

New Zealand

GDP growth has decreased due to a slowing retail environment and the tightening of credit lines, as the full impact of the credit crunch flows into the New Zealand economy. Private equity deals and transactions in general have decreased significantly



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Current Environment

The latest gross domestic product figures released by Statistics New Zealand indicate a slowing of economic activity. GDP declined 0.4% in the September quarter. This follows falls of 0.3% and 0.2% in the first and second quarters respectively. Annual GDP growth the year ending Q3 was 1.7%.

A key driver of the decline was the decrease in manufacturing volumes, which fell 2.3% in the third quarter, following a decrease of 1.1% in Q2, taking output to its lowest level since the first half of 2003. Despite the fall in the volume of sales, price increases led to a rise of 1.3% in the seasonally adjusted value of manufacturing sales in the September quarter.

Meat and dairy product manufacturing were relatively flat over this quarter, with a seasonally adjusted volume rise of 0.3%. The major fall in volume came from paper and paper products, structural, sheet and fabricated metal products and machinery and equipment, which each contributed about a fifth of the decrease.

GDP was also affected by the fall in retail sales of NZ\$69 million or 1.3% in the month of October 2008. This fall was primarily driven by a reduction in motor vehicle retailing. In the year ending September 2008, motor vehicle retailing fell by 19.6% taking it to its lowest level since 2001. Automotive fuel retailing also fell by 2.2% in October as petrol and diesel prices fell. A further cause of the downturn has been the dwindling supply of credit. While firms are still able to utilise existing lines of credit, new credit is more difficult to obtain, and this is reducing investment.

Declining output has been accompanied by rising prices, with the CPI increasing 5.1% over the year to September, the highest increase since the year to June 1990. A major constituent of this has been food inflation with prices increasing 10.3% to the year ended November 2008.

One area of deflation has been property prices, which have reacted to the weakening economy, falling 9% in the third quarter. However lower prices, tax cuts and lower interest rates have increased housing affordability in recent months, and may help to support the market going forward.

Economic weakness was also seen in the unemployment statistics which rose 0.3% in the September quarter to 4.2% (94,000 people). The government has introduced the ReStart assistance package, a package for workers made redundant by the slowing New Zealand economy. ReStart will be available to people who have been in work for the last six months, including self-employed people and those who have changed jobs or employers during that time.

In order to combat the downturn, the Reserve Bank has cut the official cash rate by 325 basis points since June from 8.25% to 5%. The 23 October cut of 100 basis points followed by the 4 December cut of 150 basis points were successively the largest changes in the benchmark rate since its introduction in March 1999. Reserve Bank Governor Alan Bollard commented that the ongoing financial market turmoil and the marked deterioration in the outlook for global growth played a large role in the recent cuts. Economic activity in New Zealand's major trading partners is expected to contract over the next few quarters, which will further constrain economic activity in New Zealand. Inflationary pressures, which saw the official cash rate raised four times during 2007, are abating, and inflation is expected to return to sit within the 1 – 3% target band within the first half of 2009. There are still however concerns over the effect of electricity prices and local property taxes on domestically generated inflation.

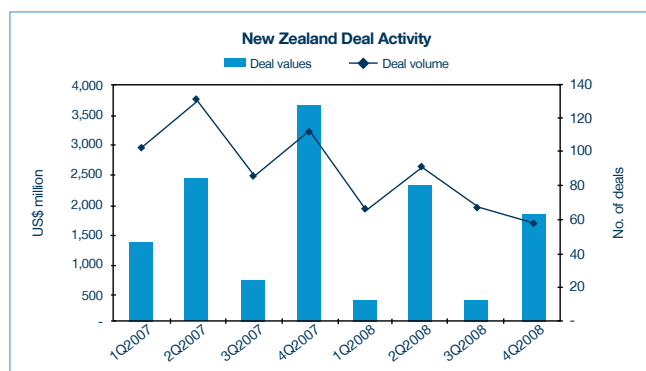
The six months ending 30 November 2008 saw a considerable fall in the value of the New Zealand dollar relative to the US dollar. The New Zealand dollar traded between a high of US\$0.79 on 3 June 2008 and a low of US\$0.53 on 21 November, a fall of 32%. The decline is attributable to the reduction in interest rates, which has made the New Zealand dollar less attractive for the carry trade, and this has been exacerbated by the deleveraging of many hedge funds involved in this trade.

In the year to date, the NZX50 Index has fallen from a high of 4,069 at the beginning of the year to 2,569 in November, a fall of approximately 37%. It experienced a sharp decline of approximately 25% in the six months to December.

2008 also saw a change in the government of New Zealand. The left-wing Labour Party Government, in power since December 1999, was defeated in the 8 November general election by the right-wing New Zealand National Party.



Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2008

Deal activity in New Zealand has slowed significantly, as the number of deals fell 44% in the third quarter of 2008. Deal value also fell significantly from US\$2.7 billion in the second quarter to US\$0.36 billion in the third, but rose again in the fourth quarter, mainly on the back of the acquisition of Frucor Group by Suntory Limited for NZ\$1.2 billion, the largest transaction in the New Zealand market in the past six months.

Japanese brewery, Suntory Limited reached an agreement with the France-based Danone Group to acquire 100% ownership of Frucor Group, owned by the Danone Group, for a total consideration of around NZ\$1.2 billion. Over the past six years Frucor has played a major role in Danone's growth strategy, with its energy drink brand "V" being a major driver of growth. The "V" brand currently has 60% of the New Zealand energy drink market and about 50% of the Australian market. The divestment of Frucor comes out of a recent refocus by Danone on spring water and natural mineral water-based beverages. The proceeds of the sale will be allocated to debt repayment. The acquisition, allows Suntory to further diversify both its product offering and geographic reach.

Fonterra Co-Operative Group Ltd acquired the yogurt and dairy dessert business of Nestle Australia Ltd, a food and beverage producer, and a wholly-owned unit of Nestle SA, for an estimated AUD\$36 million.

Simplot Australia Pty Ltd, a wholly-owned unit of JR Simplot Co acquired Mr. Chips Holdings Ltd, a potato chip manufacturer and wholesaler for NZ\$65 million. Mr Chips manufactures over 25,000 tonnes of frozen and chilled potato products annually in its Auckland and Christchurch

plants. Half its sales are in exports to Australia, where it has had a supply arrangement with Simplot, which has a wide range of food brands including Leggo's, Edgell and Birds Eye.

ING Property Trust divested its property portfolio in December to an undisclosed acquirer, for NZ\$49.4 million. Included in the transaction were five properties in Garnett Avenue, Hamilton; Hawkeston Street, Wellington; McCormack Place, Wellington; Park Avenue, Grafton; and The Strand, Parnell.

Through its wholly-owned GPG Twenty One Limited, Guinness Peat Group, acquired an additional 5.3% stake in Tower Ltd, an insurance company, for NZ\$67.5 million, taking its shareholding in the company to 35%.

Over the last six months, PwC New Zealand has advised on the sale of La Bonne Cuisine to Heinz Watties, the sale of Packsys to Aperio Group and the sale of Howick and Eastern to Souter Holdings. PwC New Zealand also advised Archer Capital on its successful acquisition of Australian Helicopters.

Outlook

The economy is expected to recover in 2009 with growth forecast by the EIU at 1.1% for the year.

The outlook for transactions remains uncertain. One deal which may re-emerge is Australia's Woolworths and New Zealand-owned Foodstuffs' interest in acquiring The Warehouse. In the previous edition, we noted that the Commerce Commission launched an appeal to block any takeover bids. The hearing took place in April and it was announced on 31 July that the Court of Appeal had blocked the supermarket giants, who each own 10% of the company, from launching takeover bids. The key issue to any takeover has been the recent introduction by The Warehouse of its "Extra" stores, which have a full grocery offering. The Commerce Commission believed that if left independent, The Warehouse would continue to develop this format and increase competition within the supermarket sector, where Woolworths and Foodstuffs control almost the entire market. However, The Warehouse Extra has recently announced that they will withdraw from selling food, reverting to just general merchandising. This has changed the market characteristics on which the commission based its rejection. It is likely that Woolworths and Foodstuffs will re-apply for clearance. ■