Should small caps get a NZX hand up?

Sealegs and Burger Fuel chiefs lash out

Victoria Young comment

Nobody likes a whinger, especially in New Zealand where we prefer to just get stuff done.

So I felt little sympathy for Future Mobility Solutions director Mark Broadley as he went on a Michael Cheika-esque tirade about the NZ stock exchange at his company's annual meeting last month.

The owner of amphibious boat maker Sealegs has barely kept its head above water and will leave the NZX with its shares priced at 4.5 cents apiece, or $8 million in total, having lost about 59 per cent of their value since the start of the year. Sealegs raised about $2m when it went public in 2005.

Broadley told shareholders that, "given the absolute paucity of liquidity on the mainboard, we might as well delist". He said being on the NZX cost too much and wasn't worth it.

The former investment banker said FMS was "absolutely convinced we are not the only company going this way", and said the boat-maker had also looked at London's AIM sub-market but felt it was no better.

"It is not just a New Zealand issue as regulators get more involved. It has acted to the detriment of retail investors that there's not enough companies getting covered [by analysts]. If there's no research reports then small companies are just caught in the middle," he said, suggesting a lack of coverage meant fewer people invest in a company.

Burger Fuel Group chief executive Josef Roberts addressed exactly the same issue the same week.

The burger chain is also weighing up leaving the domestic exchange and Roberts' annual meeting address lamented a lack of analyst coverage, saying there was no sign of the situation changing.

"In summary, the listed environment in New Zealand at present seems bleak for small, thinly-traded stocks like ours and today there are new ways of raising capital for smaller enterprises and as a result, we are seeing less companies willing to IPO in NZ."

The recent NZX and Financial Markets Authority-sponsored report on capital markets said a lack of research has also been raised by market participants.

The EY-authored report released last month says meaningful coverage — defined as research by three or more leading research firms — is limited to the top 50 or so companies, with another 28 companies covered by at least one leading research firm.

Amphibious boat maker Sealegs went public in 2005.
Photo / George Novak

> This has been a perennial issue. It's always been small companies battling to get coverage.
> Mark Lister

There are 130 or so companies on the mainboard.

The report identifies that part of the change in New Zealand stems from a drift from broking to wealth management models and "this has been beneficial for those who get this advice and service but has been at the cost of smaller-cap companies and those not covered by research".

"The economics of providing high-quality research remains challenging," the report says.

The report notes the problem and that anything that reduces the availability of broker research may reduce participation in the market.

Part of this comes back to rules introduced in 2010 which made advisers hesitant to recommend shares where the research was not readily available. A conservative approach to the rules meant the FMA had to clarify in 2011 that research did not necessarily have to be available.

The report says the industry response to regulation has "created significantly lower levels of interest and liquidity in smaller stocks".

While acknowledging the problem, there is no recommendation about what to do about it, although the report notes Shareclarity has an online subscription-based research platform, potentially a feasible model for research expansion.

NZX has in the past sponsored coverage with Edison Research working with the NXT market but the initiative appears to have died with the junior exchange.

CM Partners principal Tim Preston, who specialises in smaller companies, said it is a vicious circle where people don't buy shares and brokers don't research them. He says while it is a shame to see small companies go, there are others that buck the trend.

However, Preston believes more support from the investment community is required and queried why Cannasouth was panned by analysts. "Cannasouth is the start of a big mega trend but all it got was criticism from the bulk of the investment community."

Mark Lister, head of private wealth research at Craigs Investment Partners, says brokers simply have limited resources, and clients are broadly conservative and just want to follow big stocks.

"This has been a perennial issue. It's always been small companies battling to get coverage."

But Lister cites Sanford, NZ King Salmon and Vista Group as examples of companies Craigs has covered which have graduated to the big time.

'It's a bad idea to be saving the minimum in KiwiSaver'

Tamsyn Parker

Putting the minimum 3 per cent contribution into KiwiSaver will provide an income in retirement that is less than half of your current income — and that's including New Zealand Superannuation, research from a new KiwiSaver provider has found.

Kōura Wealth has launched its Kōura KiwiSaver scheme plus research it hopes will encourage people to get advice, make sure they are in the right type of fund and are contributing enough to get the retirement they want.

Kōura Wealth's holding company is owned by Rupert Carlyon — a strategy and mergers and acquisitions expert who has worked for KPMG, Tower and Vector and Hobson Wealth — a private wealth advisory firm launched by Warren Couillault which is part-owned by Macquarie.

Kōura is the third KiwiSaver scheme to launch this year and enters an already crowded market with at least 25 other providers.

Carlyon said its core difference was its advice model which would help assess people's risk appetite and then put together an individualised portfolio based on six different underlying tracker funds.

Most other providers offer a range of funds from cash to conservative, balanced or growth funds which they can allocate members to.

Kōura's tool asks questions and then recommends a portfolio based on a percentage of the six underlying funds. It also gives people a range for how much money they could have at retirement should the markets do well and if they don't do so well and what kind of weekly income that could give a person.

Warren Couillault

Carlyon believes the advice is sorely needed. Its research found most people see KiwiSaver as important to their retirement but less than half are in the right type of fund, based on where its tool would have allocated people to.

The research zeroed in on under 45-year-olds of which there are 1.8 million members out of the nearly 3m people in KiwiSaver with $38 billion invested.

"Our analysis shows this segment of the population has missed out on over $2.5b in returns over the past two years," the report notes.

Around 44 per cent of KiwiSaver members contribute the minimum 3 per cent of their salary. The research found for an average Kiwi that would deliver a post-retirement income of around half of their current income, including New Zealand Superannuation — well short of the 70 per cent recommended for a comfortable retirement.

For a person earning $80,000 with a take-home income of $1159 per week after tax, a 3 per cent contribution into KiwiSaver would give them around $614 a week — including New Zealand Superannuation.

"In our opinion, a lack of understanding and advice is the large issue with KiwiSaver," Carlyon said. "We've also found Kiwi's expectations of their KiwiSaver are significantly greater than what their KiwiSaver is actually likely to deliver."

Koura will invest in US Equities Fund, Rest of World Equities Fund, Emerging Markets Equities Fund, NZ Equities Fund, Fixed Interest Fund and NZ Cash Fund. The scheme has an annual fee of $30 for over 18-year-olds and a funds under management charge of 0.63 per cent.

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