

## ForBarr on fence about Fletcher pipe deal, citing 'key unknowns'



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Ripped out pipes made by Iplex owned by Fletcher Building. (Image: NZME)

Forsyth Barr analysts opt not to count their Fletcher Building chickens before they hatch.

On Friday, Fletcher Building subsidiary Iplex Australia, the Western Australia Government and several builders agreed in principle to a joint industry response (JIR) to help Western Australian homeowners affected by leaking Iplex-manufactured Pro-Fit pipes.

The agreement would cost Fletcher Building about A\$155 million (NZ\$168m), but the company will avoid a product recall.

Fletcher's share price rallied 10.5% after the announcement to \$3.16. It has since settled around \$2.97.

In a Monday equity research report, Forsyth Barr analysts Rohan Koreman-Smit and Paul Koraua expressed hesitancy about the news. They said the agreement still had "key unknowns" and held their neutral target price at \$3.60.

### 'Key unknowns'

The analysts' primary concern is that BGC, the largest builder to use Pro-Fit, has not yet joined the response.

BGC has said it is open to the JIR but has some reluctance, which stems partly from discrepancies over the estimated costs of resolving issues relating to the faulty piping.

BusinessDesk revealed last year that BGC estimated these to be at A\$1.8 billion, though Fletcher Building has long disputed this figure, saying it is "misleading and sensationalist".

The cost expectation gap has closed since then, but the analysts note that a recent BGC statement suggested the firm had concerns about the level and certainty of funding.

"We note that Fletcher Building has a history of underprovisioning but has always followed through as costs have risen," Koreman-Smit and Koraua said.

The other point is that if BGC did join the JIR, it would have to drop its litigation and swallow the A\$18m it has spent thus far on remediating leaks.

According to the ForBarr analysts, another contingency is the currently active class action brought by homeowners against Iplex.

If Iplex wins that suit, the terms of the JIR will be renegotiated, which could result in BGC covering the majority of its remediation costs.

“We believe if the homeowners' class action is withdrawn, then the likelihood of BGC joining the JIR increases,” the analysts said.

They said there is also a scenario in which Fletcher Building could win litigation, in which case its funding of the JIR would end.

Because there is "a wide range of outcomes", little has changed about their forecasts aside from a minor adjustment to the cash outflow estimates in Fletcher's Western Australian segment.

### The deal details

As part of the response, the Western Australian Government committed to covering up to A\$30m of direct costs participating builders incurred in providing the repair work.

Fletcher Building said Iplex Australia would cover 80% of costs incurred, with the Government covering 20%.

It said Iplex's offer of funding was uncapped, whereas the Western Australia Government's contribution was capped at A\$30m.

Iplex Australia's share of costs to repair affected homes would be about A\$120m, it said.

The additional cost of installing leak detectors in relevant homes would cost about A\$20m, and associated administration costs over the life of the response would be about A\$15m.

