

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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

Bramwell Brown Limited – Newsletter – August 2012

Mighty River Power

The proposed float of Mighty River Power is looking less and less likely to proceed on time. The Waitangi Tribunal findings simply can't be ignored by the Government, regardless of whether we believe Maori claims are justified or not. Markets like some degree of certainty, and without some sort of resolution to the issue of water rights the success of the Mighty River Power float will be anything but certain. Who wants to buy into a company with litigation pending that could take years to resolve? Why the issue of Maori water rights hasn't surfaced before is beyond me – the power companies have been happily drawing water from our lakes and rivers for decades. Is it opportunism on the part of Maori, or is there a fear that once partial ownership of the power companies passes to individuals their chance of compensation is limited. The sooner we have full and final resolution to Maori grievances the sooner this country can move forward together. Hopefully the Government can find a satisfactory resolution to this issue and we can concentrate on the merits of the offer before us. Here is a brief summary on Mighty River Power from a previous newsletter.

Mighty River Power was established along with Genesis Energy and Meridian Energy when the Electricity Corporation of New Zealand was broken up in 1999. They are one of the larger generators and retailers of electricity in New Zealand. They have nine hydro-electric power stations on the Waikato River, and four geothermal stations in the central North Island. They also operate the gas-fired Southdown Power Station in South Auckland and own the Marsden A plant at Marsden Point. They have consents to operate a wind-farm at Turitea, just out of Palmerston North, and have lodged consents to operate a wind-farm at Puketoi, east of Pahiatua. They are also a shareholder in GeoGlobal Energy which is a company developing geothermal opportunities in the United States, Chile and Germany. Their retail side of the business is spearheaded by Mercury Energy, which has over 370,000 customers. They also own Tiny Mighty Power which services some provincial towns including Masterton. They own Metrix, which is a company providing metering and associated services to New Zealand's major electricity retailers.

Finer details of the offer are starting to be reported through the media including the possibility of some sort of loyalty scheme for those who hold their shares for a certain period of time. Guaranteed minimum allocations are also a possibility, and a minimum application possibly being as low as \$1,000. We will report these developments in the newsletter as they are confirmed. For those who haven't done so already, please contact us if you are interested in participating in the SOE public offerings.

Scams

I've written previously in the newsletter about scams but recent events have prompted me to touch on the subject again. The front page article in the Wairarapa News about a couple pleading with friends and relatives to lend them money to send overseas in the vain hope their phenomenal Spanish lottery prize will actually come to fruition is very sad indeed. I have spent time investigating scams for two clients over the last month. The first involved cold-calling from people overseas pretending to be legitimate share brokers. They offer to buy shares for you in companies that are unlikely to be listed on a recognised stock exchange. Some of these people go to great lengths in order to appear genuine. They have websites full of testimonials from happy clients and some have contact details that will put you through to a friendly, believable broker. You expect that person is sitting at their mahogany desk on the eightieth floor of their Wall St office, but in fact they are at home in their track pants and slippers making calls all over the world to vulnerable would-be investors.

You send these people \$10,000 or \$20,000 for shares (usually in a tech type start-up company) and they will send what appears to be a legitimate share certificate. They may even continue to correspond with you at various intervals in order to appear genuine. All seems well until you decide to sell the shares. In the majority of cases this is the last time you will hear from these people – you will never see your money again. In some cases if they are really ruthless they will inform you your shares are sold, but they need a fee to clear the funds. Of course your shares have miraculously doubled in value, so a \$5,000 clearance fee still sees you making a handsome profit. I have heard stories of people sending in excess of \$100,000 overseas in this type of scam in the vain hope that each instalment they send is one step closer to having their funds released.

It continues to amaze me that people will send tens of thousands of dollars overseas to someone they don't know, to buy shares in a company they have never heard of. The reason these people target off shore investors is because of the difficulty for anyone here seeking reparation when the scam is revealed. It's highly unlikely anyone here has the time, resources or money to travel to the US to fight to recoup their funds. If the shares these people are offering to sell are genuinely listed on a recognised stock exchange you should buy them through a broker in New Zealand. That way you have all the protection of the myriad of securities laws we have, plus you know where your local broker lives and works, so you can physically make contact and get answers.

The second scam I looked into recently is one that has been doing the rounds for a while. EU International is an Australian company that sells a software package that claims to enable you to win vast sums of money betting on horse races. The programme costs \$10,000 and comes with the promise of vast riches in a very short space of time. Their brochure is packed with photos of young models walking on a deserted beach or lounging on the deck of a yacht sipping on a martini, presumably enjoying the benefits of the horse racing computer programme.

The Nigerian scams have been in circulation for years and it's sad that people are still falling for them. I receive emails on a regular basis from Nigerian widows asking me to help invest tens of millions of dollars. Here are some excerpts from a recent email from Mrs Mary Balami. "You may be surprised to receive this letter from me since you do not know me personally. I saw your profile in Google when searching for honest and God-fearing person; hence I took the initiative of writing to you. I am Mrs Mary Balami, the wife of the late General Nuhu Balami who died in a plane crash in Nigeria, Tuesday September 9th 2006. My husband was killed due to political reasons. Explosives were planted on board by some high ranking Nigerian and that is why the investigation has no solid facts to report." Mrs Balami goes on to tell me of her mistreatment by government officials and how difficult it has been for her to raise her children. She has, however, managed to ferret away US\$5.5 million and it is this sum she needs help with. All I have to do is provide a valid New Zealand bank account and agree to help her invest the money. Mrs Balami will provide me with the "certificate of deposit, the secret identification number, and the personal identification code." With these secret codes and numbers I will be able to release the funds and I will receive 10% for my troubles.

Of course if I am foolish enough to agree to help dear Mrs Balami; at some stage she will need some money. There will be all manner of reasons why the funds can't be released and all of them will require me sending her \$5,000 or \$10,000 to get the process under way. Unfortunately for those sucked in by these scams it seems once they are drawn into the deceit, they feel obliged to carry on with it. For some reason people are reluctant to cut their losses; instead believing that one more payment might just be the one that leads to the funds being released. Mrs Balami's final sentence reads, "Please do not be scared of anything as it is 100% legal and you can take my word for that." How reassuring.

My suggestion to anyone receiving unsolicited offers is that the vast majority of them will be scams. By all means do some research, but please don't send money overseas to someone you don't know. A simple Google search will uncover most scams, and I am happy to investigate on your behalf. The Financial Markets Authority (FMA) website has a section dedicated to this area and contains some very useful information which can be found at <http://www.fma.govt.nz/keep-updated/warnings,-alerts-and-scams/>

Z Energy

We still have a small amount of the Z Energy bond available.

- Maturity date – November 15th 2019
- Interest rate – 6.50%
- Quarterly interest paid in February, May, August and November
- Ranking equally with other senior bonds and bank funding

PLEASE CONTACT THE OFFICE AS SOON AS POSSIBLE IF THIS IS OF INTEREST TO YOU

Dorchester Finance

Investors in Dorchester Finance were issued a number of securities as part of the finance company's restructure in 2010. One of those securities was a note bearing interest of 5.00% with a maturity date of June 2013. The company is offering to buy these notes back earlier. They claim the notes are a significant obstacle in securing bank funding to grow the business. I personally don't understand their logic, because they are borrowing the money to repay the notes. How is the new borrowing not an obstacle in securing further bank funding? I'd be surprised if they have secured funding at less than 5%. Holders of the notes need to vote on the proposal, being an early repayment at 0.92cents per note. Anyone with an understanding of the time value of money could appreciate that one dollar today is worth more than one dollar in one year's time, therefore some form of discount could be expected for early repayment of a debt. But, surely Dorchester Finance debenture holders have made enough concessions already that full repayment could be warranted. Mathematically (using a 5% return) the offer would have to be in the range of 95 to 96 cents to equal full repayment of one dollar in a year's time. It's important that note-holders vote on this proposal – call the office if you hold these notes and require some guidance.

Trustpower

Trustpower has announced an offer of unsecured, subordinated, fixed rate bonds. Holders of the Trustpower bond maturing in September will be offered the opportunity to roll that investment over.

- Indicative interest rate – 6.75 – 7.00%
- Opening date – August 9th
- Closing date – September 11th
- Maturity date – September 15th 2019

PLEASE CONTACT THE OFFICE AS SOON AS POSSIBLE IF THIS IS OF INTEREST TO YOU

Bluestar Print

Recent articles in the Dominion Post and the National Business Review do little to encourage enthusiasm amongst Bluestar Print bondholders. It has been reported that Bluestar are in negotiations with their bankers, and putting the company into administration is one option being considered. Whatever happens it's looking grim for bondholders. The restructure in 2011 had bondholders in a no-win situation, whereby voting against the company's proposal would (according to Bluestar) result in receivership with a total loss of funds invested. Nothing seems to have changed in the interim, so I fear bondholders should brace themselves for the possibility of a total loss.

DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE