

Bellway p.l.c.

Trading Update

Friday 9 August 2024

Bellway p.l.c. ('Bellway' or the 'Group') is today issuing a Trading Update for the year ended 31 July 2024 ahead of its Preliminary Results announcement on Tuesday 15 October 2024.

Highlights

- Total housing completions of 7,654 homes (2023 – 10,945) at an overall average selling price of around £308,000 (2023 – £310,306), both slightly ahead of previous guidance.
- Housing revenue of over £2.35 billion (2023 – £3,396.3 million) and the underlying operating margin is expected to be around 10%³ (2023 – 16.0%)⁴.
- Overall, headline pricing has remained firm, and incentives continue to be used on a targeted basis.
- The private reservation rate per outlet per week of 0.51 increased by 10.9% compared to the prior year (2023 – 0.46). This was delivered from a higher number of outlets, which averaged 245 in the year (2023 – 238).
- Bellway has a strong and well-capitalised balance sheet with modest year-end net debt of £10 million⁵, in line with the Board's expectations (2023 – net cash of £232.0 million).
- Reflecting the improvement in trading and growth in outlet numbers, the forward order book at 31 July 2024 increased to 5,144 homes (2023 – 4,411 homes), with a value of £1,412.9 million⁶ (2023 – £1,193.5 million).
- The Group has a strong land bank and outlet opening programme, which together with our healthy order book and work-in-progress position supports our plans for volume growth in financial year 2025 and beyond.
- The efforts of our colleagues in delivering our 'Better with Bellway' sustainability strategy have been reflected through multiple industry awards, including 'Large Housebuilder of the Year' and 'Best Sustainability Initiative' at the 2023 Housebuilder Awards.
- Our ongoing focus on providing high-quality homes and service for our customers has resulted in Bellway retaining its status as a five-star⁷ homebuilder for the eighth consecutive year.

Jason Honeyman, Group Chief Executive, commented:

"Bellway has delivered another resilient performance despite the continuation of challenging operating conditions during the year. This result has been achieved due to the dedication of our colleagues, subcontractors and supply chain partners.

While a lower starting forward order book drove a reduction in volume output, customer demand during the year has benefitted from a moderation in mortgage interest rates which has helped to ease affordability constraints and supported an increase in reservations.

The improving trading backdrop, combined with the strength of our outlet opening programme, has generated healthy growth in the year-end order book. As a result, we are in a strong position to return to growth in financial year 2025, as previously guided.

We are encouraged by the new Government's plans to increase the supply of new homes across the country and welcome its plans to reform the planning system. Overall, the long-term housing market fundamentals are positive, and we remain confident that our robust balance sheet and operational strength, combined with the depth and quality of our land bank, will enable Bellway to successfully capitalise on future growth opportunities."

Market and current trading

Customer confidence has improved, driven by a moderation of both mortgage interest rates and consumer price inflation, and an increase in wages. Trading patterns were less volatile than the prior financial year when sharp changes in borrowing rates led to significant variations in customer demand. We have been encouraged by the improvement in affordability during the year and the relative stability in mortgage interest rates since January 2024. This led to a reduction in the cancellation rate to a normalised level of 14% (2023 – 18%) and overall, headline pricing and the level of targeted incentives have remained stable across our regions.

The private reservation rate was 13.8% higher than the prior year at an average of 124 per week (2023 – 109), with the improvement driven by stronger demand and an increase in outlet numbers. The private reservation rate per outlet per week increased by 10.9% to 0.51 (2023 – 0.46) including a small contribution from bulk sales of 0.02 (2023 – 0.01). The private reservation rate per outlet per week in the second half of the financial year increased to 0.58 compared to 0.43 in the first half, reflecting the improving trading backdrop and a seasonal uplift through the spring.

The overall reservation rate, including social homes, rose by 3.2% to 161 per week (2023 – 156). The more modest rate of increase reflects the planned reduction in social housing completions, in both financial years 2024 and 2025, compared to the elevated level achieved in financial year 2023. This is in line with expectations and follows a period in which the Group accelerated the construction of social homes as part of a wider programme of cash generation and maintaining financial resilience when trading conditions became challenging in late summer 2022.

The Group traded from an average of 245 outlets during the year (2023 – 238), in line with our expectations, with a closing position of 250 outlets at 31 July 2024 (2023 – 240). The 2.9% increase in average outlets was driven by the strength of our land bank and targeted approach to land acquisition, and was achieved despite the ongoing delays in the planning system.

The combination of the improvement in trading and growth in outlet numbers has driven a healthy increase in the forward order book. At 31 July 2024 it comprised 5,144 homes (2023 – 4,411 homes) with a value of £1,412.9 million⁶ (2023 – £1,193.5 million). The higher level of private reservations was the primary driver of the increase in the forward order book, which will serve as a platform for a return to growth in financial year 2025.

Bellway's procurement teams continue to work closely with our wide range of supply chain partners and there are presently good levels of building materials and subcontractor availability across the Group, with limited overall cost inflation on new tenders.

Results

The Group has delivered housing revenue of over £2.35 billion (2023 – £3,396.3 million) and total housing completions reduced by 30.1% to 7,654 homes (2023 – 10,945 homes). There was a similar decrease in both private and social output and, as a result, the proportion of private completions was in line with the prior year at 75% of the total.

While volume output was slightly ahead of previous guidance, the decline compared to the prior year reflected the lower forward order book at 1 August 2023 and the softer trading conditions, particularly in the first half of the financial year, although these are beginning to gradually improve. The overall average selling price decreased slightly to around £308,000 (2023 – £310,306), driven by geographic and mix changes.

The underlying operating margin for financial year 2024 is expected to be around 10%³ (2023 – 16.0%) and as previously guided, the reduction, in part, reflects the effect of lower volume output. In addition, and as reported last year, there has been a decrease in site profitability, in line with expectations, arising from cost inflation, the use of sales incentives and the costs of operating outlets for extended durations.

Land investment

Bellway has a high-quality land bank with strength and depth, and our experienced teams have continued with a disciplined and targeted approach to land acquisition during the year. Building on the expansion of our strategic land bank in recent years, the Group entered into option agreements to buy 35 sites (2023 – 19 sites), which has enhanced our longer-term growth prospects and overall land supply for a relatively low initial capital outlay.

The improving economic outlook in terms of both lower interest rates and house price stability has supported an increase in our activity in the shorter-term land market, notably since the start of calendar year 2024. Overall, during financial year 2024, the Group has contracted to purchase 4,621 owned and controlled plots (2023 – 4,715 plots) across 27 sites (2023 – 35 sites) with a total contract value of £344.8 million (2023 – £378.2 million). We are continuing to rebuild our future pipeline of potential acquisitions, with Heads of Terms agreed on around 8,000 plots at 31 July 2024.

Financial position and dividend

The Group has a strong and well-capitalised balance sheet, and we remain focused on maintaining financial resilience through the cycle. Year-end net debt was modest and in line with expectations at £10 million⁵ (2023 – net cash of £232.0 million) and adjusted gearing⁸, inclusive of land creditors, remains low (2023 – 4.0%).

The Board continues to expect underlying dividend cover will be around 2.5 times⁹ for the full financial year.

‘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 have embedded 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 during the year.

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 are also proud to have retained our position as a five-star⁷ homebuilder for the eighth consecutive year, and our drive to deliver high-quality homes to all our customers was further reflected by Bellway site managers winning 45 ‘Pride in the Job’ Awards at the 2024 NHBC Awards.

We look forward to reporting further progress on our ‘Better with Bellway’ strategy with our Preliminary Results on 15 October 2024.

Outlook

Bellway has delivered a resilient performance in financial year 2024, and while we remain alert to future potential risks to customer demand and cost inflation, the good levels of customer enquiries and relative stability in reservation rates in recent months have been encouraging. The Bank of England’s cut to base rate earlier this month together with the current low levels of consumer price inflation provide a further underpin for improving customer confidence.

Against this positive backdrop, we welcome the new Government’s focus on addressing the ongoing shortfall of housing and its recognition of the importance of housebuilding to drive sustained economic growth. Bellway is encouraged by the Government’s plans to reform the planning system to support a marked increase in the supply of new homes across the country and we look forward to the publication of its long-term housing strategy in the coming months.

If market conditions remain stable, Bellway’s strengthened forward order book together with its healthy outlet opening programme and work-in-progress position provide an excellent platform to return to growth in financial year 2025.

The long-term fundamentals of the UK housebuilding industry are positive, and the Board remains confident that, given the Group’s operational strengths and land bank depth, Bellway is very well-placed to deliver volume growth in the years ahead to support ongoing value creation for shareholders.

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 2023 or as at 31 July 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 For the purposes of Rule 28 of the Takeover Code this statement is a profit estimate. Please refer to the Appendix for a confirmation from Bellway's Directors in relation to this profit estimate.
- 5 Net cash/(debt) is cash plus cash equivalents, less debt financing.
- 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 Adjusted gearing is the total of net cash/(debt) and land creditors divided by total equity.
- 9 Underlying dividend cover is underlying profit for the period per ordinary share divided by the dividend per ordinary share relating to that period.

Appendix:

Profit Estimate

Bellway's trading update on 7 June 2024 included the following statements regarding its financial year ended 31 July 2024 ('FY 24'):

- i. "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."
- ii. "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 margin of at least 600 basis points from the level in the prior year (31 July 2023 – 16.0%)."

These statements constituted a profit forecast for the purpose of Rule 28 of the Takeover Code (the 'FY 24 Profit Forecast').

Bellway has now passed through its financial year ended 31 July 2024 and the guidance given in today's trading update includes an update on the FY 24 Profit Forecast, which is now a profit estimate for the purposes of Rule 28 of the Takeover Code (the 'FY 24 Profit Estimate'), as below:

- i. "Housing revenue of over £2.35 billion (2023 – £3,396.3 million) and the underlying operating margin is expected to be around 10% (2023 – 16.0%)."

Basis of preparation

The FY 24 Profit Estimate has been based on the unaudited management accounts of Bellway for its financial year ended 31 July 2024 and has been prepared on a basis consistent with Bellway's accounting policies which are in accordance with International Financial Reporting Standards. These policies are consistent with those expected to be applied in the preparation of Bellway's annual results for the year ended 31 July 2024.

Bellway's unaudited management accounts for FY 24 and the FY 24 Profit Estimate are subject to a number of ordinary course trading assumptions which will be finalised as part of the year end process and preparation of consolidated Group accounts.

Assumptions

The FY 24 Profit Estimate is based on the assumptions listed below.

1. The Bellway Board of Directors confirming management's consistent application of Bellway's accounting policies for the period, including with respect to:
 - a. site valuations and land margins; and
 - b. recognition of housing completions, revenues and associated costs;
2. There being no material unexpected post year-end adjustments for the period;
3. There will be no material post-year changes in legislation, taxation, regulatory requirements, applicable standards or the position of any regulatory bodies impacting on Bellway's accounting policies for the period.

Bellway Directors' confirmation

The Bellway Directors have considered the FY 24 Profit Estimate and confirm that it remains valid as at the date of this announcement, has been properly compiled as above and that the basis of the accounting used is consistent with Bellway's accounting policies.

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