

# BRAMWELL BROWN LTD

## INVESTMENT ADVISERS – BROKERS

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### **Bramwell Brown Limited – Newsletter – October 2019**

#### **Tower Renounceable Rights**

Tower has announced it has signed an agreement to purchase the Youi New Zealand Limited insurance portfolio, for a price of \$13 million. Tower will seek to raise \$47 million to fund the purchase, and to increase its solvency position in line with Reserve Bank requirements. Tower is in dispute with the Earthquake Commission (EQC) in relation to the Canterbury earthquakes. They are claiming \$70 million from EQC, however the Reserve Bank has ruled that because the dispute is likely to proceed to litigation the receivable should be excluded from Tower's solvency calculations. Hence the need to raise further funds.

Capital will be raised by a pro-rata, renounceable entitlement offer, at a ratio of one share for every existing four shares held, at an issue price of \$0.56.

- Exercise price – \$0.56
- Rights commence trading – October 1<sup>st</sup>
- Offer opens – October 3<sup>rd</sup>
- Rights cease trading – October 9<sup>th</sup>
- Offer closes – October 15<sup>th</sup>

Investors have a number of options in relation to their Tower rights:

- Take up all or some of your rights
- Sell all or some of your rights on the NZX
- Take up some of your rights and sell some or all of the balance
- Do nothing

At the time of writing Tower shares were trading at \$0.68, giving a theoretical rights price of \$0.12.

**CALL THE OFFICE IF YOU WOULD LIKE TO DISCUSS THE OPTIONS AVAILABLE TO YOU**

## **Kathmandu Entitlement Offer**

Kathmandu is also coming to existing shareholders in order to raise capital. The company has entered into a binding agreement to buy Rip Curl Group Pty Limited for \$368 million. Rip Curl is a designer, manufacturer, wholesaler and retailer of surfing equipment and apparel founded in Australia in 1969.

Capital will be raised through a combination of equity and debt comprising a new senior, secured debt facility, and a pro-rata entitlement offer, at a ratio of one share for every existing four shares held, at an issue price of \$2.55.

- Exercise price – \$2.55
- Offer opens – October 4<sup>th</sup>
- Offer closes – October 21<sup>st</sup>

The difference between the Tower and Kathmandu offers is that the Tower rights are renounceable. What this means is that if shareholders don't want to take up their rights, they are able to sell them to other investors. The rights to new Tower shares trade independently of the underlying shares. In Kathmandu's case if investors don't want to take up the offer, their entitlements are offered to other investors in what's known as a bookbuild. Any premium paid by other investors over \$2.55 will be paid pro-rata to those shareholders who did not take up their entitlement.

## **Goodman Property Trust Retail Unit Offer**

The Goodman Property Trust is another company raising money to fund expansion plans. They are seeking to raise \$165 million to provide additional balance sheet capacity, and to fund current commitments and future investment and development opportunities in the supply-constrained Auckland industrial market. A sum of \$150 million has been raised through a placement, and \$15 million (with the ability to accept oversubscriptions of \$10 million) will be offered to existing shareholders. Eligible investors can purchase up to \$50,000 of additional units in Goodman Property Trust at a price of \$2.10.

- Offer opens – September 26<sup>th</sup>
- Offer closes – October 18<sup>th</sup>

It is interesting to note that applications must be accompanied by certified identification documents under the Anti-Money Laundering & Countering Financing of Terrorism Act 2009. The sooner the Government steps in to administer a one-stop shop for AML/CFT identification purposes, the better. Our clients are sick of having to consistently supply the same documents to a variety of professionals.

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## **New Zealand Post Notes**

New Zealand Post Group Finance has announced that it will not be redeeming its subordinated notes (NZP010) on the next reset date (November 15<sup>th</sup>). Instead the notes will roll over for a further five years at the five-year swap rate on the reset date, plus the margin of 3%. The new interest rate will apply until November 15<sup>th</sup> 2024. Based on the current five-year swap rate the new interest rate on the notes should be just under 4%. There is nothing existing holders need to do.

## **World Investor Week**

The Financial Markets Authority (FMA) has published a [new guide to managed funds](#), following research suggesting more New Zealanders are considering alternative investments because of low interest rates. An FMA survey of 195 term deposit investors last month found that 43% of them were likely to invest less in term deposits because of low interest rates. Of these, a quarter of them were considering managed funds or exchange traded funds to get better investment returns. The findings are in line with the May 2019 results of the FMA's annual investor confidence survey, which found 56% of New Zealanders were considering making changes to their investments in the coming year. With this in mind, the FMA has produced a guide to managed funds and exchange traded funds (ETFs) in time for World Investor Week (September 30-October 6).

I think investors need to be cautious when looking at alternatives to bank term deposits. Be certain you understand the risks associated with different investments. What is more important to you – return "on" investment or return "of" investment?

Here is a link to the FMA's guide to managed funds – [FMA Managed Funds Guide](#) Don't hesitate to phone the office if you would like to discuss your situation.

## **Bank Term Deposit Rates**

Here is a summary of some of the bank rates on offer at present.

	<b>1 Year</b>	<b>2 Years</b>	<b>3 Years</b>	<b>4 Years</b>	<b>5 Years</b>
<b>ANZ</b>	2.70%	2.60%	2.60%	2.65%	2.70%
<b>ASB</b>	2.70%	2.60%	2.60%	2.60%	2.60%
<b>BNZ</b>	2.70%	2.60%	2.60%	2.60%	2.60%
<b>Heartland</b>	2.95%	3.00%	3.05%	3.05%	3.10%
<b>Kiwibank</b>	2.70%	2.60%	2.60%	2.60%	2.60%
<b>Rabobank</b>	2.72%	2.67%	2.67%	2.67%	2.87%
<b>Westpac</b>	2.70%	2.70%	2.70%	2.70%	2.70%

## **Official Cash Rate**

The Reserve Bank met again in September to decide whether or not to amend the Official Cash Rate (OCR). Here is the Reserve Bank Governor's address:

The Official Cash Rate (OCR) remains at 1.0 percent. The Monetary Policy Committee agreed the new information since the August Monetary Policy Statement did not warrant a significant change to the monetary policy outlook. The Committee noted that employment remains close to its maximum sustainable level but consumer price inflation remains below the 2 percent target mid-point. The Committee members discussed the initial impacts of reducing the OCR to 1.0 percent in August. They were pleased to see retail lending interest rates decline, along with a depreciation of the exchange rate. The members anticipated a positive impulse to economic activity over the coming year from monetary and fiscal stimulus. The members noted that there remains scope for more fiscal and monetary stimulus if necessary, to support the economy and our inflation and employment objectives. The Committee noted that, while GDP growth had slowed over the first half of 2019, impetus to domestic demand is expected to increase. Household spending and construction activity are supported by low interest rates, while business investment should lift in response to demand pressures.

The Committee expected increasing demand to keep employment near its maximum sustainable level. Rising capacity pressures and increasing import costs, higher wages, and pressure on margins are expected to lift inflation gradually to 2 percent. The Committee discussed the long and variable lags between monetary policy decisions and outcomes. The members noted several key uncertainties affecting the outlook for monetary policy, where there was a range of possible outcomes. Global trade and other geopolitical tensions remain elevated and continue to subdue the global growth outlook, dampening demand for New Zealand's goods and services. Business confidence remains low in New Zealand, partly reflecting policy uncertainty and low profitability in some sectors, and is affecting investment decisions. Fiscal policy is expected to lift domestic demand over the coming year. However, any increase in government spending could be delayed or it could have a smaller impact on demand than assumed.

Some members noted that ongoing low inflation could cause inflation expectations to fall. Others noted that this risk was balanced by the potential for rising labour and import costs to pass through to inflation more substantially over the medium term. The Committee discussed the secondary objectives from the remit and remained comfortable with the monetary policy stance. The Committee agreed that developments since the August Statement had not significantly changed the outlook for monetary policy. They reached a consensus to keep the OCR at 1.0 percent and that, if necessary, there remains scope for more fiscal and monetary stimulus.