of social homes in the second half of the current financial year and a continued use of targeted incentives, together with geographic and mix changes.

Bellway's experienced procurement teams continue to work closely with our wide range of supply chain partners, and we are encouraged that build cost inflation has moderated from the elevated levels in the last two years.

Land investment

Bellway has a high-quality land bank, and the strong period of investment prior to financial year 2023 has enabled an ongoing cautious and targeted approach to land activity in the first half. This has been focused on securing land interests which offer compelling and enhanced financial returns and, where possible, include significant flexibility in the contract terms.

The Group contracted to purchase 1,237 plots (2023 – 2,428 plots) across 9 sites (2023 – 16 sites) with a total contract value of £103.4 million (2023 – £197.3 million) in the period. We have also reviewed previously contracted land and decided not to proceed with the purchase of 1,359 plots across 7 previously approved sites. Our experienced land teams continue to engage with vendors and to support the Group's growth ambitions, we are rebuilding our future pipeline of potential acquisitions, with Heads of Terms agreed on over 6,600 plots at 31 January 2024.

Our investment in strategic land has continued and during the period we entered into option agreements to buy 10 sites (2023 – 12 sites), building upon our increased activity in the strategic land market over recent years. This has enhanced our land supply for a relatively low initial capital outlay and, together with our planned programme of outlet openings, further underpins Bellway's long-term growth prospects.

Financial position

The Group has maintained a strong balance sheet and notwithstanding the lower volume output in the period, net cash at 31 January 2024 was £77 million[4] (2023 – £292.5 million). In addition to the net cash position, the Group has access to significant levels of committed debt finance, totalling £530 million.

During the first half, expenditure on land, including payment of land creditors, was £257 million (2023 – £231 million), primarily comprising cash payments on contracts approved in the previous two financial years. Committed land obligations have reduced significantly to around £240 million (2023 – £372.4 million) and adjusted gearing, inclusive of land creditors, remains low at 5%[5] (2023 – 2.3%).

This strong position means we have the financial capacity to invest in land, if supported by market conditions, to drive our recovery and subsequent growth in financial year 2025 and beyond.

Building safety

Bellway remains fully committed to acting responsibly with regards to building safety and having signed the Self-Remediation Terms with the Government in March 2023, we continue to make good progress on the remediation of legacy properties through our dedicated Building Safety division.

Since the start of our remediation programme, the Group has spent over £120 million on legacy building safety issues. In addition to those freeholders that have made an application to the Building Safety Fund or ACM Funds, Bellway has completed work on 9 developments and is advancing remediation on a further 12 developments, with additional progress expected in the second half.

'Better with Bellway'

'Better with Bellway' is the Group's strategy and long-term commitment with regards to acting responsibly and sustainably. The strategy outlines ambitious targets in respect of our three flagship areas of Carbon Reduction, Customers and Communities, and becoming an Employer of Choice.

Through a range of initiatives, we continue to embed the 'Better with Bellway' sustainability strategy across the Group's operations, and we are delighted that the efforts of our colleagues have been recognised through several industry awards.

At the 2023 Housebuilder Awards, Bellway won the 'Large Housebuilder of the Year' and 'Best Staff Development Award' for 'Employer of Choice'. The Group's flagship 'Future Homes' research project into carbon reduction at the University of Salford has also won several accolades, including 'Best Sustainability Initiative' at the 2023 Housebuilder Awards and 'Major Project of the Year' at the National Sustainability Awards.

We look forward to reporting further progress on our 'Better with Bellway' strategy with our Interim Results on 26 March 2024.

Outlook

We are encouraged by customer enquiry levels and the pick-up in reservation rates in the new calendar year and, supported by our order book, the Group is on track to deliver full year volume output of around 7,500 homes (31 July 2023 – 10,945 homes). If market conditions remain stable and recent reservation rates are sustained throughout the spring selling season, we are well-placed to build the order book through the second half which will serve as a platform for a return to growth from financial year 2025.

The economic outlook has improved through the period, although the Board is mindful of future risks to customer demand and cost inflation, particularly from ongoing geopolitical tensions. Against this backdrop, we will retain a clear focus on maintaining balance sheet resilience.

Overall, the long-term fundamentals of the UK housebuilding industry remain attractive, given the shortage of energy efficient and affordable homes across the country. We remain confident that the Group's robust balance sheet and operational strength, combined with the depth of our land bank, will enable Bellway to successfully navigate changing market conditions and to capitalise on future growth opportunities.

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 2023 or as at 31 January 2023 ('2023') 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.

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