FORSYTH BARR

Building Consents

NZ Consents — What Slowdown?

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Residential consents have remained strong through 2019 despite relatively widespread concerns that the market may be softening. Ironically the strength in August was concentrated in Auckland and Canterbury, the regions investors we talk with are most cautious about. We do suspect segments of the Auckland market, notably apartments and upper-end residential, will likely slow over the next c.12–18 months. However, with interest rates at record lows, continued high migration, a reduction in loan-to-value limits, and removal of the Capital Gains Tax threat we expect the broader market to remain robust.

Residential underpinned by record low interest rates and strong migration

August residential consents were again strong -2% mom/+12% yoy to 36.9k (annualised). Notably growth was concentrated in Auckland (particularly townhouses, flats etc.) +8% yoy and Canterbury +30%, the two regions we receive the most investor queries on. Whilst you cannot read too much into one month's numbers, in our view, the continued resilience in Auckland does highlight that mid-market demand is solid. We do continue to believe that (1) demand at the upper tiers of the Auckland market is soft, and (2) new apartment feasibility is difficult given affordability and credit challenges, and that these segments will likely soften from here. In Canterbury another strong month takes the past six months to up +14%, again highlighting that the post-earthquake downturn is over. Overall floor area consented, the best measure of future construction activity, was up +3% yoy taking the past 12 months to +4% with the lag to headline consents due to the trend toward smaller dwellings.

Non-residential consents may have peaked; downturn likely to be modest

August was a softer month (and quarter) for non-residential consents, down -8% in value terms and -38% in floor area (sqm). The past quarter, +4% yoy in value but -25% in sqm, plus anecdotes of a thinning pipeline (largely in Auckland), do suggest investment could soften medium-term. That said, we do not anticipate a steep downturn. The pipeline is full, over the past 12 months value consented is up +12% and sqm +8%, with strong economic and population growth over recent years necessitating investment across most segments.

Figure 1. NZ building consents (August 2019)

	1 month	3 months	6 months	Annual
Residential				
Consented dwellings (#)				
Detached houses ('000s)	22.4	22.3	22.1	21.9
Total ('000s)	36.9	36.9	36.6	35.7
yoy % chg				
Detached houses	9.7%	8.2%	4.7%	4.9%
Total	12.2%	13.4%	7.8%	8.8%
Total floor area	3.3%	5.9%	3.3%	3.8%
Non-residential				
Total (NZ$m)	552	1,712	3,887	7,519
yoy % chg	-7.9%	4.0%	9.6%	11.9%

Source: Statistics NZ, Forsyth Barr analysis

NZ building materials companies (12m forward)

Company	Rating	Share price (NZ$)	Target price (NZ$)	Total 12m est. return
FBU	U/P	$5.15	$4.65	-5.2%
MPG	NEUTRAL	$0.36	$0.50	+46.9%
STU	NEUTRAL	$0.85	$1.00	+24.1%

Source: Forsyth Barr analysis

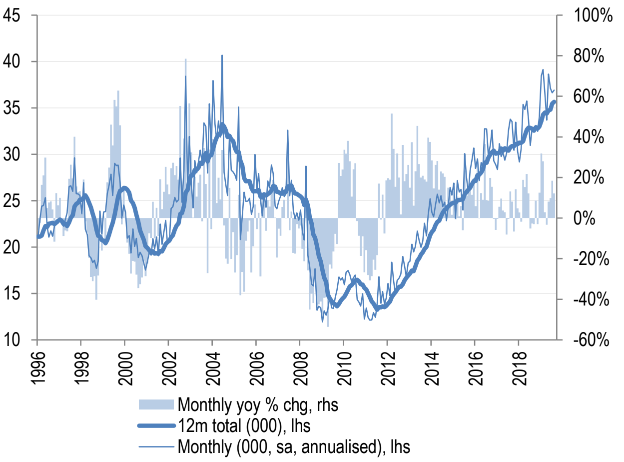
Company	EV / EBITDA (x)	EV / EBIT (x)	PE (x)	Cash dividend yield (%)
FBU	6.5	9.1	14.4	4.5%
MPG	3.6	5.5	4.4	6.1%
STU	5.6	7.9	10.8	6.5%

Source: Forsyth Barr analysis

Investment View

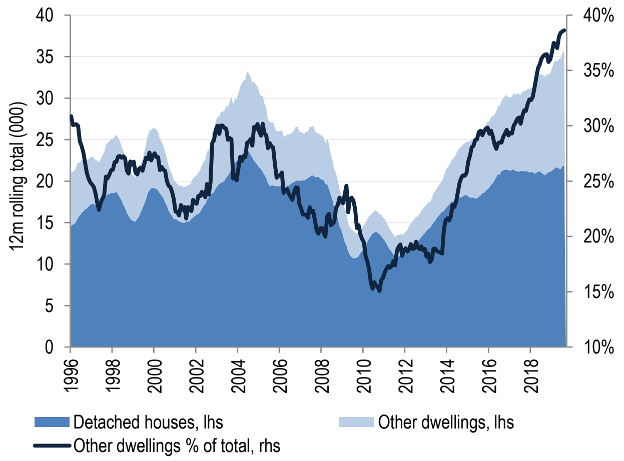
Whilst NZ-building related stocks headline valuation multiples appear prima facie attractive relative to the broader market, in our view these fairly reflect elevated NZ construction activity and company-specific issues.

Figure 2. NZ residential consents



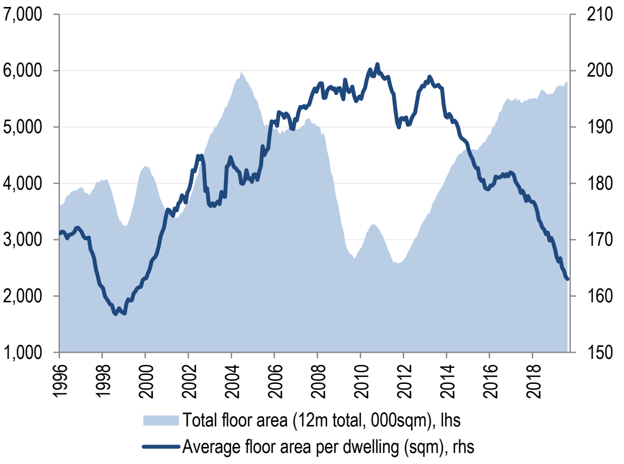
Source: Statistics NZ, Forsyth Barr analysis

Figure 3. NZ residential consents: houses vs. other dwellings



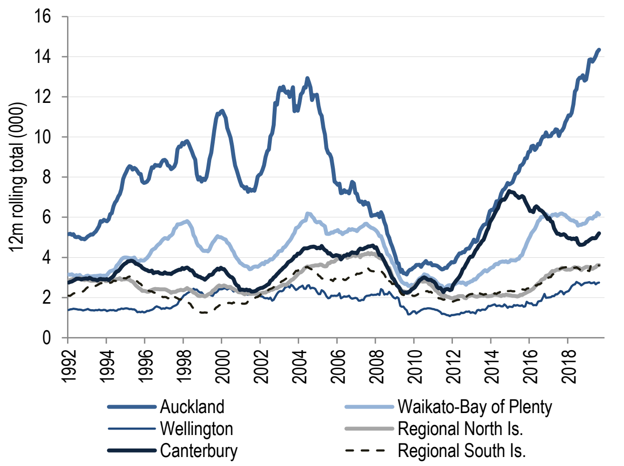
Source: Statistics NZ, Forsyth Barr analysis

Figure 4. NZ residential floor area consented



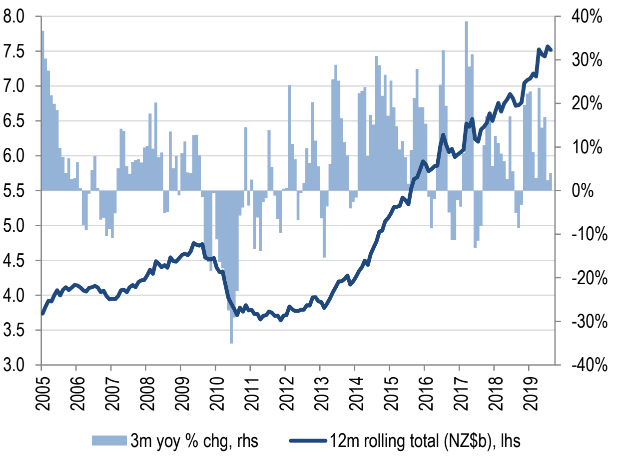
Source: Statistics NZ, Forsyth Barr analysis

Figure 5. NZ residential consents by region



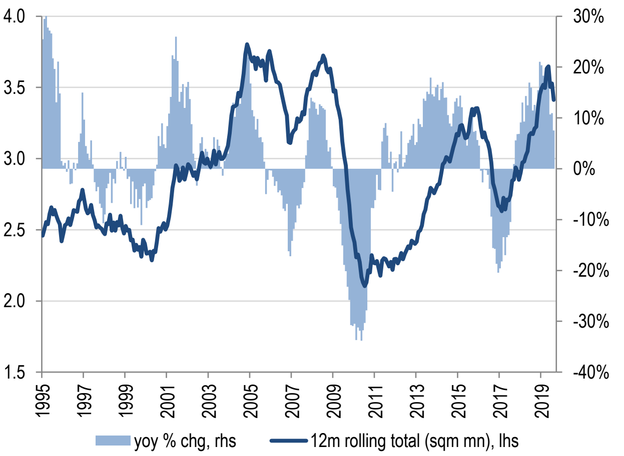
Source: Statistics NZ, Forsyth Barr analysis

Figure 6. NZ non-residential consents (value)



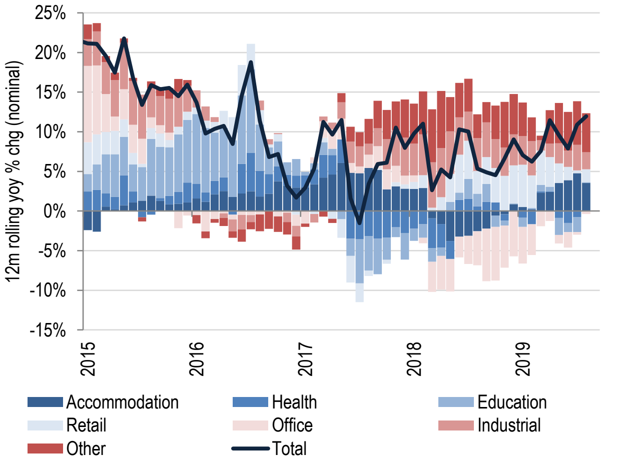
Source: Statistics NZ, Forsyth Barr analysis

Figure 7. NZ non-residential consents (sqm)



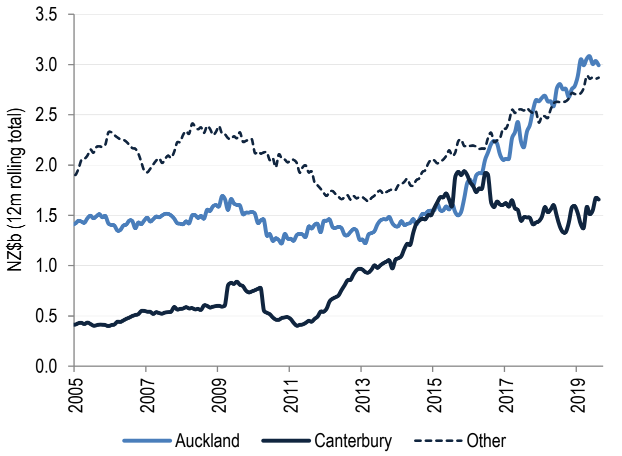
Source: Statistics NZ, Forsyth Barr analysis

Figure 8. NZ non-residential consents by sector



Source: Statistics NZ, Forsyth Barr analysis

Figure 9. NZ non-residential consents by region



Source: Statistics NZ, Forsyth Barr analysis

Figure 10. NZ building consents (August 2019)

	1 month	3 months	6 months	Annual
Residential				
Consented dwellings (yoy % chg)				
Auckland	8.4%	13.1%	6.8%	10.7%
Waikato-Bay of Plenty	-14.6%	6.0%	6.3%	9.1%
Wellington	11.4%	-1.2%	-1.1%	2.0%
Regional North Island	4.4%	16.5%	5.9%	4.5%
Canterbury	29.7%	22.3%	14.2%	8.8%
Regional South Island	4.3%	2.5%	16.7%	6.2%
Detached houses	9.7%	8.2%	4.7%	4.9%
Apartments	-32.9%	14.2%	1.6%	2.1%
Retirement village units	20.9%	3.8%	14.4%	21.5%
Townhouses, flats, units	47.9%	24.0%	22.5%	23.2%
Non-residential				
Regional (value) yoy % chg				
Auckland	-16.5%	-12.2%	-3.9%	8.6%
Canterbury	-16.4%	67.2%	39.0%	24.2%
Other	4.1%	1.4%	10.7%	9.2%
Total	**-7.9%**	**4.0%**	**9.6%**	**11.9%**
m2 (000)	192	718	1,742	3,412
yoy % chg	-37.6%	-24.7%	-5.8%	7.6%
Key sectors (value) yoy % chg				
Accommodation	-35.0%	44.5%	30.6%	42.0%
Health	0.7%	35.0%	32.5%	0.2%
Education	161.1%	33.7%	5.2%	0.5%
Retail	58.1%	-18.9%	-10.6%	11.2%
Office	-23.8%	-0.7%	15.6%	-2.6%
Industrial	-27.7%	-10.4%	-3.3%	9.1%

Source: Statistics NZ, Forsyth Barr analysis

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