Progressive Property & Construction Daily

29 March 2022: BWY, DRV, RGL | Mortgage approvals slip - BoE

A round-up of market statements, news, economics and views from the property and construction sectors

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Company news

Bellway (BWY, 2,600p, £3,210m mkt cap)

Top five UK house housebuilder. HY (Jan) results. Completions +0.7%, 5,694; prices +1.6%, £345k; rev +3.5%, £1,780m; op margin, 18.7% (H1 21, 17.3%); u-lying PBT +8.9%, £327m; stat PBT +9.8%, £308m; EPS +9.3%, 203p; interim div +29%, 45.0p; net cash, £196m (£346m). *Trading:* "Strong underlying demand", with a 5.8% increase in the overall reservation rate to 202 per week and a 3.8% increase in the private reservation rate to 162 per week. Price increases due to greater proportion of private completions and positive pricing momentum. Margin improvement driven by "strong commercial disciplines and positive sales price momentum". *Outlook:* Order book, March +24%, 7,491 homes. FY 22 guidance: "around 10% volume growth to over 11,000 homes [unchanged]; prices "over £305k - a further improvement compared to previous guidance"; op margin "around 18.5%, with the improvement driven by strong commercial disciplines and positive sales price momentum" [previously "above 18%"]. YE net cash c. £150m. Capability to incrementally increase volume output to over 16,000 homes pa. Intention announced to reduce dividend cover to around 2.5x underlying earnings by 31 July 2024 (from 3x currently), "a prudent and sustainable level, supported by strong investment returns and enhanced cash generation, arising in part, from increased investment in land over the past 18 months. Volume growth and higher expected shareholder returns can be achieved, notwithstanding the future increase in corporation tax rates".

Driver Group (DRV, 39p, £21m)

Legal claims consultant to the global construction industry. Q2 (Mar) trading update and Board change. *Guidance:* "Driver Group has had a difficult second quarter with results during the period impacted by a combination of a problematic loss-making contract in the APAC region and an unexpected drop in revenues in the Middle East region. The EuAm region has continued to perform well and provides a solid platform upon which to build for the future, but the drag effect from the APAC and Middle East regions means that underlying Group profit before tax for the half year is expected to be between £300,000 and £500,000 against £1.0m in the corresponding period last year. The Board recognises that despite the actions previously taken, this statement provides further evidence of loss-making and inconsistent performance within the Middle East and APAC regions". Given the historic underperformance of these regions, the Board instructed an operational review of both regions, with independent external support, and has identified a near term opportunity to reduce annual operating costs by in excess of £1.0m through a reconfiguration of the operating footprint in both regions, including the closure of marginal locations. In addition, this reconfiguration and associated reduction in headcount is expected to result in higher utilisation allowing management to be more selective of its future client base. "Implementation of the key findings of the review will commence immediately and is expected to support a significant improvement in profitability in the second half". Net cash balances currently stand at £3.9m (HY 21, £7.2m) with available bank facilities of a further £5.0m, reflecting a significant increase in trade and working capital receivables, particularly in the Middle East regions and dividend payments. *Board change:* David Kilgour has tendered his resignation as CFO and will leave the group to pursue other ventures. The recruitment process will commence immediately to identify a suitable replacement to ensure a smooth transition.

Regional REIT (RGL, 88p, £454m)

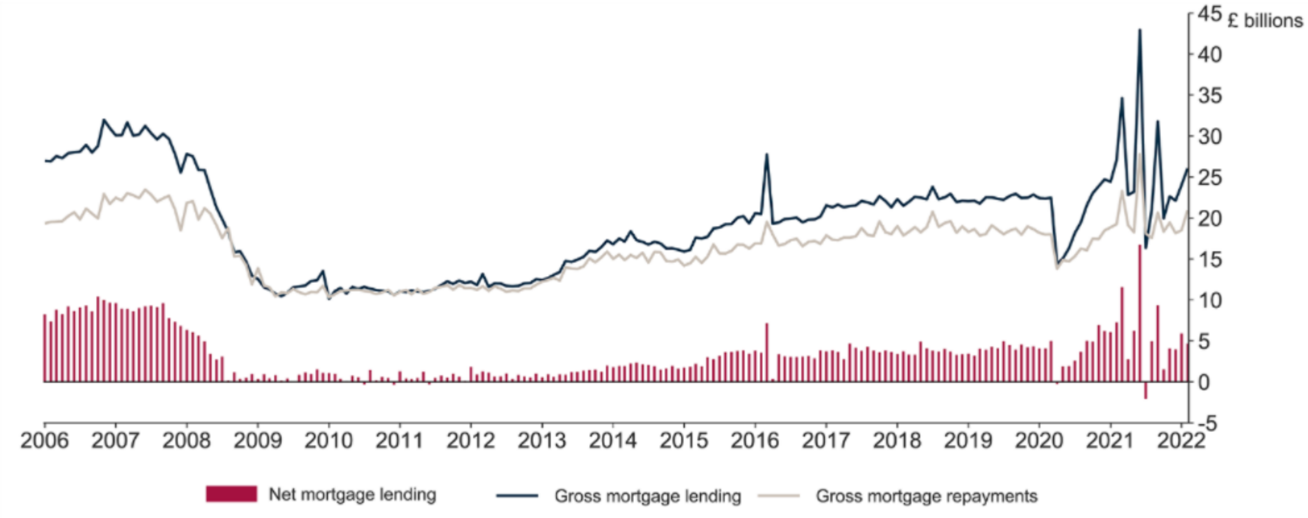
Real estate investment trust specialising in income generating regional UK office and industrial assets. FY (Dec) results. Portfolio value +24%, £906m, following the £236m portfolio acquisition August 2021; EPRA TNAV -1.4%, 97.2p; div +1.6%, 6.5p; net LTV 42.4% (FY 20, 40.8%). *Trading:* Rent roll +12.3%, £72.1m, "generated from a large spread of tenants and industries across a growing and geographically diversified portfolio of 168 properties". Disposals totalled £76.9m, with proceeds "promptly recycled into acquiring higher yielding properties". At the period end, 89.8% (83.5%) of the portfolio by market value was offices; 5.1% (11.1%) was industrial. The balance was made up of retail 3.7% (4.1%) and other, 1.4% (1.3%). *Outlook:* "With the robust level of rent collections, the geographical and occupier diversification of the portfolio and strong finances, the company is well positioned to continue to grow and take the opportunities that will inevitably arise in the coming years … though for the remainder of 2022, we remain mindful of the challenges to be faced".

Economic data

Mortgage approvals for house purchase slipped to 71,000 in February, from 73,800 in January, but remains above the 12-month pre-pandemic average up to February 2020 of 66,700, according to today's Money and Credit statistics from the Bank of England (link). City economists were expecting approvals to have risen to 74,850, according to The Times.

Chart 1: Mortgage lending

Seasonally adjusted flows



Prices are as at the previous day's close.

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