

Building Sector

NZ Consents – Shining Light

MATT HENRY CFA

 matthew.henry@forsythbarr.co.nz
 +64 9 368 0115

ASHTON OLDS

 ashton.olds@forsythbarr.co.nz
 +64 9 368 0127

Residential consents have started 2020 in the same healthy vein we saw through all of 2019, while non-residential saw a firmer month in what appears a modest easing trend. Whilst there is some debate about whether residential can grow given capacity (chiefly) and credit constraints, or if non-residential may pullback, the big picture remains that NZ construction activity should continue at very healthy levels for the foreseeable future.

Construction remains a shining light in the economy

Record low interest rates, high migration, and tight supply of existing homes continue to fuel demand for new houses across the country. 38.5k (annualised) consents in January, -2% mom/+2% yoy, compares to a total of 37.5k through 2019 (the highest level for a calendar year since 1973). The recent ANZ Business Outlook survey reinforces that construction remains a shining light in the economy. Against a backdrop of falling business confidence, the construction sector was upbeat with a net +23% of firms expecting an improvement in residential construction activity over the next 12 months.

Signs non-residential maybe easing, but any pullback likely to be modest

January was a firmer month for non-residential, flat in value and up +19% in floor area consented (sqm). Inherent variability in non-residential consents makes trend spotting difficult. Numbers over the past eight months, flat in value but -9% in sqm, may suggest a softening trend. When coupled with the recent or pending completion of a number of large multi-year projects and increased economic uncertainty, we would not be surprised to see a modest easing in non-residential activity over the next 12-24 months. That said, we continue to expect that any downturn will likely be modest given the healthy pipeline and lagged needs for investment (including government's sizeable health and education investment plans), following strong economic and population growth over a large part of the past decade. The ANZ Business Outlook for commercial construction was equally positive in January, with +26% of firms expecting greater investment in the year ahead (albeit the number can be volatile).

Figure 1. NZ building consents (January 2020)

	1 month	3 months	6 months	Annual
Residential				
Consented dwellings (#)				
Detached houses ('000s)	23.2	22.8	22.5	22.3
Total ('000s)	38.5	37.8	38.2	37.6
yoy % chg				
Detached houses	3.8%	3.9%	4.6%	4.6%
Total	1.6%	8.2%	13.0%	12.0%
Total floor area	0.9%	1.3%	5.0%	5.0%
Non-residential				
Total (NZ\$m)	499	1,729	3,519	7,450
yoy % chg	-0.5%	-6.9%	-3.2%	4.8%

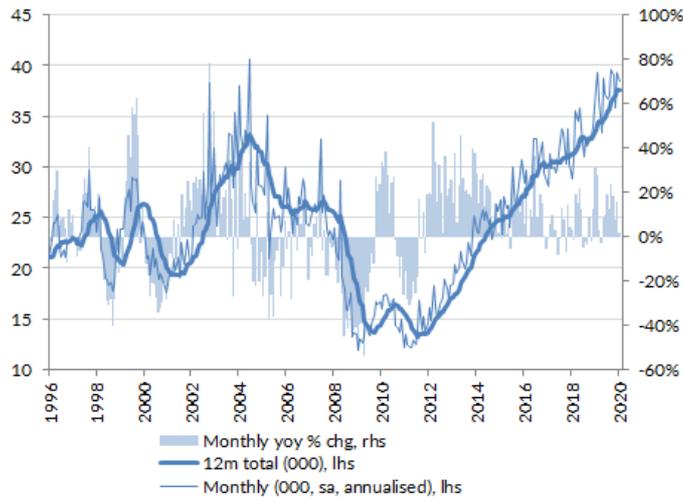
Source: Statistics NZ, Forsyth Barr analysis

Figure 2. Building material company fundamentals

	FBU	MPG	STU
Rating	U/P	NEUTRAL	O/P
Share Price (NZ\$)	5.11	0.28	0.79
Target Price (NZ\$)	4.85	0.35	0.95
Cash Dividend Yield (%)	4.6%	14.3%	6.8%
12m Forward P/E (x)	15.9	3.7	14.3
EV/EBITDA (x)	5.3	2.6	3.4
EV/EBIT (x)	9.3	4.4	6.9

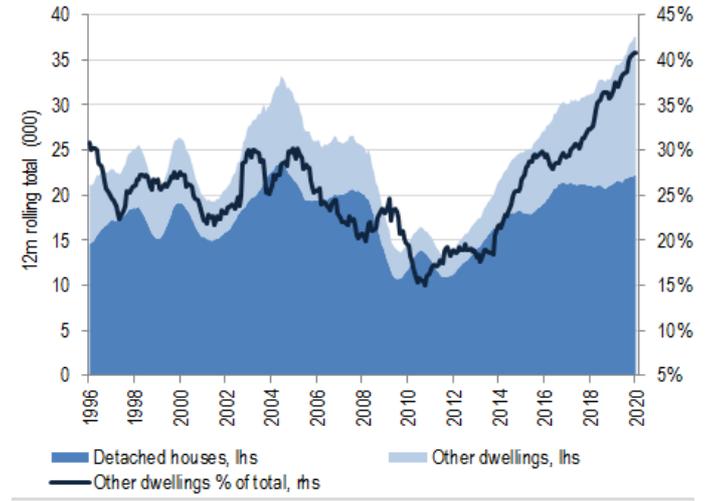
Source: Eikon, Forsyth Barr analysis

Figure 3. NZ residential consents



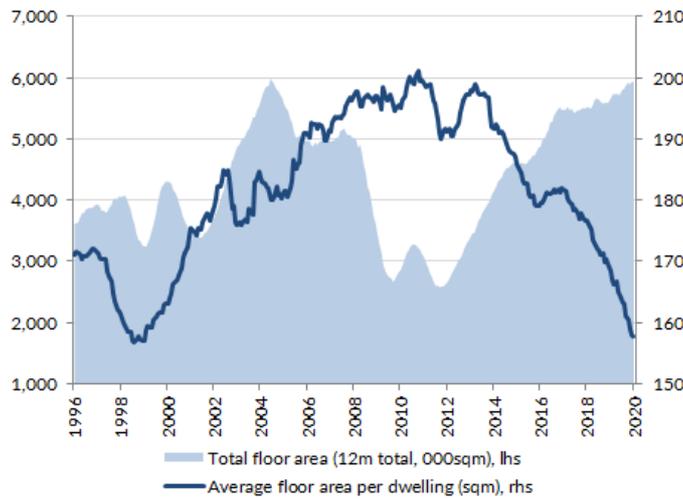
Source: Statistics NZ, Forsyth Barr analysis

Figure 4. NZ residential consents: houses vs. other dwellings



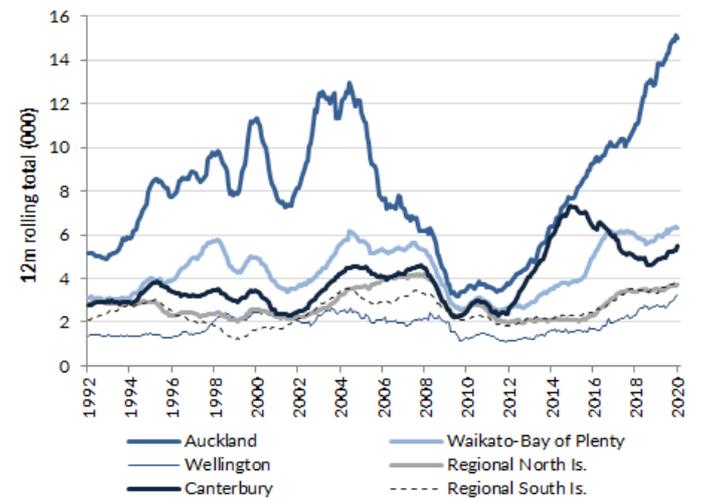
Source: Statistics NZ, Forsyth Barr analysis

Figure 5. NZ residential floor area consented



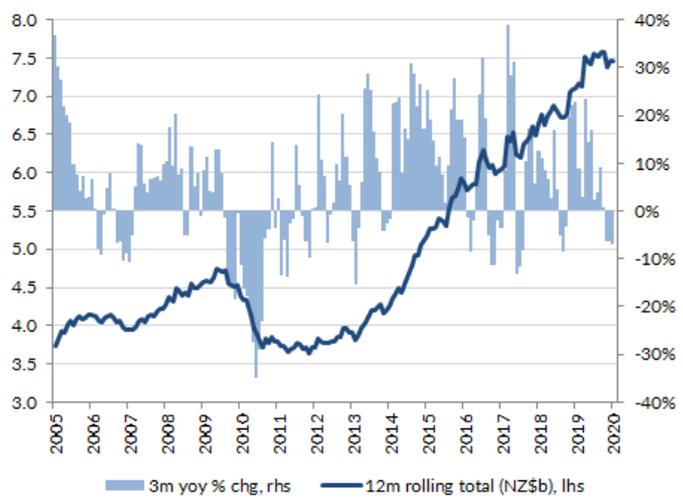
Source: Statistics NZ, Forsyth Barr analysis

Figure 6. NZ residential consents by region



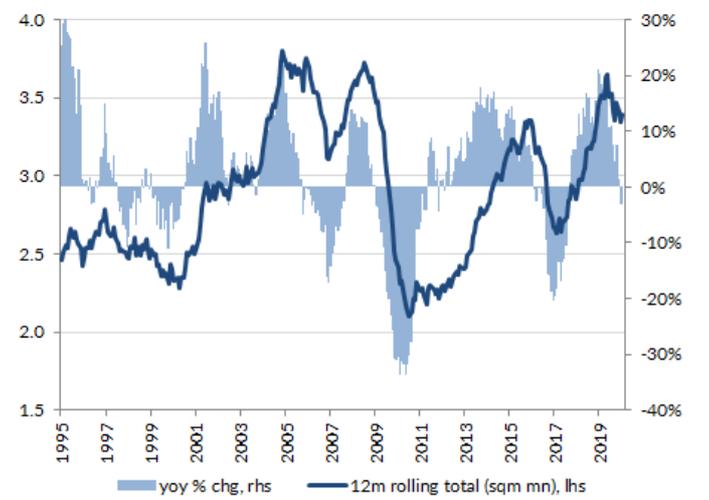
Source: Statistics NZ, Forsyth Barr analysis

Figure 7. NZ non-residential consents (value)

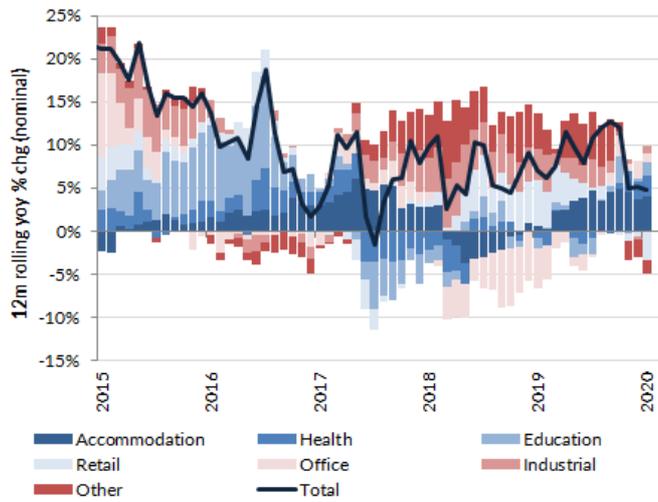


Source: Statistics NZ, Forsyth Barr analysis

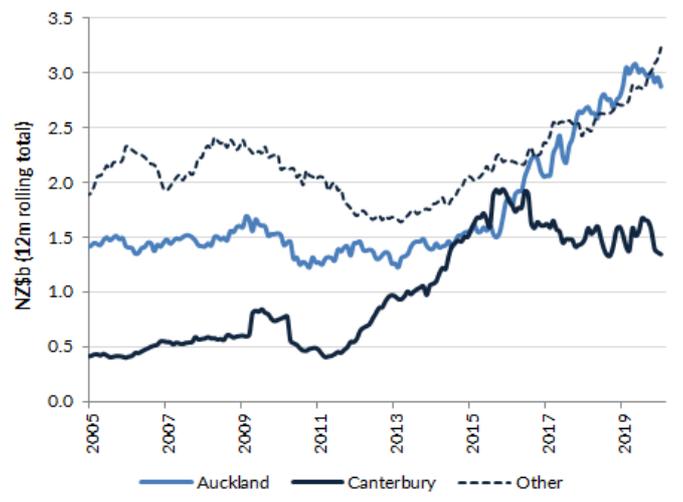
Figure 8. NZ non-residential consents (sqm)



Source: Statistics NZ, Forsyth Barr analysis

Figure 9. NZ non-residential consents by sector


Source: Statistics NZ, Forsyth Barr analysis

Figure 10. NZ non-residential consents by region


Source: Statistics NZ, Forsyth Barr analysis

Figure 11. NZ building consents (January 2020)

	1 month	3 months	6 months	Annual
Residential				
Consented dwellings (yoy % chg)				
Auckland	-15.8%	1.8%	11.4%	12.8%
Waikato-Bay of Plenty	-16.2%	-0.8%	3.2%	7.4%
Wellington	32.5%	38.7%	41.2%	17.5%
Regional North Is	16.9%	2.6%	6.2%	5.0%
Canterbury	49.4%	19.8%	15.5%	12.0%
Regional South Is	37.6%	20.6%	19.5%	16.9%
Detached houses	3.8%	3.9%	4.6%	4.6%
Apartments	-29.0%	8.3%	23.4%	24.1%
Retirement village units	-42.0%	-25.5%	3.0%	15.1%
Townhouses, flats, units	47.1%	36.5%	39.6%	28.1%
Non-residential				
Regional (value) yoy % chg				
Auckland	-32.3%	-16.2%	-10.5%	-0.2%
Canterbury	-34.7%	-47.2%	-40.1%	-11.7%
Other	53.3%	34.6%	28.7%	19.5%
Total	-0.5%	-6.9%	-3.2%	4.8%
m2 (000)	263	758	1,552	3,389
yoy % chg	18.5%	-9.4%	-8.2%	-3.0%
Key sectors (value) yoy % chg				
Accommodation	34.7%	23.1%	36.8%	41.2%
Health	35.2%	64.6%	67.6%	38.0%
Education	105.7%	-14.3%	15.3%	11.3%
Retail	-66.6%	-22.6%	-17.7%	-20.3%
Office	-58.8%	-33.8%	-7.5%	7.6%
Industrial	90.9%	12.7%	-4.4%	3.6%

Source: Statistics NZ, Forsyth Barr analysis

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