Bramwell Brown Ltd

Investment Advisers – Brokers

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Mighty River Power

The sale of up to 49 percent of Mighty River Power is expected to proceed sometime between March and June this year. The Government is adamant it can appease the concern of Maori and get the sale finalised. Previously I have asked for expressions of interest in an effort to gauge demand for the issue, and shortly I will be asking people to be more specific in the value of shares they may be seeking. We are not certain how the stock will be distributed. It may be via a public pool, it may be allocated through brokers or it could be a combination of the two. If I need to bid for an allocation I would ask you to let me know what sum you may consider investing if you have not done so already. You will be under no obligation whatsoever to buy shares, however it will give me a better handle on demand.

Here is a previously published summary of the company.

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.

Bluestar Print

The Bluestar Print saga has come to a very unsatisfactory conclusion with the bonds now delisted, worthless. I said in August 2011 the restructuring proposal was insulting to bondholders and defied all the fundamentals of risk and reward. Unfortunately there is little investors can do as unsecured creditors.

Fixed Interest

Here are the current yields on some of the more popular bonds trading in the secondary market at present. The February 2012 prices are included in order to draw some comparisons over time.

Bond	Rate	Maturity	Yield	Feb 2012 Price/$100	Current Price/$100
Telecom	8.20%	June 2013	4.23%	104.18	101.43
Marac	10.50%	July 2013	4.50%	103.68	102.69
Wellington Airport	7.50%	November 2013	4.50%	103.78	102.29
Tauranga City Council	7.05%	December 2013	3.31%	106.27	103.05
Auckland City Council	6.42%	March 2014	3.50%	105.41	103.24
Tower	8.50%	April 2014	5.85%	103.97	103.06
Contact Energy	8.00%	May 2014	4.28%	106.57	104.65
Fletcher Building	9.00%	May 2014	5.40%	104.36	104.40
Vector	7.80%	October 2014	4.05%	107.65	106.10
Auckland Airport	7.00%	November 2014	4.48%	107.09	104.35
Kiwi Income Property Trust	8.95%	December 2014	6.17%	107.00	106.00
Trustpower	7.60%	December 2014	4.90%	104.46	104.79
Auckland City Council	6.28%	March 2015	3.62%	106.67	105.43
Fonterra	7.75%	March 2015	3.62%	109.59	108.33
Meridian Energy	7.15%	March 2015	4.00%	107.48	106.34
Goodman Property Trust	7.75%	June 2015	4.65%	107.49	106.91
Warehouse	7.37%	June 2015	5.00%	103.50	105.23
Telecom	8.35%	June 2015	4.30%	109.46	109.03
Trustpower	8.40%	December 2015	5.00%	105.05	109.03
APN News & Media	7.86%	March 2016	11.90%	89.70	89.59
Fletcher Building	9.00%	May 2016	5.40%	107.28	110.70
Goodman Fielder	7.54%	May 2016	5.75%	96.47	105.53
Infratil	8.50%	June 2016	6.00%	101.82	107.57
Z Energy	7.35%	October 2016	4.95%	103.38	108.02
Air New Zealand	6.90%	November 2016	5.50%	101.00	104.72
Auckland Airport	8.00%	November 2016	4.00%	112.44	113.92
Trustpower	8.00%	December 2016	5.10%	107.08	110.12
Meridian Energy	7.55%	March 2017	4.43%	110.44	111.63
Infratil	8.50%	June 2017	6.25%	100.00	108.54

Bond	Rate	Maturity	Yield	August Price/$100	Current Price/$100
Manukau City Council	6.52%	September 2017	4.17%	107.40	109.85
Infratil	8.00%	November 2017	6.00%	100.00	108.27
Trustpower	7.10%	December 2017	5.50%	103.40	106.79
Z Energy Limited	7.25%	August 2018	5.50%	101.83	108.31
ANZ Bank	6.25%	March 2019	4.80%		107.60
AMP	9.80%	April 2019	5.25%	108.01	105.28
IAG	7.50%	December 2036	6.87%	102.40	108.24
NZ Post Group Finance	7.50%	November 2039	5.51%	101.99	103.33
Genesis Energy	8.50%	July 2041	6.44%	103.20	106.71
Contact Energy	8.00%	February 2042	6.93%	100.00	105.41
BNZ Perpetual	9.10%	No maturity date		106.00	105.09
Kiwibank Perpetual	8.15%	No maturity date		102.00	110.36
Rabobank Perpetual	8.78%	No maturity date		104.80	105.40

You will notice that in general prices of these bonds have increased as yields have fallen. Remember there is an inverse relationship between the price and the yield on a bond. As interest rates have fallen investors have accepted a lower return when buying bonds in the secondary market. Accepting a lower yield on a bond whose interest rate doesn't change during its term can only be achieved by paying more for it (price). The exception to this is those bonds that are close to maturity. As a bond gets closer to maturity (provided full repayment is expected) the gap between its current price and its par value will narrow, until very close to maturity where it will be the same.

Argosy Property Trust

Argosy are offering existing investors the opportunity to purchase extra shares in the company as they fund the purchase of two new buildings in Wellington. Investors can apply for between $1,000 and $15,000 of shares. The company is looking to raise $20 million after raising $80 million previously in a placement to institutional investors. That placement was at 88 cents per share, the same price being offered to eligible investors. The buildings being bought are the NZ Post headquarters on Waterloo Quay and the ex Ministry of Defence building on Stout Street. The offer is four cents less than Argosy's current share price of 92 cents, so is at a discount of just under 5%. I think it's a good way to increase your investment in Argosy at a slight discount, and without incurring any brokerage costs. Have a good look at the level of your existing investment first however, and be sure not to overexpose yourself to one company. Ring the office if you would like to discuss your position.

Shares

The New Zealand sharemarket has had a stellar run recently, increasing by more than 23% since July. The market is now close to its previous peak of 4299 reached in October 2007. Is it overheated? This is a question that is usually answered in hindsight, and the newsletter this time next year might have the answer. One statistic we can look at as a measure of value is the P/E ratio. The P/E ratio is the company's share price divided by its earnings per share. It is a ratio used to compare companies. The higher the P/E ratio the more you are paying for each dollar of earnings. All other things remaining equal a company trading on a lower P/E ratio represents better buying. Of course other things very seldom remain equal so you should not base a buying decision on this alone. A high P/E ratio may not mean the company is "expensive," it may indicate an expectation from investors of higher future earnings. Fletcher Building is a good example of this; trading on a P/E multiple of 33. Investors are prepared to pay more for the company now in the belief it will increase its earnings over time

The long-term average P/E ratio is around 14, with companies currently trading at around 15.5. Investors are prepared to pay more for a dollar of earnings in the current environment partly because returns elsewhere are so low. At a P/E of 15.5 some basic maths suggests the return on a dollar invested (if all earnings are paid as dividends) will be around 6.5%. At the long-term average of 14 your return was more like 7%. As long as interest rates remain low there will be upward pressure on share prices as investors seek higher returns. The important thing to remember when comparing investment classes is to always account for the extra risk involved in share investments. Average P/E ratios should not reach the stage where they match the returns on fixed interest because you must receive a premium for the risk you are taking investing in shares.

If you have had large increases in the value of your shares, should you be selling? Your first question if you are considering selling should be "Is there a better use for this money?" I have never advocated trying to time the markets in an attempt to make money – very few people have proved they can do it regularly with any success. I prefer to buy good companies and hold on to them. What I would advocate is setting a relatively loose upper limit on the value you hold in individual shares. If you reach that limit it's time to think about selling down some of that stock and banking the profit.

Portfolio Reviews

With the dramatic rise in share values recently it might be timely to review your investments. If you would like a second opinion please phone the office and make an appointment.