Fletcher Building on trading halt as it tries to fix debt woes

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Fletcher Building is believed to be working with First New Zealand Capital and Credit Suisse to help address is debt woes as the $5 billion Ralph Norris-chaired building materials provider remained in a trading halt last night.

Fletcher Building, which mostly operates in Australia and New Zealand and is listed in both countries, is thought to be continuing negotiations with lenders over a breach of debt covenants following troublesome construction projects that have prompted profit warnings.

But it is understood the investment banks involved have been sounding out the market for a capital raising in recent days (a route they are believed to be urging the group to take) despite suggestions the measure may not be needed and is not thought to be the board’s preferred route to address its challenges.

Fletcher Building has been chaired by former Commonwealth Bank boss Ralph Norris since 2014.

In October, managing director Mark Adamson left and was replaced by former Lendlease executive Ross Taylor.

One theory is that Taylor’s plan is to turn around the company without an equity raising or asset sales.

The company has attributed the breach of covenants to further material losses in its building and interiors business and while some say asset sales are inevitable, it has been widely accepted the company would have sold the Australian operations some time ago if it could have, but could not find buyers willing to pay up for the Tradelink and Iplex operations.

Market observers no doubt will be watching in the weeks ahead to see whether the issues that have prompted the fallout with the construction arm of Fletchers and also those here with local private company Grocon will extend to other Australian listed builders such as Watpac or Lendlease as the property market starts to come off the boil.

Typically, when covenants are breached, all lenders have the right to accelerate payment of the loans and the expectation is that Fletcher will be applying for a standstill agreement, which would prevent such a measure.

The builder had net debt of $NZ1.95 billion as of June 30 last year. Its main source of debt is via private placements worth about $NZ1.26bn, which are said to be where the covenant breaches have occurred.

It also had $NZ389m in loans via its syndicated revolving credit facility and $NZ536m in undrawn bank facilities.

Fletcher had an 80 per cent fall in full-year profit last year, hurt by a $NZ292m loss in its building and interiors business, driven by cost overruns.