

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Mighty River Power

Investors in Mighty River Power are possibly feeling a little squeamish seeing the share price fall to \$2.36, after listing at \$2.50 and reaching a high of \$2.73 on the first day. Anyone who has owned shares for any length of time should know that short-term price movements remain largely irrelevant over a long-term holding period. However, it is disappointing to have paid \$2.50 for something that you could have bought for \$2.36 a week later. I think the Government will be watching nervously as they progress the next sale in the asset sales programme – Meridian Energy. If the Mighty River share price remains under \$2.50 it will be a difficult task to convince investors (particularly first-time investors) to proceed with Meridian.

I think one of the biggest hurdles for the Government (and the adviser community) will be to reconcile the need for four, five or six electricity companies in an investment portfolio. Many investors already own Contact Energy and Trustpower. Do they also need to hold Mighty River Power, Meridian Energy and Genesis Energy? All these companies have characteristics that will affect their performance in a different manner, but fundamentally they are in the same industry. They are all subject to similar characteristics such as Government regulation and the ongoing need for capital expenditure. They are all subject to the weather, although hydro, wind and thermal generation will all prove beneficial in different circumstances. I wonder if we will see some selling pressure on the likes of Contact Energy and Trustpower in the lead-up to the Meridian float as investors decide which mix of electricity companies they are most comfortable with.

For those who bought their Mighty River shares with the intention of holding them for the long-term you should enjoy a gross dividend yield of approximately 6.35% if the company meets the targets in its prospectus. You also stand to gain the loyalty bonus if you hold your shares in the same registered name for a period of two years. At that time you will receive one extra share for every twenty-five you hold, up to a maximum of two hundred bonus shares. Therefore, investors who purchased 5,000 shares at issue (costing \$12,500) will receive the maximum number of loyalty bonus shares available (200) provided they hold those shares for two years after listing. Anyone who purchased more than 5,000 shares will have their loyalty bonus shares capped at two hundred shares.

Meridian Energy

The Government has announced that Meridian Energy will be the next state asset to be partially privatised, with a listing expected before the end of the year. Meridian is New Zealand's largest electricity generator, and there is talk that it may be offered in instalments to ensure the desired level of local ownership.

What do we know about Meridian Energy? Like Mighty River and Genesis Energy, Meridian originated from the break-up of the Electricity Corporation during the reforms in 1999.

Generation

Meridian owns seven hydro-electric power stations:

- Ohau A, B and C in the MacKenzie Basin, North Otago
- Benmore in the Waitaki Valley, North Otago
- Aviemore in the Waitaki Valley, North Otago
- Waitaki in the Waitaki Valley, North Otago
- Manapouri in the Fiordland National Park (the largest hydro power station in the country)

They have five further hydro projects at various stages of development in North Canterbury, South Canterbury, and the South Island's West Coast.

They own five wind farms:

- Te Uku in Waikato (28 turbines)
- Te Apiti on the northern side of the Manawatu Gorge (55 turbines)
- West Wind on the Makara Coast, Wellington (62 turbines)
- White Hill in Southland (29 turbines)
- Mt Millar in South Australia (35 turbines)

They also own the Brooklyn turbine in Wellington and have a small wind farm on Ross Island, Antarctica. They are developing further wind projects both in New Zealand and Australia. Central Wind is a proposed 52-turbine farm between Waiouru and Taihape, and Mill Creek is a 26-turbine farm currently under construction in the Ohariu Valley. The Macarthur project in Western Victoria is a joint venture between Meridian and Australia's AGL Energy, which when completed this year will be the Southern Hemisphere's biggest wind farm. The 64-turbine Mt Mercer wind farm, also in Victoria, is expected to be completed in 2014. Other proposed projects include Mt Munro, south of Eketahuna and the Hurunui project in North Canterbury.

Retail

Meridian also retails electricity to approximately 280,000 residential and business customers throughout New Zealand through its Meridian and Powershop brands. They have a 10% market share in the North Island and a 25% market share in the South Island.

Tiwai Point

The Rio Tinto aluminium smelter at Tiwai Point takes nearly all of the electricity generated by Meridian's Manapouri hydro power station. It accounts for approximately 13% of the electricity generated in New Zealand. The risks around the closure of the smelter were well documented in the Mighty River prospectus and remain particularly relevant to Meridian. Low aluminium prices have resulted in a threat from Rio Tinto of a potential plant closure if they can't negotiate cheaper power prices with Meridian. The current contract to supply electricity to the smelter runs through until 2016, with penalties payable to Meridian if the plant closes soon after that. Whether or not the plant closes remains to be seen, however some commentators are suggesting it's unlikely given the significant costs that would be incurred in restoring the site. The business is also earmarked for sale, so keeping it operating seems logical. The closure of Tiwai Point would result in a huge increase in the supply of hydro electricity to the market, and that must lead to lower prices – a great outcome for consumers but not so good for the generators.

Genesis Energy & Contact Energy Capital Bonds

In 2011 Genesis Energy and Contact Energy both issued long-term capital bonds. The Genesis issue had a 2041 maturity date and the Contact issue matures in 2042. Both had varying five-year and ten-year rate reset characteristics. The initial coupon payments were 8.50% and 8.00% for Genesis and Contact respectively. The very long terms of these bonds allowed the companies to consider the borrowings as equity in their balance sheets, rather than debt. This had a positive effect on their credit ratings issued by the ratings agencies. Under certain circumstances the companies were able to repay the bonds early, with one of those sets of circumstances being a "rating agency event." Recently Standard & Poors has downgraded the equity content of both of these securities from high to intermediate, which has an effect on each company's credit rating. Genesis has announced that rather than repay the bonds it is going to modify the terms of the bonds. Investors will have the opportunity to remain invested under the new terms, or they can elect to have their money repaid. The first reset date will be pushed out two years from 2016 to 2018, and the interest rate and reset margin will be amended (downwards presumably). Full details will be mailed to investors over the coming weeks. At this stage Contact Energy has not announced what it intends to do.

Call the office if you hold these bonds and would like to discuss your situation.

KiwiSaver

The KiwiSaver anniversary (July 1st) is not far away again. Any members who have been in the scheme for a year or more should ensure they have deposited at least \$1,043 with their provider before the end of June. This will ensure you receive the maximum Government matching payment of \$521.43. Up until July 1st 2011 this matching payment was dollar for dollar and equalled \$1,042.86, however the rules were changed last year and the subsidy has been cut in half. It is still worth having however, and I would encourage all members to contribute at least \$1,043. If you contribute less than \$1,043 from your wages you can make voluntary contributions that top it up to the desired amount. Your provider can inform you how to make voluntary contributions. Alternatively you can lodge funds directly to the IRD with deposit slips available at Westpac Bank. You need to provide your IRD number and use “KSS” as the payment code.

You will receive the 50% Government matching payment up until the date you are eligible to withdraw your savings. You become eligible to withdraw your savings when you qualify for NZ Super (currently at the age of 65), and so long as you have been in the scheme for five years. So if you join KiwiSaver when you are 62, you would have to wait until you are 67 to be able to withdraw your funds. You would receive the 50% subsidy (\$521.43) for each of those five years – not just until you turn 65.

Scams

As reported last month we are being bombarded with bogus offers for shares. Washington Securities Pty, an Australian company has recently contacted Fletcher Building shareholders offering \$5.00 per share. Fletcher Building's current share price is \$8.40. Please contact the office if you receive any unsolicited offers for shares.

Infratil

We still have a small amount of the Infratil bond available. We expect the offer to close shortly.

- Interest rate – 6.85%
- Maturity Date – June 15th 2022
- Interest paid quarterly (March, June, September and December)
- Minimum investment – \$5,000

Please call the office as soon as possible if you would like to discuss this opportunity.

DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE