BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

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

Bramwell Brown Limited – Newsletter – June 2024

JBWere/Jarden Merger

In December 2023, JBWere NZ's parent company, National Australia Bank Limited (NAB), announced it had agreed to combine its wealth management and asset management businesses in New Zealand with those of Jarden Wealth and Asset Management Holdings Limited within a newly formed entity, FirstCape Limited. Since then, work has been underway to obtain necessary regulatory approvals and the transaction is expected to take place in the coming weeks.

Who is FirstCape? The FirstCape group will bring together NAB's JBWere NZ and BNZ Investment Services businesses, together with Jarden Wealth and Harbour Asset Management. This will create a market leading wealth management and asset management business in New Zealand, with NZ$29 billion of funds under advice and administration, and NZ$15 billion of funds under management (including NZ$5 billion of KiwiSaver funds under management). The combination of operations, expertise and experience represents a significant opportunity to achieve operational efficiencies through scale, and support the continued growth of JBWere NZ, while enabling it to continue delivering exceptional services to clients. NAB, Pacific Equity Partners, and Jarden Wealth will be the major shareholders in FirstCape, and staff will also have an opportunity to invest.

Following completion of the proposed transaction, JBWere NZ will no longer be part of the NAB group, however, it will use the JBWere brand under licence from JBWere Limited, which remains part of the NAB group of companies. The NAB Group will retain a 45% shareholding in FirstCape but, as is the case now, the NAB Group does not guarantee or support the performance of JBWere NZ's obligations to any party.

As previously communicated, you don't need to take any action. Bramwell Brown's intermediary agreements with JBWere and Jardens will continue under the new entity. Bramwell Brown's contact information remains unchanged.

Official Cash Rate

The Reserve Bank's Monetary Policy Committee met on May 22nd to review the Official Cash Rate (OCR). It appears likely that interest rates will remain higher for longer than most analysts expected. This is good news for those relying on term deposits for income, however it continues to have a negative effect on share prices. Here is a summary of the Reserve Bank meeting:

Restrictive monetary policy has reduced capacity pressures in the New Zealand economy and lowered consumer price inflation. Annual consumer price inflation is expected to return to within the Committee's 1 to 3 percent target range by the end of 2024. The welcome decline in inflation in part reflects lower inflation for goods and services imported into New Zealand. Globally, consumer price inflation has declined from 30-year highs in many advanced economies. However, services inflation is receding slowly, and expected policy interest rate cuts continue to be delayed.

In New Zealand, pressures in the labour market have eased. Businesses are employing more cautiously in line with weak economic activity, while the number of people available to work has increased due to recent high net inward migration. Wage growth and domestic spending are easing to levels more consistent with the Committee's inflation target. While weaker capacity pressures and an easing labour market are reducing domestic inflation, this decline is tempered by sectors of the economy that are less sensitive to interest rates. These near-term factors include, for example, higher dwelling rents, insurance costs, council rates, and other domestic services price inflation. A slow decline in domestic inflation poses a risk to inflation expectations.

Our economic projections include only officially available information on the Government's fiscal intentions to date, which includes the most recent fiscal update and 'mini budget'. The signalled lower government spending is currently, and expected to continue, contributing to weaker aggregate demand. Any impact of potential changes in the forthcoming Budget to government spending, or private spending due to tax cuts, remain to be assessed.

Annual consumer price inflation remains above the Committee's 1 to 3 percent target band, and components of domestic services inflation persist. The Committee agreed that monetary policy needs to remain restrictive to ensure inflation returns to target within a reasonable timeframe.

The full Monetary Policy Statement can be read here https://www.bramwellbrown.co.nz/monetary-policy-statement_may2024

Synlait Milk

Synlait Milk continues to battle for survival after posting a large half-year loss in April. The company blames weakening demand and rising costs, however it appears to be far more serious than this. In the report the directors say "as at 31 January 2024, the Group recorded an after-tax loss for the six months of $92.2million, operating cash outflows of $98.1million and a working cash deficit of $204.9million, with loans and borrowings due for repayment and/or refinancing in the next twelve months of $514.1million." Following the results announcement, Synlait appointed Chief Financial Officer Rob Stowell to a position to manage the sale of Dairyworks, the North Island strategic assets review, a potential equity raise, and the banking syndicate relationship.

Shareholders in Synlait will more than likely be asked to inject capital into the company. Whatever happens, for shareholders the investment in Synlait has been a disaster, and any potential recovery will be long and costly. Currently the Dairy Works business is on the market, and it looks likely the Pokeno and Auckland facilities will also be sold. Synlait is due to repay bank debt of $130 million in July. Major shareholder, Bright Foods, has committed to loan Synlait the money to repay this debt if asset sales have not been finalised by that stage. Bright Foods has also committed to participate in any potential capital raising.

Bright Foods commitment to provide capital will be a relief to the holders of Synlait's bonds, which mature in December 2024. Bondholders will be hoping a combination of asset sales and a further injection of capital from shareholders will be enough to repay these bonds in full. At the time these bonds were issued Synlait shares were trading at $9.00, with analysts suggesting a positive future for the company. Their rapid growth through borrowing, combined with under-utilisation of the assets they purchased now sees their shares trading at 46 cents.

Budget

Nicola Willis's first budget appears largely as expected. Most areas of spending are in line with what National campaigned on, apart from the extra money to fund cancer treatments. The promised tax cuts have been delivered, however there will always be debate around whether tax cuts should be prioritised over investment into infrastructure, productivity and front-line services. Borrowing to fund tax cuts doesn't make sense to me when inflation remains an issue, and child poverty statistics are worse each year. Wage earners will be happy to finally see the tax brackets increase to recognise the fact that inflation-based wage increases have pushed many people into higher tax brackets.

Infratil Bond Offer

More fixed interest offers are now being made in accordance with the Financial Markets Conduct Act 2013, as an offer of securities of the same class as existing quoted securities. This means that if a company is issuing a bond with similar characteristics to a bond they already have listed, they can rely on their previous disclosure prospectus. In practice, it means new bond offers now have a shorter application time-frame than they have had previously. In some instances, we have less than a week to gauge interest from our clients before we must place a bid for an allocation of bonds. It is a far more efficient system, however it requires us to be able to communicate with a large number of clients quickly. Email is our preferred method of communication. <u>If you are interested in receiving the latest fixed-interest offers, please supply your email address and we will add you to our list of recipients.</u>

Last week we had Infratil issuing a new bond, with only two days to gauge interest from our clients.

Infratil issued unsecured, unsubordinated, fixed-rate bonds. The bonds have a term of 7.5 years, maturing on December 17th 2031.

The interest rate will be based on the 7.5-year swap rate, plus a margin.

The indicative margin is 2.40% to 2.50%

This would give an indicative interest rate of 6.97% to 7.07% per annum.

<u>The interest rate has since been set at 7.06%</u>

Interest will be paid quarterly in March, June, September, and December.

Minimum holding - 5,000.

<u>Holders of the Infratil bond that matures on June15th (IFT230) have the option of exchanging their maturing bonds for these new bonds.</u>

<u>If you hold these bonds and would like them rolled over, please contact the office.</u>

Portfolio Administration

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 correspondence 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.