

Bellway p.l.c.

Trading Update

Friday 7 June 2024

Bellway p.l.c. ('Bellway' or the 'Group') is today issuing a trading update in respect of the period from 1 February to 2 June 2024.

Highlights

- Stronger trading through the spring selling season, with improved affordability supporting an increase in customer confidence and reservation rates compared to the first half of the financial year.
- The private reservation rate per outlet per week of 0.62 increased by 6.9% compared to the prior year equivalent (2023 – 0.58). This was delivered from a higher number of outlets, which averaged 245 in the period (2023 – 239).
- Overall, headline pricing has remained firm, and incentives continue to be used on a targeted basis.
- Reflecting the improvement in trading and growth in outlet numbers, the forward order book has increased from the level of 4,411 homes at the start of the current financial year. The forward order book at 2 June 2024 comprised 5,346 homes (4 June 2023 – 6,172 homes).
- In line with previous guidance, the Group is on track to deliver full year volume output of around 7,500 homes (31 July 2023 – 10,945 homes) and we continue to expect a reduction in the underlying operating margin³ of at least 600 basis points from the level in the prior year (31 July 2023 – 16.0%).
- The overall average selling price is now anticipated to be around £305,000 (31 July 2023 – £310,306). The increase from the previous guidance of £295,000 is mainly due to changes in product mix.
- The Group is now fully sold for the current financial year and given our strong outlet opening programme and healthy forward order book, Bellway is well-positioned to return to growth in financial year 2025.

Jason Honeyman, Group Chief Executive, commented:

“Bellway has delivered a solid trading performance supported by improved affordability and a seasonal uplift through the spring, and we remain on track to deliver full year volume output of around 7,500 homes.

We have been encouraged by ongoing healthy levels of customer interest and combined with the strength of our outlet opening programme, we continue to expect a year-on-year increase in the forward order book at 31 July 2024. As a result, Bellway remains in a strong position to return to growth in financial year 2025.

We reiterate our confidence that the Group's robust balance sheet and operational strength, combined with the depth of our land bank, will enable Bellway to successfully capitalise on future growth opportunities.”

Market and current trading

Trading through the spring selling season has been robust, with a sustained improvement in private reservations compared to the first half of the financial year. Customer demand has benefitted from an improvement in affordability, driven by a moderation of both mortgage interest rates and consumer price inflation and an increase in wages. Overall, the backdrop of market stability has led to headline pricing and the level of targeted incentives remaining stable across our regions.

The private reservation rate was higher than the equivalent period in 2023 at an average of 152 per week (2023 – 139), with the improvement driven by stronger demand and an increase in outlet numbers. The private reservation rate per outlet per week increased by 6.9% to 0.62 (2023 – 0.58), including a small contribution of 0.01 from bulk sales (2023 – 0.01). The Group traded from an average of 245 outlets in the period (2023 – 239), an increase of 2.5%, in line with our expectations and ahead of the closing position of 240 outlets at 31 July 2023.

Notwithstanding the higher demand for private housing, the overall reservation rate rose only slightly to 192 per week (2023 – 190), which partly reflects the expected reduction in social housing output in financial year 2025 from the current elevated levels. The improvement in customer confidence also led to a reduction in the cancellation rate to a normalised level of 11% (2023 – 15%).

Reflecting the improvement in trading and growth in outlet numbers, the forward order book has increased from the level of 4,411 homes at the start of the current financial year. The forward order book at 2 June 2024 comprised 5,346 homes (4 June 2023 – 6,172 homes) with a value of £1,446 million⁴ (4 June 2023 – £1,710 million). Given prevailing reservation rates and the anticipated profile of completions in the coming months, we continue to expect a year-on-year increase in the forward order book at 31 July 2024, which will serve as a platform for a return to growth in financial year 2025.

There are presently good levels of building material and subcontractor availability across the Group, with limited overall cost inflation on new tenders. While underlying cost pressures are currently far less pronounced than the prior year, the higher levels of inflation experienced on costs incurred in earlier periods, and carried in our work-in-progress, will be realised through the income statement for legal completions in the months ahead.

Land investment

The strength and depth of the Group's land bank has enabled an ongoing disciplined and targeted approach to land acquisition. Our investment in strategic land has continued during the period, which has enhanced our longer-term growth prospects and overall land supply for a relatively low initial capital outlay. Building on the expansion of our strategic land bank in recent years, since 1 August 2023 the Group has entered into option agreements to buy 15 sites (1 August 2022 to 4 June 2023 – 14 sites).

Reflecting the backdrop of falling consumer price inflation and the improving outlook in terms of both lower interest rates and house price stability, we have been more active in the shorter-term land market since the start of calendar year 2024. The Group has contracted to purchase 3,906 owned and controlled plots since 1 August 2023 (1 August 2022 to 4 June 2023 – 4,342 plots) across 21 sites (1 August 2022 to 4 June 2023 – 32 sites) with a total contract value of £277 million (1 August 2022 to 4 June 2023 – £362 million). We are continuing to rebuild our future pipeline of potential acquisitions, with Heads of Terms agreed on around 5,700 plots at 2 June 2024.

The Group has good visibility on the expected timing of near-term planning decisions and, notwithstanding the risks from ongoing planning delays, we remain on track to open over 40 new selling outlets in the second half of the current financial year.

Financial position and dividend

Bellway retains a strong and well-capitalised balance sheet. Reflecting the delivery profile of completions and normal working capital requirements to deliver the targeted output in the current financial year, the Group had net debt of £57 million⁵ at 2 June 2024 (2023 – net cash of £42 million). The Board continues to expect to end the financial year with low adjusted gearing⁶ (31 July 2023 – 4.0%).

As announced at the Interim Results on 26 March 2024, the interim dividend is 16.0p per share (2023 interim dividend – 45.0p) and will be paid on 1 July 2024. The Board continues to expect underlying dividend cover for the full financial year will be around 2.5 times⁷.

Outlook

We have been encouraged by the recent period of relative stability in trading and the Group is now fully sold for the current financial year, with our volume and margin guidance in line with that provided at the Interim Results.

The Group is on track to deliver full year volume output of around 7,500 homes (31 July 2023 – 10,945 homes) and we continue to expect a reduction in the underlying operating margin³ of at least 600 basis points from the level in the prior year (31 July 2023 – 16.0%).

The overall average selling price is now expected to be around £305,000 (31 July 2023 – £310,306). The increase from our previous guidance of £295,000 is mainly due to changes in product mix, including a contribution from some relatively high value private completions in the final quarter of the current financial year.

Bellway has a strong outlet opening programme and a healthy forward order book and work-in-progress position and, if market conditions remain stable, we are well-positioned to return to growth in financial year 2025.

We remain alert to future potential risks to customer demand and cost inflation, and in the coming weeks there may be a temporary impact to trading as political campaigning continues. Notwithstanding this, the outlook is improving and there is cross-party political support for increasing the supply of housing across the country. The long-term housing market fundamentals remain positive, and we are hopeful these will be bolstered by greater clarity over planning and housing policy beyond the upcoming General Election.

The Board is confident that, given the strength of the Group's land bank and balance sheet, Bellway is very well-placed to deliver continued volume growth into the longer term to support ongoing value creation for shareholders.

The Group's next scheduled trading update, covering the financial year ending 31 July 2024, is on 9 August 2024.

Notes:

- 1 All figures relating to completions, forward order book, reservations, cancellations, and average selling price exclude the Group's share of its joint ventures.
- 2 Comparatives are for the period from 1 February to 4 June 2023 or as at 4 June 2023 ('2023') unless otherwise stated.
- 3 Underlying operating margin is operating profit before net legacy building safety expense and exceptional items divided by total revenue.
- 4 Forward order book is the total expected sales value of reservations that have not legally completed.
- 5 Net cash/(debt) is cash plus cash equivalents, less debt financing.
- 6 Adjusted gearing is the total of net cash/(debt) and land creditors divided by total equity.
- 7 Underlying dividend cover is underlying profit for the period per ordinary share divided by the dividend per ordinary share relating to that period.

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