

# Progressive Property & Construction Daily



17 October 2023: BWY, HERC

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

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## Company news

**Bellway** (BWY, 2,162p, £2,582m mkt cap)

Top five UK house housebuilder. FY (Jul) results. Completions -2.3%, 10,945; rev -3.7%, £3,407m; u-lying op margins, 16.0% (FY 22, 18.5%); u-lying PBT -18%, £533m; stat PBT +59%, £483m; u-lying EPS -22%, £328m; div unch, 140p; NAV, 2,871p (FY 22, 2,727p); net cash, £232m (£245m). *Trading:* "The group's programme of accelerating the construction of social homes partially offset weaker private demand, which was impacted by higher mortgage interest rates, cost-of-living pressures and the end of Help-to-Buy". Overall reservation rate -28%, 156 per week; private reservations -36%, 109 per week, representing a private reservation rate per site per week of 0.46 (0.70). Reduced margin mainly reflected build cost and overhead inflation, extended site durations because of slower reservation rates and the increased use of targeted selling incentives. Land bank, 98,164 plots (97,706), "enabling our land teams to remain highly selective with investment in the year ahead, without hindering long-term growth ambitions". An additional net £49.6m provided in relation to legacy building safety, as an adjusting item, which includes £43.4m in the second half, including £30.5m in relation to an isolated [concrete-related] design issue identified with an apartment scheme built 12 years ago in Greenwich, London. *Current trading:* In the nine weeks since 1 August, overall weekly reservations were 133 per week (1 Aug - 2 October, 191); private reservation rate per site per week in the period was 0.41 (0.58), including a contribution of 0.03 (0) from bulk sale. *Outlook:* "Based on the average private reservation rate per site per week of 0.46 achieved in financial year 2023, the group is targeting to deliver completions of around 7,500 homes, and to end the year with a higher order book to serve as a platform for a return to growth

beyond the current financial year. In FY 24 we currently expect the overall average selling price to be around £295,000 (£310,306), with the moderation from 2023 primarily reflecting a higher expected proportion of social housing completions and a continued use of incentives. In the near term, we anticipate headwinds from lower volume output, ongoing pressures of cost inflation and the use of sales incentives to persist. Overall, we expect these factors, together with the effect of extended site durations, to lead to a reduction in the underlying operating margin of at least 600 basis points in the current financial year. The Board notes, however, that a wider than usual range of outcomes are possible, and the final volume outturn will depend on the trajectory of mortgage interest rates and the strength of demand in the autumn and spring selling seasons. The group's balance sheet and operational strengths combined with the depth of our land bank provide an excellent platform for Bellway to capitalise on future growth opportunities when they arise".

### **Hercules Site Services** (HERC, 26p, £16m)

Technology enabled labour supply company for the UK infrastructure sector. FY (Sep) trading update.

*Guidance:* "The company expects both its revenue and adjusted EBITDA for FY 23 to be ahead of market expectations (consensus revenue, £73.1m; adjusted EBITDA, £3.4m). Revenue is expected to be over £80m, representing an increase of c. 60% on the prior year". *Trading:* "Each of Hercules' three divisions delivered increased organic revenues, underpinned by the company's ability to capitalise on continued growth in the infrastructure sector". Labour Supply – Labour began to HS2 in January 2022 and 430 operatives are currently on site. "The company acknowledges the UK government's recent announcement about the future of HS2. The decision has no impact on the company's contracts on the Phase 1 section between London and Birmingham". New revenue streams have been introduced in FY23, with the supply of white-collar and site security personnel. Post year end, the company has also signed a five-year contract with Balfour Beatty Rail. "The Board is confident that these new services will drive additional revenue and EBITDA moving forward". Civil Projects – "With UK water companies pledging to invest £10bn over the next seven years, Hercules is well positioned to meet increasing demand for its services". Since 1 May, the division has been awarded contracts with a combined value of over £3.1m to deliver critical work for two major clients relating to nine wastewater treatment and water management projects". Suction Excavators – "The company continues to see solid utilisation rates. In response to increased demand, the fleet has grown by 14 vehicles over the period, creating one of the largest fleets in the country. The Suction Excavator Services complement the company's Labour Supply and Civil Projects businesses, and Hercules continues to leverage cross selling opportunities between divisions". *Outlook:* "We have delivered a strong financial performance and progressed a range of strategic initiatives, which positions us well for the year ahead as the infrastructure sector grows from strength to strength".

*Prices are as at the previous day's close. Where quoted, net debt is pre-IFRS16 (excluding leases) unless otherwise stated.*

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