

# Augusta Capital

NEUTRAL

## Takeover Offer — Entrepreneurial

Augusta Capital (AUG) has entered into a Bid Implementation Agreement (BIA) at NZ\$2.00/share, which if successful, will grant Centuria Capital Group Limited (CNI: ASX) 100% of AUG's shares. CNI's scale and capacity will allow AUG to achieve the financial and operating leverage necessary to successfully navigate its way through its current transitory phase to expand and develop its funds management business model. We recommend shareholders await further information from the issuance of the Target Company Statement and associated Independent Advisors Report (IAR) expected to be released before the end of April 2020.

### Key transaction details

- Offer price of NZ\$2.00/share for 100% of AUG's shares, via bid implementation agreement:** The agreement stipulates that shareholders who chose to accept the offer will be invited to take either a full cash payment of NZ\$2.00/share, or, shares in CNI equal to the value equivalent to the volume-weighted average price of CNI's shares in the 5 trading days prior to 29 January 2020, being AU\$2.40/share (scrip ratio of 0.807 CNI shares per AUG shares). The offer implies an enterprise value of NZ\$204m (equity value NZ\$180m and balance net debt).
- Valuation multiple attractive:** The offer represents a material premium of ~20% to AUG's pre offer share price of NZ\$1.67. The offer equates to 17.9x trailing EBIT or FY20E of ~23.4x. The offer also represents a trailing PE of 25.9x which is attractive relative to history, peers, and recent comparable Australasian funds management transactions which we have identified to have averaged under ~20x.
- Who is Centuria?:** CNI is an ASX listed funds manager with NZ\$7.3bn of assets under management who manage a range of both unlisted and listed REIT funds with investments across office, industrial, and healthcare assets. CNI is well placed given its significant scale and resulted financial capacity to realise the value in AUG's underlying business. AUG will retain two key members of its senior management team for a three year period as a part of the agreement, providing AUG with the continuity in leadership; integral to ensuring the successful implementation of a number of initiatives currently underway, such as its Diversified and Tourism funds. It is worth noting that two AUG executive directors, who together own c.23% of AUG shares, have signalled they will accept Centuria scrip.
- Approval required:** The BIA is subject to receiving Overseas Investment Office approval, and that 90% of shareholders decide to accept the offer. At Centuria's discretion, the latter of those conditions can be waived if acceptances over 50% are established.
- Board support:** The offer has unanimous board support, in the absence of a superior proposal and provided the price is within the Independent Advisor valuation range.
- Interim Dividend:** AUG's Quarterly interim dividend is still expected to be paid in February and will have no impact on the NZ\$2.00/share cash offer.

### Investment View

AUG remains well positioned to grow across a range of funds management vehicles and has transitioned to a fully funds management business. The key near-term share price driver will be the advancement (or otherwise) of the full takeover offer via bid implementation arrangement. AUG is an increasingly valuable, well performing and unique funds management vehicle. Our rating is NEUTRAL.

| NZX Code           | AUG             |
|--------------------|-----------------|
| Share price        | NZ\$1.96        |
| Target price       | NZ\$1.38        |
| Risk rating        | High            |
| Issued shares      | 87.5m           |
| Market cap         | NZ\$172m        |
| Avg daily turnover | 46.1k (NZ\$63k) |

### Share Price Performance



| Financials: Jan/ | 19A  | 20E   | 21E  | 22E   |
|------------------|------|-------|------|-------|
| NPAT* (NZ\$m)    | 7.7  | 6.3   | 6.2  | 5.1   |
| EPS* (NZc)       | 8.8  | 7.2   | 7.1  | 5.8   |
| EPS growth* (%)  | 34.1 | -18.9 | -0.8 | -18.9 |
| DPS (NZc)        | 6.1  | 6.5   | 6.5  | 5.5   |
| Imputation (%)   | 0    | 100   | 100  | 100   |

| Valuation (x)     | 19A  | 20E  | 21E  | 22E  |
|-------------------|------|------|------|------|
| EV/EBITDA         | 13.8 | 13.1 | 10.6 | 12.2 |
| EV/EBIT           | 13.8 | 13.1 | 10.6 | 12.2 |
| PE                | 22.1 | 27.3 | 27.5 | 33.9 |
| Price / NTA       | 2.6  | 2.1  | 2.1  | n/a  |
| Cash div yld (%)  | 3.1  | 3.3  | 3.3  | 2.8  |
| Gross div yld (%) | 3.1  | 4.6  | 4.6  | 3.9  |

\*Historic/forecast numbers based on normalised profits

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Augusta Capital Ltd (AUG)  
Priced as at 29 Jan 2020 (NZ\$)

1.96

**12-month target price (NZ\$)\***

1.38

**Spot valuations (NZ\$)**

|                             |        |            |      |
|-----------------------------|--------|------------|------|
| Expected share price return | -29.6% | 1. DCF     | 1.39 |
| Net dividend yield          | 3.3%   | 2. Adj NAV | 1.29 |
| Estimated 12-month return   | -26.3% | 3. n/a     | n/a  |

**Key WACC assumptions**

|                 |       |
|-----------------|-------|
| Risk free rate  | 2.00% |
| Equity beta     | 0.81  |
| WACC            | 6.6%  |
| Terminal growth | 1.5%  |

**DCF valuation summary (NZ\$m)**

|                                    |       |
|------------------------------------|-------|
| Total firm value                   | 113.2 |
| (Net debt)/cash                    | 6.2   |
| Less: Capitalised operating leases | 0.0   |
| Value of equity                    | 107.0 |

**Profit and Loss Account (NZ\$m)**

|                               | 2018A       | 2019A       | 2020E      | 2021E      | 2022E      |
|-------------------------------|-------------|-------------|------------|------------|------------|
| Sales revenue                 | 18.9        | 22.0        | 19.2       | 19.2       | 17.8       |
| <b>Normalised EBITDA</b>      | <b>10.3</b> | <b>11.7</b> | <b>8.7</b> | <b>8.6</b> | <b>7.4</b> |
| Depreciation and amortisation | -           | -           | -          | -          | -          |
| <b>Normalised EBIT</b>        | <b>10.3</b> | <b>11.7</b> | <b>8.7</b> | <b>8.6</b> | <b>7.4</b> |
| Net interest                  | (2.8)       | (1.5)       | (0.3)      | (0.3)      | (0.8)      |
| Associate income              | -           | -           | -          | -          | -          |
| Tax                           | (1.8)       | (2.4)       | (2.0)      | (2.0)      | (1.5)      |
| Minority interests            | -           | -           | -          | -          | -          |
| <b>Normalised NPAT</b>        | <b>5.8</b>  | <b>7.7</b>  | <b>6.3</b> | <b>6.2</b> | <b>5.1</b> |
| Abnormals/other               | (4.8)       | (0.8)       | (0.7)      | (0.1)      | (0.1)      |
| <b>Reported NPAT</b>          | <b>1.0</b>  | <b>7.0</b>  | <b>5.6</b> | <b>6.1</b> | <b>4.9</b> |
| Normalised EPS (cps)          | 6.6         | 8.8         | 7.2        | 7.1        | 5.8        |
| DPS (cps)                     | 5.6         | 6.1         | 6.5        | 6.5        | 5.5        |

**Valuation Ratios**

|                          | 2018A | 2019A | 2020E | 2021E | 2022E |
|--------------------------|-------|-------|-------|-------|-------|
| EV/EBITDA (x)            | 18.0  | 13.8  | 13.1  | 10.6  | 12.2  |
| EV/EBIT (x)              | 18.0  | 13.8  | 13.1  | 10.6  | 12.2  |
| PE (x)                   | 29.7  | 22.1  | 27.3  | 27.5  | 33.9  |
| Price/NTA (x)            | 2.7   | 2.6   | 2.1   | 2.1   | 2.1   |
| Free cash flow yield (%) | 0.3   | 4.0   | 3.5   | 3.6   | 3.0   |
| Net dividend yield (%)   | 2.9   | 3.1   | 3.3   | 3.3   | 2.8   |
| Gross dividend yield (%) | 4.0   | 3.1   | 4.6   | 4.6   | 3.9   |

**Capital Structure**

|                           | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------------|-------|-------|-------|-------|-------|
| Interest cover EBIT (x)   | 3.7   | 7.8   | 25.4  | 26.6  | 8.9   |
| Interest cover EBITDA (x) | 3.7   | 7.8   | 25.4  | 26.6  | 8.9   |
| Net debt/ND+E (%)         | 30.8  | 6.7   | -9.9  | 5.1   | 5.5   |
| Net debt/EBITDA (x)       | 3.6   | 0.5   | n/a   | 0.6   | 0.8   |

**Growth Rates**

|                     | 2018A | 2019A | 2020A | 2021A | 2022A |
|---------------------|-------|-------|-------|-------|-------|
| Revenue (%)         | -0.8  | 16.6  | -12.8 | -0.3  | -7.1  |
| EBITDA (%)          | -5.3  | 13.1  | -25.9 | -1.1  | -13.1 |
| EBIT (%)            | -5.3  | 13.1  | -25.9 | -1.1  | -13.1 |
| Normalised NPAT (%) | -14.4 | 34.1  | -18.9 | -0.8  | -18.9 |
| Normalised EPS (%)  | -14.4 | 34.1  | -18.9 | -0.8  | -18.9 |
| Ordinary DPS (%)    | 2.3   | 8.9   | 6.1   | 0.0   | -15.6 |

**Key Ratios**

|                              | 2018A | 2019A | 2020E | 2021E | 2022E |
|------------------------------|-------|-------|-------|-------|-------|
| Return on assets (%)         | 7.3   | 11.4  | 8.6   | 7.4   | 6.4   |
| Return on equity (%)         | 6.9   | 9.0   | 6.3   | 6.2   | 5.0   |
| Return on funds employed (%) | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| EBITDA margin (%)            | 54.7  | 53.0  | 45.0  | 44.7  | 41.8  |
| EBIT margin (%)              | 54.7  | 53.0  | 45.0  | 44.7  | 41.8  |
| Capex to sales (%)           | 1.3   | 1.4   | 0.0   | 0.0   | 0.0   |
| Capex to depreciation (%)    | n/a   | n/a   | n/a   | n/a   | n/a   |
| Imputation (%)               | 98    | 0     | 100   | 100   | 100   |
| Pay-out ratio (%)            | 85    | 69    | 91    | 91    | 95    |

**Cash Flow (NZ\$m)**

|  | 2018A         | 2019A       | 2020E       | 2021E         | 2022E        |
|--|---------------|-------------|-------------|---------------|--------------|
| <b>EBITDA</b>                          | <b>10.3</b>   | <b>11.7</b> | <b>8.7</b>  | <b>8.6</b>    | <b>7.4</b>   |
| Working capital change                 | (4.3)         | 0.3         | (0.2)       | 0.0           | 0.2          |
| Interest & tax paid                    | (5.2)         | (4.8)       | (2.4)       | (2.3)         | (2.4)        |
| Other                                  | -             | -           | -           | -             | -            |
| <b>Operating cash flow</b>             | <b>0.8</b>    | <b>7.2</b>  | <b>6.0</b>  | <b>6.2</b>    | <b>5.2</b>   |
| Capital expenditure                    | (0.2)         | (0.3)       | -           | -             | -            |
| (Acquisitions)/divestments             | (3.2)         | 31.0        | 14.8        | (15.0)        | (0.7)        |
| Other                                  | (5.3)         | (1.6)       | -           | -             | -            |
| <b>Funding available/(required)</b>    | <b>(7.9)</b>  | <b>36.3</b> | <b>20.8</b> | <b>(8.8)</b>  | <b>4.6</b>   |
| Dividends paid                         | (4.8)         | (5.3)       | (5.7)       | (5.7)         | (5.0)        |
| Equity raised/(returned)               | -             | -           | -           | -             | -            |
| <b>(Increase)/decrease in net debt</b> | <b>(12.7)</b> | <b>31.0</b> | <b>15.1</b> | <b>(14.4)</b> | <b>(0.5)</b> |

**Operating Performance**

|                                 | 2018A       | 2019A       | 2020E       | 2021E       | 2022E       |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Net revenue by segment:</b>  |             |             |             |             |             |
| Net rental income               | 5.7         | 3.0         | -           | -           | -           |
| Distribution income             | 1.8         | 1.8         | 4.4         | 5.4         | 5.5         |
| <b>Total yield income</b>       | <b>7.4</b>  | <b>4.7</b>  | <b>4.4</b>  | <b>5.4</b>  | <b>5.5</b>  |
| Offeror Fees                    | 3.7         | 5.9         | 4.0         | 2.5         | 1.5         |
| Underwriting fees               | 1.5         | 2.1         | 1.4         | 1.4         | 0.8         |
| <b>Total up-front deal fees</b> | <b>5.2</b>  | <b>8.0</b>  | <b>5.4</b>  | <b>3.9</b>  | <b>2.3</b>  |
| Base management fees            | 4.2         | 5.2         | 6.4         | 7.1         | 7.7         |
| Transactional income            | 2.1         | 4.1         | 3.1         | 2.7         | 2.3         |
| <b>Total recurring fees</b>     | <b>6.3</b>  | <b>9.3</b>  | <b>9.4</b>  | <b>9.9</b>  | <b>10.0</b> |
| <b>Total net rental income</b>  | <b>18.9</b> | <b>22.0</b> | <b>19.2</b> | <b>19.2</b> | <b>17.8</b> |

**Balance Sheet (NZ\$m)**

|                              | 2018A        | 2019A       | 2020E       | 2021E        | 2022E        |
|------------------------------|--------------|-------------|-------------|--------------|--------------|
| Working capital              | 1.5          | (0.2)       | (0.5)       | (0.5)        | (0.7)        |
| Fixed assets                 | 85.3         | 31.5        | 0.7         | 0.6          | 0.5          |
| Intangibles                  | 21.7         | 20.2        | 20.2        | 20.2         | 20.2         |
| Right of use asset           | -            | -           | -           | -            | -            |
| Other assets                 | 25.3         | 42.2        | 72.2        | 87.2         | 87.9         |
| <b>Total funds employed</b>  | <b>133.7</b> | <b>93.6</b> | <b>92.7</b> | <b>107.5</b> | <b>107.9</b> |
| Net debt/(cash)              | 37.5         | 6.2         | (9.0)       | 5.4          | 5.9          |
| Lease liability              | -            | -           | -           | -            | -            |
| Other liabilities            | 12.1         | 1.3         | 1.3         | 1.3          | 1.3          |
| Shareholder's funds          | 84.2         | 86.1        | 100.3       | 100.7        | 100.6        |
| Minority interests           | -            | -           | -           | -            | -            |
| <b>Total funding sources</b> | <b>133.7</b> | <b>93.6</b> | <b>92.7</b> | <b>107.5</b> | <b>107.9</b> |

**Funds under management**

|                          | 2018A        | 2019A        | 2020E        | 2021E        | 2022E        |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Directly held properties | 84           | 31           | -            | -            | -            |
| Syndications             | 1,416        | 1,532        | 1,699        | 1,849        | 1,956        |
| Other properties         | 96           | 96           | 96           | 96           | 96           |
| Value Add fund no.1      | 74           | -            | -            | -            | -            |
| Asset Plus               | 180          | 133          | 190          | 190          | 190          |
| Industrial Fund          | -            | -            | -            | -            | -            |
| <b>Total FUM</b>         | <b>1,851</b> | <b>1,792</b> | <b>1,985</b> | <b>2,135</b> | <b>2,242</b> |

\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

## Indicative timeline

**Figure 1. Indicative timetable of key dates**

| <b>Event</b>  | <b>Indicative timing</b> |
|---|--------------------------|
| Bid Implementation Agreement entered                    | 29 January 2020          |
| CNI seeks required waivers                              | Mid-Late March 2020      |
| Notice of offer lodged by CNI                           | Mid-Late March 2020      |
| Offer document released by CNI                          | Early April 2020         |
| Target Company Statement and IAR issued to shareholders | Mid -Late April 2020     |

Source: Forsyth Barr analysis, Company Reports

## Investment summary

Augusta Capital (AUG) has transitioned its business from property to funds management. The key focus for AUG is getting its balance sheet utilised so it can replace the rental income lost from property sales. Recent periods have shown record activity levels, and growing earnings off this high base is challenging. AUG's funds management business makes it very different from the other listed property vehicles and gives it less capital intensive growth prospects, albeit at higher risk. In our property sector report 'Real Estate Reflections' dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the AUG target price by +7%. NEUTRAL.

### Earnings and cash flow outlook

- **Takeover offer:** AUG is subject to a takeover offer for 100% of AUG's shares, via bid implementation agreement. The agreement stipulates that shareholders who chose to accept the offer will be invited to take either a full cash payment of NZ\$2.00/share or shares in the acquirer: Centuria Capital Group Limited (CNI). The deal is subject to shareholder and OIO approval alongside various other conditions.
- **Funds management growth:** AUG is building its track record for executing on larger deals. Following the Industrial Fund and St George's Bay road deals, we expect AUG's FUM to grow to above NZ\$2bn in FY20E. AUG is also looking to launch a Diversified Fund in CY19 and Tourism Fund in early CY20.
- **Asset Plus (APL) externalisation:** AUG purchased APL's management rights for NZ\$4.5m, which has lifted its FUM +NZ\$180m (NZ\$125m after asset sales) and generated NZ\$0.9m in recurring management fees. AUG is implementing a 'yield plus growth' strategy for APL.

### Company description

Augusta Capital Limited (AUG) was listed on the NZX in December 2006, as Kermadec Property Fund. In March 2012, it acquired the funds management businesses from Augusta Funds Management and internalised its management structure. In April 2014, AUG acquired KCL Property for \$15m, which increased total property under management by ~\$750m to ~\$1.6bn. AUG has transitioned its business to focus solely on funds management.

### Business quality

- **Focus solely on funds management:** AUG's last directly held asset has been sold. The sale has settled and provides substantial balance sheet capacity for warehousing, co-investment in new funds, and underwriting.

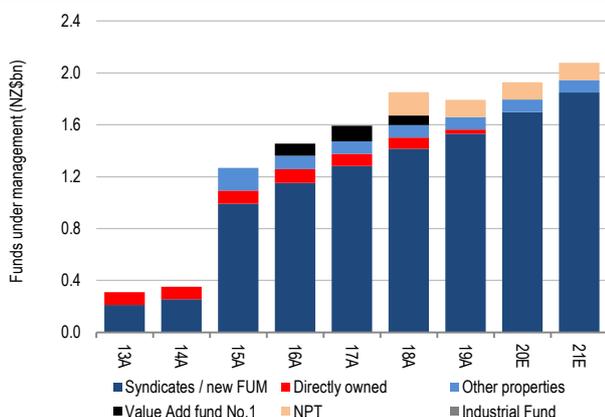
### Financial structure

- **Balance sheet becoming more fluid:** AUG's funds management activities have resulted in a more unpredictable balance sheet. We assume gearing of ~15–20% over the medium-term, which is ~35–40% on a look-through basis incorporating the underlying gearing in AUG's co-investments.

### Risks factors

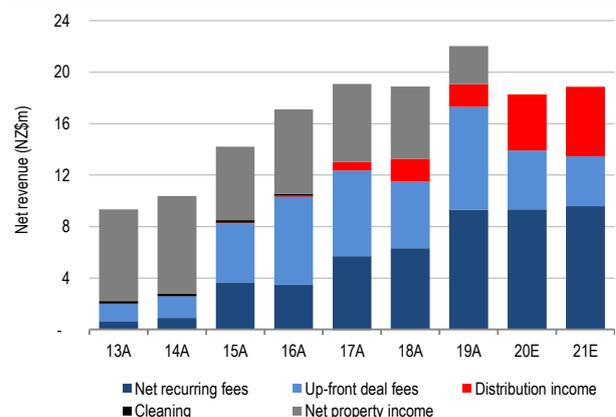
- **Acquiring new stock for investment products:** This is the largest challenge for AUG's funds management business given a highly competitive property market.
- **In syndication demand:** An economic slowdown, rising interest rates, or a decrease in investor sentiment are catalysts for this.

Figure 2. Funds under management (NZ\$bn)



Source: Forsyth Barr analysis, Company Reports

Figure 3. Net revenue by segment (NZ\$m)



Source: Forsyth Barr analysis, Company Reports

Figure 4. Substantial Shareholders

| Shareholder         | Latest Holding |
|---------------------|----------------|
| Mark Edward Francis | 16.7%          |
| ANZ NZ Investments  | 13.0%          |
| Kawaroa Trustees    | 5.7%           |
| ACC                 | 5.4%           |

Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

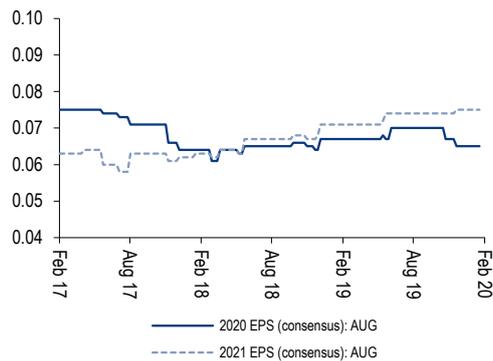
Figure 5. International Compcos

| Company  | Code          | Price           | Mkt Cap (m)    | PE 2020E     | PE 2021E     | EV/EBITDA 2020E | EV/EBITDA 2021E | EV/EBIT 2020E | EV/EBIT 2021E | Cash D/Yld 2021E |
|--|---------------|-----------------|----------------|--------------|--------------|-----------------|-----------------|---------------|---------------|------------------|
| <i>(metrics re-weighted to reflect AUG's balance date - March)</i> |               |                 |                |              |              |                 |                 |               |               |                  |
| <b>Augusta Capital</b>   | <b>AUG NZ</b> | <b>NZ\$1.96</b> | <b>NZ\$172</b> | <b>27.3x</b> | <b>27.5x</b> | <b>20.5x</b>    | <b>20.8x</b>    | <b>20.5x</b>  | <b>20.8x</b>  | <b>3.3%</b>      |
| Pendal Group   | PDL AT        | A\$8.80         | A\$2,841       | 16.4x        | 15.9x        | 12.9x           | 12.1x           | 13.4x         | 12.8x         | 5.4%             |
| Charter Hall Group   | CHC AT        | A\$12.49        | A\$5,818       | 20.6x        | 21.5x        | 20.7x           | 17.8x           | 21.3x         | 18.0x         | 3.2%             |
| Cromwell Property Group  | CMW AT        | A\$1.21         | A\$3,141       | 15.7x        | 15.1x        | 22.4x           | 19.5x           | 22.4x         | 19.2x         | 6.5%             |
| Centuria Capital Group   | CNI AT        | A\$2.41         | A\$1,082       | 19.1x        | 19.0x        | 22.1x           | 16.7x           | 22.2x         | 16.7x         | 4.1%             |
| Goodman Group  | GMG AT        | A\$14.95        | A\$27,335      | 23.9x        | 24.7x        | 32.3x           | 22.2x           | 32.7x         | 22.4x         | 2.1%             |
| Magellan Financial Group   | MFG AT        | A\$63.75        | A\$11,620      | 28.8x        | 26.4x        | 22.2x           | 20.2x           | 21.8x         | 19.9x         | 3.5%             |
| Platinum Asset Management  | PTM AT        | A\$4.82         | A\$2,828       | 18.2x        | 18.5x        | 12.5x           | 12.9x           | 12.5x         | 12.8x         | 5.4%             |
| Stride Property *  | SPG NZ        | NZ\$2.37        | NZ\$866        | 22.6x        | 21.3x        | 21.2x           | 19.3x           | 21.2x         | 19.3x         | 4.2%             |
| 360 Capital Group  | TGP AT        | A\$1.10         | A\$253         | >50x         | n/a          | 30.5x           | n/a             | 34.1x         | n/a           | n/a              |
| <b>Compco Average:</b>   |               |                 |                | <b>20.6x</b> | <b>20.3x</b> | <b>21.9x</b>    | <b>17.6x</b>    | <b>22.4x</b>  | <b>17.6x</b>  | <b>4.3%</b>      |
| <b>AUG Relative:</b>   |               |                 |                | <b>+32%</b>  | <b>+36%</b>  | <b>-6%</b>      | <b>+18%</b>     | <b>-8%</b>    | <b>+18%</b>   | <b>-23%</b>      |

EV = Current Market Cap + Actual Net Debt

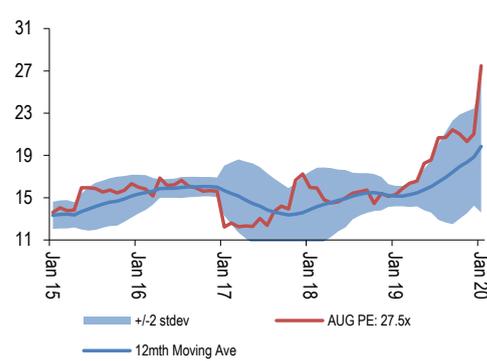
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (AUG) companies fiscal year end

Figure 6. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 7. 12 Month Forward PE



Source: Forsyth Barr analysis

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