

# BRAMWELL BROWN LTD

## INVESTMENT ADVISERS – SHAREBROKERS

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### Bramwell Brown Limited – Newsletter – February 2023

#### Brokers' Picks

Each year the New Zealand Herald publishes a table of brokers' recommendations for the five companies they think will be the best performers over the coming year. It's a no-win situation for the brokers, as they all know the share-market is not somewhere to invest for a short period. However, it provides interesting reading, and looking back on previous recommendations highlights the fundamental need to hold a diverse range of companies. A2 Milk, Evolve Education, Gentrack, Fonterra, Tower, NZ Refining, Synlait Milk, Vista Group, Sky TV, Green Cross Health, Tru-Screen and Comvita have been chosen previously – none of which have performed well since.

Plenty of very good choices have also been made of course, including Mainfreight, Freightways, Fisher & Paykel Healthcare, the electricity retailers, Ryman Healthcare, Xero and Ebos. Here are this year's choices:

#### **Broker 1**

Infratil  
Contact Energy  
Tourism Holdings  
Pacific Edge  
Delegat Group

#### **Broker 2**

AFT Pharmaceuticals  
Air New Zealand  
Arvida Group  
Mercury Energy  
NZ Rural Land Co

#### **Broker 3**

Oceania Healthcare  
Tourism Holdings  
Infratil  
Vulcan Steel  
Spark

#### **Broker 4**

Infratil  
NZX Group  
Investore Property  
Genesis Energy  
Auckland Airport

#### **Broker 5**

Auckland Airport  
Contact Energy  
Ebos Group  
Fletcher Building  
Vector

#### **Broker 6**

Chorus  
Ebos Group  
Meridian Energy  
Spark  
Tourism Holdings

I think it's important to stress that nobody should be picking stocks with a one-year time frame – shares should be treated as a long-term investment.

## **Bond Values**

The secondary market for bonds has historically been difficult for many investors to understand. Bonds trade on a secondary market in the same way that shares do, and just like shares there are certain factors that influence prices. Obviously the performance of the company that has issued the bonds will have an effect on the price you would receive in the secondary market, if you were to sell your bonds. Investors aren't likely to want to purchase bonds in a company that is facing financial difficulty. However, the main influence on the prices paid for bonds in the secondary market is the movement in interest rates since the bond was issued. Many bonds are now trading at a discount to their face value, due to the gradually improving interest rates we have experienced in the last couple of years. Let's use Vector's 3.69% bond issued in November 2021 as an example.

Coupon – the interest rate at which the bond was issued. In most circumstances the coupon rate does not change throughout the life of the bond. Some bonds are issued with the ability to reset the interest rate at various times. The coupon on the Vector bond (VCT100) is 3.69%.

Maturity Date – the date at which the bond matures and the initial investment is repaid in full. The maturity date of the Vector bond is November 26<sup>th</sup> 2027.

Yield – this is the return a buyer of the bond in the secondary market would achieve. If you buy a bond with a yield to maturity that is higher than its coupon rate you will pay less for this bond than the original purchaser. There is an inverse relationship between price and yield. The Vector bond is now trading at a yield of 5.35% in the secondary market. This is because interest rates have increased since the bond was issued, and today's investors are not prepared to accept a return of 3.69%. Whoever buys the bond in the secondary market will continue to receive interest payments of 3.69%, but because you are buying the bond at a higher yield (5.35%) you will pay less for it.

Price – this is the amount a new investor will pay to purchase the bond. In the case of the Vector bond, the price you will pay will be less than you would have paid if you had bought the bond when it was issued. At a yield of 5.35% a new investor would pay \$9,350 for 10,000 bonds in the secondary market. That investor would then be repaid the bond's face value (\$10,000) at maturity – not their purchase price.

When we report to clients we list their bond holdings at their face value, rather than their current market price. The majority of investors hold their bonds until maturity, and the fluctuation in price during the period the bonds are held is not particularly relevant. However it's important to realise that if you are forced to exit bond holdings before maturity, you may not receive what you paid for them if interest rates have moved up in the interim.

## Current Bond Yields

Here is a selection of the current yields on commonly traded bonds listed on the New Zealand Exchange. I've included the July 2021 yields (where applicable) to show some comparison. The underlined bonds are those that have been issued in the last twelve months. You can see that those bonds have current yields (in the secondary market) that are closer to their coupon rates.

Company	Coupon	Maturity Date	Yield July 2021	Current Yield
Infratil	4.75%	December 2024	2.90%	5.30%
Wellington Airport	5.00%	June 2025	2.15%	4.53%
Infratil	6.15%	June 2025	2.50%	5.50%
Summerset	4.20%	September 2025	2.22%	5.30%
Property for Industry	4.25%	October 2025	2.20%	4.80%
Argosy Property	4.00%	March 2026	2.10%	5.45%
Infratil	3.35%	March 2026	2.89%	5.80%
Manawa Energy	3.35%	July 2026	2.30%	5.35%
<u>ASB</u>	5.93%	November 2026		5.03%
Infratil	3.35%	December 2026	2.85%	5.85%
Ryman Healthcare	2.55%	December 2026	2.35%	5.49%
<u>Goodman Property Trust</u>	4.74%	April 2027		5.55%
Sky City Entertainment	3.02%	May 2027	2.50%	5.83%
Precinct Properties	2.85%	May 2027	2.55%	5.62%
<u>Mercury Energy</u>	5.73%	May 2027		5.80%
<u>Manawa Energy</u>	5.36%	September 2027		5.43%
<u>Westpac</u>	6.19%	September 2027		5.68%
<u>Vector</u>	3.69%	November 2027		5.34%
Infratil	3.60%	December 2027	2.95%	5.80%
Arvida	2.87%	February 2028	2.70%	5.65%
<u>Contact Energy</u>	5.82%	April 2028		5.25%
<u>Precinct Properties</u>	5.25%	May 2028		6.02%
<u>BNZ</u>	5.54%	May 2028		5.09%
Infratil	4.85%	December 2028	2.70%	5.35%
Manawa Energy	3.97%	February 2029	2.15%	5.00%
<u>Infratil</u>	5.93%	June 2030		6.00%
NZX	5.40%	June 2033	2.75%	5.20%
Genesis Energy	4.65%	July 2048	2.08%	5.35%
Mercury Energy	3.60%	July 2049	2.10%	5.30%
<u>Genesis Energy</u>	5.66%	June 2052		5.83%

You can see that the majority of bonds are currently trading at a yield that is higher than their coupon rate. These bonds are therefore worth less today than investors would have paid for them. This is in contrast to the situation in July 2021. At that time all the bonds listed in the table were trading in the secondary market at yields that were below their coupon rates. In that case all would have sold in the secondary market for more than investors would have paid for them.

### **Term Deposit Rates**

Here is a summary of some of the bank term deposit 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>
ANZ	5.20%	5.25%	5.25%	5.25%	5.25%
ASB	5.30%	5.25%	5.30%	5.25%	5.25%
BNZ	5.30%	5.25%	5.25%	5.25%	5.25%
Heartland	5.70%	5.25%	5.25%	5.25%	5.25%
Kiwibank	5.40%	5.25%	5.25%	5.25%	5.25%
Rabobank	5.75%	5.30%	5.30%	5.30%	5.30%
Westpac	5.30%	5.25%	5.25%	5.25%	5.25%

You can see that five-year rates are now lower than one-year rates. This is unusual in normal circumstances. You should expect to be rewarded for investing funds for longer terms, however it appears the banks have an expectation that interest rates could fall again over the next few years. Are we heading into recession? The Reserve Bank will review the Official Cash Rate again on February 22<sup>nd</sup>, and it will be interesting to hear their forecast. The New Zealand share market is up 4.30% since the start of the year, which is possibly another sign that investors are expecting interest rates to fall. We have seen asset prices (shares and property) fall considerably since interest rates began increasing in October 2021, and we can expect those asset prices to increase if the Reserve Bank is eventually forced to reduce interest rates if our economy goes into recession.

### **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.

**DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE**