

Berkeley Group

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Berkeley Group builds up vast cash pile as profits fall 'only' 21%

Berkeley Group Holdings PLC (LON:BKG) saw its full-year profits subside less than expected, while the upmarket housebuilder's cash pile continued to swell, but the FTSE 100-listed firm still saw its shares decline as it issued weaker than expected forward guidance.

The housebuilder's revenues rose by 4% to £2.96bn in the year to end-April, as the group saw the level of home sales come in almost exactly flat at 3,698 while the average selling price rose to £748,000 from £725,000.

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Berkeley's profit before tax (PBT) shrank by 21% to £775.2mIn, which was an improvement on guidance for profits to fall by around 30% at the start of the year and on the 26% decline seen in the first half of the year. Earnings per share fell 18% to 481.1p due to the effect of £199mIn of share buybacks in the year.

Furthermore, the group has so far outperformed its December 2016 plan to deliver £3.0bn of PBT over the five years to 30 April 2021 by 18%, though management still expect 2019/20 PBT to fall by around a third, with pre-tax return on equity expected to settle at around 15% thereafter, having fallen from 41.9% to 27.9% in the past year.

The year ended with net cash of £975mIn in the bank, up from £107.4mIn three years ago, while another £1.8bn is due on forward sales.

Management said this level of cash "represents under-investment commensurate with the uncertain operating environment", though the estimated gross profit in its land holdings has been maintained at above £6bn.

Dividend not yet set

Directors had already set aside £139.7mIn to be return in the coming year, of which only £5.2mIn has be spent on buybacks, with confirmation of the dividend to be announced on 15 August and paid on 13 September.

On the outlook, chief executive Rob Perrins said the cash pile and mass of land holdings "means we can look beyond the current period of uncertainty with confidence".

"However, like all responsible businesses who operate in cyclical markets, we have been, and will remain cautious in our investment in this environment, and this will determine the speed with which we deliver the value from our assets and invest in new opportunities."

Mixed bag

George Salmon, equity analyst at Hargreaves Lansdown commented: "It's a bit of a mixed bag for Berkeley Group. On the one hand, this year's profit is at the top end of forecasts, but on the other guidance for 2020 is weaker than some had expected.

Price: 4598

Market Cap: £5.79 billion

1 Year Share Price Graph



Share Information

Code: BKG

Listing: LSE

52 week High Low
4728 3208

Sector: Real Estate

Website: www.berkeleygroup.co.uk

Company Synopsis:

The Berkeley Group Holdings plc engaged in residential and commercial property development focusing on urban regeneration and mixed-use developments.

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"However, the group has been conservative in its guidance in recent times, so there's every chance we'll get another upgrade later in the year if the London housing market behaves itself."

He added: "Despite the fall in profits, trading has been good this year, which is another feather in Berkeley's cap. Shareholders can also look forward to buybacks and dividends equating to around £1.8bn in the coming years. That looks eminently affordable - the group has plenty of land ready to turn into cash and a £975m net positive balance on the books already."

"However, for all the good work, the shares remain relatively depressed due to the lingering threat of no-deal, and until the Brexit fog lifts that's unlikely to change."

In early afternoon trading, shares in Berkeley Group were 1% lower at 3,522p.

-- Adds analyst comment, share price --

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