

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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

Bramwell Brown Limited – Newsletter – April 2014

Genesis Energy

I suggested in last month's newsletter that it was difficult to become enthusiastic about the upcoming sale of Genesis Energy. Details have now been released and there appears to be plenty to be enthusiastic about after all!

Here's what we know about Genesis Energy. Like Mighty River Power and Meridian Energy, Genesis was formed in 1999 after the reform of the New Zealand electricity market and the breakup of the Electricity Corporation of New Zealand. At that time it took over the Huntly Power Station, the Tongariro Power Scheme and the Waikaremoana Hydro Scheme. It also took over the Kourarau hydro scheme and the Hau Nui windfarm from Wairarapa Electricity. It took over the retail arms of Powerco, Central Power and Wairarapa Electricity. In the ensuing years Genesis purchased Energy Online, electricity and gas customers from the Natural Gas Corporation, and the retail arm of Todd Energy.

Generation

Genesis owns eight hydro-electric power stations:

- Rangipo, Tokaanu and Mangaio make up the Tongariro Power Scheme in the Central Plateau
- Kaitawa, Tuai and Piripaua make up the Waikaremoana Power Scheme in the Urewera National Park and Wairoa
- The Tekapo A and Tekapo B hydro stations make up the Tekapo Power Scheme in the Waitaki Valley

The Huntly Power Station is New Zealand's largest power station by capacity and is capable of providing over 20% of New Zealand's current electricity needs. The plant is capable of running on a mix of coal, natural gas and diesel, and provides a certain level of insurance in drought years. Resource consent has been granted to run the Huntly Power Station until 2037.

Genesis also owns the Hau Nui Wind Farm (15 turbines) in South Wairarapa.

Genesis Energy owns 31% of the Kupe oil and gas field off the coast of Taranaki.

Retail

Genesis Energy sells electricity, natural gas and LPG to over 650,000 customers. It is the largest electricity retailer in New Zealand with a 26.80% market share. It is also the largest natural gas retailer in New Zealand, with a 43.70% market share.

The Offer

The Government is looking to sell up to 49% of Genesis Energy at a price of between \$1.35 and \$1.65 per share. Depending on demand for the shares the Government may sell as little as 30% of the company. The offer will comprise the General Offer (to the public), the Broker Firm Offer, the Participating Iwi Offer, and the Institutional Offer. We will be seeking an allocation in the Broker Firm Offer on behalf of our clients **so please confirm your interest with our office as soon as possible.**

Eligible New Zealand applicants will be entitled to one loyalty bonus share for every fifteen shares purchased through the share offer. Applicants will need to hold their shares in the same registered name for twelve months to be eligible for the loyalty bonus. A maximum of 2,000 loyalty bonus shares are available for each eligible applicant.

The prospective implied gross dividend yield (based on the price range of \$1.35 to \$1.65) for the 2014 financial year is between 10.80% and 13.20%. The implied gross yield for the 2015 financial year is between 13.50% and 16.50%. This makes the offer very attractive for those looking for a high-yielding investment.

Risks

As we all know – high returns never come risk free. Why is the Government offering Genesis at such a high yield? Is there a certain amount of electioneering going on – is the Government looking for a feel-good factor in election year? I think the risks have been well documented through the previous sales of Mighty River Power and Meridian Energy. Tiwai Point, the Labour Greens electricity reform proposals, drought, Treaty issues, and demand volatility are all factors investors need to consider when weighing up the relationship between risk and return. I would implore you to read the prospectus thoroughly to have a full understanding of issues facing the electricity sector. The Government website has some very good information on the electricity industry - <https://www.governmentshareoffers.govt.nz/home/>

The minimum application amount will be \$1,000, and applications up to \$1,000 will not be scaled. Any applications in excess of \$1,000 will be guaranteed to receive not less than \$1,000 worth of shares. The Government reserves the right to scale the Broker allocation following the close of the General Offer.

Key Dates

- March 28th – final price announced
- March 29th – General Offer and Broker Firm Offer opens
- April 11th – General Offer closes
- April 14th – Broker Firm Offer closes
- April 16th – allotment date
- April 17th – expected commencement of trading on the NZX
- October 2014 – expected date of payment of first dividend

We have electronic copies of the prospectus and investment statements available, and hope to have hard copies for those who need them by next week.

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

ASB Subordinated Notes

ASB Bank Limited has registered an investment statement for an offer of subordinated, unsecured notes of up to \$300 million (with the ability to accept oversubscriptions of up to \$100 million). The notes have a maturity date of June 2024, with an interest reset after five years. The interest rate is a combination of the five-year swap rate, plus a margin of 2.05%, and has been set at 6.65% for the first five years. The bank has the ability to repay the notes after five years, and under certain circumstances can exchange the notes for shares in the Commonwealth Bank of Australia.

CONTACT THE OFFICE IF YOU WOULD LIKE TO SEE THE INVESTMENT STATEMENT

Rabobank

Rabobank interest rates have increased again recently. Here are their current rates.

Term	Rate (annual interest)
Premium Saver (call account)	4.00%
1 year	4.35%
2 years	5.25%
3 years	5.50%
4 years	5.80%
5 years	5.95%

Auckland Airport

Auckland Airport investors will have received notification that the resolution to return capital to shareholders was passed by a majority of 99%. Auckland Airport will now seek final orders from the High Court sanctioning the return of capital. The record date (the date at which you must hold the shares to be eligible for the return of capital) will be April 7th and the return of capital will occur on April 14th.

One in every ten shares you hold will be cancelled and you will be paid \$3.43 per share. This was the closing share price immediately prior to the announcement on November 28th 2013. I have since had a number of investors contact me stating this is not fair, as the share price has since risen to \$3.89. Investors need not worry, as this is simply the market valuing the company in light of its ongoing performance. If we assume the share price had remained at \$3.43 here is the position you would be in before and after the return of capital if you hold 1,000 shares:

	BEFORE	AFTER
Shares held	1,000	900
Value of shares at \$3.43	\$3,430	\$3,087
Cash (return of capital)		\$343
Total	\$3,430	\$3,430

The share price is now at \$3.89. Let's assume it stays there after the return of capital (unlikely due to the myriad of market forces occurring on a daily basis). Here is the position you would be in before and after the return of capital if you hold 1,000 shares:

	BEFORE	AFTER
Shares held	1,000	900
Value of shares at \$3.89	\$3,890	\$3,501
Cash (return of capital)		\$343
Total	\$3,890	\$3,844

As you can see you are still in a better financial position now than you were when the announcement was made.

DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE