

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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

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Election

Yet again Winston Peters holds the balance of power in New Zealand, following a close-fought election. Which way New Zealand First decides to go will provide plenty of media attention, and a certain degree of uncertainty. Uncertainty is one thing financial markets don't like, therefore the sooner we know who New Zealand First will support the better. Regardless of who ends up running the country I don't think our share-market will suffer any significant fallout. New Zealand has proved in the past to have relatively stable Government from both the left and the right. I hope Winston's negotiations and bottom-lines take heed of the relatively small share of the vote gained by New Zealand First.

Opus International Consultants

Long-suffering Opus shareholders will be pleased to finally see some positive news for the company, after receiving a takeover offer. WSP Global Inc. is a Canadian-based consultancy firm that has offered shareholders a total of \$1.92 per Opus share. This is made up of \$1.78 per share, in addition to a dividend of 14 cents.

Opus was the consultancy arm of the old Ministry of Works and Development. In 1996 Works Consultancy Services was sold to Kinta Kellas of Malaysia, and the following year the company rebranded as Opus International Consultants. In 2007 the company was listed on the New Zealand Stock Exchange at a price of \$1.65. The shares traded well initially, soon reaching a price of \$2.30; however the Global Financial Crisis saw the price drop to \$1.04 per share in 2009. Since then the company has failed to fulfil its potential, and the shares have traded as low as 74 cents. At the date of the takeover offer they were trading at \$1.00, so the offer price of \$1.92 is a significant premium.

The independent directors have unanimously recommended that shareholders accept the offer after KordaMentha valued the business between \$1.85 and \$2.15. It's difficult to see a reason not to accept the offer considering the poor share-price performance over the last decade. Shareholders have until November 27th to accept.

Tower

Tower has also been the subject of a takeover offer which has seen its share price fluctuate significantly this year. Fairfax Financial Holdings initially offered \$1.17 to takeover Tower; however this was trumped by Vero who offered \$1.30. This was subsequently increased to \$1.40; however the Commerce Commission declined to accept the takeover citing concerns around reduced competition. Both Tower and Vero have appealed to the Commerce Commission and hope to have their case heard before the end of the year. Tower's share price has subsequently dropped back to 85 cents.

Arvida Rights

Arvida has announced a 1 for 5 rights issue to raise \$77 million of new equity to fund the purchase of three existing retirement villages. The rights are offered at an issue price of \$1.15. I've fielded numerous questions on how rights work so I'll attempt to explain it here. Rights are typically issued by a company wanting to raise funds. Rather than borrowing money or raising further equity from outside sources a company will go to its existing shareholders and offer them the opportunity to invest more capital in the company. The rights are usually offered at a discount to the current share price.

Rights can either be renounceable or non-renounceable. A non-renounceable right cannot be sold, therefore the options for the shareholder are limited to taking up the rights or letting them lapse. If rights are not taken up the shareholder suffers a dilution in value based on the number of new shares issued. A renounceable right allows the shareholder to sell the right to someone else if they don't want to purchase the new shares. The rights themselves will have value depending on the underlying share price, and the price at which the new shares are being offered. For example in Arvida's case the new shares are being offered at \$1.15 per share. Following the announcement the Arvida share price settled around \$1.20, therefore the rights are trading at around four to five cents.

CALL THE OFFICE IF YOU WOULD LIKE TO DISCUSS THIS FURTHER

New Premises

As discussed in last month's newsletter Bramwell Brown will be moving into new premises at 38 Bannister Street (the Amy Kerr & Associates building) in November. There may be a brief period where we carry out some renovations and interior decorating so please phone the office first if you need to make an appointment. Contact details remain the same. I would like to take this opportunity to thank Sue Falloon for her service over a long period. Sue began working for Bruce Bramwell in 1992 and has been with Bramwell Brown since then. Mondays and Thursdays won't be the same without you Sue – never dull – always entertaining – good luck for the future!

Official Cash Rate

The Reserve Bank has left the Official Cash Rate (OCR) unchanged at 1.75 percent. Here is the statement by Reserve Bank Acting Governor, Grant Spencer.

Global economic growth has continued to improve in recent quarters. However, inflation and wage outcomes remain subdued across the advanced economies and challenges remain with on-going surplus capacity. Bond yields are low, credit spreads have narrowed and equity prices are near record levels. Monetary policy is expected to remain stimulatory in the advanced economies, but less so going forward.

The trade-weighted exchange rate has eased slightly since the August Statement. A lower New Zealand dollar would help to increase tradables inflation and deliver more balanced growth. GDP in the June quarter grew in line with expectations, following relative weakness in the previous two quarters. While exports recovered, construction was weaker than expected. Growth is projected to maintain its current pace going forward, supported by accommodative monetary policy, population growth, elevated terms of trade, and fiscal stimulus.

House price inflation continues to moderate due to loan-to-value ratio restrictions, affordability constraints, and a tightening in credit conditions. This moderation is expected to continue, although there remains a risk of resurgence in prices given population growth and resource constraints in the construction sector.

Annual CPI inflation eased in the June quarter, but remains within the target range. Headline inflation is likely to decline in coming quarters, reflecting volatility in tradables inflation. Non-tradables inflation remains moderate but is expected to increase gradually as capacity pressure increases, bringing headline inflation to the midpoint of the target range over the medium term. Longer-term inflation expectations remain well anchored at around two percent.

Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly.”

Portfolio Administration

Are you having trouble with the share registries sending your financial information via email rather than post? Are you spending hours searching for financial information for your accountant at the end of each financial year? If so Bramwell Brown can help. We offer a portfolio administration service where we handle all the mail associated with your portfolio and liaise with your accountant at the end of each year. Call the office if you would like to discuss this service.

World Investor Week 2017

From October 2nd to October 8th securities regulators from six continents will be promoting investor education and protection through World Investor Week. Our own Financial Markets Authority (FMA) is involved and has a number of resources available on their website <https://fma.govt.nz/> some of which includes:

- Why you should use a licensed provider
Financial Services Providers monitored by the FMA must meet minimum standards of service
- Why licensing is good for you
Licensed providers are checked and monitored by the FMA
Protection when things go wrong
Licensed providers must communicate clearly and simply with their customers
- What to expect from your financial services provider
Competence
To be treated fairly and honestly
To be kept informed
To know how much you are paying
To have your problems and complaints dealt with properly
- How not to get burnt when investing online

Key messages being promoted are that a smart investor:

- Verifies that an investment professional is licensed
- Conducts research on a product before investing
- Assesses the impact of fees when choosing an investment
- Understands that risk exists in all investments
- Avoids “get rich quick” and “can’t lose” schemes
- Recognises the power of compound interest
- Recognises the importance of diversification
- Plans for and invests according to future needs and goals
- Recognises the benefit of long term, regular and diversified investment

None of this should come as a surprise to clients of Bramwell Brown; however it never hurts to have a refresher on some of the basics. I would encourage all investors to have a look at the FMA website, and particularly their section headed “Warnings.”