

Fletcher Building's grim AGM: Shareholders hear of Perth leaky pipes and problems on housing

By [Anne Gibson](#)

27 Oct, 2023 10:38 AM ⌚ 7 mins to read

Shareholders in construction, distribution and manufacturing giant Fletcher Building heard about the Perth plumbing and pipe issue, house-building volumes down 5 per cent on guidance and problems getting paid on major building and roading projects.

Chairman Bruce Hassall cited problems in Australia where Fletcher's Iplex polybutylene pipe [has been blamed](#) yet the company has in turn blamed poor plumbing installation practices and other factors and said it's not its fault.

"Turning to [the Western Australia plumbing matter](#), I would like first to acknowledge the impact and distress on homeowners from the plumbing failures that are occurring. I wish to assure our shareholders and all our stakeholders that the board is taking this matter very seriously. We have a dedicated board committee in place, which provides strong oversight on the developing matters," Hassall told shareholders at Auckland's Eden Park.

Asked about how much the company had allowed for the A\$10,000 cost to fix a West Australian home, Hassall said the cost of repairs was averaging far below that, at about A\$4000.

Asked about Fletcher's poor share price compared to its peers, Hassall said the board was focused on ensuring the company performed, grew and moved on from "legacy" or loss-making construction projects.

Shareholders were keen to hear more about the leaky pipe issue and were told it was confined to West Australia and chief executive Ross Taylor said the issue was due to plumbing and building installation failures in both hot and cold pipes "where pipes have been massively over-bent. It's over-stressed and leaking where it's been over-bent. There's no problem with joining or glue".

Taylor cited two plumbers and a builder who had worked in the West Australian homes with leaky pipes.

“Why are we footing the bill for this?” asked one shareholder, given there was no affiliation between Fletcher and those three parties.

Taylor said: “We didn’t want to be drinking our own Kool-Aid on this” so had investigated the causes of the problem and established a \$15m fund to help homeowners while that happened. But one builder, Buckeridge Group [or BGC], would not let Fletcher into houses to investigate “and you can make of that what you will”.

Asked if the Iplex pipes were sold with installation instructions, Taylor said they were and had information about building codes too.

Asked by a shareholder what the pipe problems might cost and if A\$1.8b was correct, Taylor reiterated his view that [BGC’s estimates of repair costs](#) were “sensationalist and fanciful”.

Asked if the company had examined leaky pipes in New Zealand, Taylor said the company had looked at other countries including the United States, many different events with polybutylene and if that was applicable to the West Australia situation. “We’ve done a lot of work to see if there’s anything else in history and we’re finding the issues in WA specific. We’ve ruled out water chemistry because too much chlorine can give you problems,” Taylor said.

Asked about planned business acquisitions, Hassall said there were none but \$800m was committed for growth opportunities in NZ to grow the business from within.

In his address, Taylor summed up the broader financial situation for the company.

“For our New Zealand materials and distribution businesses, the infrastructure and commercial sectors remain robust, while volumes in the residential sector are around 5 per cent softer than our prior guidance.

“We are seeing solid pricing in our materials businesses, however there is strong price competition in the merchant distribution channel. As such, ebit before significant items for the New Zealand materials and distribution businesses is tracking slightly behind our previous expectations,” Taylor said.

Shareholders also asked why Fletcher wasn’t building more apartments and how much it was spending on research and development. Hassall said apartment blocks up to four levels were being built and the company had established an R&D concrete lab in Christchurch recently.

Two shareholders questioned director Barbara Chapman’s commitments, given the number of boards she sits on. Chapman said she felt she was working at around 80 per cent of the capacity when she was a chief executive and her range of experience here and in Australia was of great benefit.

Asked about the NZ International Convention Centre, Hassall said that wouldn’t be finished till next year but the company was focused on managing it.

He also cited problems getting fully paid on major construction jobs including SkyCity's NZ International Convention Centre, citing the need to secure claims and insurance recoveries and manage "any wash-up" issues.

"Resolution of the claims and recoveries, particularly on the convention centre and Puhoi to Warkworth projects, is likely to take until 2025 calendar year. On Wellington Airport car parks, we are working with the airport to determine an agreed remediation, but any costs we decide to take in that regard are not covered by present provisions," Taylor said.

The new motorway north of Auckland was "a lovely piece of infrastructure" but Fletcher was yet to talk to Waka Kotahi on the major claims on the project, he said.

Taylor cited the [\\$15m fund to help homeowners](#) while the cause of the Perth leaky pipes issue was resolved. Estimates of A\$50m to A\$100m had been made to repair leaky pipes but "at this stage we have not made any provisions to contribute to this repair bill".

Fletcher gave no material updates today on the Perth problems, following a detailed presentation Taylor gave on the problems this month.

Fletcher shares fell on the NZX from \$4.90 to \$4.33 when the company went into a trading halt and he presented on the pipe issue, but Taylor didn't mention that share price fall.

In better news, Taylor gave a trading update which said the 2024 underlying trading cash flows were robust and the balance sheet was well positioned.

"We expect trading cash flows excluding legacy construction to be robust in FY24. As previously guided, our leverage [net debt / EBITDA] is expected to move to the upper end of our 1x-2x range, however, we are committed to remaining within this target range," Taylor said.

The infrastructure and non-residential sectors remained robust, but the residential sector volumes are around 5 per cent softer than prior guidance. This puts them down around 25 per cent from the peak in late 2021.

The company was getting close to having its legacy construction projects behind it and Hassall said the new \$400m Gib factory in Tauranga was weeks away from becoming fully operational.

Asked by a shareholder about losses in construction, Hassall said the [approximately \\$1b losses](#) had been a "near-death experience" for Fletcher and the company would never return to that "because it's been very painful for the shareholders, share price, management and the board, so we totally get that". Hassall said he and Taylor had joined the business which had already agreed to fixed-price contracts. The two men inherited those loss-making construction projects, agreed to up to two to three years before they joined.

Taylor said: "We are very advanced on our \$800m of committed growth projects, which we are confident will be delivered well and set us up for significant extra earnings in the next

two to three years”.

The meeting finished with Hassall shouting “go the ABs on Sunday morning!”

Fletcher shares are trading on the NZX today at \$4.35, down from \$7.42 early last year.

Anne Gibson has been the *Herald's* property editor for 23 years, has won many awards, written books and covered property extensively here and overseas.