

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

Director: Brett Dymond – AFA, BBS, GradDipBusStud (Personal Financial Planning)

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Trade Me

Fairfax Media has announced it has commenced preparation for an Initial Public Offering (IPO) of Trade Me. Fairfax plans to sell approximately thirty-five percent of Trade Me, with the proceeds going toward reducing debt and increasing dividends. Trade Me is New Zealand's leading auctions and classified business and has grown to a customer base of nearly three million New Zealanders. The business was founded by Sam Morgan in 1999 and was sold to Fairfax for \$700 million in 2006. Trade Me is the second most visited website in New Zealand after Google.

If you think this IPO may be of interest to you please contact the office as soon as possible. It is hard to estimate the likely demand without seeing the offer documents, however indications are it will be very popular. If we are to secure an adequate allocation we must have an early indication of demand.

Please note, no money is currently being sought, and no application for the securities will be accepted or money received unless the subscriber has received offer documents.

Auckland Airport

Auckland Airport is considering making a public offer of up to \$100 million of retail bonds with a six-year maturity. The bonds will be unsecured, unsubordinated debt obligations, and the fixed rate of interest will be announced before the issue opens. It is expected that full details of the offer will be released, and the offer will open in October.

Barramundi Warrants

Barramundi warrant holders will have received their final exercise notification recently. Each warrant gives the holder the right to buy a Barramundi share for 75cents up to October 27th. Unfortunately the underlying Barramundi share price is currently at 63 cents; therefore the warrants are worthless. There is no point exercising the warrants and paying 75 cents if you can simply buy the shares in the market at 63 cents. Make sure you keep an eye on the Barramundi share price through until October 27th; however I would very much doubt it will exceed 75 cents before then.

Bond Yields

I listed all the bonds I have offered since taking over Bramwell Brown in the August newsletter. I thought it might be useful to periodically revisit those yields to get a feel for movements in interest rates in general, and to keep an eye on the outlook for specific companies.

Bond	Rate	Maturity	Yield	August Price/\$100	Current Price/\$100
Telecom	8.20%	June 2013	5.25%	105.52	104.75
Marac	10.50%	July 2013	8.00%	103.39	104.13
Wellington Airport	7.50%	November 2013	5.75%	102.73	103.45
Tauranga City Council	7.05%	December 2013	3.80%	105.47	106.58
Auckland City Council	6.42%	March 2014	3.97%	105.13	105.75
Tower	8.50%	April 2014	6.85%	103.30	103.82
Contact Energy	8.00%	May 2014	4.90%	107.24	107.60
Fletcher Building	9.00%	May 2014	6.50%	106.28	105.94
Vector	7.80%	October 2014	5.10%	107.59	107.52
Auckland Airport	7.00%	November 2014	4.90%	104.50	106.07
Kiwi Income Property Trust	8.95%	December 2014	6.97%	105.17	105.77
Trustpower	7.60%	December 2014	6.00%	105.49	104.64
Auckland City Council	6.28%	March 2015	4.43%	104.56	105.91
Fonterra	7.75%	March 2015	4.85%	108.70	109.15
Meridian Energy	7.15%	March 2015	4.66%	106.85	107.88
Goodman Property Trust	7.75%	June 2015	5.55%	105.98	107.29
Warehouse	7.37%	June 2015	6.40%	102.93	103.14
Telecom	8.35%	June 2015	5.88%	108.45	108.11
Trustpower	8.40%	December 2015	6.80%	105.82	105.81
APN News & Media	7.86%	March 2016	10.50%	95.72	90.69
Fletcher Building	9.00%	May 2016	7.10%	108.01	107.37
Goodman Fielder	7.54%	May 2016	8.20%	102.80	97.47
Infratil	8.50%	June 2016	8.00%	101.96	101.94
Greenstone Energy	7.35%	October 2016	6.40%	102.37	104.04
Air New Zealand	6.90%	November 2016			
Auckland Airport	8.00%	November 2016	5.40%	110.61	111.50
Trustpower	8.00%	December 2016	6.30%	107.04	107.50
Meridian Energy	7.55%	March 2017	5.25%	106.57	110.80

Bond	Rate	Maturity	Yield	August Price/\$100	Current Price/\$100
Infratil	8.50%	June 2017	8.00%	101.15	102.27
Manukau City Council	6.52%	September 2017	5.10%	103.16	107.26
Trustpower	7.10%	December 2017	6.40%	102.32	103.56
Zed Energy Limited	7.25%	August 2018	6.75%		102.73
AMP	9.80%	April 2019	5.70%	111.08	109.94
NZ Post Group Finance	7.50%	November 2039	6.50%	102.02	102.78
Genesis Energy	8.50%	July 2041	8.00%	102.08	105.63
BNZ Perpetual	9.10%	No maturity date		108.00	107.00
Kiwibank Perpetual	8.15%	No maturity date		103.80	103.90
Rabobank Perpetual	8.78%	No maturity date		108.50	107.10

In general, yields have dropped over the last two months. Most of the bonds on this list are now more expensive than they were in August. Remember, there is an inverse relationship between yield and price. As the yield on a secondary market bond drops, the price increases. Look at Meridian Energy, maturing in 2017 as an example. In August investors were happy to buy that bond at a yield to maturity of 6.15%. They had to pay \$106.57 for every \$100 to acquire it. Now investors are happy to buy that bond at a yield of only 5.25%, so now have to pay \$110.80 to buy it.

The only two bonds trading at a discount are Goodman Fielder and APN News & Media. Both companies are facing challenging conditions at present, and both have reported poor annual results. This will be a concern to bondholders, although some comfort can be drawn from the fact both companies have very strong brands that management and shareholders will be keen to protect. Since writing this newsletter Goodman Fielder has announced a fully underwritten capital raising, seeking A\$259 million.

KiwiSaver

Some KiwiSaver investors who entered the scheme at its inception in July 2007 will be eligible to withdraw funds from July 2012. The rules stipulate investors can withdraw funds once they reach the age of eligibility (currently 65) or after five years, whichever is later. So if you joined the scheme at its inception, and will be 65 by July 2012 you will be able to withdraw your funds. With the current turmoil in global markets it would be wise to give some consideration to when you think you may want to withdraw your money, and therefore what type of fund you are invested in. If you know you require the funds within one or two years, you would be wise to hold your KiwiSaver money in a cash or low-risk fund to remove the volatility we are currently experiencing.

GPG Capital Notes

Guinness Peat has announced its intention to buy back its 2013 capital notes. The election date for the notes is December 15th 2013; however GPG is exercising its right to repurchase them at any time, and will repay investors on March 15th 2012. There is nothing investors are required to do in this respect – the proceeds will be paid out automatically. Call the office if you require any further explanation.

Telecom

I have just received Telecom's 525 page tome explaining the restructure of the company. The chairman, Wayne Boyd, refers to it as a "booklet!" Two kilos is not a booklet. With approximately 40,000 shareholders each receiving a copy, Telecom posted out about eighty tonnes of material! I'm fairly certain they didn't particularly want to send every shareholder a hard copy of the proposal, however I think the securities laws prevented them from doing anything else.

So, what are we being asked to vote on? The Government is investing \$1.35 billion in an effort to accelerate the rollout of ultra fast broadband (UFB) to 75% of New Zealanders by December 2019. Various companies tendered to be part of this rollout, of which Chorus (through Telecom) was one. A condition of Chorus being awarded part of the UFB tender was that Telecom and Chorus split into two separate companies. A key requirement of the UFB initiative is that private sector partners with retail telecommunications businesses (Telecom) could not hold a majority share in a local fibre company (Chorus) if they were to be successful in tendering for the UFB rollout. At this stage Chorus has been awarded the contract to build 24 of the 33 UFB areas, covering 70% of targeted premises. The Government will progressively invest \$929 million into Chorus (through a 50/50 mix of debt and equity) to help fund the rollout. The debt is unsecured and bears no interest, and has maturities from 2020 to 2036. The equity demands no dividends before 2025, and can be redeemed by Chorus at any time using cash or shares.

If the separation **does not** proceed, Telecom will remain as one company, and will not be able to participate in the UFB initiative through Chorus. It would then be forced to compete against other local fibre companies who have access to the Government investment of \$1.35 billion. If the separation does go ahead, existing Telecom shareholders will receive one new share in Chorus for every five Telecom shares already held. The scheme must be approved by 75% or more of the votes cast by eligible shareholders, and I would encourage all Telecom shareholders to vote on the proposal. Please ring the office with any queries you may have.

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