

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Interest Rates

The steady decline in interest rates is grabbing plenty of headlines at present, and is rightly becoming a big concern for retirees. For those who rely on bank deposits and other fixed interest securities, the reduction in interest rates is having a big impact on their income. In the space of ten years interest rates have more than halved. I browsed through some old newsletters and found these tables from August 2010:

Bond	Coupon Rate	Maturity	Yield
Auckland Airport	6.83%	July 2012	5.58%
BNZ	7.50%	September 2012	5.16%
Wellington Airport	7.50%	November 2013	7.00%
Tauranga City Council	7.05%	December 2013	5.39%
Auckland City Council	6.42%	March 2014	5.80%
Contact Energy	8.00%	May 2014	6.36%
Fletcher Building	9.00%	May 2014	7.45%

Company	Share Price	Yield
Auckland International Airport	1.96	6.01%
Briscoes Group	1.24	8.43%
Contact Energy	5.60	7.46%
Freightways	2.68	8.47%
Goodman Property Trust	0.93	9.40%
Sky City Entertainment	2.98	6.95%
Steel & Tube	2.15	8.68%

What this highlights for me is the need to have a diversified portfolio of assets that don't necessarily correlate. Even retirees, who are often told they should only be investing in safe assets post-retirement, should have exposure to shares in my opinion. Holding only fixed interest investments leaves you vulnerable to reductions in interest rates.

Even a modest allocation to a portfolio of New Zealand shares would have mitigated some of the reduction in income from bank deposits and bonds over this period. The income from shares has been stable, and the capital gains have been phenomenal. For many, the capital appreciation of shares over the last ten years has been another source of income. I have often advised taking the top off well-performing shares and reinvesting in fixed interest, therefore locking in the gains. Despite the very low interest rates on offer at present I would continue to make this recommendation.

Secondary Market Bond Yields

If we return to the present, we can see that 7% and 8% interest rates are well and truly a thing of the past. Here is a selection of commonly traded bonds listed on the New Zealand exchange.

Company	Coupon	Maturity Date	Yield
Infratil	5.65%	December 2022	3.30%
Meridian Energy	4.53%	March 2023	2.20%
Summerset	4.78%	July 2023	2.66%
WEL Networks	4.90%	August 2023	3.00%
Infratil	5.25%	September 2023	3.30%
Kiwi Property Group	4.00%	September 2023	2.70%
Z Energy	4.32%	November 2023	2.72%
Investore	4.40%	April 2024	2.90%
Infratil	5.50%	June 2024	3.30%
Precinct Properties	4.42%	November 2024	2.84%
Kiwi Property Group	4.33%	December 2024	2.89%
Infratil	4.75%	December 2024	3.40%
Wellington Airport	5.00%	June 2025	2.61%
Infratil	6.15%	June 2025	3.44%
Summerset	4.20%	September 2025	2.84%
BNZ Capital Notes	5.31%	December 2025	2.75%
Argosy Property	4.00%	March 2026	3.10%
ASB Capital Notes	5.25%	December 2026	2.70%
Westpac Capital Notes	4.69%	September 2026	2.75%
Infratil	4.85%	December 2028	3.59%
Trustpower	3.97%	February 2029	2.92%
NZX	5.40%	June 2033	3.25%
NZ Refining	5.10%	March 2034	3.70%
Genesis Energy	4.65%	July 2048	3.05%
Mercury Energy	3.60%	July 2049	3.14%

New Zealand Dividend Yields

Here are some current share prices (July 30th) together with their most recent annual dividends. In some cases, depending on an investor's ability to claim imputation credits, the yield is an after-tax yield.

Company	Price	Dividend (Cents Per Share)	Yield
Air New Zealand	2.77	22.00	7.94%
ANZ Banking Group	28.96	160.00	5.52%
Argosy Property Limited	1.41	6.24	4.43%
Auckland Airport	9.48	22.00	2.32%
Australian Foundation Investment Co.	6.70	32.00	4.78%
Barramundi	0.64	5.38	8.40%
Briscoes	3.46	20.00	5.78%
Chorus	5.46	22.50	4.12%
Contact Energy	7.83	35.00	4.47%
Freightways	8.55	32.50	3.80%
Genesis Energy	3.45	17.05	4.94%
Goodman Property Trust	2.04	6.65	3.26%
Hallenstein Glasson	5.36	44.00	8.21%
Heartland Bank	1.64	9.00	5.49%
Infratil	4.63	17.25	3.72%
Kathmandu	2.11	15.00	7.10%
Kingfish	1.47	11.94	8.13%
Kiwi Property Group	1.62	6.95	4.29%
Mercury Energy	4.67	15.30	3.28%
Meridian Energy	4.75	19.52	4.11%
Port of Tauranga	6.16	11.00	1.79%
Precinct Properties	1.78	5.95	3.34%
Property for Industry	2.26	7.55	3.34%
Ryman Healthcare	12.95	22.70	1.75%
Sky City Entertainment	3.99	20.00	5.01%
SmartShares (Dividend Fund)	1.34	4.78	3.56%
Spark	3.94	25.00	6.34%
Trustpower	7.60	74.00	9.74%
Vector	3.88	16.25	4.19%
Vital Healthcare Properties	2.63	8.75	3.32%
Westpac	30.10	188.00	6.25%
Z Energy	6.54	43.00	6.58%

You can see there are still some attractive yields available on New Zealand shares, however investors must also factor in the risk inherent with owning shares. The question you need to be asking is "do the returns on shares compensate me fairly for the extra risk I am taking?" My concern is that prices are being driven to a level that ignores the premium that needs to be received for risk. Look at the Goodman Property Trust as an example. In 2010 it was yielding over 9% - a premium of around 5% over bank deposits. Today the after-tax yield of 3.26% is only marginally ahead of bank term deposits. Where is the premium for the extra risk?

You may look at some of the shares that pay lower dividends and question why you would own them. Auckland Airport, Port of Tauranga and Ryman Healthcare are examples. However, if you look at their capital appreciation over recent times you can see that they have provided investors with significant tax-free capital gains. As mentioned earlier some investors have turned those capital gains into another source of income by selling down a portion of their holdings periodically. Here is a table showing the gains made by these shares since 2010.

Company	Price (2010)	Price (2019)	Return (Per Annum)
Auckland Airport	1.96	9.48	19.14%
Port of Tauranga	1.35	6.16	18.37%
Ryman Healthcare	2.03	12.95	22.86%

The returns in this table only take into account the underlying share price. If you include the dividends that these companies have paid, (although relatively small) the overall returns are very impressive.

Napier Port

As mentioned in last month's newsletter we will be trying to source an allocation of the Napier Port Initial Public Offer (IPO). It's a relatively small offer (up to \$234 million) and I'm sure the lead managers will be reserving most of it for their own clients. The Product Disclosure Statement can be viewed here <https://www.napierportshareoffer.co.nz/> Phone the office if you are interested in this offer.

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.