Taylor Wimpey plc

Trading Update

Tuesday, 23 April 2024

Trading Update

Jennie Daly

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Good morning, everyone, and thank you for joining us. As usual, I have Chris here with me.

So today we have released a statement ahead of our AGM this morning. As you will have seen, we have reiterated our guidance and remain confident in our ability to deliver this year and importantly, ensure that we are positioned for growth from 2025, assuming a supportive market. I will make a few brief comments before we open up to Q&A this morning.

So I know you will be very interested in how the Spring selling season has progressed. And while there remains some market uncertainty as well as affordability issues for some of our customers, the period has been in line with what we expected.

Mortgage rates have remained below last year's highs with very good product availability. More recently, we have seen some movement in swap rates and some small upward moves in mortgage rates since we last spoke. We note that market expectations for interest rate cuts have moved further out, and as you would expect, we will be watching this closely.

The sales rate for the year to date is 0.73 and excluding bulks it is 0.69. So this has increased from the rate we spoke to you about in February of 0.67. And there is also a small uplift from what we reported at this point last year on an underlying basis. The cancellation rate is 13% and is back to a normalised rate, having been at 18% in 2023, which we see as a sign of improved customer confidence and more resilient chains. So I am pleased with how we have performed, which comes from a lot of hard work from our teams and is a testament, I think, to our marketing strategy as well as the quality of our excellent locations.

Build cost inflation on new work remains around 1% and reduces to zero due to our self-help measures, and net house prices have been flat. Outlet openings are in line with our plans. We now have 215 outlets open and have operated from an average of 230 during the period.

In terms of guidance, we expect to deliver 9,500 to 10,000 completions for 2024, and this has not changed from what we said at the full year. However, as flagged back then, first half operating margin will be lower than the second half of 2023, principally due to embedded build cost inflation and slightly lower pricing working its way through the order book.

We have had a consistent strategy over several years to build a strong and resilient business, and we are set up to manage the business through the cycle for the benefit of all our stakeholders. I think a great demonstration of this is our differentiated ordinary dividend policy, which provides a reliable income stream for investors through the cycle. Subject to approval at today's AGM, the final dividend today of 4.79 pence per share will be paid to shareholders in May, meaning that we will have returned a total 9.58 pence per share, or £339 million to shareholders via the 2023 dividend.

I did say I would keep it brief. In summary, the encouraging signs we flagged previously have continued. Of course, we are not complacent. We have a general election later in the year, as well as global conflicts and uncertainty. However, we continue to execute in line with our strategic priorities and to focus on prioritising value, driving increased operating efficiency, cost savings and value improvement, and also continuing to invest in areas that matter for the long term success and sustainability of the business. All this, together with our excellent landbank, means we are poised for growth from 2025, assuming a supportive market.

Q&A

Chris Millington (Deutsche Numis): Thank you. Morning, Jennie. Morning, Chris. Thanks for taking my questions. A few, if I could, please. First, I would just like to explore the sales rate evolution over the year to date first, and perhaps you can remind us where the spot rate was at the back end of February when you last reported, just so we can put this rate into context. That is number one.

Second one is just really about what you have been doing on pricing and incentives. Any change there? And perhaps have you changed your desire to do bulk deals in relation to this supportive backdrop?

And then the final one is just a bit of a checking query. Jennie, did you mention you are currently off 215 outlets? And if that is the case, how would you expect these to evolve over the year? It just surprises me. It is down at 215 at the moment relative to that first half average. Many thanks.

Jennie Daly: Okay, if I take the last two questions, Chris, if you could just take us through the evolution of the sales rate.

Chris Carney (Group Finance Director, Taylor Wimpey plc): No problem.

Jennie Daly: Okay, just on outlets, Chris, we are exactly where we expected to be. We have opened ten outlets year to date. I think at the prelims, I mentioned that our expectation was that we would open more outlets in the first half of this year than we opened in the first half of last year. And, as you also know, we do not give outlet guidance, but I am comfortable we are where we expected to be.

Chris Millington: Jennie, just really quickly. Would you expect it to build a little bit as we head through the back end of the year?

Jennie Daly: Well, as I say, Chris, I am not going to give comments on outlet guidance.

Chris Millington: Okay. Okay. All right, no problem.

Jennie Daly: On incentives, there has not been much movement. I think we reported again at the prelims, at 5-6% incentive rate, and we are still at that level. There is movement on a site by site basis, but overall, I think incentives remain an important tool in the market.

And as regards to bulks, I think there are a few things that I would say. We have always been clear that our preference is to use bulks, preferably planned from the outset of sites, particularly our large sites, to sort of maximise returns. And that very much remains our outlook. Probably this first few months of the year are generally quieter. If you can remember last year we had one large bulk that we talked about with the MOD, or the DIO, I think, as it is now referred to, at one of our sites in Bristol. So there was probably a higher level of bulks on the comparator last year than this year. However, it is probably also fair to say that I am conscious that as the market stabilises and the opportunities in the private market firm up, that we do not want to sell too deep into our developments on bulk sales. Just generally, no change in strategy, still a preference on a planned basis.

Chris Millington: Got you.

Jennie Daly: And then sales rate, Chris?

Chris Carney: Yes. Chris, when we updated you at the prelims, our sales rate, which was weeks one to eight, was 0.67. The sales rate, including bulks from weeks 9 to 16, was 0.81. And you will remember that there were no bulks in weeks one to eight. So the rate for one to eight without bulks is exactly the same at 0.67. And if we strip bulks out of weeks 9 to 16, the rate's 0.72.

Chris Millington: That is really helpful. Thank you, Jennie. Thanks, Chris.

Chris Carney: No problem.

Will Jones (Redburn Atlantic): Thanks. Morning. I will try three if I can, please. First, just when you think about lead indicators and seasonality, as we look to the summer months, any feel that this will be any different to normal seasonality in 2024, I know it has obviously varied quite a bit over the last number of years for different reasons, but any thoughts there?

And maybe just perhaps returning to price. Obviously, you have got the strategy focusing on value over volume, and you have had a good start to the year on sales rate. Are we closer to testing the market on either price or incentive or is it just not quite ready for it yet?

And then lastly on land, I think it is 3,000 or so plots combining the strat land conversions and the new approvals. That is actually a reasonably decent run rate, probably relative to completions. Do you think it would not be unfair to suggest that you could be on track for 1x replacement, i.e., landbank plot count holding as things currently stand in 2024? Thank you.

Jennie Daly: Okay, so quite a bit there. I think in terms of customer inquiries, early lead indicators, the likes of sort of brochure downloads, website registrations, a bit down on last year. However, what we are seeing is the quality of the customer and appointments to site remaining strong. The feedback from our sales execs are that customers in the pipeline and walking through our doors are better quality than last year. Realistically, we need less of those early indicators to deliver the sales rate.

On normal seasonality, it is really hard actually to think back and find a year that that is normal. Now there is nothing that I am hearing or seeing, Will, that suggests that we are not going to see some slowing down as we head into the summer. So our expectation is that you will see a slowdown toward the summer. Hopeful that last year's interest rate spike in May probably accentuated that. So we will be watching trading coming into the May and early June quite carefully.

On price, we do as, you know, test price on a regular basis, plot by plot, site by site, always looking at the opportunity. I think it is probably fair to say that there is a mix. There is definitely some sites where we are seeing the ability to pare back on incentives and looking at potential price opportunity. On other sites, those parts of the market are not quite ready for it. And so overall, we are on a like for like basis on incentives, but something that we are really focused on.

And then on land generally, I talked about being selective and thoughtful, that we will be active where there is opportunities and that remains our view. If I was to reflect on the market overall, I think land availability remains tight in most areas, but competition has increased for those sites that are available as competitors come back to the market. I am very pleased with the strategic land pulled through in the first few months of the year, particularly given the headwinds that we have talked about in planning. So that gives us some confidence there. And I think I said at the prelims that we did not expect land approvals to carry on at the pace that we were reporting at the prelims because that reflected some hard work that the teams have been doing around reshaping and working with landowners through the back end of last year. So whilst I would never rule anything out because we will always be looking at opportunities, it is not my expectation that we would be at replacement levels, Will.

Will Jones: Great. Thank you.

Jennie Daly: Okay.

Marcus Cole (UBS): Thank you. And morning both. I have got two questions. The first one is just looking at the consensus numbers, I think there is about 10% volume growth for next year. Just thinking about where do you need the order book to be to get there by the end of this year?

And then the second one is just around the CMA investigation. Is there any update to say? Thanks.

Jennie Daly: Yes, I mean, look, I said in my opening comment that we remain focused on sort of the opportunity for growth in 2025, assuming a supportive market, and that remains our focus. And I think also at the prelims, we did say that we had a very good handle on the land that would be delivering those opportunities. Building the order book is a real focus for the business, and we will continue to be focused on that. However, I think it is too far to the end of the year for me to really give a really clear indication of how that will help us carry into 2025. However, I know that you recognise that the order book is a fundamental building block for any year's delivery.

And then on CMA, Marcus, we are still very much in the sort of the information gathering stages with the CMA. We will, of course, comply with all of their requests, but it is really not something that I can speculate on or comment on any further than that at this point.

Marcus Cole: Okay, thank you very much.

Jennie Daly: Thank you.

Arnaud Lehmann (Bank of America): Thank you very much. Good morning, Jennie. Good morning, Chris. Two questions on my side, please. Firstly, on the gross margin, Jennie, you commented in your introduction about the pressure in the first half. Could you give us a bit of colour heading into the second half? I mean, I think you are going to have more completions and hopefully the cost side will help a little bit. Are you confident that the gross margin can start to recover from H2?

And my second question is a bit of a follow up on the point you made around the 2025 recovery. And obviously, we take a view on demand and mortgage rates, but setting that aside, what is the potential for completions to increase in 2025, assuming demand is normalised? Thinking about planning, opening outlets, the pace of construction. Is there a range that you could give us today in terms of the potential for the completion recovery? Thank you.

Jennie Daly: Thank you, Arnaud. So I will try to give you a response on the 2025 and Chris will help you on the gross margin question.

I mean, look, I will remind you, I understand why the interest, but, you know, it is a 2024 trading update, and I am not going to get too drawn into 2025 at this time of the year. We have talked about our ability to grow in 2025 subject to that supportive market. There is no doubt that planning and the availability of outlets is a key component of any growth aspiration right across the sector, and that there are headwinds there. However, as I mentioned at the prelims, I think we are in a good place for our land in 2025, and I am not going to lean into it any further today.

However, Chris, on gross margin?

Chris Carney: Yes. Arnaud, as you know, we have given pretty detailed guidance for the margin in the first half. I think where it goes in the second half is a function principally of the balance between house price inflation and build cost inflation. The net impact obviously is still going against us in half one 2024, but it is more balanced now in the prevailing annualised spot measures, which are both flat. So as you look into the second half, we have guided to a volume split this year of 45/55. And because some of the fixed costs are in gross margin, then volume growth does improve overhead recovery.

Arnaud Lehmann: Thank you very much.

Sam Cullen (Peel Hunt): Hi, morning, all. I have got a couple, if possible. You chatted a bit about sales rates already, but can you give us an idea of the build rate currently on site, how quickly you are building out plots? That is number one.

And then secondly, related to that and coming back to a point that is been touched on a couple of times, in terms of not asking for a 2025 forecast, but just trying to explore your confidence, all things being equal in terms of market backdrop and sales rate, the ability to open outlets at a net rate of 10 or 15 per year on a three to five year view and how comfortable you are with assumptions of that sort of nature?

Jennie Daly: Sam, I am really not going to be drawn any further on 2025, but I will happily talk to our sales rate and build rate, indeed, in the current year. We talked in quite some detail last year and at the end of 2022 about aligning our build rate to sales rates. And that is a discipline that we have retained quite faithfully through the last 18 months. So we continue to pace our build to sales demand. And as we did, as the market sort of tightened and sales rates fell, we are in a good position to increase our build rates and output as sales rates increase. So quite responsive. Clearly there is a degree of lag, but there is also levels of aspiration or speculation or gut feel if we feel that sales rates on any given site are improving.

Sam Cullen: Okay, thanks.

Ami Galla (Citi): Thank you. Two questions from me. First one was on trading. I mean, were there any significant regional trends that you could discern from the trading to date, both on demand and in terms of pricing? I think in the market data points, there is a little bit more commentary, there is some strength in pricing in slightly higher, larger homes. Is that a dynamic that you see at the site level?

The second one was an order book. If you could give us a split of the current order book between private and social? And on social volumes, are you experiencing any sort of bottlenecks in the take up by housing associations in that market?

Jennie Daly: Okay, thank you, Ami. On regional trading, we have talked in the past, that we have not seen sort of great differentials over the normal deltas that you might see regionally, but have commented that we can see differences on a site by site basis, bearing in mind location and other elements.

In terms of larger homes or higher ASPs, I think that they have been fairly reliant on chains. And so I think it is particularly pleasing that we have seen cancellation rates falling, and that we have seen more resilient chains. And I think that is benefiting some of those further up the chain sales.

On order book, I will ask Chris to answer to the breakdown between private and affordable, but around sort of behaviour of affordable housing providers in the market, we have seen some sort of reluctance or withdrawal of certain affordable housing providers in certain markets. I think you will all be aware that there is a level of pressure on some of those organisations with either legacy issues, fitness and future investment required to address environmental standards, and that has affected some of their appetite for the purchase of affordable housing and that is something that we monitor very carefully. I am very pleased, we have some very long-established relationships with affordable housing providers and our teams are very engaged with them to ensure that we are delivering to their needs and timing.

Chris Carney: And the order book split is 3,709 private and 3,977 affordable.

Ami Galla: Thank you.

Clyde Lewis (Peel Hunt): Thank you. Morning, Jennie. Morning, Chris. Just I am intrigued as to how maybe your engagement with the Labour Party has gone over the last few months, whether they are stepping up their talks with you.

I suppose attached to that, what is your view of the possible grey belt that Keir Starmer is talking about now, whether that would have a beneficial or a detrimental impact, do you think, for TW?

Jennie Daly: Okay, I mean, look, we do engage both with Government and with opposition parties, and we had quite a busy period, I think, on all fronts towards the end of last year and the very early start of this year. However, I am sure you will not be surprised to hear that as both the mayoral, local and the potential general election comes closer into view, that all political parties are more focused on the electioneering than the business engagement end. However, we keep all of our lines of communication open.

In terms of the grey belt and announcements, I think it is useful to see parties engage with some of the sort of more challenging ends of planning policy. And I think it is welcome to see recognition that the green belt is not intended to be a permanent, fixed sort of feature. It is a planning policy designation. And I think that the grey belt discussion, for want of better terminology, does give an indication or an openness to discussion on land of lesser quality that may be well located, which I think sits very well along lines of good town planning and settlement growth.

As to the Labour announcement, there were some caveats there. I think I understand the aspiration, but to look at a designation and think that everything is capable of viability, no matter where it is located, I think is going to be a challenge. But I see it as a net benefit that we have opened the discussion. The green belt is a policy designation and that there are certain conditions under which it could be brought forward for development.

Clyde Lewis: Okay, perfect. Thank you, Jennie.

Jennie Daly: Yes. Just very briefly, thanks for joining us and for your questions today. Just to sum up, given our excellent landbank and disciplined focus on protecting and enhancing value, we remain on track to deliver in line with our guidance for 2024. And as we have discussed a few times on the call, and for growth in 2025, subject to a supportive market.

Thank you all for your time and have a good rest of the day.

[END OF TRANSCRIPT]