

Barratt Developments

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Barratt Developments says 'not right time' for dividends despite strong housing market

Barratt Developments PLC (LON:BDEV) has said it is not yet the right time to resume paying a dividend as it reported a 46% decline in annual profits but noted that enjoyed a boom in sales in recent weeks.

The FTSE 100-listed housebuilder posted a £491.8m profit before tax for the year to end-June, 2020, down from £910m the year before.

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A 29% decline in house sales to just over 12,600 had already been revealed, with volumes curtailed by the coronavirus lockdown in the group's fourth quarter, leading to revenue falling 28% to £3.4bn.

Net cash more than halved to £308.2m by year-end, down from £765.7m a year earlier, albeit with the company confident it has a resilient balance sheet, with land creditors of £791.9m, equivalent to 25.4% of its giant land bank.

Having joined the mass dividend dump back in March, Barratt's updated guidance is that, "when the board believes the time is right, it will implement a dividend policy based on a dividend cover of 2.5 times".

The company had 85% of employees furloughed with government support at one point during the lockdown but made the decision in July to return the £26m of furlough funds received.

"Although uncertainties remain, all of our sites are operational, we are seeing very strong consumer demand and our robust financial position means we enter the new financial year with cautious optimism," Barratt chief executive David Thomas said in the annual results statement.

Activity in the new financial year has been "encouraging", with net private reservations per average week of 314 versus 250 for the previous year, resulting in net private reservations per active outlet per average week of 0.94 versus 0.68.

A 62% increase in home completion volumes in the eight weeks to August 23, 2020, to 1,439 was attributed to a combination of pent-up demand, the Stamp Duty holiday "and an understanding that Help to Buy will only be available to first-time buyers and regional home price caps will exist from April 2021".

Total forward sales, including joint ventures, as at August 23, 2020, stood at 15,660 homes, valued at £3.7bn.

House price boost

Fresh house price data from Nationwide on Wednesday also revealed that house prices have continued their post-lockdown recovery in the past month, with a 2% monthly rise that is the biggest gain in over 16 years, and cancelling out the falls seen in May and June.

Price: 688

Market Cap: £7.01 billion

1 Year Share Price Graph



Share Information

Code: BDEV

Listing: LSE

52 week High Low
852.6 349.4

Sector: Builders and building materials

Website: www.barratthomes.co.uk

Company Synopsis:

Barratt Developments is a United Kingdom-based company engaged in housebuilding and commercial development.

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Helped by this extra boost, which saw of the housebuilding and wider residential property sector trading higher, Barratt shares rose 7% to 536.6p by mid-morning on Wednesday.

"While Barratt talks of 'cautious optimism' alongside its full-year results, its true assessment of the outlook is best reflected by its continuing decision to keep dividends off the table," said Russ Mould, investment director at AJ Bell.

"This is a perfectly rational response to a highly uncertain backdrop. It is indicative of management's suspicion that the big jump in activity following the property market's emergence from deep freeze is due to a flood of pent-up demand, boosted by a stamp duty holiday, which will eventually ebb away."

He said the house prices news may provide some short-term fizz for the sector but cautioned "there could be a lingering hangover to come", due to the rising levels of joblessness.

"If Barratt is in for a period of weaker demand then it will need to maintain a strong balance sheet as a buffer, enabling it to come out the other side ready to take advantage of any eventual recovery.

"Relative financial strength would also allow Barratt to add to its land bank at a time when prices are likely to be at bombed-out levels. This would have positive implications for long-term profitability although such considerations are a long way off just now."

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