

Things 'might be starting to move in the right direction' for Fletcher Building



Rebecca Stevenson

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The fire-affected NZ International Convention Centre is still causing uncertainty for Fletcher Building, Forsyth Barr analysts say. (Image: NZME)

Fletcher Building finalising the terms of its response to the Western Australia leaky pipes issue is an important step and line in the sand, Forsyth Barr says.

The terms of the dual-listed building conglomerate's \$168 million joint industry response were finalised on Nov 13.

Fletcher Building, under its proposed settlement for the alleged leaking pipes made by its subsidiary, Iplex Australia, will pay builders who sign on to complete necessary repair work on the condition that they don't take legal action.

The joint industry response is currently missing a key sign-up. Home builder BGC, which raised the issue, has said it will file proceedings against the building materials firm.

Fletcher has provisioned A\$155m (NZ\$168m) in the 2025 financial year against the pipes issue.

This figure assumes BGC will join.

Positive step

Analysts Rohan Koreman-Smit and Paul Laxton Koraua said the joint industry response "does not fully sterilise the issue, with litigious risk and potential cost overrun the key risks".

However, they said it was a positive step towards a conclusion.

The deal removed the risk of a product recall and provided investors with a degree of certainty about Fletcher Building's potential liability, the analysts said in a research note.

In October, Fletcher director Peter Crowley said Fletcher had agreed to pay to fix the pipes installed in Western Australian homes to prevent a wider recall of the Iplex product.

He said a recall would have captured pipes fitted outside of Western Australia and be significantly more expensive.

Crowley maintained the leaks in Western Australia were caused by their installation, pointing to much lower leak rates for the same product in other parts of Australia.

The Forsyth Barr analysts said the key uncertainties for Fletcher Building were outstanding legal claims against Iplex Australia, including BGC's "seemingly all-or-nothing strategy" of taking Iplex Australia through the courts, and the quantum of total remediation, given the extended time to lodge complaints from six years to 15 years post-construction.

They lowered their cash outflow guidance for the 2025 financial year for the pipes issue to A\$20m, which included an A\$5m investigative fund overrun.

Moving in the right direction

After a particularly challenging period, the analysts said things might start moving in the right direction for Fletcher Building.

It had new management "partially in place", balance sheet pressure had been eased with the recent \$700m capital raise, the Government had started to cut red tape in the construction sector, and there were signs of stabilisation in NZ construction activity.

Given Fletcher's recent history, remaining uncertainty with the Western Australia pipes issue, and the final cost of the fire-affected NZ International Convention Centre (NZICC), Koreman-Smit and Laxton Koraua said they thought the market would remain cautious "until [Fletcher Building] gets some runs on the board".

In the year to June 30, Fletcher Building reported \$180m in additional provisions for legacy construction projects.

Legacy projects, including the NZICC, had also affected group trading cash, with construction legacy cash outflows of \$376m mainly due to convention centre steel remediation costs.

The path forward

Managing director Andrew Reding's upcoming strategic review was "another opportunity to delineate the path forward".

In September, Reding revealed plans for a "deep dive" strategic review of the struggling building giant.

He also announced an increase in cost cutting, with an additional \$60m to be slashed in the 2025 financial year, for a total reduction of \$180m.

In August, Fletcher appointed Jarden to look for investment and partnership opportunities for its residential business.

The same month, it sold its Australian retail plumbing business, Tradelink.

In the year ended June 30, Fletcher said it had cut about \$110m in costs.

Fletcher Building (FBU)

2024-11-21T14:44:12+13:00



\$3.05

Open \$3

-0.05

-1.61%

High

\$3.12

Low

\$3.02

Today 5D 1M 1Y 2Y

1-week range

\$3.01

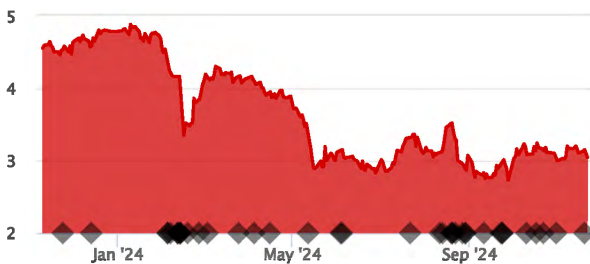
\$3.2

52-week range

\$2.7

\$4.9

Key announcement - click for info



Market cap

\$3,278,436,985

Volume

242,821

Value

\$741,396.99

Trades

381

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

Full Details

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Rebecca is an award-winning business journalist and business commentator. She is a former national business editor of Stuff and business editor of The Spinoff and was previously editor of the Western Leader and Nor-West News.
