New Zealand Post Group

EQUITY RESEARCH – New Zealand
FIRST NZ CAPITAL SECURITIES LIMITED IS A NZX FIRM

ANALYSTS
Kar Yue Yeo | +64 4 474 4462 | karyue.yeo@fnzc.co.nz
Jason Familton, CFA | +64 4 496 5323 | jason.familton@fnzc.co.nz

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A valuation perspective

FIRST NZ CAPITAL

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Recent Performance

- New Zealand Post Group's (the 'Group') performance continued its decline in FY11a with pre-abnormal NPAT (based on FNZC measure) falling from $51mn in FY10a to $41mn in FY11a. This reflects a 15% decline in postal services adjusted EBIT and a 50% contraction in adjusted PBT for Kiwibank during the period. As a result, pre-abnormal group EBIT (excluding associates and jointly controlled entities (JCEs)) fell from $50m in FY10a to $31mn in FY11a.
- Kiwibank experienced significantly lower reported earnings in FY11a ($21mn vs $46mn in FY10a) as impairment charges rose from $18mn to $79mn more than offsetting net interest income increasing by 43% to $191mn.
- The Group's postal volumes have contracted by more than 10% in total over the last two years.

Earnings Outlook

- A turnaround in earnings in FY12F is anticipated, with pre-abnormal NPAT forecast to rise from $41mn in FY11a to $85mn in FY12F, further increasing to $114mn in FY13F and $144mn in FY14F. Group EBITDA is forecast to more than double from $103mn in FY11a to $235mn in FY14F based on a 4-fold increase (from $40mn in FY11a to $176mn in FY14F) in Kiwibank contribution.
- Within the New Zealand Post Group's operations and business interests, Kiwibank offers the greatest upside in terms of potential growth through market share gain and expansion in its Net Interest Margin (NIM), followed by the growth opportunities for Datacom in the IT services sector, and potential earnings leverage for Express Couriers Ltd (ECL) as recovery in the economy gathers momentum. Despite the recent increase in postage charges, the earnings prospects for the Group's postal business remain challenging with the focus anticipated to be on cost savings.

Base Case Valuation

- We value New Zealand Post Group "Ordinary Share" equity value at $509mn to $1,524mn with a $912mn base case (previously $906mn in our October 2010 report). Our base case total equity valuation would be $150mn higher at $1,062mn (previously $1,056mn in our October 2010 report) if the preference shares held in Kiwibank are included. Because of the diversity in the wholly-owned businesses, associates and jointly controlled entities (JCEs) that comes under New Zealand Post Group, we have elected to value New Zealand Post Group using a sum-of-the-parts methodology. Within this approach, we have adopted DCF-based valuation where appropriate, and have cross-referenced them to trading multiples of the relevant sectors or compcos.
- The $6mn change in our NZ Post Group valuation (since our October 2010 report) reflects $26mn decline in our underlying valuation for its businesses and $32mn increase due to the reduction of the group's net debt in FY11a.
- Based on our valuation, Kiwibank ($806mn, excluding $150mn for preference shares) accounts for approximately 64% of the Group's enterprise value ($1,252mn). While our $1,062mn group equity valuation appears low as it implies price to earnings multiples of 10.8x and 8.0x on our FY12F and FY13F New Zealand Post Group NPAT forecasts ($85mn and $114mn respectively), this is a function of the negative enterprise value we ascribe to the shrinking postal business as we assume no financial relief from its present services obligation (six-day delivery service and network coverage based on present definition of postal outlets and post centres), the cash-earnings approach we use to value banking stocks and the low funding cost for the Group relative to peers.
- Our -$35mn enterprise value for the NZ postal unit is based on $54mn in value for FY12-FY21F (explicit year forecast) and -$89mn for terminal year value. We have assumed that the status quo remains in relation to the deed of understanding between New Zealand Post and the Government[1]. We also

[1] In 1998, a Deed of Understanding (contract) was established between the Government and NZ Post setting out NZ Post's social, price and service responsibilities. NZ Post undertook to provide delivery of postal items 6 days per week to more than 95% delivery points (effectively the whole country) and the retention of 880 post centres. As quid pro quo NZ Post remained the country's only

acknowledge that Section 7 of the State-Owned Enterprises Act allows for compensation to SOEs for non-commercial activities[2]. Hence, as the Group's postal service profitability continues to decline with volume, there will be an inherent conflict between the commercial standing of NZ Post Group as an SOE and its social obligation (postal service) under the deed. For our valuation, we have no basis upon which to make an assumption around this compensation or relief from present service level (if any). In reality, our valuation would need to be increased to adjust for any such compensation for NZ Post.

Key Assumptions

- Our key value drivers for the Group's postal service, express package and IT businesses are principally driven by volume, pricing and margin assumptions going forward. Our New Zealand postal service forecast earnings assumes an average 4% p.a. decline in volume and a quadrennial adjustment to postage rates to keep pace with inflation.
- We have assumed that Kiwibank continues to grow its share in the mortgage market at 75bp per annum over the next 10 years and that NIM continues the recovery evident in FY11a.

Sensitivity Analysis

- New Zealand Post Group's valuation is most sensitive to our assumption of the postal service volume and price profile. A 1% change in the CAGR volume assumption in the next 10 years alters our valuation by $68mn (7.5 % of Group equity valuation) and a 1% change in the CAGR price assumption in the next 10 years alters our valuation by $140mn (15.4% of Group equity valuation).
- Our Kiwibank valuation is also sensitive to the Net Interest Spread ('NIS') assumed. A 10bps sustained shift in Kiwibank's NIS changes our valuation for the bank by $21mn (2.3% of group equity valuation). We note that Kiwibank's NIS contracted by 65bp in FY10a and expanded by 26bp in FY11a. We forecast it to rise by 7bp in FY12F.

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representative in international postal organizations and alone enjoys the right to produce stamps that bear the name "New Zealand".

[2] Where the Crown wishes a State enterprise to provide goods or services to any persons, the Crown and the State enterprise shall enter into an agreement under which the State enterprise will provide the goods or services in return for the payment by the Crown of the whole or part of the price thereof."

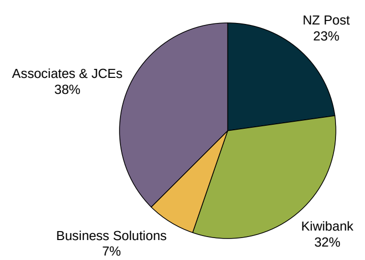
COMPANY PERFORMANCE

Trends

Group

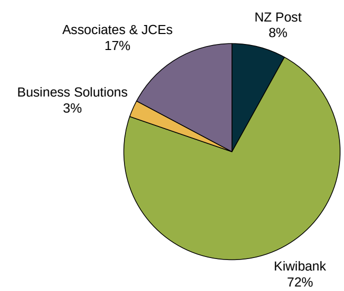
- New Zealand Post Group operation and earnings profile has altered considerably over the past decade, with Kiwibank earnings accounting for 32% of normalised group EBIT in FY11a (including contribution from associates and jointly controlled entities, Figure 1). Kiwibank commenced operations in 2002.
- In FY11a, Kiwibank contributed $16mn EBIT (excluding fair value write up) to normalised group earnings of $49mn (including $18mn contribution from associates & JCEs). This is forecast to increase to 72% ($85mn) of group EBIT ($118mn, including $20mn share of associate earnings) in FY12F (Figure 2) because of declining NZ Postal earnings and a projected recovery in Kiwibank earnings due to loan impairment charges. Group revenue increased from $981mn in FY01a to $1.28bn in FY11a with the banking business accounting for virtually all of the growth.

Figure 1: New Zealand Post Group normalised EBIT composition – FY11a



Source: Company data, FNZC estimates

Figure 2: New Zealand Post Group EBIT composition – FY12F



Source: Company data, FNZC estimates

Postal services

- In FY01a, New Zealand Post (parent, as proxy for postal services) recorded a normalised $49mn EBIT (ex-associates) with $688mn revenue. This has since fallen to a $2mn EBIT deficit with $724mn revenue in FY11a.
- During this period, postal volume handled has fallen from over 1.02bn items to an estimated 804mn items p.a. Volume decline in the most recent three years accelerated and fell by nearly 150mn items (5.5% cagr) vs 193mn decline in the last 10 years. We acknowledge this is in part due to the prolonged near-recessionary environment in NZ over the past three years as well as the impact on activity following the devastating Canterbury region earthquake and its aftershocks during FY11a.

Kiwibank

- Kiwibank NPAT fell by 54% in FY11a to $21mn (from $46mn in FY10a) primarily as a result of significantly higher impaired asset expense of $79mn (up from $18mn in FY10a) offsetting the improved NIM (rising to 1.48% from 1.19%). The increase in impairment losses was as a result of the recessionary impact on property values and the Christchurch earthquakes.
- Total interest bearing assets grew by 13.1% to $13.8bn with retail deposits growing 14% to $7.9bn. Kiwibank also raised $549mn through a commercial paper program.
- Cash Return on Equity fell to only 1.2% in FY11a from 7.5% in FY10a and well below the record 15.7% in FY09a.

Business solutions (Datam)

- Rebranded as Datam in FY10a, this unit provides communications, data management, outsourcing, software solutions and services through its Datamail, Converga, Kinetic121 and RightNow capabilities across Australia and New Zealand.
- Revenue rose by 8% from $197mn in FY10a to $213mn in FY11a but EBIT declined from $9mn in FY10a to $4mn in FY11a, reflecting significant customer win but offset by higher operating costs during the year.

Datacom (36% associate)

- Datacom, an IT service provider, currently employs approximately 3,300 staff across Australia (900), New Zealand (1,800) and South East Asia (600).
- The company recorded $722mn in revenues, up 9% from $666mn in FY10a. Through a combination of organic growth and acquisitions, Datacom has delivered CAGR of 12% over the past decade.
- EBITDA has increased by 60% from $42mn in FY07a to $67mn in FY11a. Datacom's current EBIT margin of 6.6% has declined progressively over the last 5 years and is down from 8.5% in FY07a. This is still at the higher end relative to the performance achieved by the New Zealand IT services sector.

ECL (50% jointly controlled entity, non-consolidated)

- ECL is a New Zealand Post JV with DHL servicing the express package market in New Zealand.
- Revenue was flat in FY11a at $320mn compared with $321mn in FY10a, with modest decline in volume partially offset by modest increase in pricing. Revenue and volume had declined by 7% and 8% respectively in FY10a vs FY09a.
- EBIT margin declined slightly to 7.3% in FY11a from 7.9% in FY10a due to higher operating costs. This is less than half that of Freightways (the other large New Zealand express package service provider) at 16.2%. We suspect this is due to a combination of pricing practices and cost efficiency (including line-haul capacity) within ECL.

Sector Outlook

Postal services

- The postal sector will likely continue to come under pressure given the secular shift away from physical to digital based communications. Business-to-business physical communication volume has fallen by c20% p.a. in recent years and could continue to fall at this rate for a number of years.

Kiwibank

- Credit growth in New Zealand is anticipated to remain relatively subdued over the next couple of years post the global financial crisis and in line with both household and corporate balance sheet deleveraging. NIM is anticipated to remain below FY04a to FY09a levels as the banking sector adjusts in particular to the RBNZ's liquidity requirements (core funding ratio).
- Impairment is expected to decline in line with the general improvement in the economy, the reduction in unemployment and the number of bankruptcies.

Business solutions (Datam)

- The communications and business process outsourcing remain significant opportunities over the next few years as businesses continues to look for advice and external expertise to manage their transition to a fully online environment over time.

Datacom

- With some pent-up demand from the delay in the IT upgrade cycle over the last three years and companies seeking greater productivity due to weak revenue growth prospects, the outlook for IT spending is relatively positive.

- Adding to this is the prospect of growth in the farm-server segment, software-as-a-services (SAAS) and emerging growth from cloud computing.

ECL

- Prospects for the New Zealand express package market has improved over the last six months with signs of economy recovery in NZ gathering momentum, albeit modest at this stage. The extent of a volume recovery in the express market in FY12F will be driven by activity generated by the Rugby World Cup, the asset and economic rebuild in Canterbury, as well as the health of broader NZ economy. We assumed a 4% volume lift in FY12F for the sector, followed by a further 3% in FY13F.

Company Outlook

Postal services

- NZ Post raised it postage pricing in October 2010 and should continue to see some benefit from this in FY12F. However, postal volume handled by New Zealand Post is forecast to fall by c4% p.a. in the foreseeable future following c5% pa declines in FY11a and FY10a.
- Given this secular decline in traditional mail volume, the demanding yet unchanging service obligation (delivery frequency and number of "outlets") based on the present imposed framework (discussed in New Zealand Post earnings section) means the current $2mn EBIT deficit could turn into a larger operating deficit over the next few years.

Kiwibank

- Kiwibank intend to significantly grow its share over the coming years of the various target segments and is targeting approximately 1% p.a. gain in market share.
- NIM is anticipated to recover further in FY12F as Kiwibank continues the repricing of its assets. In recent times, we have already seen industry margins starting to rise. Impairment is anticipated to have peaked in FY11a for Kiwibank in line with the broader market (with provisioning levels expected to grow with the size of the book).
- Kiwibank's Cost-to-Income ratio is anticipated to continue to decline as the business increases in scale and the bank become more efficient across its branch network.
- We anticipate Kiwibank will require approximately $200mn in additional capital (split between equity and subordinated debt) over the next four years before it becomes self-sustaining.

Business solutions (Datam)

- For Datam, the revenue outlook will be relatively mixed as the growth in demand for information process management solutions offered by the transition to an online environment will to some extent be offset by declining market volume in physical communications.

Datacom

- As one of the leading operators in New Zealand and emerging players in Australia, we expect Datacom to deliver at least industry growth rates of 5-10% in FY12F-FY14F (see divisional P&L discussion).

ECL

- ECL revenue growth of 4% in FY12F reflects increases in rate-card for express package services and a modest increase in volume. In FY11a, Freightways gained share in the market with a 5% lift in revenue compared with virtually zero revenue growth for ECL. Based on our assessment of recent pricing and volume activity in the market, this could potentially continue into FY12F (see divisional P&L discussion).

EARNINGS MODEL

Consolidated P&L

- **Group revenue** – New Zealand Post Group revenue is forecast to rise by $21mn (1.6%) in FY12F to $1.30bn, follow by $41mn (3.1%) in FY13F and $40mn (3.0%) in FY14F. Kiwibank will remain the key growth driver in the foreseeable future given the secular decline in postal volumes (see divisional P&L).
- **Group earnings** – Pre-abnormal EBITDA is forecast to rise by more than $60mn from $103mn in FY11a to $166mn in FY12F, and increase by a further $33mn to $199mn in FY13F based on $102mn increase in contribution from Kiwibank (from $40mn in FY11a to $142mn in FY13F). Hence, pre-abnormal NPAT is forecast to rise from $41mn in FY11a to $114mn in FY13F.

Figure 3: **FNZC Consolidated P&L forecasts for New Zealand Post Group**

Year ending 30 June ($mn)	FY09a	FY10a	FY11a	FY12F	FY13F	FY14F
Revenue						
NZ Post[1]	744.1	704.7	713.5	699.5	673.3	645.2
Kiwibank	306.8	302.4	353.5	380.6	438.3	496.6
Business Solutions	202.9	197.1	212.7	220.7	230.6	240.0
Consolidated operating revenue	**1253.8**	**1204.2**	**1279.7**	**1300.9**	**1342.1**	**1381.8**
NZ Post[1]	57.3	50.4	50.7	44.4	41.7	40.0
Kiwibank	94.4	47.6	39.5	108.7	141.5	175.7
Business Solutions	10.2	16.1	12.7	13.2	16.1	19.2
EBITDA pre-abnormal[2]	**161.9**	**114.1**	**102.9**	**166.4**	**199.3**	**234.9**
Total D&A	-56.9	-63.7	-72.3	-68.9	-65.3	-63.1
NZ Post[1]	22.1	13.3	11.2	9.3	9.1	10.1
Kiwibank	77.1	27.6	15.9	85.1	117.9	152.1
Business Solutions	5.8	9.5	3.5	3.0	6.9	9.6
Group EBIT	**105.0**	**50.4**	**30.7**	**97.5**	**134.0**	**171.8**
Net interest	-9.4	-13.3	-9.6	-8.1	-8.3	-9.1
PBT	**95.6**	**37.1**	**21.0**	**89.4**	**125.7**	**162.7**
Tax	-21.6	-2.1	1.1	-25.0	-35.2	-45.5
NPAT	**74.0**	**35.0**	**22.1**	**64.4**	**90.5**	**117.1**
Share of Datacom pre-ab'l NPAT	9.5	10.9	12.0	13.1	14.1	15.4
Share of ECL pre-ab'l NPAT	6.4	7.8	7.2	7.9	9.9	11.7
Share of other JCEs pre-abn'l	-3.5	-2.6	-0.7	-0.7	-0.7	-0.7
Share of associates & JCEs (pre-abn'l)	12.4	16.1	18.4	20.3	23.3	26.4
NPAT after associates & MI	**86.4**	**51.0**	**40.5**	**84.7**	**113.8**	**143.5**
Abnormals[2]	-14.6	-49.7	-76.2	0.0	0.0	0.0
Reported NPAT	**71.8**	**1.3**	**-35.6**	**84.7**	**113.8**	**143.5**
Revenue growth						
NZ Post	-11.5%	-5.3%	1.2%	-2.0%	-3.8%	-4.2%
Kiwibank	25.6%	-1.4%	16.9%	7.7%	15.2%	13.3%
Business Solutions	-1.0%	-2.9%	7.9%	3.8%	4.4%	4.1%
Total	**-2.8%**	**-4.0%**	**6.3%**	**1.7%**	**3.2%**	**3.0%**
EBIT margin						
NZ Post	3.0%	1.9%	1.6%	1.3%	1.4%	1.6%
Kiwibank	25.1%	9.1%	4.5%	22.4%	26.9%	30.6%
Business Solutions	2.9%	4.8%	1.6%	1.4%	3.0%	4.0%
Interest cover (EBIT/Net interest)	11.2	3.8	3.2	12.1	16.2	18.9
DPS	3.6	3.0	1.3	2.4	3.0	3.5
Dividend cover (Pre-abn'l NPAT/ Dividend)	5.8	7.3	3.7	6.4	7.9	9.3
Payout ratio (pre-abn'l & Kiwibank Surplus)	67%	56%	11%	20%	20%	20%
Tax rate (normalised)	23%	6%	30%	28%	28%	28%

1 "NZ Post" - include "property services & other operating segments & reconciliations"
2 Abnormals includes tax ($2mn), restructuring ($8mn), impairment at Group level ($50mn), impairment and abnormals within associates within JCE ($28mn) & financial instruments value gain adjustment ($12mn)

Source: Company data, FNZC estimates

- **Dividend forecast** – This is based on a c20% payout ratio of NZ Post Group's pre-abnormal earnings excluding Kiwibank's net profit after tax. While this is below the 60% dividend policy outlined in the 2010 Statement of Corporate Intent we have assumed a payout ratio at this level as it maintains group debt at approximately $300mn over the forecast period.

We note the NPAT projections in the 2010 New Zealand Post Group Statement of Corporate Intent 2010-2013 (FY12F - $84mn, FY13 - $118mn) are in line to marginally higher (3%) than our $85mn & $114mn our NPAT forecasts.

Figure 4: **Comparison with 2010 Statement of Corporate Intent**

Year ending 30 June ($mn)	FY08a	FY09a	FY10a	FY11a	FY12F	FY13F
Statement of Corporate Intent	110.2	71.8	1.3	-35.6	84.3	117.5
FNZC Forecasts	-	-	-	-	84.7	113.8
Difference ($mn)	-	-	-	-	0.4	3.7
Difference (%)	-	-	-	-	1%	3%

Source: Company data, FNZC estimates

Without further segmentation of the projections included in the New Zealand Post Group Statement of Corporate Intent, we cannot identify where our forecasts differ from those of the company.

We understand that an updated New Zealand Post Group Statement of Corporate Intent is due to be released shortly. There is potential for variance between our forecasts and the projections contained in the NZ Post Group updated Statement of Corporate Intent.

FIRST NZ CAPITAL

Divisional P&L

New Zealand Post (postal)

- **Revenue** – New Zealand Post revenue is forecast to decline by $14mn (2%) to $710mn in FY12F despite carrying over some benefits (three months) from an increase in postage charges that took effect in Oct 2010. The ongoing secular change in postal volumes will likely see volume continue to trend down by c4-6% pa in the foreseeable future. There is negative risk to our forecast as postal volumes could fall at a mid-to-high single digit rate.
- **Earnings** – Beyond the benefit from the increase in postage charges in FY11a and part of FY12F, New Zealand Post $2mn operating deficit recorded in FY11a is forecast to widen to c$5mn pa in FY12F-FY14F, even with cost benefits from the proposed introduction of self-service kiosks within its network. NZ Post is currently trialling this service and expects to introduce this into its outlets (and post centres and potentially other locations) in late FY12F. For our forecasts, we assume NZ Post's planned rollout of self-service kiosks (which operates like an ATM) commence in FY13F and would reduce headcount costs in its customer services unit by $5mn pa (125 staff p.a.) in each of FY13-FY15F. Beyond this period, we assume NZ Post staff requirement further declines by 25 p.a. (c$1mn pa) in FY16F-FY20F.
- Our forecasts assume no relief for New Zealand Post from its current service obligation of 6-day / week delivery service[3]. We also acknowledge that Section 7 of the State-Owned Enterprises Act allows for compensation to SOEs for non-commercial activities[4]. However, for our earnings forecasts, we have no basis upon which to make an assumption around this compensation. In reality, our earnings (and valuation) could be higher to the extent of such compensation.
- **Long term pricing assumption** – Our base case for New Zealand Post assumes the company is allowed to adjust its postage pricing once every four years to keep in line with inflation.

[3] Reform of the New Zealand postal service began as early as 1987 with the transformation of the national postal administration into state owned enterprise (SOE) New Zealand Post Ltd (NZ Post). Simultaneously the postal monopoly was limited to letters weighing no more than 500 grams. In 1991 there was a further reduction of the reserved service for NZ Post to letters weighing up to 200 grams, and on 1 April 1998 the postal market was fully opened to competition. In 1998, a Deed of Understanding (contract) was established between the Government and NZ Post setting out NZ Post's social, price and service responsibilities. NZ Post undertook to provide delivery of postal items 6 days per week to more than 95% delivery points (effectively the whole country) and the retention of 880 post centres. As quid pro quo NZ Post remained the country's only representative in international postal organizations and alone enjoys the right to produce stamps that bear the name "New Zealand".

[4] Where the Crown wishes a State enterprise to provide goods or services to any persons, the Crown and the State enterprise shall enter into an agreement under which the State enterprise will provide the goods or services in return for the payment by the Crown of the whole or part of the price thereof."

Figure 5: **FNZC earnings forecasts for New Zealand Post (postal)**

Year ending 30 June ($mn)	FY09a	FY10a	FY11a	FY12F	FY13F	FY14F
Total Revenue	**765.9**	**741.0**	**724.1**	**710.1**	**683.8**	**655.8**
Total cost of sales	-550.9	-518.2	-507.4	-495.4	-472.3	-448.4
Gross profit	**215.0**	**222.8**	**216.7**	**214.7**	**211.5**	**207.4**
Total other expenditure	-168.0	-180.4	-186.9	-191.1	-190.7	-188.3
EBITDA	**47.0**	**42.4**	**29.9**	**23.5**	**20.8**	**19.2**
D&A	-30.8	-32.0	-31.5	-28.1	-25.5	-22.9
EBITA	**16.2**	**10.4**	**-1.6**	**-4.5**	**-4.7**	**-3.8**
Abn'ls (Restructuring, int'l mail, impairment)	-9.0	-21.2	-51.7	0.0	-5.0	-5.0
EBITA excluding assoc & JCEs	**7.2**	**-10.8**	**-53.3**	**-4.5**	**-9.7**	**-8.8**
Dividend from associate & JCEs	7.6	8.4	13.3	13.3	13.3	13.3
Others (incl subsidiary sale)	428.7	1.5	0.0	0.0	0.0	0.0
EBIT	**443.5**	**-0.9**	**-40.0**	**8.7**	**3.5**	**4.5**
Net interest	-10.9	-11.5	-7.8	-6.1	-4.5	-4.4
PBT	**432.6**	**-12.4**	**-47.8**	**2.6**	**-1.0**	**0.1**
Tax	2.0	-12.3	6.9	-0.7	0.3	0.0
NPAT	**434.6**	**-24.7**	**-40.9**	**1.9**	**-0.7**	**0.1**
Volume Assumption						
Total volume growth	-6.8%	-5.7%	-5.3%	-4.6%	-3.7%	-4.1%
Volume (mn of items)	**887**	**836**	**804**	**767**	**739**	**708**
Pricing Assumption						
Overall pricing change	4.8%	1.9%	10.3%	2.8%	0.0%	0.0%
Implied yield per item (NZ$)	**0.863**	**0.886**	**0.901**	**0.926**	**0.926**	**0.926**
Revenue growth	-2.4%	-3.9%	4.5%	-1.9%	-3.7%	-4.1%
Margins						
Gross Profit margin	28.1%	30.1%	29.9%	30.2%	30.9%	31.6%
EBITDA margin	6.1%	5.7%	4.1%	3.3%	3.0%	2.9%
EBITA margin	2.1%	1.4%	-0.2%	-0.6%	-0.7%	-0.6%
EBITA margin	2.1%	1.4%	-0.2%	-0.6%	-0.7%	-0.6%

Source: Company data, FNZC estimates

Kiwibank

- **Revenue** – Kiwibank has successfully grown revenues over the last nine years with the exception of FY10a where NIM in particular was negatively impacted by greater competition for retail deposits. We forecast NIM to continue its gradual recovery over the forecast period, from 1.48% in FY11a to 1.67% by FY14F driven primarily by asset repricing catching up with liability repricing, further diversification of funding sources by Kiwibank and deposit competition in New Zealand softening slightly. Over and above an expanding interest margin, increasing fee income and lower impairment losses are anticipated to lead to strong operating income growth.

- **Earnings** – Kiwibank has grown earnings in line with revenues and asset growth over the last eight years with the exception of the last two years. We anticipate earnings to recover in FY12F on the back of further asset growth, lower impairment losses and slightly improved NIM. We forecast continued earnings improvement over FY13F and FY14F.

Figure 6: **FNZC Earnings forecasts for Kiwibank**

Year ending 30 June ($mn)	**FY09a**	**FY10a**	**FY11a**	**FY12F**	**FY13F**	**FY14F**
Interest Income	648.9	563.9	720.4	759.4	1065.7	1260.9
Interest Expense	-485.5	-430.5	-529.0	-536.1	-799.9	-953.1
Net Interest Income	**163.4**	**133.4**	**191.3**	**223.2**	**265.7**	**307.9**
Fee Income	90.9	77.1	86.1	95.2	107.3	120.2
Payment Services Fee Income	52.1	54.7	59.2	62.2	65.3	68.6
Gains on financial instruments at fair value	0.0	36.3	16.4	0.0	0.0	0.0
Abnormal Item	11.1	0.0	0.0	0.0	0.0	0.0
Total Operating Income	**317.5**	**301.4**	**353.0**	**380.6**	**438.3**	**496.6**
Operating Expenses	-197.6	-199.7	-218.1	-242.9	-270.9	-297.0
Losses on financial instruments at fair value	-4.6	0.0	0.0	0.0	0.0	0.0
Impairment losses on loans and advances	-14.3	-17.9	-79.0	-29.1	-25.9	-24.0
Operating Earnings	**100.9**	**83.9**	**55.9**	**108.7**	**141.5**	**175.7**
Depreciation	-5.3	-6.6	-8.0	-8.0	-8.0	-8.0
Amortisation	-12.0	-12.6	-15.6	-15.6	-15.6	-15.6
Net Profit before taxation	**83.6**	**64.7**	**32.3**	**85.1**	**117.9**	**152.1**
Income tax benefit / (expense)	-20.0	-18.8	-11.1	-23.8	-33.0	-42.6
Reported NPAT	**63.6**	**45.8**	**21.2**	**61.3**	**84.9**	**109.5**
Abnormal Item	-11.1	0.0	0.0	0.0	0.0	0.0
Less Gains / (losses) on financial instruments at fair value	1.1	-10.6	-5.6	0.0	0.0	0.0
Preferred dividends	0.0	0.0	-8.6	-8.6	-8.6	-8.6
Cash Earnings	**53.6**	**35.3**	**7.0**	**52.7**	**76.3**	**100.9**
Key Ratios						
Net Interest Spread %	1.69%	1.04%	1.30%	1.37%	1.40%	1.42%
Net Interest Margin %	1.88%	1.19%	1.48%	1.53%	1.61%	1.67%
Average Fee Revenue %	1.29%	0.81%	0.79%	0.77%	0.76%	0.74%
Net Interest Margin (incl fees) %	3.17%	2.00%	2.26%	2.30%	2.37%	2.41%
Growth in total operating income	31.7%	-6.5%	25.2%	10.9%	16.6%	14.3%
Operating costs to operating income	70.2%	82.6%	71.8%	63.8%	61.8%	59.8%
Operating cost implied growth	19.8%	1.8%	10.4%	10.2%	10.5%	8.9%
Bad Debt Charge % Average Loans	0.20%	0.19%	0.72%	0.24%	0.18%	0.15%
Bad Debt Charge % Average RWA	0.34%	0.33%	1.24%	0.40%	0.31%	0.26%
CP % of Total Loans	0.09%	0.09%	0.32%	0.32%	0.32%	0.32%
IP % of Total Loans	0.06%	0.10%	0.43%	0.43%	0.43%	0.42%
Growth in net income	72.8%	-27.9%	-53.7%	188.7%	38.5%	29.0%
Growth in loans and advances	52.2%	22.7%	10.3%	15.1%	14.7%	13.9%
Growth in interest bearing assets	43.9%	18.4%	13.1%	12.6%	12.6%	12.1%
Return on average assets %	0.61%	0.31%	0.05%	0.36%	0.46%	0.54%
Return on average equity %	15.7%	7.5%	1.2%	9.2%	10.9%	12.0%

Source: Company data, FNZC estimates

ECL

- **Revenue** – Our forecast revenue recovery in FY12F-FY14F reflects GDP growth of 2.2% in FY12F, 3.1% in FY13F and 2.7% in FY14F. We have also tempered the volume growth expectation for ECL based on some market share loss and ongoing migration away from the use of physical documents to digital form.
- **Earnings** – With capacity investment made in FY09a, we expect ECL's margin to rise with a recovery in volume over time. EBIT is forecast to improve from $29mn in FY11a to $31mn in FY12F, to $36mn in FY13F and to $41mn in FY14F. This should translate to NPAT of $23mn in FY14F compared with $11mn in FY11a.

Figure 7: **FNZC earnings forecasts for ECL**

Year ending 30 June ($mn)	FY09a	FY10a	FY11a	FY12F	FY13F	FY14F
Total Revenue	**345.8**	**321.0**	**320.2**	**333.1**	**350.3**	**367.0**
Cost of sales	-250.9	-225.5	-227.9	-237.1	-247.6	-257.6
Gross profit	**94.9**	**95.5**	**92.2**	**96.0**	**102.7**	**109.4**
SG&A	-65.4	-63.2	-62.9	-64.6	-66.4	-68.2
EBITDA	**29.5**	**32.3**	**29.3**	**31.3**	**36.3**	**41.2**
D&A	-7.5	-6.8	-5.8	-6.4	-6.2	-6.5
EBITA	**22.0**	**25.5**	**23.5**	**25.0**	**30.1**	**34.7**
Goodwill amortisation	0.0	0.0	-3.5	0.0	0.0	0.0
EBIT	**22.0**	**25.5**	**20.0**	**25.0**	**30.1**	**34.7**
Net interest	-4.3	-3.1	-2.8	-2.9	-2.6	-2.3
PBT	**17.7**	**22.4**	**17.2**	**22.0**	**27.5**	**32.5**
Tax	-4.9	-6.8	-6.3	-6.2	-7.7	-9.1
NPAT	**12.8**	**15.6**	**10.9**	**15.9**	**19.8**	**23.4**
Volume Assumption						
Total volume growth	na	-8.0%	-1.5%	2.2%	3.1%	2.7%
Pricing Assumption						
Overall pricing change	na	1.0%	0.3%	1.8%	2.0%	2.0%
Revenue growth	-0.1%	-7.2%	-0.3%	4.04%	5.2%	4.8%
Margins						
Gross Profit margin	27.4%	29.8%	28.8%	28.8%	29.3%	29.8%
EBITDA margin	8.5%	10.1%	9.1%	9.4%	10.4%	11.2%
EBITA margin	6.4%	7.9%	7.3%	7.5%	8.6%	9.5%
Earnings payout ratio (excluding special)	78%	42%	63%	70%	70%	70%
Tax rate	27.7%	30.4%	36.7%	28%	28%	28%

Source: Company data, FNZC estimates

Datacom

- **Revenue** – Datacom's performance to date and positioning in the New Zealand and Australian IT service provision market suggest the company is capable of delivering mid-to-high single digit revenue growth over the next 12-24 months. Our assumption is for this growth to taper to c 4-5% in FY15F and beyond.
- **Earnings** – Datacom has successfully sustained an above-industry EBIT margin of c7% over the last three years. Our expectation is for the company to broadly maintain this in the medium term. With the investments made in its data storage capabilities over the last few years and ongoing new customer wins, we expect Datacom to lift EBIT from $48mn in FY11a to $59mn by FY14F.

Figure 8: **FNZC earnings forecasts for Datacom**

Year ending 30 June ($mn)	FY09a	FY10a	FY11a	FY12F	FY13F	FY14F
Total Revenue	608.8	665.9	722.4	791.4	852.0	902.8
Total cost of sales	-269.0	-300.2	-303.5	-330.5	-355.8	-372.5
Gross profit	339.8	365.7	418.9	460.9	496.2	530.3
Total other expenditure	-285.5	-305.9	-352.0	-386.9	-419.0	-447.6
EBITDA	**54.3**	**59.8**	**66.9**	**74.1**	**77.2**	**82.7**
D&A	-11.9	-16.2	-19.4	-21.7	-22.3	-23.8
EBITA	**42.4**	**43.6**	**47.5**	**52.4**	**55.0**	**58.9**
Abnormals (FX & restructuring)	0.0	0.0	-11.0	0.0	0.0	0.0
EBITA	**42.4**	**43.6**	**36.5**	**52.4**	**55.0**	**58.9**
Net interest	-3.8	-1.6	-2.1	-1.7	-0.5	0.5
PBT	**38.6**	**42.0**	**34.4**	**50.7**	**54.5**	**59.4**
Tax	-12.1	-11.8	-12.1	-14.2	-15.3	-16.6
NPAT	**26.5**	**30.2**	**22.2**	**36.5**	**39.2**	**42.8**
Revenue growth	36.4%	9.4%	8.5%	9.6%	7.7%	6.0%
Margins						
Gross Profit Margin	55.8%	54.9%	58.0%	58.2%	58.2%	58.7%
EBITDA margin	8.9%	9.0%	9.3%	9.4%	9.1%	9.2%
EBITA margin	7.0%	6.6%	6.6%	6.6%	6.5%	6.5%
Earnings payout ratio (pre-anormal)	29%	39%	44%	40%	40%	40%
Tax rate	31.3%	28.1%	35.3%	28%	28%	28%

Source: Company data, FNZC estimates

Consolidated Cash Flow Estimates

- **Operating cash flow** – As has been the case over the last few years, much of the cash flow generated within New Zealand Post Group will be soaked up by the capital needed to fund the asset growth in Kiwibank. Overall operating cash flow declined from $35mn in FY10a to a deficit of $608mn in FY11a. In this instance, this deficit was substantially because of a decrease in interbank balance due to other financial institutions (which was funded by issuance of Kiwibank debt security). Overall NZ Post group operating cash flow is forecast to revert to $47mn in FY12F and $51mn in FY13F. This is expected to remain relatively static in subsequent years as Kiwibank continues to expand its balance sheet.
- **Capital expenditure (capex) and investment programme** – We have broadly adopted New Zealand Post Group capex / business investment forecasts published in the group's 2010 Statement of Corporate Intent (SCI). Maintenance capex is estimated at $50mn-$60mn p.a., with the balance ($10-$20mn pa) invested for growth and new business activity. We note NZ Post is considering the divestment of non-core assets. We have assumed the sale of c$60mn worth of properties in FY12F.

Figure 9: **FNZC Consolidated Cashflow forecasts for New Zealand Post Group**

Year ending 30 June ($mn)	FY09a	FY10a	FY11a	FY12F	FY13F	FY14F
EBITDA	**161.9**	**114.1**	**102.9**	**166.4**	**199.3**	**234.9**
Interest paid	-5.7	-12.2	-1.5	-8.1	-8.3	-9.1
Other income	7.6	7.8	13.3	13.3	13.3	13.3
Tax paid	-19	-20.3	-23.6	-25.0	-35.2	-45.5
Kiwibank balance sheet items	-558.9	-50.1	-769.4	-105.1	-120.9	-134.5
Working capital movement	-32.0	-4.5	70.7	0.1	-2.1	-2.5
Operating cashflow	**-446.1**	**34.9**	**-607.6**	**41.6**	**46.1**	**56.4**
Capex	-75.4	-72	-63.5	-80.0	-65.1	-75.0
Acquisitions/Divestments	3.2	-12.4	-21.7	0.0	0.0	0.0
Sale of PPE	37.6	21.9	11.6	60.0	20.0	20.0
Total investing cashflow	**-34.6**	**-62.5**	**-73.6**	**-20.0**	**-45.1**	**-55.0**
Dividends paid	-14.8	-7.0	-11.1	-13.2	-14.3	-15.4
Financing cash flow	**-14.8**	**-7.0**	**-11.1**	**-13.2**	**-14.3**	**-15.4**
Change in net debt	**-495.5**	**-34.6**	**-692.2**	**8.3**	**-13.3**	**-13.9**
Capex composition						
NZ Post	26.2	29.4	21.7	21.3	20.5	24.9
Kiwibank	24.7	26.6	28.6	29.5	29.5	29.5
Others	24.5	16.0	13.2	29.2	15.1	20.6
Total	**75.4**	**72**	**63.5**	**80.0**	**65.1**	**75.0**
Capex to sales						
NZ Post	3.5%	4.2%	3.0%	3.0%	3.0%	3.9%
Kiwibank	8.0%	8.8%	8.1%	7.7%	6.7%	5.9%
Others	12.1%	8.1%	6.2%	13.2%	6.6%	8.6%

Source: Company data, FNZC estimates

Consolidated Balance Sheet and Relevant Ratios

- **Total asset** – New Zealand Post Group total assets is forecast to grow from $14.7bn in FY11a to $16.3bn in FY12F, and further rising to $18.3bn and $20.4bn in FY13F and FY14F as Kiwibank continues to expand its presence in the market.
- **Net debt and gearing** – Our assumption is for New Zealand Post Group to fund Kiwibank growth and capital requirements through non-bank retained earnings (assume only 20% payout the next four years), non-core asset sale (c$100mn properties) and debt. On this basis, New Zealand Post non-Kiwibank net debt is forecast to increase from current $340mn in FY11a to $359mn in FY14F (peak year).
- **Returns** – The growth in Kiwibank's earnings contribution should drive New Zealand Post Group's ROIC to 11.7% by FY14F from currently 4.0%. Group ROE is forecast to rise from currently 6.1% to 16.3% by FY14F.

Figure 10: **FNZC Consolidated Balance Sheet Forecasts for New Zealand Post Group**

Year ending 30 June ($mn)	FY09a	FY10a	FY11a	FY12F	FY13F	FY14F
Cash	143	126	175	147	142	136
Trade debtors	222	181	155	153	150	146
Inventory	15	14	16	15	15	15
Others	28	15	17	17	17	17
Derivatives	6	2	6	6	6	6
Current assets	**414**	**339**	**368**	**338**	**329**	**319**
Specific banking assets	**10259**	**12141**	**13753**	**15487**	**17435**	**19545**
Investment properties	37	31	9	9	9	9
PPE	330	341	341	292	272	264
Intangibles	145	148	137	137	137	137
Others	27	1	18	18	18	18
Investments	93	75	56	63	73	86
Total non-current assets	**631**	**595**	**561**	**519**	**509**	**514**
Total assets	**11304**	**13075**	**14682**	**16345**	**18273**	**20377**
Trade creditors	300	260	275	273	267	260
Provisions	25	12	14	14	14	14
Borrowings	53	52	167	167	167	167
Derivatives	2	3	8	8	8	8
Current liabilities	**380**	**327**	**464**	**462**	**456**	**449**
Specific banking liabilities	**9799**	**11457**	**13075**	**14704**	**16530**	**18506**
Long term borrowings	441	445	346	310	318	326
Others	14	14	4	4	4	4
Non-current liabilities	**455**	**459**	**349**	**313**	**322**	**330**
Shareholders' funds	**669**	**686**	**648**	**719**	**819**	**947**
Kiwibank preference shares	0	147	147	147	147	147
Total equity & liability	**11304**	**13075**	**14682**	**16345**	**18273**	**20377**
Invested Capital (IC, $mn))	1015	1054	980	1043	1156	1298
Group ROIC (NPAT / avg IC)	9.0%	4.9%	4.0%	8.4%	10.3%	11.7%
Group ROE (average equity)	12.9%	7.5%	6.1%	12.4%	14.8%	16.3%
Net debt	348	372	340	332	345	359
Debt / Debt + Equity (ex-banking assets)	34%	35%	35%	32%	30%	28%
Net Debt / EBITDA	2.1	3.3	3.3	2.0	1.7	1.5
Kiwibank Total Capital ratio	10.5%	12.0%	11.0%	11.0%	11.0%	11.1%

Source: Company data, FNZC estimates

ASSUMPTIONS ADOPTED

General Assumptions

- GDP growth – GDP growth is projected at 2.2%, 3.1% and 2.7% in FY12F, FY13F and FY14F respectively.
- Inflation – Inflation rate of 2.8% pa in FY12F and 2.6% pa in FY13F and beyond.
- Government bond rate – Using the New Zealand 10-yr government bond rate as proxy, our assumed long run interest rate is 5.25%.

Figure 11: Economic forecasts

	Actual					Forecasts			
June Years	**2007**	**2008**	**2009**	**2010**	**2011a**	**2012F**	**2013F**	**2014F**	**2015F**
GDP (Production) (1)	1.3	2.4	-2.3	0.7	1.5	2.2	3.1	2.7	2.7
Consumer Price Inflation (2)	2.0	4.0	1.9	1.8	5.3	2.8	2.6	2.6	2.6
90-Day Bank Bill Rate (3)	7.8	8.7	5.3	2.8	3.0	2.8	3.9	4.3	4.5
10-Year Government Bond Rate (3)	6.0	6.4	5.4	5.8	5.4	4.7	5.0	5.2	5.3

(1) Annual average % change
(2) Annual % change
(3) Average level for June years

Source: FNZC estimates

Specific Assumptions

Postal services

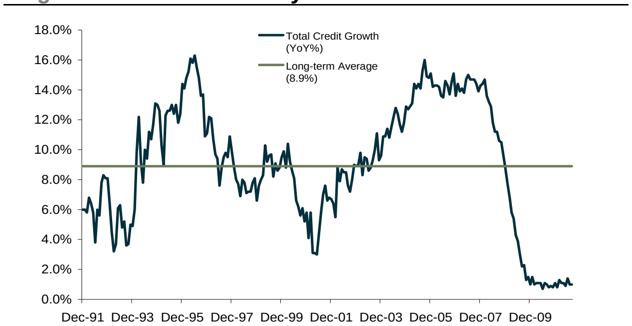
- Volume – we assume an average 4% p.a. decline over the next decade.
- Pricing – Our assumption is that New Zealand Post is allowed to make quadrennial adjustments to catch up with inflation. We have assumed no impact on volumes from the increase in pricing in line with inflation.
- EBIT margin – We assume New Zealand Post EBIT margin to deteriorate to -0.6% in FY12F from -0.2% in FY11a based on further decline in volume (and despite the carry-over impact of an increase postage charges in FY11a). This is forecast to remain at a similar level in FY13F and FY14F with further volume decline offset by cost savings from the introduction of self- serve kiosks in late FY12F and beyond.
- We have assumed that the status quo remains in relation to the deed of understanding between New Zealand Post and the Government.

Kiwibank

Credit Growth

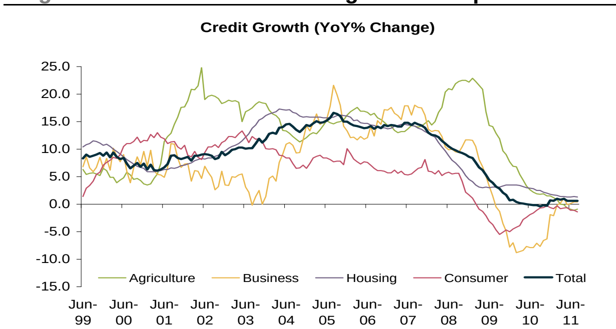
- Credit growth in New Zealand has slowed dramatically since 2007, firstly as a result of New Zealand entering recession, secondly due to the global financial crisis impacting the availability of credit, and thirdly a reduction in demand as both consumers and businesses look to de-leverage (Figure 12 and Figure 13).

Figure 12: New Zealand System Credit Growth



Source: Reserve Bank of New Zealand

Figure 13: New Zealand credit growth components



Source: Reserve Bank of New Zealand

- Kiwibank has historically grown at a faster pace than system credit growth through share gain in the mortgage market (**Figure 14**). We have assumed that Kiwibank continues to grow its share in the housing market at 75bp per annum over the next 10 years. We have utilised ANZ near-term credit growth forecasts for system wide growth and assumed Kiwibank grows at 10% faster than system growth in the other markets it is exposed to (primarily the SME market).

Figure 14: Credit Growth assumptions

Year ending 30 June	FY09A	FY10A	FY11A	FY12F	FY13F	FY14F
Total System Growth (%)	4.7%	-0.1%	0.6%	3.1%	4.5%	5.0%
Housing Market Growth (%)	2.8%	2.8%	1.3%	4.0%	4.4%	4.3%
Kiwibank Loan and Advance Growth (%)	52.2%	22.7%	10.3%	15.1%	14.7%	13.9%
Implied Interest Bearing Asset Growth ($mn)	3,133	1,889	1,593	1,734	1,947	2,110

Source: Company data, Reserve Bank of New Zealand, ANZ, and FNZC estimates

Interest Rates, Net Interest Margin and fees

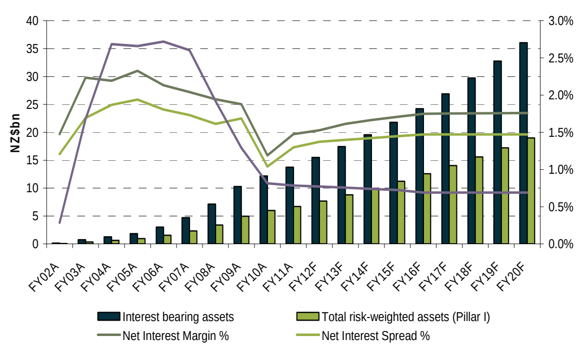
- We have utilised our house interest rate assumptions for base rates (**Figure 15**) and then made assumptions around Net Interest Margin ('NIM') over and above those levels. We have specifically assumed that Kiwibank's NIM recovers further over the forecast period, from 1.48% in FY11a to 1.67% by FY14F driven primarily by asset repricing catching up with liability repricing, a rising yield curve, further diversification of funding by Kiwibank away from retail deposits, and a decline in competition for deposits leading to industry margins rising (**Figure 17**). Coupled with increasing fee income, this should lead to significant operating income growth. In line with recent trends, we have assumed Kiwibank's fee revenue continues to grow but as a percentage of assets will continue to moderate over time (**Figure 16**).

Figure 15: Interest rates, net interest margin and average fee revenue assumptions

Year ending 30 June	FY09A	FY10A	FY11A	FY12F	FY13F	FY14F
90 day bank bill rate	5.3%	2.8%	3.0%	2.8%	3.9%	4.2%
Average two year swap rate	5.0%	4.3%	3.7%	3.1%	4.2%	4.5%
Net Interest Spread	1.69%	1.04%	1.30%	1.37%	1.40%	1.42%
Net Interest Margin	1.88%	1.19%	1.48%	1.53%	1.61%	1.67%
Average fee revenue	1.29%	0.81%	0.79%	0.77%	0.76%	0.74%

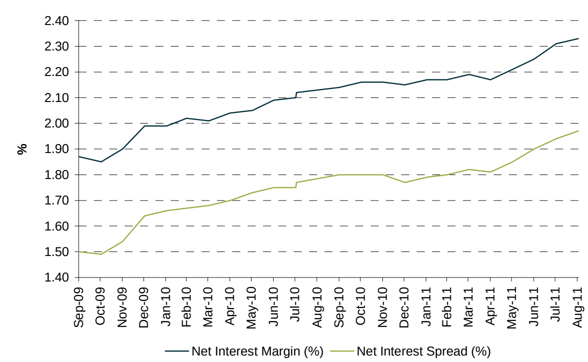
Source: Company data, FNZC estimates

Figure 16: Asset growth, NIM and fee revenue historical and forecast



Source: Company data, FNZC estimates

Figure 17: NZ Retail Banks Net Interest Margin / Spread

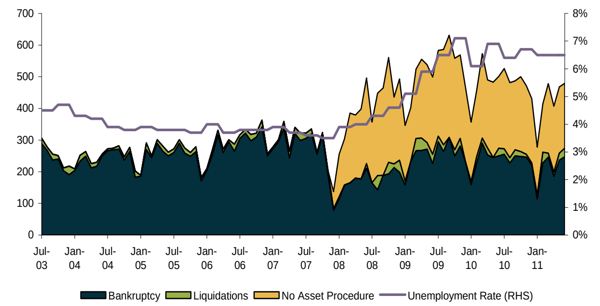


Source: Reserve Bank of New Zealand

Impairment losses

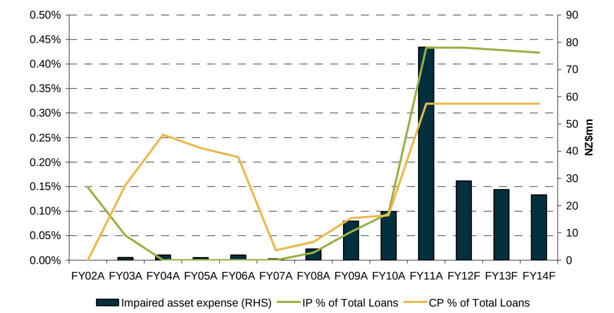
- We expect impairment to reduce from FY11a as the New Zealand economy continues to recover and unemployment begins to decline (**Figure 18**). Kiwibank's credit history and current impairment allowance levels are detailed in **Figure 19** and **Figure 20**.

Figure 18: New Zealand Insolvencies and Unemployment



Source: Statistics New Zealand, New Zealand Insolvency and Trustee Service

Figure 19: Kiwibank Impaired Assets



Source: Company data, FNZC estimates

Figure 20: Historical and forecast impaired asset expense

Year ending 30 June	FY09A	FY10A	FY11A	FY12F	FY13F	FY14F
Impaired asset expense (%)	0.20%	0.19%	0.72%	0.24%	0.18%	0.15%
Impaired asset expense ($mn)	14.3	17.9	79.0	29.1	25.9	24.0
Collective allowance % of total loans	0.09%	0.09%	0.32%	0.32%	0.32%	0.32%
Individual allowance % of total loans	0.06%	0.10%	0.43%	0.43%	0.43%	0.42%
Individual allowance % of impaired assets	25.5%	26.4%	47.4%			
Total allowance % of total loans	0.14%	0.19%	0.75%	0.75%	0.75%	0.74%
Impaired assets ($mn)	19.3	37.8	106.0			
Past due assets ($mn)	314.7	217.9	184.8			

Source: Company data, FNZC estimates

Operating costs

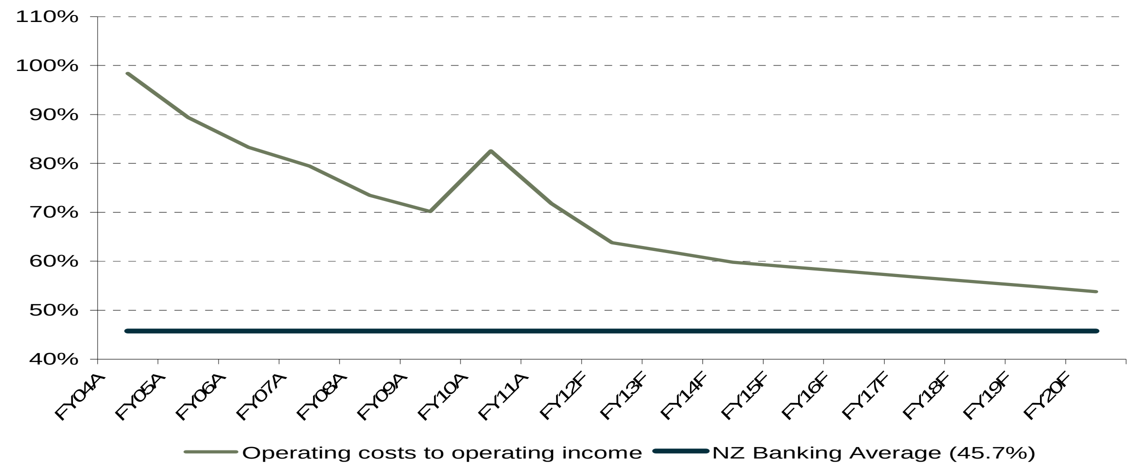
- Kiwibank's cost to income ratio has been trending down but remains significantly above the average of the New Zealand banking sector (45.7%). We forecast this ratio to improve over time primarily through continued asset and income growth and a degree of cost containment (Figure 21 and Figure 22).

Figure 21: Historical and forecast cost to income ratio

Year ending 30 June	FY09A	FY10A	FY11A	FY12F	FY13F	FY14F
Cost to income ratio	70.2%	82.6%	71.8%	63.8%	61.8%	59.8%
Movement in cost to income ratio	-3.3%	12.4%	-10.8%	-8.0%	-2.0%	-2.0%
Operating expenses ($mn)	197.6	199.7	218.1	242.9	270.9	297.0

Source: Company data, FNZC estimates

Figure 22: **Kiwibank historical and forecast cost to income ratio**



Source: Company data, KPMG FIPS 2010, FNZC estimates

Level of capital

- Kiwibank is comfortably above the current capital adequacy requirements with Tier 1 capital of 9.0% against required 4% and Total capital of 11% against the required 8%. We have assumed that Kiwibank's capital structure increases slightly over our forecast period (i.e. to Tier 1 Capital of 9.7% in FY14F). On that basis our asset growth and earnings forecasts for Kiwibank imply that the company requires an additional capital injection of around $200mn spread over the next 4 years before the bank becomes self sustaining (Figure 23). We forecast Kiwibank to commence dividends payments in FY16.

Figure 23: **Kiwibank historical and forecast prudential capital ratios**

	FY09A	FY10A	FY11A	FY12F	FY13F	FY14F
Total risk weighted exposures ($mn)	4,966	5,997	6,720	7,701	8,797	9,977
Total Tier 1 Capital	384	587	602	709	832	969
Tier 1 Capital Ratio	7.7%	9.8%	9.0%	9.2%	9.5%	9.7%
Required Tier 1 capital ratio*	4.0%	4.0%	4.0%	4.0%	4.5%	4.5%
Total Capital	519	722	737	869	992	1,169
Total Capital Ratio	10.5%	12.0%	11.0%	11.3%	11.3%	11.7%
Required total capital ratio	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
New Capital ($mn)	20	165	0	58	50	40

*Source: Company data, FNZC estimates, * FY13 Tier 1 capital ratio requirement based on Basel III press release 12 September 2010, we also recognise Kiwibank is currently required under the Wholesale Funding Guarantee Facility to hold an additional 2% Tier 1 capital above the 4% regulatory minimum*

Business solutions (Datam)

- For our purpose, we have assumed relatively steady overall growth of c 4-5% p.a. for Datam and an EBIT margin of 1.5% in FY12F, rising to 3%-4% in FY13F and FY14F as activity level recovers in the business.

Datacom

- Our forecasts assume high single-digit p.a. revenue growth for Datacom in FY12F and FY13F before moderating to 6% in FY14F (see divisional P&L, Figure 8).
- We have also assumed a relatively steady gross margin of 58% in the next few years, which should translate to an unchanged EBIT margin profile of 6.5%-7.0%.
- We have assumed a payout ratio of 40% going forward.

Express Couriers Ltd (ECL)

- Revenue growth in FY12F for ECL of 4% is based on 2% volume growth and 2% price increase (Figure 7). Our forecasts assume some shift in market share to Freightways by virtue of its stronger revenue growth profile.
- We have assumed a 70% payout ratio for ECL going forward.

Capital Expenditure

- We estimate the New Zealand Post Group maintenance capex to be between $50-$60mn p.a.
- For forecast purposes, we have adopted the capex profile outlined by New Zealand Post Group in its 2010 Statement of Corporate Intent. Hence, we have assumed $40mn of the total $302mn capex budget earmarked for the next four years as being in new business activities.
- Kiwibank - We assume that Kiwibank would continue to incur c$30mn p.a. in capex which is 125% of its current annual depreciation and amortisation charges.
- Postal - We have assumed a capex to sales of 4% in the long run. This is below the average 4.8% over the past decade and assumes tighter control cost by management over time. In our terminal year, this implies a $22mn annual maintenance capex for this unit.

Dividend

- We have assumed 20% dividend payout on pre-Kiwibank earnings in FY12-FY15F, as it is our view that most of the non-Kiwibank cash flow will be used to fund growth in the bank business.
- In FY16F and beyond, we assume Kiwibank becomes self-funding for growth and is able to start paying dividend. We assume NZ Post in turn pays this out to the Crown together with 50% of non-Kiwibank earnings.

VALUATION SUMMARY

A Sum-Of-The-Parts (SOTPs) Approach

Because of the diversity in the wholly-owned businesses, associates and jointly controlled entities (JCEs) that comes under New Zealand Post Group, we have elected to value New Zealand Post Group using a SOTPs methodology. Our valuation components and valuation approaches for New Zealand Post Group includes:

- New Zealand Post (parent) EV based on DCF[5] with reference to listed compcos. This excludes associates and JCEs.
- Kiwibank Price to NTA and Price to Earnings with reference to ROE relativity and the listed Australasian compcos.
- Business Solns. EV based on DCF[5] with reference to listed compcos in solutions and outsourcing sector
- Datacom DCF[5] with reference to listed compcos in IT solutions and consulting sector
- Express Couriers DCF[5] with reference to listed compcos in transport sector
- Parcel Direct Based on book value
- Reach Media Based on book value

On this basis, we value New Zealand Post Group at $912mn for its "Ordinary" equity (previously $906mn, Figure 24). Our total equity valuation would be $150mn higher at $1,062mn (previously $1,056mn) if the preference shares held in Kiwibank are included (Figure 24). We have included a reconciliation of the changes in our sum-of-the-parts valuation since our October 2010 report (

While our $1,062mn total equity valuation appears low as it implies a price to earnings multiple of 10.8x and 8.0x on our FY12F and FY13F New Zealand Post Group NPAT forecasts ($85mn and $114mn respectively), this is a function of the following factors:

- The negative $35mn enterprise value we ascribe to New Zealand postal service operation. This implies a social cost impost on taxpayers and is consistent with our long term assumption of the present imposed service framework on New Zealand Post. Without relief from the current set of service obligation, the postal business is expected to run at an operating deficit ($14mn by FY21F vs currently break-even) as volumes continue to shrink. We have assumed for valuation purposes that the status quo remains in place.
- A very low 3.6% gross effective funding cost (interest rate) for New Zealand Post Group. This is around half the rate most listed corporates could expect to pay in the present environment. Assuming a 7.5% funding cost, it would raise New Zealand Post Group PE by 1.9x PE points in FY12F and 1.0x PE point in FY13F.

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[5] ***DCF Valuation - Important Note and Risk Warning***

Your attention is drawn to the fact that the above DCF valuation and projections of the future performance of New Zealand Post Group reflect various assumptions by the author of this report, which may or may not prove correct. Some assumptions inevitably will not materialise and unanticipated events, unknown risks, uncertainties and other circumstances will likely occur. Therefore, the actual results achieved during the period of the projections shown will vary from those projected, the valuation will also vary from that presented, and such variations may be material. Such factors include, amongst other things, the following: general economic and business conditions; competition; regulatory or administrative changes affecting the business; the timing and amount of the company's capital expenses; general sector industry trends and pricing; unexpected operations difficulties and other factors, many of which will be beyond the control of New Zealand Post Group. First NZ Capital Securities Limited makes no representation or warranty, express or implied, as to the accuracy or completeness of the DCF valuation or the information or assumptions on which such valuation is based or derived from, and nothing in this report shall be deemed to constitute such a representation or warranty. Recipients of this report must carry out their own analysis and are cautioned not to place undue reliance on such forward-looking information.

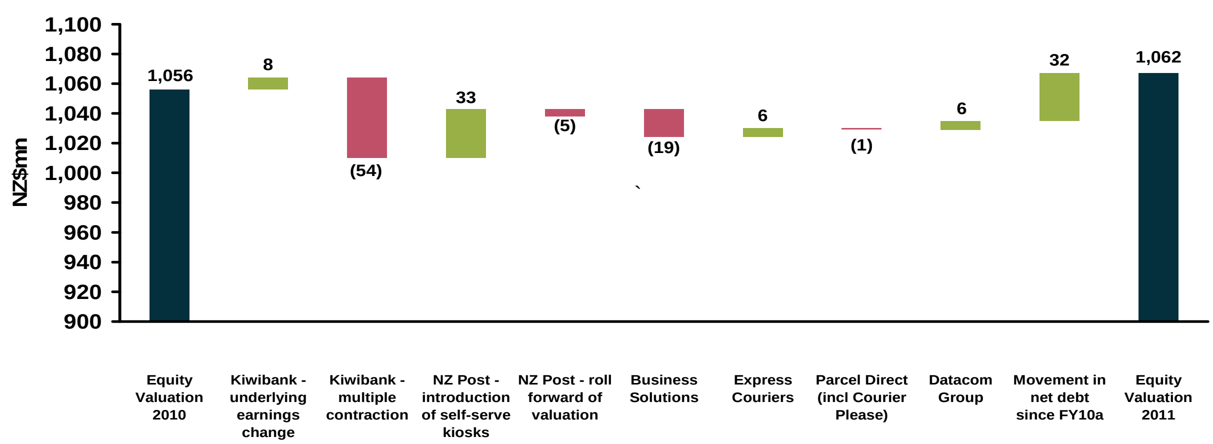
Figure 24: **Sum-of-the-parts-valuation for New Zealand Post Group**

($mn)	Reference Methodologies	Valuation Low	Valuation Base	Valuation High	% interest	Share of value Low	Share of value Base	Share of value High
Kiwibank (excl. pref. shares)	1, 2	724	838	953	100%	697	806	915
NZ Post	3, 5, 6	-253	-35	346	100%	-253	-35	346
Business Solutions	3, 5, 6	61	77	109	100%	61	77	109
Subtotal						**505**	**848**	**1370**
Jointly Controlled Entities								
Express Courier Ltd	4, 5, 6	258	329	411	50%	129	165	206
Parcel Direct	7	45	45	45	50%	23	23	23
Reach Media	7	2	2	2	50%	1	1	1
Sub-total						**152**	**188**	**229**
Associates								
Datacom	4, 5, 6	394	462	597	36%	142	166	215
Subtotal						**142**	**166**	**215**
Other investments	8	50	50	50	100%	**50**	**50**	**50**
Total						**849**	**1252**	**1864**
Consolidated net debt excluding banking liabilities						-340	-340	-340
NZ Post Group Ordinary equity valuation						**509**	**912**	**1524**
Kiwibank perpetual preference shares						150	150	150
NZ Post Group Total equity valuation						**659**	**1062**	**1674**
NZ Post Group ordinary book equity (excl non-controlling interest)							**648**	
FNZC ordinary equity valuation to book equity							1.41	

Methodologies
1) Price to book
2) PE
3) Enterprise value based on DCF
4) Equity value based on DCF
5) EV / EBITDA
6) EV/ EBITA
7) Net Book Value
8) Estimated book value of investment in non-disclosed new business activity (FY12F-FY14F)

Source: Company data, FNZC estimates

Figure 25: **Reconciliation of changes in our sum-of-the-parts valuation**



Source: Company data, FNZC estimates

Components of our Sum-Of-The-Parts (SOTPs) valuation for NZ Post Group

New Zealand Post

- We value New Zealand Post's postal (parent excluding associates and JCEs) business at -$35mn (previously -$64mn) on an enterprise value basis using a 10-yr discounted cash flow basis approach.
- This is based on WACC of 7.9% (previously 8.3%), with an equity beta of 0.76, 30% gearing and a terminal growth rate of 2.0% (previously 2.5%, risk free rate, market risk premium and WACC methodology are discussed in "Cost of Capital" section). We note that our terminal cashflow for New Zealand Post is negative $11mn (previously $17mn) which implies a negative $89mn (previously $133mn) terminal valuation.
- Our terminal year EBIT margin of -2.5% (previously -3.8%) and post-tax ROIC of -2.9% (previously -4.1%) reflects the ongoing move away from traditional use of postal services and no relief for New Zealand Post from its present USO. This compares with a current EBIT margin of -0.2% and post tax ROIC of -0.3%.
- Our -$35mn enterprise value is premised on $54mn in value for FY12-FY20F explicit year and-$89mn for terminal year value. We also acknowledge that Section 7 of the State-Owned Enterprises Act allows for compensation to SOEs for non-commercial activities[6]. However, for our valuation, we have no basis upon which to make an assumption around this compensation (if any). In reality, our valuation would need to be increased to adjust for any such compensation for NZ Post.

Kiwibank

- We value Kiwibank on an equity value basis (excluding the preference shares issued) of $806mn (previously $853mn) using the average of a P/NTA and P/E valuation metric approaches.
- Our valuation is based on a P/NTA of 1.9x (FY12) (previously 2.0x) and P/E of 11.0x (FY12) (previously 12.0x) with reference to other relevant bank valuation multiples in Australasia, Kiwibank's historical average ROE of 10.4%, forecast average ROE of 13.2% over FY12-FY21 and other respective companies' growth rates. We have also recognised that current market pricing for the banking sector suggest the sector is at deep discount in both absolute terms and relative to the market which is heightened by the perceived need for recapitalisation in the European banking sector. This valuation approach leads to an effective P/NTA of 1.6x (FY12) and a P/E of 14.0x (FY12).

Business Solutions

- We value New Zealand Post's Business Solutions (Datam, Converga, Enterprises excluding associates and JCEs) unit at $77mn (previously $96mn) on an enterprise value basis using a 10-yr discounted cash flow basis approach.
- This is based on a WACC of 9.6%, (previously 10.0%) with an equity beta of 1.09, 30% gearing and a terminal growth rate of 2.0% (previously 2.5%, risk free rate, market risk premium and WACC methodology are discussed in "Cost of Capital" section).
- Our terminal year EBIT margin of 4.2% (previously 5.3%) and post-tax ROIC of 5.5% (previously 6.3%) reflects the ongoing move away from traditional use of postal services. This compares with a current EBIT margin of 3.8% and post tax ROIC of 1.6%.

Datacom

- We value New Zealand Post's 36% interest in Datacom at $166mn (previously $159mn) on an enterprise value basis using a 10-yr discounted cash flow basis approach.

[6] Where the Crown wishes a State enterprise to provide goods or services to any persons, the Crown and the State enterprise shall enter into an agreement under which the State enterprise will provide the goods or services in return for the payment by the Crown of the whole or part of the price thereof."

- This is based on a WACC of 9.7% (previously 10.1%), with an equity beta of 0.89, 10% gearing and a terminal growth rate of 2.0% (previously 2.5%, risk free rate, market risk premium and WACC methodology are discussed in "Cost of Capital" section).
- Our terminal year EBIT margin of 5.9% (unchanged) and post-tax ROIC of 24.2% (previously 23.3%) reflects the current margin achieved by better performing IT solutions service providers in New Zealand. This compares with a current EBIT margin of 6.6% and post tax ROIC of 22.2%.

Express Couriers Ltd (ECL)

- We value New Zealand Post's 50% interest in ECL at $165mn (previously $158mn) on an enterprise value basis using a 10-yr discounted cash flow basis approach.
- This is based on a WACC of 9.0% (previously 9.4%), with an equity beta of 0.96, 30% gearing and a terminal growth rate of 2.5% (previously 2.5%, risk free rate, market risk premium and WACC methodology are discussed in "Cost of Capital" section).
- Our terminal year EBIT margin of 9.2% (previously 8.7%) and post-tax ROIC of 19.1% (previously 18.0%) reflects the current margin achieved by a similar size operator in the New Zealand express package market. This compares with a current EBIT margin of 7.3% and post tax ROIC of 9.5%.

Parcel Direct and Reach Media

- We value the New Zealand Post's 50% interest in each of Parcel Direct and Reach media on a share of book value based on the latest financial statements for the respective entities lodged with the Companies Office. On this basis, we value New Zealand Post's interests in Parcel Direct and Reach Media at $23mn and $1mn respectively.

Other investments

- We value the non-disclosed new business activity (FY12F-FY14F), together with money already spent on them in FY11a (c$15mn) at its estimated book value $50mn.

Background to our Cost of Capital calculation

Estimates of future unlevered cash flows are discounted by estimated Weighted Cost of Capital (WACC). WACC represents the assessed returns required by provided by providers of debt and equity capital weighted by their respective contributions of capital. Current gearing is used unless this is deemed to be materially different to target or optimal gearing.

WACC is derived using the following formula:

$$R_e * (1-L) + R_d *(1-T_c) * L$$

where:

R_e = Cost of equity derived by using the simplified Brennan - Lally version of the Capital Asset Pricing Model

= $R_f * (1- T_i) + B^* TAMRP$

L = Leverage employed (i.e. the proportion of debt to debt plus equity)

R_d = Cost of debt

T_c = Corporate tax rate = 28%

T_i = Individual investor tax rate = 28%

R_f = Sustainable long term bond = 5.25%

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B = Estimated equity beta

TAMRP = Tax adjusted market risk premium = 7.25%
Notes:

- The methodology used above is consistent with that being adopted by the Commerce Commission in assessing returns on infrastructure and utilities. The only modification relates to estimation of $R_{f.}$
- We use 5.25% (previously 5.8%) as a suitable proxy for the risk free rate as we take the view that current interest rates are cyclical and will normalise when international market conditions normalize. Our valuation sensitivity analysis should capture a range in WACC which should accommodate variation in $R_{f.}$
- The tax adjusted MRP converts to a MRP used internationally by using the formula MRP = TAMRP - R_f* T_i (i.e. ~5.75%)
- Equity beta is estimated by de-leveraging the equity betas of comparative companies (local and overseas) to calculate an average asset beta for the compcos. The average asset beta is then converted to an equity beta using the firm's leverage.

SENSITIVITY ANALYSIS

Valuation Sensitivity to DCF Assumptions

The following table sets out the sensitivity of our valuation to changes in key valuation variables and operating assumptions we make for New Zealand Post Group as well as our observations of the sensitivity:

- The sensitivity of New Zealand Post Group valuation to changes made to WACC and terminal growth rates are lower than what one would normally expect because of the negative enterprise value (hence its offsetting effect against positive enterprise valuation for others in the Group) for New Zealand Post (postal services).
- Because of our PE and Price to NTA methodologies for valuing Kiwibank, we have disaggregated the valuation sensitivity from the non-bank operations.

Figure 26: **New Zealand Post Group Valuation Sensitivity**

	Change in base value ($mn)	Change in base value (%)
Sensitivity to Valuation Variables		
DCF variables (non-bank)		
± 0.5% change in WACC (simple average, 9.1%)	± 13	1.4%
± 0.5% change in terminal growth (2.0%)	± 8	0.9%
Kiwibank valuation variables		
± 1x Change in PE	± 29	3.2%
± 1x Price to NTA	± 26	2.9%
Sensitivity to Key Operating Assumptions		
NZ Post		
± 1.0% change in volume cagr to 2011 - 2021	± 68	7.5%
± 1.0% change in price cagr 2011 - 2021	± 140	15.4%
ECL		
± 1.0% change in volume cagr to 2011 - 2021	± 26	2.9%
± 1.0% change in price cagr 2011 - 2021	± 45	4.9%
Datacom		
± 5.0% change in revenue cagr to 2011 - 2016	± 28	3.1%
± 1.0% change in EBITDA margin 2015	± 32	3.5%
Kiwibank		
± 10bp in Net Interest Spread	± 21	2.3%
± 1% change in credit growth p.a	± 7	0.7%
± 1% change in cost to income ratio	± 15	1.7%
± 5bp change in impairment allowance	± 27	3.0%
± 1% change in Tier 1 Capital	± 58	6.4%

Source: FNZC estimates

COMPARISON OF DCF VALUATION WITH ALTERNATIVE VALUATION METHODS

Peer Company Analysis

New Zealand Postal (Figure 27)

- Singapore Post Ltd (Singpost), which derives c60% of earnings from its postal services, is the closest listed comparison for New Zealand Post's postal unit. However, this is still a difficult valuation comparison because of the relatively small earnings base for New Zealand Post's postal unit and a negative enterprise valuation for our base case.
- Singpost is currently on FY12F PE and EV/EBITDA multiples of 12.2x and 8.7x respectively (Figure 27). We note that Singpost's mail unit has a current 36% EBIT margin (vs 1.4% for New Zealand Post's postal unit) and pre-tax ROIC of 28% (vs -0.3% for New Zealand Post's postal unit). While NZ Post's postal unit is currently near break even, we expect it will likely incur operating losses long term, until appropriate changes are made to the current imposed service framework (e.g. 6-day delivery and definition of "postal outlets"). The introduction of self-serve kiosks across NZ Post existing network would help mitigate some of the negative operating leverage on earnings as mail volume continues to decline.

Express Couriers Ltd (Figure 27)

- Freightways (FRE) provides the most relevant valuation comparison for ECL.
- The implied FY12F PE (20.7x) and EV/EBITDA (12.0x) for ECL based on our $377mn (previously $316mn) enterprise value is at a premium to FRE's current trading multiples (14.2x and 9.2x respectively, Figure 27). This reflects our assumption that ECL's operating margin improves over time.

Figure 27: **Trading Multiples for Global Freight Transportation Sector**

	Y/E	PE (x)			EV/EBITDA (x)			EV/EBIT (x)			EPS CAGR	NIBD/EBITDA
Company		**2011**	**2012**	**2013**	**2011**	**2012**	**2013**	**2011**	**2012**	**2013**	**10a - 13F**	**11F/A**
Americas												
YRC Worldwide	Dec	0.0	-3.0	12.1	8.2	3.5	2.4	-15.6	10.4	6.0	-111.5%	8.2
Con-Way	Dec	16.5	11.9	9.7	4.8	4.0	3.5	9.4	7.3	6.2	78.0%	0.9
FedEx	May	16.5	13.1	11.2	6.7	5.0	4.2	10.6	8.1	7.0	24.0%	-0.1
UPS	Dec	16.6	14.5	12.6	8.9	7.8	6.9	11.3	10.2	8.9	15.5%	0.8
Werner	Dec	16.4	14.9	13.2	4.9	4.4	4.0	9.6	8.7	7.7	16.8%	-0.1
Knight Transport	Dec	19.8	16.6	14.8	6.8	5.6	4.9	11.5	9.9	8.8	11.8%	0.0
Landstar System	Dec	19.1	16.7	14.9	10.6	9.0	7.6	12.3	11.0	9.7	18.0%	0.3
JB Hunt	Dec	20.0	16.8	14.8	8.8	7.4	6.5	12.5	10.9	9.7	21.2%	1.1
CH Robinson	Dec	26.1	22.9	19.9	14.8	12.5	10.4	15.6	13.6	11.8	14.1%	-0.6
Mean		**16.8**	**13.8**	**13.7**	**8.3**	**6.6**	**5.6**	**8.6**	**10.0**	**8.4**	**9.8%**	**1.1**
Europe												
Deut. Post DHL	Dec	11.4	10.3	8.8	3.4	3.3	3.1	5.1	5.2	4.7	4.9%	-0.4
Kuehne & Nagel	Dec	20.2	17.9	15.3	11.3	9.9	8.4	14.4	12.9	11.1	13.6%	-1.2
TNT Express	Dec	25.8	20.8	13.4	9.2	6.4	4.9	na	10.2	7.1	52.7%	0.2
Mean		**19.1**	**16.3**	**12.5**	**8.0**	**6.5**	**5.5**	**9.8**	**9.4**	**7.6**	**23.8%**	**-0.4**
Asia Pacific												
Toll Holdings	Jun	11.6	11.1	10.0	6.7	6.0	5.4	10.4	9.6	8.5	5.9%	1.5
Singapore Post	Mar	12.4	12.2	12.2	10.2	8.7	8.5	10.3	10.2	10.1	-0.2%	0.7
Mainfreight	Mar	19.6	12.6	10.8	11.1	7.4	7.2	13.5	9.3	8.9	30.5%	0.5
Freightways	Jun	16.9	14.2	12.2	10.3	9.2	8.2	12.1	10.9	9.5	14.3%	2.4
Express Couriers	Jun	22.9	20.7	16.6	12.8	12.0	10.4	16.0	15.1	12.5	29.0%	1.7
NZ Postal	Jun	na	na	na	na	na	na	na	na	na	na	na
Mean		**16.7**	**14.2**	**12.4**	**10.2**	**8.7**	**7.9**	**12.5**	**11.0**	**9.9**	**15.9%**	**1.4**
GLOBAL												
Median		**16.9**	**14.5**	**12.6**	**8.9**	**7.4**	**6.5**	**11.4**	**10.2**	**8.9**	**15.5%**	**0.5**
Mean		**17.2**	**14.4**	**13.1**	**8.8**	**7.2**	**6.3**	**9.9**	**10.2**	**8.7**	**14.1%**	**0.9**

Source: Bloomberg, Iress, Credit Suisse, FNZC estimates

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Datacom (Figure 28)

- As there is no listed IT service provider in New Zealand (apart from Gen-i within Telecom New Zealand), we have compiled a list of regional and global IT services providers for comparison against Datacom.
- The implied FY12F PE (12.7x) and EV/EBITDA (6.7x) based on our $495mn (previously $443mn) enterprise valuation for Datacom puts the company at a slight discount to global sector current average trading multiples (13.3x and 7.2x respectively, Figure 28).

Figure 28: **Trading Multiples for Global IT Sector**

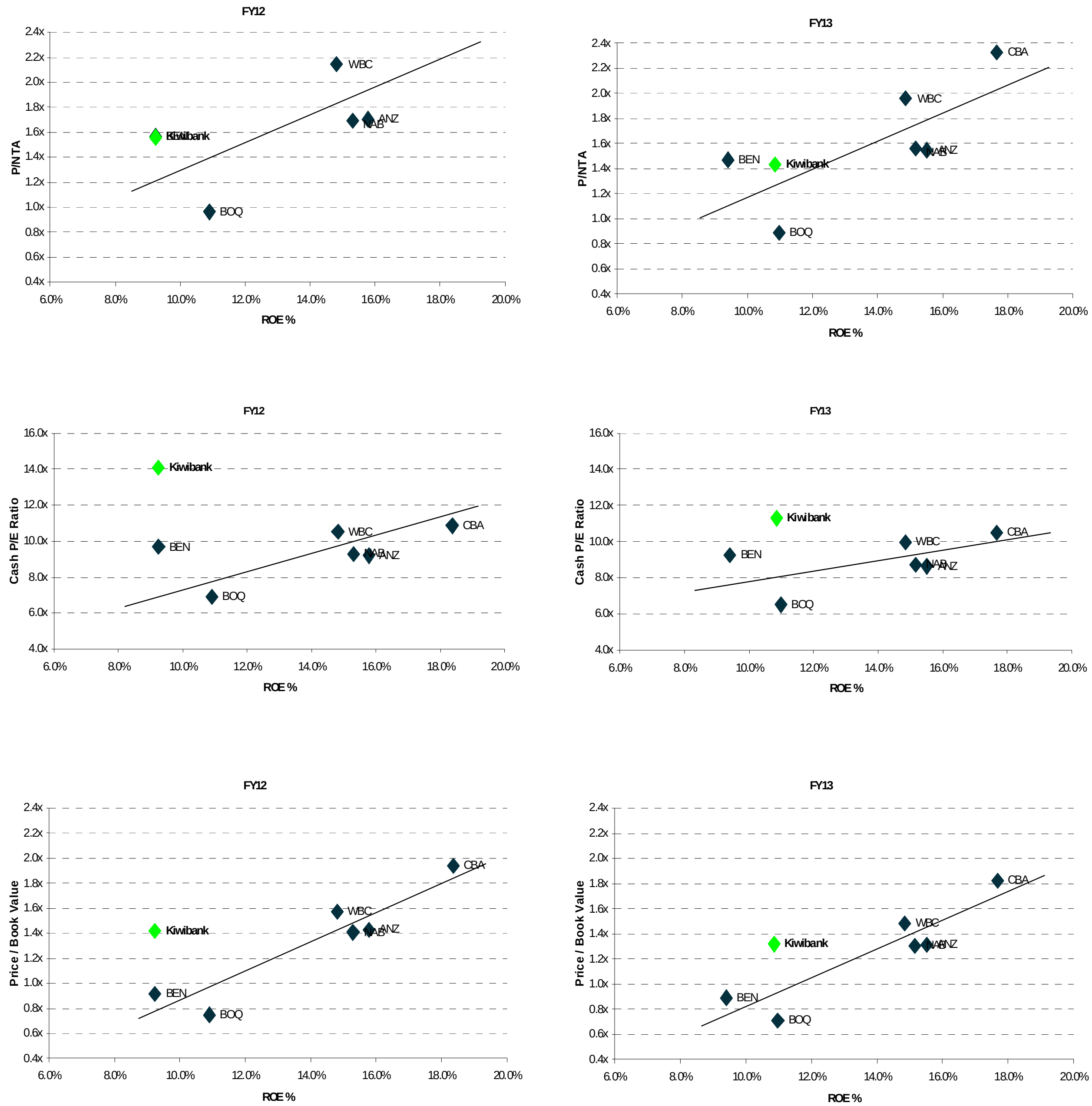
	Y/E	PE (x)			EV/EBITDA (x)			EV/EBIT (x)			EPS CAGR	NIBD/EBITDA
Company		**2011**	**2012**	**2013**	**2011**	**2012**	**2013**	**2011**	**2012**	**2013**	**10a - 13F**	**11F/A**
Americas												
CSC	Mar	6.4	7.6	6.5	2.7	2.8	2.5	5.5	5.7	4.8	-3.5%	0.6
IBM ORD	Dec	13.6	12.1	na	8.9	7.8	na	10.6	10.0	na	na	0.5
Fiserv, Inc.	Dec	13.4	12.2	11.6	8.0	7.5	7.1	9.3	8.7	8.3	12.8%	2.1
WNS Global	Mar	54.3	13.0	11.3	9.7	8.6	8.0	50.9	23.9	20.1	133.8%	1.3
Accenture Plc	Aug	16.4	14.3	13.2	8.1	7.4	6.9	9.2	8.4	7.9	16.6%	-1.3
Infosys Limited	Mar	23.8	20.5	17.3	18.5	13.9	11.4	17.9	15.5	13.1	14.3%	-1.9
Rackspace Hosting	Dec	70.0	47.3	32.3	15.1	11.8	9.4	42.0	28.7	20.8	50.1%	0.0
Mean		**28.3**	**18.1**	**15.4**	**10.1**	**8.5**	**7.5**	**20.8**	**14.4**	**12.5**	**37.3%**	**0.2**
Europe												
Logica	Dec	7.9	7.3	6.6	6.1	5.6	5.2	7.9	7.3	6.4	15.7%	1.4
Atos Origin	Dec	11.7	8.8	7.5	4.9	3.8	3.4	8.3	6.2	5.3	52.2%	0.4
Computacenter	Dec	10.5	9.6	8.7	6.9	6.3	5.9	10.2	9.5	8.5	11.0%	1.3
Capgemini	Dec	11.3	9.8	8.5	5.8	5.3	4.7	7.5	6.7	5.9	23.7%	0.7
Indra	Dec	10.6	10.3	9.6	8.0	7.6	7.1	9.3	8.7	8.2	4.2%	1.5
Tieto	Dec	12.0	10.7	9.4	5.4	5.1	4.7	10.4	8.9	8.0	22.3%	0.8
Mean		**10.6**	**9.4**	**8.4**	**6.2**	**5.6**	**5.2**	**8.9**	**7.9**	**7.0**	**21.5%**	**1.0**
Asia												
Patni Computer	Dec	14.2	8.0	6.8	4.5	2.2	1.1	8.3	4.4	3.5	0.2%	-3.9
Mphasis Ltd	Oct	8.5	8.4	6.9	6.2	4.5	3.2	8.6	6.8	5.7	-2.7%	-0.8
Infotech	Mar	9.2	8.9	7.5	7.8	4.5	3.7	6.9	5.4	4.3	-0.2%	-2.1
HCL Technologies	Jun	17.1	13.4	11.6	13.1	8.5	7.3	12.6	9.9	8.7	26.1%	0.0
Tata Consultancy	Mar	24.6	20.2	16.7	20.3	14.5	11.6	20.1	15.9	13.2	23.1%	-0.4
Mean		**14.7**	**11.8**	**9.9**	**10.4**	**6.8**	**5.4**	**11.3**	**8.5**	**7.1**	**9.3%**	**-1.5**
Australia and NZ												
SMS Mgmt	Jun	12.7	11.1	10.2	9.9	7.1	6.2	8.4	7.3	6.6	9.3%	-0.6
Datacom	Mar	13.9	12.7	11.8	7.4	6.7	6.4	10.4	9.5	9.0	8.8%	0.5
Technology One	Sep	15.5	13.3	11.9	11.1	9.6	8.6	13.4	11.5	10.2	14.2%	0.9
Mean		**14.0**	**12.4**	**11.3**	**9.5**	**7.8**	**7.1**	**10.7**	**9.4**	**8.6**	**10.8%**	**0.3**
GLOBAL												
Median		**13.4**	**11.1**	**9.9**	**8.0**	**7.1**	**6.3**	**9.3**	**8.7**	**8.1**	**14.2%**	**0.5**
Mean		**18.0**	**13.3**	**11.3**	**9.0**	**7.2**	**6.2**	**13.7**	**10.4**	**8.9**	**21.6%**	**0.0**

Source: Bloomberg, Iress, Credit Suisse, FNZC estimates

Kiwibank

- We have estimated Kiwibank's value by comparison with the listed Banks in Australasia. In particular, we have looked at P/NTA, P/E and P/BV relative to forecast ROE. We have valued Kiwibank at a premium to that implied by its ROE in FY12F, assuming it achieves sustainable ROE of at least 13%, compared with estimated ROE of 9.2% in FY12F and 10.9% in FY13F. We expect Kiwibank earnings growth to exceed that of its peers.
- We set out the relative valuations and comparative bank analysis in Figure 29 and Figure 30 below.

Figure 29: Kiwibank relative bank comparative company valuation



Source: Company data, Credit Suisse estimates, FNZC estimates

Figure 30: **Kiwibank Compco Analysis**

Cash EPS	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	
ANZ	1.95	2.10	1.55	1.60	2.02	2.22	2.37	2.53	
CBA	2.97	3.47	3.58	3.05	3.95	4.39	4.57	4.72	
NAB	2.44	2.56	2.60	2.00	2.18	2.55	2.77	2.96	
WBC	1.67	1.89	1.98	1.62	1.98	2.10	2.14	2.26	
BEN	0.73	0.83	1.10	0.63	0.83	0.92	0.99	1.03	
BOQ	0.83	0.96	1.06	1.03	0.89	0.80	1.22	1.30	
Kiwibank	0.10	0.15	0.16	0.19	0.12	0.02	0.16	0.19	
Cash EPS Growth	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**CAGR**
ANZ	14.4%	8.1%	-26.2%	3.0%	26.1%	10.0%	7.1%	6.5%	4.5%
CBA	10.3%	16.8%	2.9%	-14.7%	29.7%	11.0%	4.1%	3.3%	8.0%
NAB	9.6%	5.2%	1.4%	-23.2%	9.1%	17.2%	8.6%	6.7%	3.3%
WBC	8.6%	13.2%	5.0%	-18.4%	22.2%	5.9%	2.3%	5.6%	5.2%
BEN		13.4%	32.4%	-42.7%	32.5%	10.7%	7.1%	4.6%	5.9%
BOQ		17.0%	10.9%	-2.8%	-13.9%	-9.9%	52.9%	6.3%	7.9%
Average	**10.7%**	**12.3%**	**4.4%**	**-16.5%**	**17.6%**	**7.5%**	**13.7%**	**5.5%**	**5.8%**
Kiwibank	82.1%	44.7%	3.7%	21.1%	-38.0%	-80.6%	585.8%	24.8%	11.1%
Premium / (Discount)	**71.4%**	**32.5%**	**-0.7%**	**37.6%**	**-55.6%**	**-88.0%**	**572.1%**	**19.2%**	
Cash PE	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	
ANZ	11.2x	10.4x	14.1x	13.6x	10.8x	9.8x	9.2x	8.6x	
CBA	16.7x	14.3x	13.9x	16.3x	12.6x	11.3x	10.9x	10.5x	
NAB	10.6x	10.1x	9.9x	12.9x	11.8x	10.1x	9.3x	8.7x	
WBC	13.5x	11.9x	11.4x	13.9x	11.4x	10.8x	10.5x	10.0x	
BEN	13.1x	11.5x	8.7x	15.2x	11.5x	10.4x	9.7x	9.3x	
BOQ	10.3x	8.9x	8.0x	8.2x	9.5x	10.6x	6.9x	6.5x	
Average	**12.6x**	**11.2x**	**11.0x**	**13.4x**	**11.3x**	**10.5x**	**9.4x**	**8.9x**	
Kiwibank	21.2x	14.6x	14.1x	11.6x	18.8x	96.6x	14.1x	11.3x	
Premium / (Discount)	**68.5%**	**30.8%**	**28.3%**	**-12.9%**	**66.5%**	**819.7%**	**49.5%**	**26.3%**	
Cash ROE	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**Average**
ANZ	18.7%	18.4%	11.6%	11.3%	15.3%	15.9%	15.8%	15.5%	15.3%
CBA	19.2%	19.5%	19.0%	14.5%	17.7%	19.0%	18.4%	17.7%	18.2%
NAB	16.6%	16.5%	15.2%	11.7%	13.6%	15.1%	15.3%	15.2%	14.8%
WBC	21.7%	22.0%	21.2%	12.9%	15.4%	15.2%	14.8%	14.8%	17.6%
BEN	12.6%	12.8%	7.7%	6.2%	8.2%	8.9%	9.2%	9.4%	9.4%
BOQ	12.6%	12.4%	10.1%	9.1%	8.6%	7.5%	10.9%	11.0%	10.2%
Average	**16.9%**	**16.9%**	**14.2%**	**10.9%**	**13.1%**	**13.6%**	**14.1%**	**13.9%**	**14.2%**
Kiwibank	10.7%	14.0%	13.5%	15.7%	7.5%	1.2%	9.2%	10.9%	10.3%
Difference	**6.2%**	**2.9%**	**0.7%**	**-4.8%**	**5.7%**	**12.4%**	**4.8%**	**3.1%**	
Price/NTA	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	
ANZ	2.6x	2.3x	2.0x	2.0x	2.1x	1.9x	1.7x	1.5x	
CBA	5.3x	4.2x	4.0x	3.6x	3.1x	2.8x	2.5x	2.3x	
NAB	2.3x	2.1x	2.0x	2.0x	2.0x	1.9x	1.7x	1.6x	
WBC	3.7x	3.3x	2.9x	2.9x	2.5x	2.4x	2.1x	2.0x	
BEN	1.9x	1.7x	1.7x	2.2x	1.8x	1.7x	1.6x	1.5x	
BOQ	1.3x	1.3x	1.4x	1.3x	1.1x	1.0x	1.0x	0.9x	
Average	**2.8x**	**2.5x**	**2.4x**	**2.3x**	**2.1x**	**1.9x**	**1.8x**	**1.6x**	
Kiwibank	2.2x	2.3x	2.2x	2.1x	1.7x	1.7x	1.6x	1.4x	
Premium / (Discount)	**-68.4%**	**-16.5%**	**-19.6%**	**-26.4%**	**-38.6%**	**-28.7%**	**-20.9%**	**-19.6%**	
Price/Book value	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	
ANZ	2.1x	1.9x	1.7x	1.7x	1.7x	1.5x	1.4x	1.3x	
CBA	3.2x	2.8x	2.7x	2.5x	2.3x	2.1x	1.9x	1.8x	
NAB	1.8x	1.7x	1.6x	1.6x	1.6x	1.5x	1.4x	1.3x	
WBC	2.9x	2.7x	2.4x	1.9x	1.8x	1.7x	1.6x	1.5x	
BEN	1.7x	1.5x	0.8x	1.0x	1.0x	0.9x	0.9x	0.9x	
BOQ	1.3x	1.1x	0.8x	0.9x	0.8x	0.8x	0.8x	0.7x	
Average	**2.2x**	**1.9x**	**1.7x**	**1.6x**	**1.5x**	**1.4x**	**1.3x**	**1.3x**	
Kiwibank	2.2x	2.0x	1.8x	1.8x	1.5x	1.5x	1.4x	1.3x	
Premium / (Discount)	**0%**	**3%**	**16%**	**20%**	**3%**	**5%**	**8%**	**6%**	

Source: Company data, Credit Suisse estimates, FNZC estimates, Kiwibank metrics are implied by the midpoint of our valuation

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FIRST NZ CAPITAL

CONTACT DETAILS

AUCKLAND

PO Box 5333, Wellesley Street
Level 39, ANZ Centre
23-29 Albert Street
Auckland
Tel: +64 9 302 5500
DX CX10165

WELLINGTON

PO Box 3394
Level 14, HP Tower
171 Featherston St
Wellington
Tel: +64 4 474 4400
DX SX11175

NELSON

PO Box 114
1st Floor
164 Hardy Street
Nelson
Tel: +64 3 548 8319
DX WC 70001

HAVELOCK NORTH

PO Box 28153
Havelock North 4157
The Doctors Cottage
52 Te Mata Road
Havelock North
DX MA76506