

Fletcher Building Ltd

FBU: XASX (AUS)

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Morningstar Rating for Stocks

★★★

Fair Value

A\$2.60

Economic Moat

None

Capital Allocation

Poor

Fletcher: Navigating Another Challenging Year



Esther Holloway •

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No-moat Fletcher will be looking to put 2024 behind them. The year was marked by significant challenges, including the Western Australia Iplex pipe failures, cost overruns at the New Zealand Convention Centre, the brush with debt covenants, and the steepest downturn in New Zealand’s residential construction since the global financial crisis.

We maintain our fair value estimate of AUD 2.60 (NZD 2.80) for Fletcher Building, underpinned by our assumption of a near-term recovery in the New Zealand construction sector.

Fletcher’s leadership has undergone a significant refresh, with the transition of CEO, CFO, and CIO alongside its ongoing board renewal. This includes a new chairman and the replacement of three other directors. We think a mostly new leadership team can provide fresh perspectives on Fletcher’s business operations. Additionally, the company’s balance sheet is more secure after its equity raise. Our fiscal 2025 forecast for net debt/adjusted EBITDA is a manageable 1 times, following the equity raise cash injection. With construction activity remaining subdued, we expect the business’s key focus is cost savings.

We think 2025 is likely to be another difficult year as the company continues to rightsize its operations. New Zealand’s construction sector remains weak, with housing consents recovering slower than expected. Interest rate cuts require time to filter through to construction approvals, and we forecast a gradual return to growth in the latter half of 2025.

The Western Australia pipes saga also remains unresolved with major Perth builder BGC refusing to take part in Fletcher and the Western Australian government's scheme to support affected homeowners. We estimate at least half of the leaky homes were constructed by BGC, who has threatened legal action. Independent of this, affected homeowners have also threatened a class action.