

New Zealand

Deal activity fell significantly in the first half of 2009 as global economic conditions continued to deteriorate.



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Current Environment

Annual GDP declined 1% in the year to March 2009, the first annual decline in New Zealand economic activity since 1992. Having now experienced five consecutive quarters of negative growth, the New Zealand economy is in its longest recession since the mid-1970s. While a sharp decrease in the Official Cash Rate (from 8.75% to 2.5% over the past 12 months) has thus far failed to stimulate growth, economists generally expect recovery to commence in 2010/2011. The manufacturing sector has been particularly weak, declining 7.2% in the first quarter of 2009, even though primary sectors have been comparatively flat. The New Zealand dollar has fallen against international currencies, although the upside for exporters has been partly offset by weak domestic and global demand.

Imports fell by NZ\$809 million to NZ\$3.1 billion in May 2009 compared to May 2008, a decrease of 20.7%. Although imports were lower across all sectors, over 60% of the decrease resulted from reduced imports of petroleum and motor vehicles. Exports increased 5.8% to NZ\$4 billion, driven primarily by an increase in dairy and forestry exports, largely to China. The net result was a trade surplus of NZ\$858 million (21.7% of exports), the fourth consecutive monthly surplus, and the first time that four consecutive surpluses have been recorded since 2002. However, economists remain cautious on the outlook for the trade balance, with agricultural exports typically weaker over the second half of the year.

Residential building consents were down 31% for the year to April 2009, although non-residential building consents were up by 3.2%, reflecting the impact of the Christchurch International Airport development. The non-residential sector is expected to remain relatively stable, underpinned by development of stadia and facilities for the 2011 Rugby World Cup.

After decreasing to a low of US\$0.489 on 4 March 2009, the New Zealand dollar has trended steadily upwards to reach US\$0.6451 on 30 June 2009, slightly below a high of US\$0.6595 for the six-month period ended 2 June 2009. The trade-weighted index increased by 4.1% in June 2009, but overall is down 11.4% over the past 12 months, with the decrease largely resulting from an international sell-down in the New Zealand dollar following sharp decreases in domestic interest rates.

Retail spending has fallen by 3.5% since January 2008, although monthly decreases of 0.1% since January 2009 suggest a flattening out when compared to an average monthly decrease of 0.4% over the four months prior. While there has been an overall downward trend in spending in the North Island, spending in the South Island has remained comparatively flat. Spending in the fast food, café and restaurant and fresh produce sectors have trended upwards since January 2009, while spending in the motor vehicle and department store sectors are showing signs of recovery.

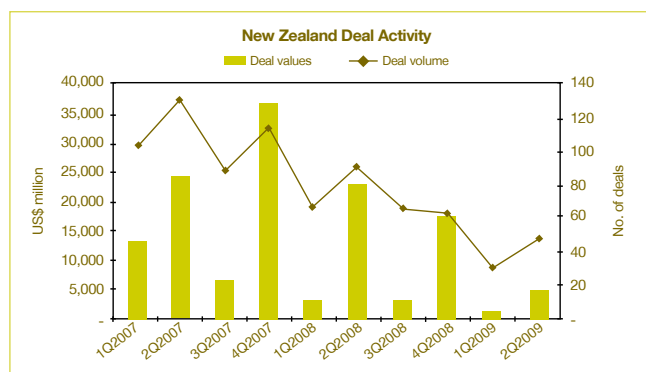
The Reserve Bank has committed to keeping interest rates low until at least late 2010, consolidating the recent cycle of decreases in the Official Cash Rate which have resulted in a historical low of 2.5%. Concerns have been expressed by the government and Reserve Bank Governor at the apparent reluctance of the financial sector to pass interest rate reductions on to borrowers.

Inflation of 1.6% is forecast for the year to March 2010. Wage inflation is expected to decrease to 2.6% over the same period, constrained by weakness in the labour market where unemployment is expected to reach 7.2% in March 2010.

The NZX50 dipped to a five-year low in March 2009, but has since recovered slightly, exhibiting early signs of recovery with an overall increase of 1.9% in the six months to 30 June 2009. After poor performances in the previous six months, the retail sector enjoyed positive performances in the six months to June 2009; Michael Hill being the star performer with a share price increase of 33%. Although some industries showed signs of recovery, others are clearly still languishing from the effects of the global downturn, most noticeably the leisure and tourism, as well as transport sectors, with stocks in these industries all experiencing declines in the six months to 30 June 2009. During this period, Tourism Holdings fell 31% (reaching its 1986 IPO price in March 2009) and both Mainfreight and Freightways fell approximately 12%.



Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2009.

Deal activity fell significantly in the first half of 2009, with only 79 deals recorded compared to 157 deals in the first half of 2008. Domestic deal volumes fell the most, down 66% on prior year, while inbound deal volumes were down just 13%.

During the period, Australian private equity firm Quadrant Private Equity acquired a 49% stake in retirement village operator Summerset Group from AMP Capital. AMP Capital decided to sell down its interest in Summerset following the cancellation of a planned listing in 2007. Details of the deal were not disclosed, however at the time of the transaction Summerset's net assets were NZ\$170 million. One of the conditions of the deal was that further equity would be available to fund growth, with the company targeting 20 villages by 2012, up from the current 13 villages.

The retirement village sector in general has been under some pressure due to the depressed property market. Listed operator Metlifecare undertook a NZ\$38 million rights issue in order to pay down debt following discussions with its banks.

Funding pressures also led to Fisher and Paykel Appliances undertaking a rights issue combined with an NZ\$80 million strategic investment by Chinese whiteware firm Haier. Haier's investment secured a 20% shareholding, and also saw the two companies signing a cooperation agreement to market and distribute each other's products in their home territories.

During the first half of 2009, total capital of NZ\$4.6 billion was raised on the New Zealand Exchange (NZX), including NZ\$1.7 billion of equity and NZ\$2.9 billion of debt, with funds largely used to improve corporate balance sheets. This was over double the NZ\$2.1 billion raised in the first half of 2008.

NZX itself was relatively active during the period. The company undertook a NZ\$21-million rights issue to fund acquisitions including rural publisher Country-wide Publications and energy marketer M-Co. NZX had intentions to acquire Australian second-tier market operator NSX, but later withdrew its offer due to muted support from NSX shareholders. During the period NZX also sold its environmental registry business TZ1 Registry to Markit Group, a British data and financial information firm, in return for shares valued at approximately US\$37 million, and its stake in Bond Exchange of South Africa for NZ\$10 million.

Senior employees at New Zealand investment firm ABN AMRO Craigs acquired the remaining 50% of the business from the Royal Bank of Scotland (RBS). RBS inherited the stake when it led an acquisition of ABN AMRO in 2007. ABN AMRO Craigs will subsequently change its name to Craigs Investment Partners.

NZ Bus sold its ferry operator business, Fullers Group, to Souter Holdings Limited for NZ\$40 million. NZ Bus, which is owned by listed New Zealand investment company Infratil, sold the business in order to focus on its core land-based public transport business.

Over the last six months, PwC New Zealand has advised on the sale of Tiger Turf to Royal TenCate; the sale of ETEL to Unison Networks; the sale of Tritec (Mountain Buggy) to Phil & Teds; the sale of Hell Pizza to the original founders of the business; the sale of Vantex Technology Distribution to Ingram Micro; and the sale of Canterbury Seeds to Winslow.



Outlook

The outlook for transactions is uncertain and will depend on the timing and strength of the economic recovery. Consensus forecasts suggest the New Zealand economy will shrink by 1.6% in the year to March 2010, returning to growth of 2.8% for the year to March 2011, however commentators remain divided on the expected form and strength of the recovery. The Reserve Bank of New Zealand and the Treasury are projecting an export-led recovery while other commentators, such as BERL, are more optimistic on domestic consumer spending growth.

Shell New Zealand, a unit of Royal Dutch Shell Group, should provide deal flow in the second half of 2009 having recently launched a process to sell the bulk of its downstream assets in New Zealand. The downstream assets include 230 fuel stations, a marine business, commercial fuel and aviation operations, a 17% stake in New Zealand Refining Co. and a 25% stake in Loyalty NZ.

Having seen a significant growth in both the number of wineries and vineyards planted over the past several years, the New Zealand wine industry remains highly fragmented despite the consolidation that took place between 2000 and 2005. A second wave of consolidation is pending, driven by factors including the rationalisation of non-core assets from global alcoholic beverage companies, the maturity of the larger Tier II players who have experienced significant volume and revenue growth since 2004, and the level of distress within some areas of the industry.

Private equity activity has been muted in the first half of 2009 as tight credit conditions and volatile markets led most firms to hold back investment. However funds continue to raise money, with New Zealand-based private equity firm Direct Capital recently raising NZ\$200 million for its new fund Direct Capital IV fund, showing that investors remain committed to the investment class. ■