Fletcher Building's biggest holder calls for Australian sell-off

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Aug 24, 2020 – 12.00am

The biggest shareholder in ailing trans-Tasman building products group Fletcher Building says the company should bite the bullet and sell its entire $NZ2.8 billion-a-year Australian business because it is a big drain on returns.

Perpetual Investments holds a 9 per cent stake in Fletcher Building and believes the Australian arm – comprising Tradelink, Stramit, Laminex and Fletcher Insulation – is a "management distraction" and should be cut loose.

Fletcher Building expects the construction market to be down by 20 per cent in Australia. **Paul Jeffers**

Perpetual's head of Australian equities, Paul Skamvougeras, said Fletcher and chief executive Ross Taylor should be concentrating on the New Zealand business, where there are much stronger market positions and better returns.

Mr Taylor has restarted a process to sell the Rocla concrete poles and stormwater pipes business in Australia – but has vowed to go no further with any other sell-offs in Australia in a business which slumped to a small loss in the June half.

But Mr Skamvougeras said the Fletcher board was being reactive rather than proactive and the company's share price was now back to 2003 levels, "leaving the door open to an opportunistic [takeover] bid".
"We understand it's a tough operating environment. Management are taking the appropriate moves to right-size the business," Mr Skamvougeras said.

But Fletcher Building was a business where management had struggled to realise its potential, even though it had a strong market position in New Zealand.

Mr Skamvougeras said the portfolio rationalisation in Australia would not go far enough if it stopped at Rocla.

"We call on the board to be more decisive in the strategy in Australia and sell the business to realise value for shareholders," he said.

No appetite for asset sales

The Australian business made a $NZ2 million ($1.8 million) loss in the June half on an earnings before interest and tax basis.

In an analysts' briefing on August 19, Mr Taylor said Fletcher would not pursue any other asset sales in Australia after announcing a loss of $NZ196 million for 2019-2020 across the entire group.

"I think we're just about there, then," Mr Taylor said when asked if other businesses might be considered for sale.

"The only one we've got on the table to deal with right now is the Rocla one."

Fletcher expects the New Zealand construction market to be down by about 25 per cent in 2020-21, with Australia forecast to fall by about 20 per cent.

The Australian building products division suffered a fall in earnings before interest and tax to $NZ33 million in 2019-2020, compared with $NZ77 million in the previous year.

Mr Taylor is cutting about 12 per cent of the Fletcher workforce in response to the downturn, with about 500 people being made redundant in Australia.

Citi analyst Lisa Huynh said the "weaker result in Australia surprised to the downside" as a slowdown in commercial construction more than offset strong momentum in Laminex and Fletcher Insulation.

She said cost savings were unlikely to benefit the bottom line, with earnings leverage to past cost-out programs being low. Cost savings would be needed to offset a weakening construction outlook.

Ms Huynh said better market conditions would be needed for the stock to be re-rated.

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