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Case Study: GCB Constructions

Adverse Operating Condition and Asset-Liability Challenges Forced GCB Constructions to Seek Administration

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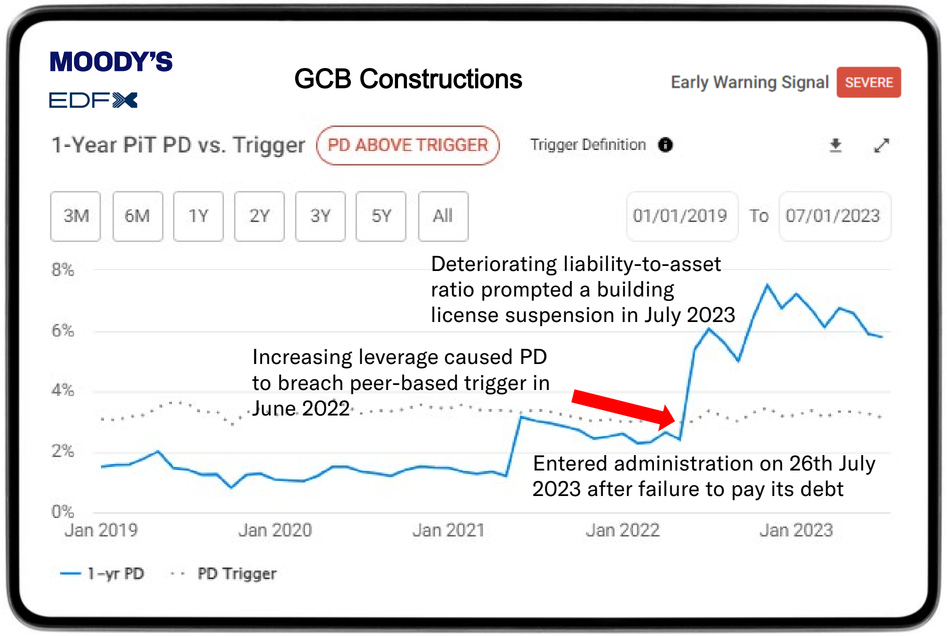
Analysis

An overburdened balance sheet, along with COVID-19 related disruptions, led GCB Constructions into administration in July 2023. Established in the 1980s, GCB Constructions is a family-owned, Gold Coast based Australian construction firm, specializing in large-scale apartments. Despite its position, the company has faced a significant debt burden, exacerbated by higher interest rates in recent years. The EDF-X Early Warning System flagged the firm as an elevated credit risk from as early as June 2022 when GCB Constructions' PD breached its peer-based trigger level.

Australian builders have faced a number of headwinds in recent years. Construction costs sharply increased, due in part to labor and material shortages, as well as significant spells of bad weather. At the same time, Australia's central bank raised interest rates and increased debt service costs. GCB Constructions was not spared. The company's balance sheet came under pressure, with total debt doubling in FY2022. The firm increasingly leaned on credit, leading liabilities to rise to 70% of total assets by mid-2022, a figure on par with the lowest fifth of private Australian construction companies.

This position proved untenable. GCB Constructions ceased operations—including the development of over 500 apartments—following the suspension of its building license on July 25th, 2023. The firm was placed into administration the next day, with outstanding debt obligations cited as the cause.



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