

# New Zealand- Investment Opportunities

*3 papers by William J. Buechler featured previously in Forbes.com and compiled in support of his presentation on "New Zealand: Land of Milk and Money".*

"Contemplating Kiwi Investments" 10/23/2006  
"New Zealand: Land of Milk and Money" 7/11/2007  
"Kiwi Oil Drilling Kickoff" 8/2/2007 Adviser Soapbox

## Contemplating Kiwi Investments

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It's true. Sometimes we humans can't see the proverbial forest when we stare at the trees.

I recently had the marvellous opportunity to make a due diligence trip to New Zealand in order to confirm my vision of the investment opportunities I perceived to exist there.

To my surprise, I continually experienced a strange, yet pervasive, lack of optimism for the future of New Zealand and a lack of confidence in business and the economy. For lack of a better term, it might be called "The New Zealand Blues."

These feelings might best be summed up by a statement made by a government minister during a business meeting I attended in Wellington. Imagine my surprise when, in the midst of a talk, he declared, "We must always remember, we are a small and isolated country."

To my dismay, a quick review of the meeting room revealed a number of heads nodding in agreement. Perhaps, if I lived in New Zealand, I might agree.

But I don't live in New Zealand, and I don't agree.

As an outsider looking in, I realise that New Zealand might be considered a small country on a relative basis compared with the U.S. or Australia - but not compared to Ireland and Israel, which, by the way, are fine examples of strong economies built out of the technology revolution. (I wonder if the Irish and Israelis perceive their countries as "small"?).

But I am sure about this: New Zealand is no longer truly an isolated country. After all, with technology-driven globalization changing the way we are all connected, the country really is only a mouse-click away from anywhere on this planet. My perspective is only bolstered by the inevitable improvements in both technology and transportation that the future will bring. Where are those supersonic jets at Mach 7 when you need them? (As an aside, I am absolutely sure that 80 years ago, someone stood on the shores at Waikiki Beach at Honolulu, Hawaii, and declared, "We must all remember that people may not want to invest here; we are too small and isolated.")

Perhaps the observations of an outsider looking in might merit consideration for those contemplating investing in New Zealand. In my eyes, New Zealand is a stunningly beautiful and natural resource-rich country with:

- a democratic, largely energy self-reliant, law-abiding society
- an investor and business friendly legal environment
- an undervalued, under-owned and under-appreciated stock market, which rewards shareholders with high-dividend yields.

To those of us who like to examine the downside, don't worry--outside investors can also see the "warts" and the "blemishes." For investors from other countries, there is always the currency risk (or reward, depending on one's viewpoint on the future direction of the New Zealand dollar).

Investors certainly should be concerned that the political leaders in New Zealand may misunderstand the needs of maintaining efficient capital markets while failing to grasp that strong economies generally go hand-in-hand with strong capital markets. (Why does it always seem to be so difficult for politicians to understand that less means more when it comes to lowering taxes and thereby increasing revenue?) And, of course, as we all know, something completely random can always go wrong with any investment.

But, let's put these ole' "New Zealand Blues" aside.

It's time to step back for a second, count the blessings and move forward. A country that is essentially energy self-reliant in a world that is desperate for energy: How wonderful is that? As for other issues that plague the U.S., like immigration: Let's just say that New Zealand has plenty of room for the best and the brightest.

For international investors looking at countries in which to invest, those considering New Zealand can find comfort in knowing that they don't have to worry about waking up some morning to find their assets have just been confiscated by the local government. As for leadership and vision, the Kiwis have it, although getting everyone to share that vision will be the next progressive step for them.

Why couldn't New Zealand become the technology centre of the South Pacific? The vision will come. I'm sure of it. The business men and women I met during my visit were unfailingly bright and motivated. Investing and capital markets infrastructure? The New Zealand Stock Exchange is small but growing and eager to provide a ways and means for investors from New Zealand and abroad to invest in the country's future.

One of the reasons these marvellous investment opportunities exist in New Zealand is simple. It's not easy to invest there--yet! However, once an investor has mastered the nuances of placing money in New Zealand, they will find that the New Zealand Stock Exchange itself sponsors five highly successful exchange traded funds, or ETFs.

The two most popular are the SmartTENZ and the SmartMIDZ. The SmartTENZ tracks the performance of the NZX 10 Index, which covers ten of New Zealand's largest listed companies as ranked by market capitalization. The current dividend yield of the SmartTENZ as of June 30, 2006 was an extraordinary 8.34%! As of June 30, 2006, the current yield of the SmartMIDZ was 5.25%--not bad for a fund whose objective is to track the performance of the NZX Mid-Cap Index and also possesses a three-year annualized rate of return of 18.61%.

For those investors who may be unable or unwilling to invest directly in New Zealand, there are several attractive companies that also trade in the United States. **Telecom Corp of New Zealand** (nyse: NZT - news - people) is an interesting turn around situation which provides a

nice, fat 5.2% dividend yield. NZT has recently unveiled plans to sell its yellow pages unit which could bring as much as NZ 1.5 billion in proceeds. Speculation abounds that the proceeds could be used for a massive share buyback program. Another stock of interest is the **Australia & New Zealand Banking Group** (nyse: ANZ - news - people), which has an impressive business model and an equally appetizing 4.2% payout.

As other investors from around the world realize the opportunities and advantages of investing in New Zealand, new money from these outside investors--both retail and institutional--will flow to New Zealand in amounts well beyond anything experienced in the past and will serve as the catalyst that jumpstarts an economic boom in New Zealand that will simply defy current expectations.

At least that's the way I see it, as an outside investor looking in.

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# New Zealand: Land Of Milk and Money

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Last fall, in an article entitled *Contemplating Kiwi Investments*, I reviewed the improving economic situation, the powerful underlying fundamentals and the abundant list of investment opportunities available in New Zealand.

Over the last nine months, the New Zealand Stock Market (as measured by the MSCI New Zealand Index) has leaped forward by 32.47%, and the "Kiwi" dollar has increased by more than 20% vs. the U.S. dollar.

The burning question for investors now is whether the up move in the New Zealand markets is over. No worries: The best is yet to come. With schools out all across America, perhaps it's time for a good old-fashioned report card on New Zealand.

With the recent surprise hike in short-term interest rates to 8%, the New Zealand government is attempting to slow the booming housing market and rampant consumer spending. It also aims to provide a pre-emptive strike to slow any possible future inflation, as the worldwide price increase in milk has provided huge windfall profits to New Zealand's dairy farmers.

A land blessed with natural resources, New Zealand provides one-third of the international dairy trade, with more than 14 billion litres of milk delivered to 140 markets and 40 countries around the world, including the United States.

The Fonterra Co-Op Group, comprised of 11,000 New Zealand dairy farmers, provides 20% of New Zealand's total export earnings, and its \$13 billion in New Zealand dollars in annual revenues are twice those of the country's two largest listed businesses, Fletcher Building and Telecom.

Due to rising worldwide milk prices, Fonterra recently declared a 27% increase in the 2007 to 2008 payout to its co-op members. The money will be flowing like milk for New Zealand's farmers and then, eventually, into New Zealand's economy and stock market.

Of course, as New Zealand hikes its short-term interest rates, it provides incentives for outside money to continue to flow into the country to capture the interest rate differential--hence the Kiwi dollar reaching a 22-year high earlier this week. More highs may follow later this year as the rest of the world begins to understand the untapped investment potential of New Zealand.

The grand arrival on July 1 of the KiwiSaver, a government sponsored retirement plan, will dramatically increase the inflow of money available for injection into the New Zealand Stock Market. Experts credit such initiatives with dampening market downswings and accentuating the up moves.

Similar in nature to the 401(k) plans offered by employers in the U.S., the KiwiSaver plan allows individuals (or members) to save for retirement in self-directed accounts. There are saving incentives from the New Zealand government, including an initial tax-free contribution of \$1,000 and tax credits matching member contributions up to a maximum of \$1,042.

Further, employers are required to match employee contributions starting at 1% of gross salary from April 1, 2008, and increasing incrementally to 4% of gross salary in 2011.

Recent comments from the CEO of the New Zealand Stock Exchange indicate conservative expectations of \$7 billion to \$10 billion in aggregated assets to accumulate in the KiwiSaver plan over the next three years. This will be a terrific opportunity for investors in New Zealand to participate in the flow of money from an organized retirement-savings plan.

The current market capitalization of New Zealand's undervalued stock market is approximately \$80 billion. With the KiwiSaver expected to accumulate at least \$7 billion to \$10 billion in assets, and the possibility of an additional \$2 billion to \$3 billion in Fonterra payouts over the next three years from the milk bonanza (assuming milk prices remain at or near current levels), the question for investors is simple: Does the upcoming surge in money supply, coupled with the power of the underlying fundamentals, dictate the probability of a higher or a lower stock market in the future?

Assuming the number of publicly traded companies in New Zealand remains near existing levels, the impact of the money surge on stock prices and future market capitalization should be obvious and will offer early adopters tremendous opportunity.

Investing in New Zealand is a new concept for many investors and is therefore somewhat challenging, particularly when it comes to dealing with foreign currency exchange rates.

Yet several attractive New Zealand companies that also trade in the U.S. exist. **Telecom Corp. of New Zealand** (nyse: [NZT](#) - [news](#) - [people](#)) has returned a stellar 41.8% to investors over the last nine months and offers a 5.2% dividend yield. Another stock of interest is **Australia & New Zealand Banking Group** (nyse: [ANZ](#) - [news](#) - [people](#)). As a leading bank, the Banking Group is poised to participate in the coming stock market and economic boom--and it delivers a 4.3% dividend to investors while waiting for capital gains.

Perhaps more important for investors over the long-term is a future potentially filled with the discovery of enormous quantities of oil in offshore waters. That's right: black gold, the infamous Texas tea. For more than 30 years, rumours have abounded about the presence of enormous fields of oil, but little exploration was conducted until recently.

Should this be of interest to investors? Absolutely. Is it significant? Extremely.

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# Kiwi Oil Drilling Kickoff

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In a previous article (*New Zealand: Land of Milk and Money*), I discussed the upcoming impact of the surge of money flooding into the New Zealand economy and stock market from the kickoff of the KiwiSaver retirement plan. We also described the upcoming multibillion-dollar payouts from the Fonterra Co-op to New Zealand's 11,000 dairy farmers, thanks to rapidly escalating milk prices around the world.

But the best is yet to come.

For more than 25 years, New Zealand has thrived on the hydrocarbons produced by its Maui oil and gas field, prompting little in the way of new exploration. However, in recent years, as global reserves dwindled and the price of crude oil soared to all-time highs, new exploration in New Zealand began in earnest.

Leading the new exploration are aggressive New Zealand and Australian companies, as well as major U.S. oil companies such as **Exxon Mobil** (nyse: [XOM](#) - [news](#) - [people](#)) and **Pogo Producing** (nyse: [PPP](#) - [news](#) - [people](#)). With the discovery of large new deposits of oil off the North Island and the opening of the Great South Basin for exploration off the southern tip of the South Island, the world is beginning to recognize the staggering potential of the offshore oil surrounding New Zealand.

In order to properly evaluate the present--and to fully understand the future - we need to journey backward through the mists of time to the mid-1970s.

Rumors still abound throughout New Zealand of Bunker and Herbert Hunt and the results of their eight years of toiling off the southern shores looking for the next great oil field. Officially, Hunt International Petroleum and Placid Oil drilled eight wells, with hydrocarbons recorded in four of them.

Unofficially, old-timers in New Zealand ramble on with stories of gushers and oil flowing like water from cracks in the ground. Talk is cheap. The facts are these: New Zealand is a country surrounded by eight massive, under-explored, underseas sedimentary basins, blessed with large areas of thick sediment and extensive source rocks from the mid- to late-Cretaceous period. Each basin potentially holds significant amounts of hydrocarbons. The largest of these basins, and the one geologists say has the greatest potential, is the Great South Basin.

Located off the southern tip of the South Island, the Great South Basin holds more than 100,000 square miles of wild frontier oil and gas territory. It has long attracted the interest of oil companies.

At one time, for example, Phillips Petroleum believed the basin potentially held more than 10 billion barrels of recoverable oil. Geologists have speculated for years about the potential for vast deposits of oil and gas located beneath the turbulent seas off the South Island.

In the fall of 2006, after years of legal entanglements, the New Zealand government announced the opening of a new international bidding process for exploration permits and the legal rights to drill within the basin.

Let the dance begin! On July 10, 2007, the New Zealand government formally granted two permits for the exploration of the Great South Basin. The first license was awarded to an American-based consortium led by Exxon Mobil, with New Zealand's Todd Energy holding a 10% stake. A second license was awarded to a consortium led by Austrian energy giant OMV, along with partners PTTEP Offshore Investment of Thailand and Mitsui E&P Australia Pty, a wholly owned subsidiary of the legendary **Mitsui** (nasdaq: [MITSY](#) - [news](#) - [people](#)).

The two consortiums have pledged an exploration budget for the Great South Basin of approximately \$1.2 billion, further adding to the upcoming surge of money flowing into the nation's economy.

And the Great South Basin is certainly not the entire petroleum story by any means.

In the Taranaki Basin, home of the giant Maui Field, the brand-new TUI field is expected to come online in late July with more than 50,000 barrels of oil per day in production. It will be followed by OMV's MAARI field, with an expected 35,000 barrels per day in 2008.

These are not huge amounts by international standards, but the exploration of those areas, along with the stirring of activity in other basins, clearly highlight that exploration efforts have barely scratched the surface of New Zealand potential. And don't forget that the Australians are rapidly developing significant hydrocarbon fields of their own.

The dance has begun, and the significance and economic prestige of the event should not be underestimated by investors.

The exploration efforts will have a profound positive impact on both the New Zealand economy and stock market, with money and material flowing into the country from new international sources.

More important, the confirmation of significant oil fields offshore would clearly provide the necessary capital to change the country forever, perhaps allowing New Zealand to follow in the economic footsteps of Norway and emerge as a serious source of energy for the world and a powerful economic force to be reckoned with in the future.

Don't be late to this dance!

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