

# BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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## **Bramwell Brown Limited – Newsletter – October 2013**

The October newsletter is being published early due to the upcoming float of Meridian Energy. Please have a look at the details below and **contact the office as soon as possible if you are interested in investing.** We have to submit our bid for an allocation by Thursday September 26<sup>th</sup>.

### **Meridian Energy**

The Government has now confirmed that the offer to retail investors will comprise both a General Offer (public pool) and a Broker Firm Offer. The key dates are as follows:

**Offer Document Registration Date** - 20 September 2013

**Retail Offer Opening Date** - 30 September 2013

**Retail Offer Closing Date** - 18 October 2013

**Listing and Trading of Securities on NZX** - 29 October 2013

You can view the offer document at [www.meridianshares.govt.nz/db](http://www.meridianshares.govt.nz/db)

The indicative price range has been announced at \$1.50 to \$1.80 per share, with the final price being set after the usual book-build with institutional investors and brokers. A price-cap has been set for retail investors at \$1.60 per share. This gives some certainty to investors that no matter how much demand there is for the float you will pay no more than \$1.60 per share. If demand is high, institutional investors may pay up to \$1.80 for their shares.

Instalment receipts will be used as an incentive to attract retail investors – allowing payment to be made in two parts. The first instalment of \$1 per share will be paid up front, with the remainder being paid in 18 months. The final instalment has been capped at sixty cents per share for retail investors. Between the first and second instalments, investors will receive the full portion of any dividends paid out in that period. This provides investors with an enhanced yield in the period until the final instalment is paid. Your rights as a holder of instalment receipts are similar to holders of ordinary shares. You receive any dividends paid, can attend and vote at shareholder meetings, will receive annual reports and can sell your instalment receipts on the secondary market. If you sell your instalment receipts before May 4<sup>th</sup> 2015 you will not be responsible for

paying the final instalment – that responsibility will rest with the new owner. If you buy instalment receipts on the secondary market (after the float) the retail price cap of \$1.60 will not apply to you – your final instalment will be for the full amount as determined in the book-build. So if the final price is \$1.80 your second instalment will cost eighty cents.

## **Risks**

The risks around Mighty River Power and Meridian Energy have been well documented, and have clearly had an adverse effect on the Mighty River Power share price. Tiwai Point, the Labour/Greens' energy policy and adverse weather are all significant risk factors that will have a bearing on company earnings and share price.

Tiwai Points remains one of the principal risks for Meridian Energy, as it does for the other electricity generators. 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. The \$30 million subsidy offered by the Government recently to keep the plant running is a short-term measure. The deal struck by the Government ensures the plant will stay open until January 2017 – anything beyond that will be determined by aluminium prices at the time. 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.

The Labour/Greens have stated they will reform the electricity sector if elected to Government. They propose to set up a single buyer of wholesale electricity from generators. This policy (if implemented) would have an adverse effect on Meridian's income.

Drought is another key risk with Meridian generating 90% of its electricity via hydro power stations. South Island lake levels are historically variable, and this has a direct impact on Meridian's earnings. This is one reason investors need to consider the mix of electricity assets they might hold. All the generators have advantages and disadvantages depending on the weather and lake levels throughout the year. The Government website has some very good information on the electricity sector.

The drop in the price of Mighty River Power is one factor that has led to a reduced value for Meridian Energy. The Government would have a difficult job selling Meridian Energy on a yield of 6.00% when Mighty River is trading at \$2.22 (a yield in excess of 7.00%). The implied gross dividend yield on Meridian Energy is between 7.40% and 8.90% for the 2014 financial year.

**If you want to secure an allocation in the Broker Firm Offer please call the office immediately with your level of demand (in dollar terms for the first instalment).**

Whether or not this offer will be scaled is hard to assess – it will depend entirely on the level of demand. If it is scaled you are more likely to receive the number of shares you seek through a broker allocation, although the prospectus states the Government still has the right to scale broker allocations after they have been received. For smaller sums (less than \$10,000) scaling will be less relevant and application through the public pool may be just as successful. We will do our best to secure an adequate allocation to satisfy demand, however **we must know that demand as soon as possible.**

If you prefer to manage the process yourself you can use the website [www.meridianshares.govt.nz/db](http://www.meridianshares.govt.nz/db). This site is linked to Direct Broking with whom we share an intermediary agreement. Use of this site will ensure Bramwell Brown Limited is tagged as your adviser for this offer, and any brokerage paid by the issuer will be forwarded to us. You will be able to apply for shares through this site once the offer opens on September 30<sup>th</sup>. When prompted, use the Bramwell Brown client code 2376317. Please only do so if you have an existing client agreement with Bramwell Brown Limited. If you want to remain entirely independent there is no obligation whatsoever to align yourself with an adviser.

For those without Internet access we expect to have hard copy offer documents by early October.

Here is a recap on what 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.

### Retail

Meridian retails electricity to approximately 270,000 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.

### 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)

### **Rabobank**

Rabobank interest rates have increased for the second month in a row. Here are their current rates:

<b>Term</b>	<b>Rate (annual interest)</b>
Premium Saver (call account)	4.20%
1 year	4.25%
2 years	4.60%
3 years	4.90%
4 years	5.30%
5 years	5.60%

**DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE**