

Analysts wade in on Fletcher Building's faulty pipes debate



Pipe bursts involving a product supplied by Fletcher has created much grief all around.

By BRIDGET CARTER

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Analysts' views on Fletcher Building's Iplex pipes woes are filtering through as shares in the dual-listed construction giant slumped 9 per cent on Monday.

According to WA home builder BGC's findings, released on October 11, a change in resin and formulation led to Fletcher Building's Iplex pipes failing.

BGC estimates the cost to fully re-pipe their impacted homes is about \$700m, which extrapolated equals about \$900m and about \$1.8bn to refit all the homes in Western Australia and Australia, respectively.

However, Fletcher alleges installation to be the root cause of the issue, with estimated cost just to repair bursts as they happen closer to about \$50m-\$100m.

Fletcher maintains that the liabilities are confined to Perth and the \$15m it has set aside to address the defects in its pipes for this year is more than adequate.

The company remained in a trading halt for days last week as it faced the accusations and on Friday, briefed the market on its take on the problem.

Citi analysts say irrespective of who is at fault, they estimate that a full re-piping of all impacted homes was an unlikely scenario, given the number of houses involved.

A more pragmatic solution was to fix the bursts as they happen, similar to global precedents.

“In such a scenario, we conservatively estimate outflows to be less than about \$50m for a maximum five years.”

The analysts say that while the balance sheet would not come under pressure at this level, they noted upside risk to Fletcher’s current \$15m provision.

The problem with the leaks relates to the Iplex Pro-fit pipes product. The company said in February that WA building regulator, the Department of Mines, Industry Regulation and Safety, was investigating.



Buckeridge Group of Companies (BGC) management, which includes director Sam Buckeridge, has blamed faulty pipes by Fletcher for pipe bursts in WA homes it built.

A recent preliminary finding found it was the pipes that were the cause and it is working with Fletcher Building to resolve the cause.

Iplex pipes were installed in 15,000 to 17,000 Western Australia homes, and there are about 250 pipe bursts per month.

The cost to repair a burst in the ceiling is about \$5000 to \$6000, with wall replacements nearly double that, due to double brick construction at a time when the industry is labour constrained.

“While the regulatory remediation decision is yet to be handed down, we note to fully re-pipe about 15,000 to 17,000 homes may take about 15 to 20 years, given only about 13,000 homes are built in Western Australia per annum, and there are only about 2000 available rentals.

“As a result, to fully re-pipe and unwind essentially 5 years’ worth of construction appears largely implausible to us.”

Citi cites similar global precedents, such as Kitec plumbing, Polybutene piping suit and believe a pragmatic solution is to spot-fix individual bursts as they happen, irrespective of who is at fault.

“Conservatively, assuming burst rates and costs increase about 50 per cent, our back of the envelope calculations suggests the cash outflow would likely be less than about \$50m per annum for, at maximum, potentially 5 years.”

The analysts believe a full re-piping of all impacted homes is unlikely.

But either way, the liability will likely be materially less than the \$700m-odd estimate, and likely more limited to per-annum cash outflows of less than about \$50m.

“However, even at these lower levels, we estimate this would raise serious issues for any WA builder, essentially implying that irrespective of fault, we largely see the burden being borne either by Fletcher Building, insurance or government organisations, meaning some upside risk to the \$15m Fletcher Building has already provided.”