
Fletcher Building tips 35pc jump in housing approvals

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Fletcher Building expects residential housing approvals to climb about 35 per cent in Australia by 2022 from [a market bottom this year](#).

Fletcher operates a \$3 billion-plus building products business in Australia under brands including Laminex, Tradelink plumbing and bathroom supplies and Stramit roofing and structural steel.

Chief executive Ross Taylor said the Australian business was battling shrinking margins at Tradelink and Stramit this year in a fiercely-competitive sector where total residential approvals are expected to sink to between 150,000 to 160,000.

But Fletcher expects that number to rise to around 173,000 in 2020-21 and then 215,000 in 2021-22 in the [next upward cycle](#).

"High competitive intensity continues to place pressure on price and margins in Stramit and Tradelink," Mr Taylor told shareholders at the annual meeting in Auckland, New Zealand on Thursday. One of Tradelink's biggest competitors [is ASX-listed Reece Corporation](#).

The Australian residential market would hit a bottom this year, he said. The company's shares were 1.2 per cent lower at \$4.92 in late morning trade on Thursday.

"Our sense is the downturn will bottom out at the 150,000 to 160,000 level this financial year and then grow from there," he said.

Rate cuts by the Reserve Bank of Australia and an abatement of a credit squeeze caused by banks forcing much tougher lending criteria on potential home loan customers in the wake of the Hayne royal commission has resulted in [house prices starting to rise again](#) in Sydney and Melbourne. House prices fell in 2018 and early 2019.

Fletcher has been aggressively cutting costs in its Australian operations as Mr Taylor tries to reposition the operations, which have been underperforming the broader market. The aim is to rip \$100 million out of the Australian cost base.

Fletcher generates 54 per cent of its revenues in Australia from the residential market.

Lumpy infrastructure

Mr Taylor said the Ipex-Rocla pipes and concrete products business had been hurt by delays in large infrastructure projects in Australia. "Project activity is expected to remain lumpy," he said. But renewed momentum was expected in 2020.

Overall, Fletcher expects earnings before interest and tax before significant items to be between \$NZ515 million (\$489 million) to \$NZ565 million in 2019-20.

Mr Taylor said rebuild plans would be in place by February for the \$NZ700 million New Zealand International Convention Centre which suffered major damage from [a large fire on October 22](#) just as it neared completion. The convention centre and an adjacent hotel are being built for casino group SkyCity in a project which had already been plagued by delays before the fire. Both companies have said that insurers will cover the costs.

Fletcher is dual-listed on the New Zealand and Australian stock exchanges. The Australian shares have risen by 19 per cent to around \$5 in the past four weeks, from \$4.21 on October 30. The stock was at \$9.60 three years ago.

Fletcher sold [its Formica laminates business](#) to Dutch industrial group Broadview for \$NZ1.19 billion earlier this year as part of a strategic overhaul by Mr Taylor to refocus the business on the New Zealand and Australian building products sectors.

Fletcher's New Zealand commercial construction arm lost its way two years ago after [serious cost blowouts](#) on some big New Zealand projects triggered \$NZ1 billion in write-downs.