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BGC posts bigger loss as bursting pipes and home backlog weigh

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Angry homeowners protest against BGC over construction delays. Credit: Daniel Wilkins/The West Australian

Hefty costs linked to its construction backlog and a pipe replacement program have helped consign BGC to a bigger annual loss as the home builder and building products group shapes up to a new court battle with Australia's dominant brick maker.

Financial accounts filed in the shadow of Christmas show the family-owned group's loss for the year to June 30 blew out to $63.2 million from $41.6m previously, despite a 4 per cent increase in revenue to $914.2m.

The result included $19m of profit returned by its fibre cement and plasterboard businesses, which are contracted for sale to Belgian company Etex.

BGC, owned by the heirs of its late founder Len Buckeridge, expects to complete the sale in late February, having also sold its pre-cast concrete arm in August to Mr Buckeridge's stepson Julian Ambrose and widow Siok Puah "Tootsie" Koh for $23.5m.

The latest loss followed a tough year for the group, which was hit by the fallout from chronic delays that forced it in April to halt new home sales to complete the stalled construction of nearly 4000 existing houses.

It is also having to replace plumbing in thousands of completed homes because of broken pipes that have caused flooding and mould. BGC has blamed the issue on manufacturing defects, while the pipe maker Fletcher Building insists poor installation is to blame.

At the same time, BGC is defending a Federal Court lawsuit by Brickworks alleging that it engaged in predatory pricing by using its market dominance in brickmaking in WA to keep its prices so low that rivals could not compete.

The listed Brickworks has made no secret of its belief that it had no option but to close its loss-making brick plants in WA because of BGC's alleged anti-competitive practices.

According to the financial filings, which were signed off by directors in mid-December, BGC has provisionally put aside $11.3m to cover the pipe replacement and a further $45.1m to complete the delayed homes.

The group is hoping that the Australian Competition and Consumer Commission will intervene and instigate a product recall that would require Fletcher to fund future replacements.

"The expected timing of the recall and associated consequences are based on management judgement, giving regard to the current status of engagement with relevant regulatory bodies and other stakeholders," it said in the annual report.

However, it added: "There remains uncertainty on the future rate of piping bursts and on the timing of the issuing of the expected product recall by the regulatory body."

In its review of the 2022-23 year, BGC noted that like other companies in the construction industry, it faced "unprecedented challenges as a result of global economic uncertainties, inflationary pressures, tightening monetary policies, global energy and supply chain pressures".

The loss, it said, was mainly driven by the pressure on its its residential and commercial construction businesses, which generated $424.m of revenue, down from $453m.

“In addition, the results were impacted by rectification costs in relation to plumbing pipe failures occurring in commercial and residential businesses during the year, as well as a provision for future costs,” it said.

“There may be future recoveries of all, or a portion of these costs through multiple means, whether that be in the form of insurance claim, a regulator driven recall, or some other commercial settlement with the responsible pipe manufacturer.”

After accounting for the expected sale to Etex, BGC finished the year with $533m in net assets and a considerable armoury of $302m in franking credits, enough to potentially allow the group to return up to $705m in fully franked dividends.