Editorial: Fletcher Building - proof the market does not like surprises

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Fletcher Building has surprised the market too many times. Photo / NZME

EDITORIALFinancial markets hate surprises and Fletcher Building has delivered too many of them.To be fair, the International Convention Centre (ICC), which is still under construction, has been a gnarly project from the outset, with a roof fire in 2019 clearly making matters much, much worse for the company.Outgoing chief executive Ross Taylor said in terms of complexity, he had never seen anything like the ICC project in his 40 years in the industry.But even before winning the ICC contract, the Fletcher Building story in recent years has been one of earnings downgrades, impairments and construction losses – all surprises the market could well do without.The company, once this country's biggest stock by market capitalisation – is now worth just $2.74 billion.With this latest out-of-the blue missive, Fletcher Building has now lost just under a quarter of its value.Fletcher Building – a remnant of the Fletcher Challenge conglomerate – is now well down the pecking order, with the current number-one - Meridian Energy – weighing in at $14.3b.It's been said New Zealand corporates have a poor track record when it comes to investing overseas.On this score, dairy giant Fonterra has seemingly seen the error of its ways, having sold its offshore businesses in China and in South America.The co-op looks to be better for it.Across the Tasman, Fletcher Building's purchase of Crane in 2011 for just over $1b has not gone well.At this week's result, the company said there had been a $122m non-cash write-down of Australian plumbing supplies business Tradelink – which was once part of Crane.Then there is the problem of potentially defective pipes used extensively in Western Australia by Iplex – another Crane business, which could prove costly.The stock has underperformed in the local sharemarket, despite generally favourable economic conditions and a building boom, over the last decade or so.Construction is not for the faint-hearted, and the road is littered with failed building firms, large and small.The bidding process for large projects is ruthless, so firms are faced with a dilemma.Bid too high and risk missing out - bid too low and risk completing a job without making a cent or going into the red.The company has wisely dispensed with an interim dividend in order to preserve some strength in the balance sheet.For the rest of the year, Fletcher Building has pointed to earnings before interest and tax to be in a range of $540 million to $640m, with the mid-point assuming a continuation of current market conditions for the balance of 2024.That would compare with last year's Ebit before significant items of $798m.Given recent events, the market would take a dim view of Fletcher Business missing its new earnings guidance.As for the Iplex situation, the company expects to reach an appropriate industry solution.CEO Taylor and chairman Bruce Hassall have done the right thing and stepped down, making way for a new broom.They should not be made scapegoats.Fletcher Building's problems go back further than they do.