

## Media Release

### Woodward Research comments on perceptions of potential asset sales

WELLINGTON, New Zealand – Thursday 24 November 2011 – Financial analysis and equity research specialist Woodward Research today issued comments in response to public perceptions of potential assets sales by the government of New Zealand.

Nick Lewis, Senior Analyst and Partner at Woodward Research said, “The proposed Mixed Ownership Model, or asset sales, has become the defining issue of this election, yet we still see serious misperceptions of this crucial issue. Given its relevance, we felt compelled to offer impartial comments on the implications of asset sales for the average New Zealander.”

The government announced in January 2011 that if re-elected in November 2011, it would proceed with the initial public offerings (IPOs) of four state-owned enterprises (SOEs) including the three electricity generator/retailers Genesis Energy, Meridian Energy, Mighty, River Power, and the coal resource company Solid Energy. The government also said it would seek to further reduce its stake in Air New Zealand from its current 74% interest.

The announcement included two key points; firstly, that the government would maintain legal control of the four electricity companies by retaining at least 50.1% interest, and secondly, that the average retail investor in New Zealand would be “at the front of the queue” to gain access to shares in these companies when they come to market.

Woodward Research offers comments on the following perceptions:

- **Foreigners will end up owning these companies:** This is unlikely. While some SOE shares will undoubtedly find their way into the portfolios of investors outside of New Zealand, the reality is that legal control of the companies will remain with the Crown in New Zealand. The IPOs will likely attract overseas investors such as the Australian superannuation funds but they are unlikely to want more than 5% shareholdings and will not want to exert any meaningful influence. The IPOs are also unlikely to attract overseas strategic investors because such investors would want control (witness Origin Energy’s 53% control of Contact Energy) yet this would not be possible with the Crown as the controlling shareholder and everyone else restricted to less than 10% shareholdings. Finally, there is an additional financial incentive for New Zealand residents to own shares because of the imputation credits that are available to them on the dividends they receive, credits that are not generally-available to non-resident shareholders.
- **New Zealand government will forego hundreds of millions of dollars in dividends:** This is true. The government received dividends of \$733 million in fiscal 2010 and \$799 million in fiscal year 2011 from the four SOEs (excluding Air New Zealand). Therefore, if the government were to sell 49% of the four SOEs, its dividend income stream from those four companies would likely drop by approximately \$375 million per year. However, the Crown would have also gained a one-time cash inflow of \$5 to \$7 billion dollars. Therefore, in theory, the government will be fully compensated for its foregone dividends. The more important question then becomes, how will that one-time cash injection likely be used.
- **The government can pay down a lot of debt with the proceeds of asset sales:** The New Zealand government has issued approximately \$71 billion of debt (which does not include debt of companies or individuals) so the \$5 to \$7 billion in IPO proceeds would reduce the government outstanding debt by 10% at most. However, the more likely scenario is that the proceeds will be invested in a combination of public good such as education or health care, and debt repayment.

- **Public shareholders will demand more operational and financial efficiency of the SOEs:** The widespread churn of customers between the generator/retailers today, including NZX-listed Contact Energy, suggests that competitive forces are already creating ample pressure on the boards and management teams to operate the companies efficiently. It is therefore doubtful that there is much more efficiency to be gained from the addition of public shareholders that does not already exist by virtue of the fierce competition in the electricity sector.
- **Once these assets are gone, they are gone forever:** This is not necessarily true. While unusual, there are precedents overseas where companies have been sold by governments only to be partially or fully re-acquired by those same governments if circumstances deem it to be in the public's best interest at that time - the government's varied ownership interest of Air New Zealand over the past decade is an example.
- **Four new listed companies will improve the financial markets in New Zealand:** True. Four new billion-plus dollar market capitalization companies will add significant depth and liquidity to the NZX stock exchange. Moreover, the income-oriented nature of these dividend-paying companies will be seen as relatively conservative investments and will broadly appeal to the average retail investor. It would also provide more assets for the growing KiwiSaver funds, and should help to keep more of that money in New Zealand rather than forcing those portfolio managers to seek shares overseas.
- **In most countries, the government owns the electricity companies:** This is generally true for developing countries but not so for developed countries. An informal review of the 34 member countries of the Organisation for Economic Co-Operation and Development (OECD) suggests that the majority of OECD countries have to some degree sold electricity companies via trade sale or IPO.

Woodward Research provides in-depth financial analysis and equity research for companies listed on the NZSX stock exchange, including initial public offerings (IPOs). Woodward Research's reports and comments can be downloaded at no charge from [www.woodwardresearch.co.nz](http://www.woodwardresearch.co.nz).

**ENDS**

#### **For more information**

Nick Lewis, CFA  
Senior Analyst and Partner  
Woodward Research  
[nick.lewis@woodwardresearch.co.nz](mailto:nick.lewis@woodwardresearch.co.nz)

Mobile: +64 21 381 361  
Office: +64 4 499 6320

Sandra Lukey  
Director  
Shine Group (PR for Woodward Research)  
[sandra@shinegroup.co.nz](mailto:sandra@shinegroup.co.nz)

Mobile: + 64 21 226 2858

#### **About Woodward Research**

Woodward Research Limited ([www.woodwardresearch.co.nz](http://www.woodwardresearch.co.nz)) is part of the Woodward Partners Limited ([www.woodwardpartners.co.nz](http://www.woodwardpartners.co.nz)) group of companies. Woodward Research provides in-depth equity and debt research for companies listed on the NZX exchange. Recent changes in the regulations governing financial markets emphasize the importance of independent analysis of listed companies. However, analysis of this type has historically only been available for a small number of listed companies, and even then, has only been generally available to large institutional investors. This has created an information imbalance for investors. Woodward Research is addressing this imbalance by publishing research for under-covered companies and making it available to everyone.