Fletcher hopeful Aussie pipe problem is contained

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Fletcher Building's Ross Taylor – cautiously optimistic. (Image: NZME)

Fletcher Building is becoming hopeful its Australian leaky pipe problem will turn out to reflect issues with the quality of installation, rather than the product itself.

In an interview for the Sharesies Shared Lunch series, chief executive Ross Taylor said the company hoped to draw firmer conclusions within six or seven weeks on an issue the company has set aside $15 million to fix.

Although not the largest of outstanding claims against Fletcher Building or wrangles involving final completion and insurance payments on various projects, the problem relating to the Iplex pipe product is flagged as a concern in case it escalates.

Fletcher has so far made repairs to about 200 of some 1200-1500 affected homes, at a cost that appears to reflect the contingency it has set aside.

However, the Australian Competition and Consumer Commission is considering whether to open an inquiry into the product itself, which Fletcher stopped manufacturing during a clean-out of unprofitable lines in its Australian business.

The pipes in question were fitted in some 30,000 Australian homes between 2017 and 2021, split roughly evenly between Western Australia and eastern states.

So far, only homes in WA have shown faults, said Taylor.

“We're actually finding the pipe is OK,” he said, “and when you look at the fact it's not leaking on the east coast, you know, you're gonna say, 'Well, it doesn't look like pipe', but we've got a few tests to finish.

“We're seeing a really high correlation to installation,” he said, although it was too early to draw a definitive conclusion, and any conclusions the company drew would then be reviewed by Australian authorities and regulators.

“I can't categorically sit here today and take that off the table as not a bigger issue,” said Taylor. “I can only talk about where we are now and what we're… the direction of travel is.”

The Fletcher share price has suffered over the past year, falling from above $7.25 this time a year ago to be trading at $4.71 at Wednesday's close on the NZX.

Fletcher Building (FBU)

2023-09-22T12:04:55+12:00

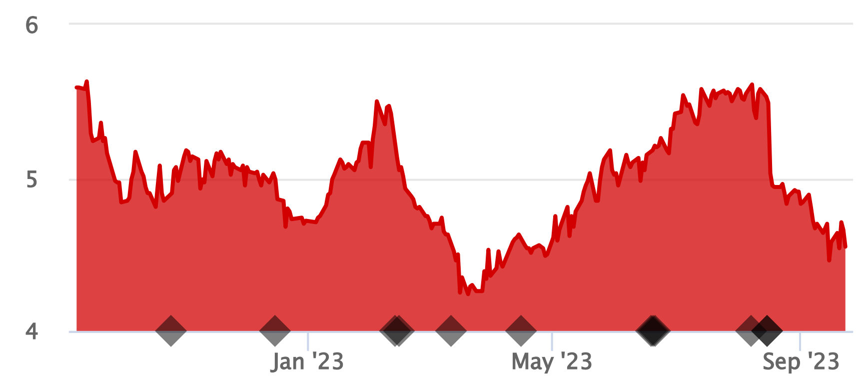
Sharesies

$4.54
Open $4.42

-0.12
-2.58%

Today | 5D | 1M | 1Y | 2Y

Key announcement - click for info



20 minute delayed info. Updated every 2 minutes. Source: NZX

High	Low
$4.65	$4.52

1-week range

$4.52 $4.71

52-week range

$4.20 $5.68

Market cap	$3,555,017,926.00
Volume	84,353
Value	$387,933.78
Trades	198

Full Details

Claims overhang

A Jarden analysts' note highlighted $300m to $400m of unresolved claims hanging over market sentiment towards the stock, the largest being the liabilities and insurance payouts that have been identified for the International Convention Centre build in Auckland.

The facility is expected to be ready to open by the end of next year.

The company reported a slightly improved $798m ebit in the year to June 30, but the shine was taken off by one-off convention centre costs of $255m and a reduced dividend.

As for the state of the NZ residential property and construction market, Taylor was cautious about picking the bottom of the current cycle, saying the immediate outlook for the NZ economy remains "murky".

However, he was "very bullish" about the longer term and Fletcher Building's capacity to generate stronger returns than in the past, because of his focus over the past five years to clean up a business that appeared to lose its way under the previous CEO, Mark Adamson.

Fletcher Building lost momentum in the last three months of the financial year ended June 30 and sold only 617 new homes in the 2022/23, but Taylor said there is some prospect emerging of home sales reaching 700 to 800 in the current year.

"Once we got to about May, the sales sort of stabilised – prices stopped going down, you know – and we've seen good volumes in that business now, right through and continuing.

"We're sort of saying seven [hundred] or 800 [home sales this financial year] as we sit here, but it'll be interesting to see. We're probably doing a bit better than that, but it's a long year to go and we've got an election in the middle of it, so it's a bit hard to call yet."

Growth outlook

Although research analysts are forecasting relatively little change in Fletcher's earnings before interest, depreciation and amortisation over the next three years, Taylor said at around $1 billion or slightly more, the company was confident its investment in new initiatives would generate earnings momentum in due course.

"We've invested $800m into growth opportunities above and beyond our normal activities ... and they've all been done at 15% returns [being] what we're looking for. So there's $100m plus of profit we'd expect to see in the business when we finish those investments."

In the residential housing segment, he was waiting for the signal to further ramp up activity.

"We've got $150m of capital in our residential development business. To take it up to 1,400 units a year, it probably needs another $300m – and I just don't want to do that until I get a lot of confidence in the cycle."