cutting through complexity

Foreign Direct Investment in New Zealand: Trends and Insights

August 2015

Important notice

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Contents

Introduction

Foreign direct investment is a lever to fuel prosperity in New Zealand

In New Zealand ("NZ") we pride ourselves on 'punching above our weight' whether it be sport, the arts or business. Winning on a global stage is difficult to achieve from an arm chair, and relies on individuals to move outside their comfort zone to try new ideas and build new relationships.

Foreign Direct Investment ("FDI") is an area which frequently tests the comfort zone of a country. Fears of a loss of sovereignty, dealing with different cultures, uncertainty as to the actual benefits of investment and the implications for future generations are frequent discussion points in the media and the wider public.

FDI can be an important contributor to the nation's prosperity. Particularly where it results in investment into new productive assets and the development of export focused business ventures. Stronger trade relationships and the creation of employment opportunities for the next generation underpin a healthy economy.

Constructively debating the merits of FDI is also a characteristic of a healthy society. With this in mind, KPMG has prepared an analysis of FDI in New Zealand based on Overseas Investment Office decisions over the last two years (2013 – 2014). This is the second report prepared by KPMG on FDI, the first being published in 2013.

The purpose of this publication is to aid discussion on FDI, and provide some observable data on the origin of investment and where it is being invested.

We welcome your feedback on the report and any enquiries should you have any questions.

Kind regards

Justin Ensor
Partner

Greg Knowles
Partner – Head of China Business

Report highlights

Report Highlights

- Foreign direct investment has a direct impact on the prosperity of New Zealand, whether this is through cementing trade relationships or creating employment through investment in businesses located in New Zealand. Our analysis highlights that:
  - **Canada was New Zealand's most significant source of FDI** based on gross consideration data provided by the OIO;
  - At first glance, Australia's influence on New Zealand through foreign direct investment appears to have reduced since our last report. However, we suspect that this is primarily due to recent changes to the regulations which have relaxed the requirement for Australian companies to obtain OIO approval rather than a material shift in investment;
  - Our recent experience suggests that many Australian companies are considering investment in New Zealand given NZ's strong economic growth over the last two years;
  - **Approximately 59% of FDI continues to come from North America, Australia and Europe.** Asia accounted for 33% of total investment;
  - **Investment in New Zealand continues to be broad based across a range of sectors;**
  - **China's share of investment has not increased substantially from our previous analysis.** Where investments have occurred they have focused primarily on dairy and real estate development;
  - Net investment equates to approximately 35% of the gross investment figures;
  - The largest 10 transactions in each year account for approximately 64% of the total overseas investment;
  - **Dairy and milk processing investment has increased. It now accounts for over half of all disclosed agribusiness investment.** We expect that investment in processing will reduce in coming years with recent falls in the milk price. However, this may be offset by speculative buying of farms in the event forced sales occur in this sector;
  - **The United States is the largest acquirer of land for the 2013-2014 period,** followed by China and the Netherlands.

Approach

Methodology for analysis of Overseas Investment Office (OIO) data

- The analysis which follows is based on statistics provided by the OIO, combined with an analysis of OIO approvals.
- Where we have reviewed specific approvals, we have adopted the following procedures in analysing the OIO data:
  - The majority of the analyses performed in producing this report has been provided by way of summary data from Land Information New Zealand (LINZ);
  - Where pertinent information could not be obtained via correspondence with LINZ, we have retrieved the relevant information from the decision summary cases on the Overseas Investment Office Website; http://www.linz.govt.nz/overseas-investment/decisions and from the Overseas Investment Office;
  - In situations where application consideration is “confidential”, yet they disclose the consideration as exceeding $100m, we have assumed a value of $100m as the gross consideration;
  - A standardised list of macro industry sectors and their constituent subsectors was used in conjunction with overseas investment decision summary descriptions to guide the categorisation of each application;
  - Country specific contributions are calculated by taking a country’s percentage stake in the applicant and multiplying it by the total consideration stated in the said application;
  - Where “cost of development” has been cited in place of consideration, we have treated the figure quoted as gross consideration;
  - Where the “asset valuation” of the vendor was stated in place of consideration, we have treated the figure quoted as gross consideration; and
  - Where a foreign entity purchases a controlling stake in a New Zealand company, the total land area now controlled by the overseas entity is recorded in the land area statistics.

Caveats to this report

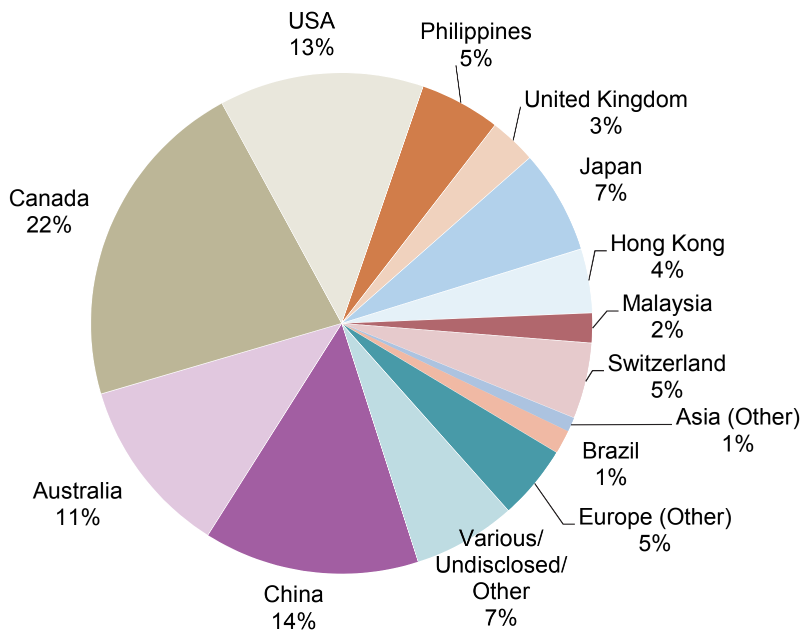
- With the exception of the origin of investment and the land acquisition statistics, there are several caveats to the conclusions drawn in this report. Specifically:
  - A number of transactions are deemed to be confidential. At the country level over the 2013 to 2014 period, over 90% of consideration values were able to be recovered, with the residual being withheld under confidentiality. There are a large number of reasons why information may be confidential, a frequent ground for withholding official information is that the release will result in "prejudice to a person's commercial position“;
  - A number of well known New Zealand listed companies are captured in the data by virtue of their share register containing overseas investors, for example Sky City;
  - Takeovers occurring in overseas markets and IPOs can trigger OIO application requirements in New Zealand markets by virtue of the change in control, for example Metroglass;
  - With the introduction of new regulations, certain Australian investors are no longer required to make an OIO application where the consideration is less than $477 million, and the investment does not include any sensitive land or fishing quota. This is likely to have reduced the level of observed Australian investment relative to our previous report (2013); and
  - Not all OIO decisions necessarily proceed to settlement or result in an investment. Therefore the information cannot be interpreted as actual investment data.

Origin of investment

Key findings

- New Zealand continues to enjoy a wide range of investment interest from countries abroad. KPMG has researched the trends in foreign direct investment through a review of the OIO approvals over the period January 2013 to December 2014, together with statistics made available to us from the OIO.
- **Canada accounted for 22% of foreign investment in New Zealand,** driven in part by two transactions being, the sale of a property portfolio of 18 assets held in the AMP Capital Property Portfolio (APP) to the Public Sector Pension Investment Board ("PSP"), and an increase in PSP's investment in Kaingaroa Timberlands Limited.
- **Despite the media attention, China has not been as dominant in New Zealand** as it has been made out to be, contributing to only 14% of the total foreign direct investment (based on gross consideration);
- **The United States, Canada, Europe and Australia account for approximately 59% of foreign direct investment in New Zealand**;
- Recent changes in the requirements for OIO applications has meant that a number of transactions from certain Australian companies and individuals no longer require OIO approval where their value is less than $477 million, perhaps explaining the lower level of observed investment from Australia. The total overseas investment applications approved by the OIO over this period totalled approximately $14.2 billion. This compares to $18 billion for the two-and-a-half year period 1 July 2010 to 31 December 2012.

Overseas Investment by Region (gross consideration) (Jan 2013 - Dec 2014)



Source: OIO statistics for the period January 2013 to December 2014
Note: Gross consideration includes asset value and development costs, where gross consideration was not specified.

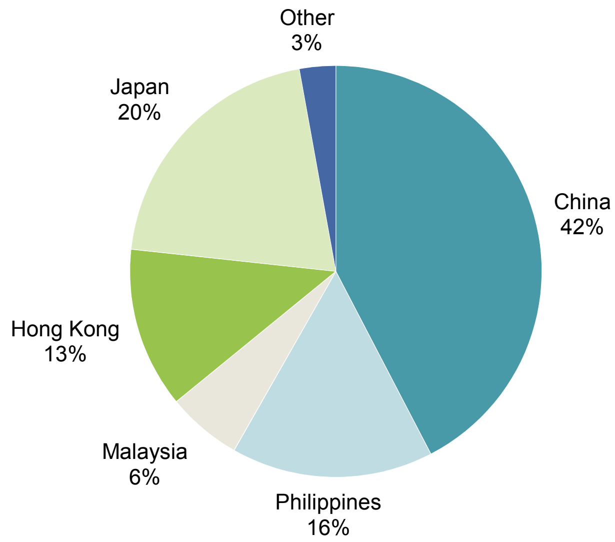
…Canada was New Zealand's most significant source of FDI based on gross consideration.

Investment from Asia

China and Japan remain the key sources of investment from Asia

- China and Japan remain a consistent source of foreign investment in New Zealand, contributing 62% of Asian investments. If Hong Kong is included, this increases to three quarters.
- Asian investment highlights are:
  - Oji's acquisition of Carter Holt Harvey's pulp and paper operations for $1.036 billion (Japan);
  - CKI's acquisition of Envirowaste for $490 million (Hong Kong); and,
  - URC's acquisition of Griffins for $750 million (Philippines). Griffins was previously held by an Australian private equity firm.
- Chinese investment exceeded $1.9 billion over this period. Significant investments include:
  - Beijing Capital's acquisition of Waste Management from Transpacific Industries ($950 million);
  - Yashili's investment into a milk processing plant in the Waikato town of Pokeno. The plant will manufacture paediatric milk powder products ($212 million – 52% China);
  - Yili Group's investment into Oceania Dairy to construct a milk processing plant to produce infant milk formula ($214 million);
  - Lee Island Investments (NZ) acquisition of land with the intention of constructing a six star luxury resort, which will include suites, restaurants, entertainment and business facilities on Pararekau Island ($172 million); and,
  - SFL Holdings Limited's acquisition of Synlait Farms ($85 million – 74% China).
- Interestingly, a significant proportion of investment from China is into new assets, rather than the acquisition of existing assets.

Investment from Asia (Jan 2013 - Dec 2014)



Source: OIO statistics for the period January 2013 to December 2014

…Unlike a large proportion of FDI, China's investment into New Zealand in recent years has included the development of new assets.

…China's investment reflects a focus on dairy.

Top 10 investments by year

Alternate measures of foreign investment

- The table opposite summarises the top 10 transactions in 2013 and 2014. These accounted for approximately 64% of OIO approved investment over the 2013 and 2014 year.
- A number of transaction values are classified as "confidential' and do not appear in the tables opposite. For example, Canada's Public Sector Pension Investment Board investment into Kaingaroa Timberlands Limited is confidential and therefore does not appear in the top 10 list, despite being a substantial asset and a sizable increase in its investment.
- The USA and China accounted for nine of these transactions, reflecting their focus on larger transactions.

Top 10 Gross Considerations 2014

Date	Gross Consideration ($m)	Asset or business trade name of target company	Origin of dominant investor
Nov-14	1,102	AMP property portfolio	Canada
Nov-14	1,037	Carter Holt Harvey	Japan
Jun-14	950	Waste Management	China
Oct-14	750	Griffins	Phillipines
Jun-14	482	Crombie Lockwood	USA
Feb-14	402	Land - New investment	Various Listed
Mar-14	375	Lumley Insurance	Australia
Jul-14	308	Metroglass listing	Various
Oct-14	255	Opus Group	Malaysia
Dec-14	172	Land - New investment	China
Total	**5,832**		

Top 10 Gross Considerations 2013

Date	Gross Consideration ($m)	Asset or business trade name of target company	Origin of dominant investor
May-13	688	Heinz	USA
Nov-13	525	Powerco	Australia
Apr-13	490	Envirowaste	Hong Kong
Aug-13	350	Ezibuy	Australia
Nov-13	234	BOS International	USA
Nov-13	218	OfficeMax	USA
Mar-13	214	Oceania Dairy	China
Mar-13	212	Dairy - New investment	China
Jan-13	153	Endace	UK
May-13	136	Bank Link	USA
Total	**3,220**		

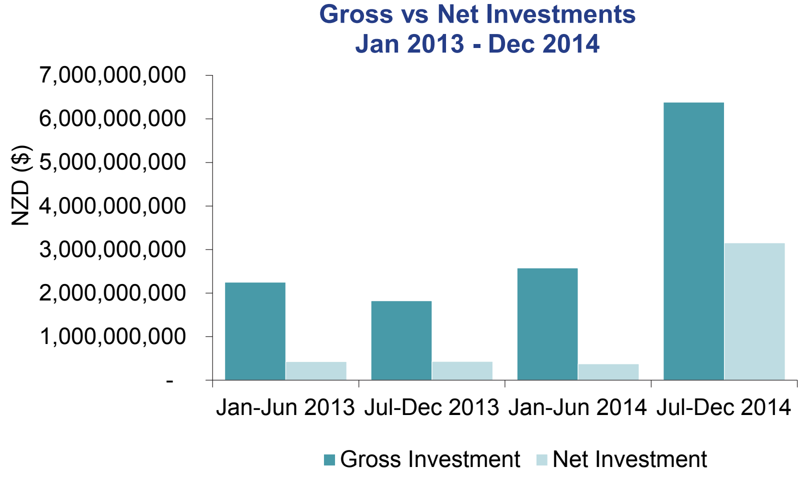
Source: KPMG analysis of OIO approvals.
Note: We have presented the assets acquired based on their trade name for ease of reading, rather than their legal name.

…The United States and China accounted for half of the top 10 transactions by number reflecting their focus on larger transactions.

Gross vs. net investment

Gross investment vs. net investment

- One of the distinctions made by the OIO in its summary statistics relates to the gross value of consideration versus net investment.
- “Gross value of consideration” represents the total consideration including GST (if any) to be paid for the acquisition of the assets, or the value attributed to those assets, under consents granted during the relevant period.
- “Net investment dollars” represent the total dollar value invested in New Zealand. For example, if a New Zealander sells a $100 million business to an Australian then the whole $100 million is added to the net investment total. However, if for instance the New Zealand asset was 100% Japanese owned, then $0 would be added to the net investment total. Thus, the net change in ownership of New Zealand assets is captured in the "total" net investment figure.
- Net investment is arguably the better measure of incremental foreign direct investment in NZ.
- The graph opposite shows the net investment as compared to the gross consideration for applications approved by the OIO.
- Net investment over this period equates to less than 35% of the gross investment figures.
- The last six months of 2014 saw a substantial increase in investments compared to the previous 18 months. Half of this investment relates to three transactions, being the sale of the AMP property portfolio, Carter Holt Harvey pulp and paper and Griffins transaction.



Source: OIO decision summaries

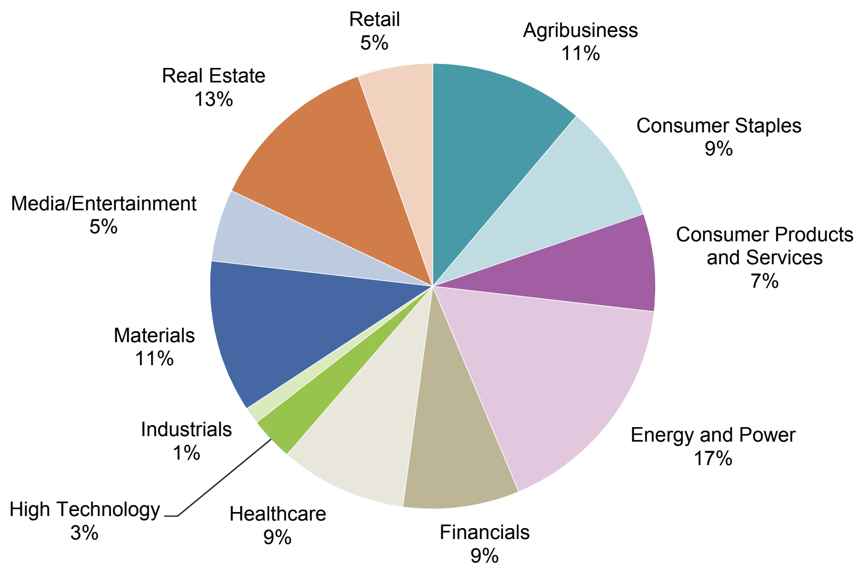
…Net investment equates to approximately 35% of the gross investment figures, broadly consistent with previous years.

Destination of investment

Destination of investment

- Overseas investment in New Zealand continues to be broad based.
- Agribusiness (primary sector) accounted for approximately 11% of total investment. This is consistent with the results of our previous report, which saw 12% of investment directed towards agribusiness.
- Energy and Power, Consumer Staples, and Financial Services also continue to be an area of investment throughout the 2013 – 2014 period, consistent with the findings in our previous report.
- Overseas interest in the New Zealand healthcare sector has grown since our last report. The most notable transactions in this sector is Switzerland based Zuellig Group's acquisition of a 40% stake in EBOS Group Limited, with a total consideration of $658 million.

Total Overseas Investments by Sector (gross consideration) (Jan 2013 - Dec 2014)



Source: KPMG analysis of OIO approvals

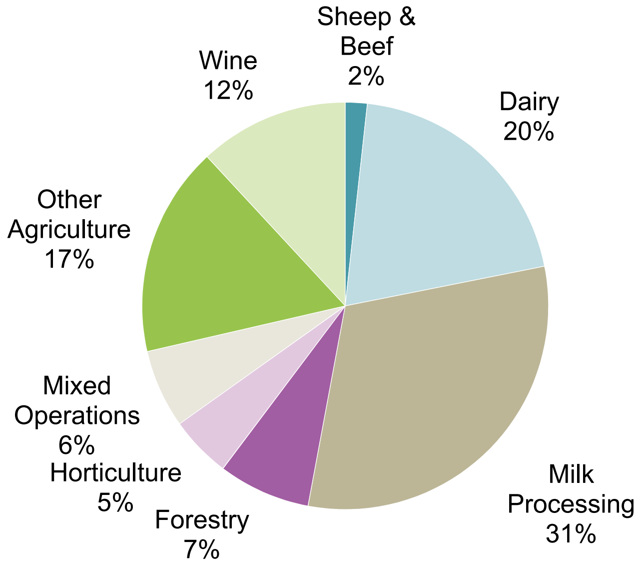
…Overseas investment in New Zealand continues to be broad based.

Agribusiness (primary sector) - Destination of investment

Primary sector / agribusiness investment

- At first glance the dairy sector (including milk processing) remains the most dominant source of investment in the agribusiness segment. The level of investment in the dairy sector has increased from 37% to 51% of disclosed primary sector investment since our last report.
- A large proportion of this investment has been in milk processing. We expect this to slow with the decline in milk prices globally. However, this may be offset by speculative buying of farms in the event forced sales occur in this sector.
- Wine and forestry remain important sectors for foreign investment. Forestry investment is likely to be under-represented due to 'confidential' transaction values being excluded from this analysis. Given the inherent size of these transactions, the relative size of dairy investment may be overstated.

Overseas Investment in Agribusiness (gross consideration) (Jan 2013 - Dec 2014)



Source: KPMG analysis of OIO approvals

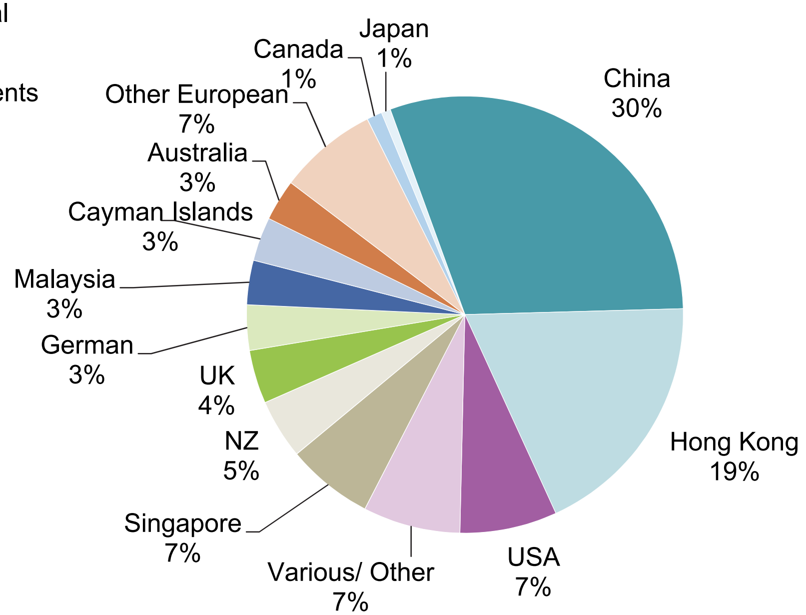
…Dairy and milk processing have increased in significance, accounting for nearly half of disclosed primary sector investment. We expect this to slow with the decline in milk prices globally.

Agribusiness investment

Primary sector / agribusiness investment

- China and Hong Kong represent 49% of the investment in agribusiness with the majority of this being the result of several investments into the dairy sector.
- Canada and the United States have made significant investments into forestry. The confidential status of these transactions has resulted in their exclusion from this analysis. This potentially understates the level of investment out of North America.

Agribusiness investment by Origin (2013 - 2014)



Source: KPMG analysis of OIO statistics

Note: Yashili New Zealand Dairy Co. (52% Chinese owned) was granted a consent to build a $212 million milk processing plant. A year later Yashili was taken over by China Mengniu Dairy Company (Hong Kong Listed). This transaction is reflected in the OIO data twice, due to two applications being required. This potentially causes an overstatement of Chinese and Hong Kong agribusiness investment into New Zealand. If the second transaction is excluded, the combined Chinese and Hong Kong share drops to 41%.

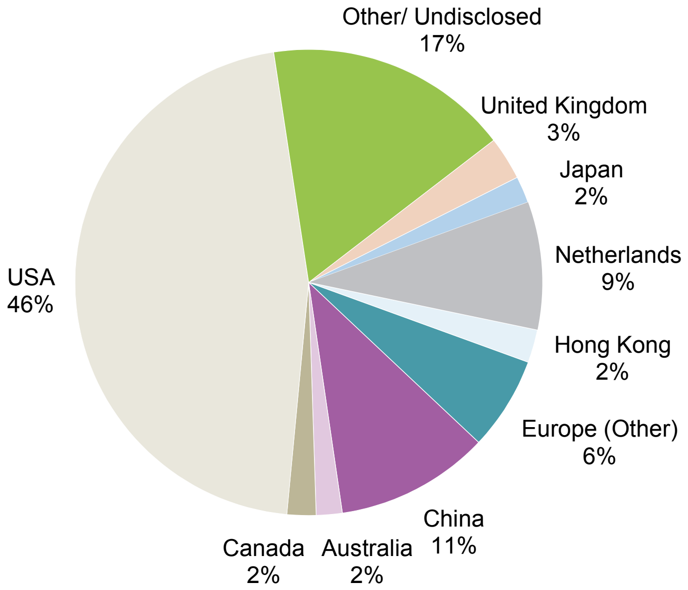
…Asia has had a focus on dairy, North America has a focus on forestry.

Land acquisition by country

Hectares acquired by country

- The United States was the most significant acquirer of land in the 2013-2014 period, totalling approximately 115,000 hectares. This is largely due to one acquisition in 2013 where Rayonier Canterbury LLC (99.9% US owned) applied to acquire an additional 74% holding in Matariki Forests, and Waimarie Forests. China and the Netherlands follow the U.S. with roughly half the number of hectares combined.

Land (Ha) Acquisition by Origin (Jan 2013 - Dec 2014)



Source: KPMG analysis of OIO statistics

Land Area (freehold and leasehold) - Approved acquisition by country (for the period Jan 2013 - Dec 2014)

Country	Business Applications No	Land Applications No	Land Area (Ha 000's)
Europe (Other)	27	91	16
China	10	22	27
Australia	16	44	4
Canada	9	14	5
USA	18	53	115
Other/ Undisclosed	43	75	42
United Kingdom	15	48	8
Japan	3	7	5
Netherlands	4	10	22
Hong Kong	5	22	6
Total	**150**	**386**	**250**

Source: OIO Summary Statistics, KPMG analysis of confidential transactions

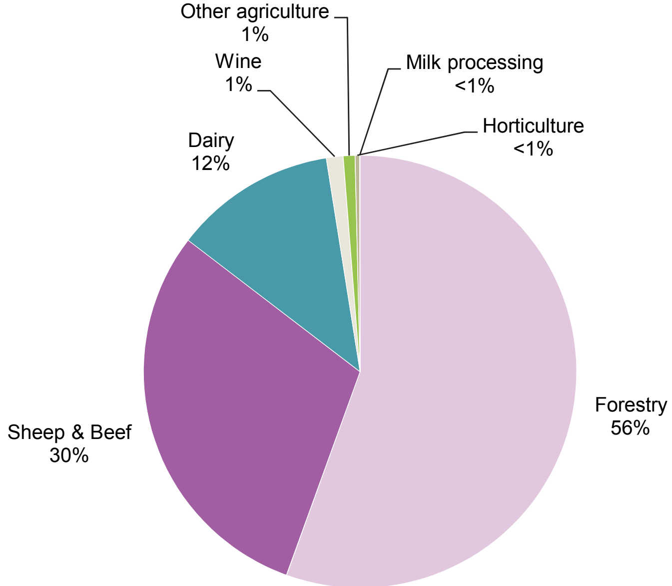
… The United States was the largest land acquirer over 2013 and 2014, followed by China and the Netherlands.

Land acquisition by land use

Hectares acquired by land use (Freehold and Leasehold)

- The table below summarises the freehold and leasehold land acquired for the last five years.
- Forestry accounts for the majority of land acquired in New Zealand, followed by sheep and beef. Dairy comprises 22% of land acquired between 2013 and 2014, up from 6% for the period 2010 to 2012. Over a five-year period dairy land accounts for 12% of land acquired.
- To put land acquisition in context the land acquired over the last five years represents approximately 5% of New Zealand's total agricultural and forestry land area. Some of these acquisition are likely to be the consequence of an exchange of land between two overseas entities, rather than net investment (Note 2).

Land for Agricultural Use (Jan 2010 - Dec 2014)



Source: KPMG analysis of OIO statistics

Land Acquired (freehold and leasehold) for Agricultural Use (Jan 2010 - Dec 2014)

	2010 (Ha)	2011 (Ha)	2012 (Ha)	2013 (Ha)	2014 (Ha)	Total
Forestry	109,744	83,601	29,929	100,580	6,479	330,333
Sheep & Beef	19,177	82,181	6,880	63,606	5,966	177,810
Dairy	5,482	3,526	11,593	32,983	18,418	72,002
Wine	1,060	2,257	306	1,184	2,630	7,437
Other agriculture	2,463	1,144	760	432	460	5,259
Horticulture	36	-	696	232	1,057	2,021
Milk processing	64	49	-	38	1	152
Total	**138,026**	**172,758**	**50,164**	**199,055**	**35,011**	**595,014**

Source: OIO Summary Statistics

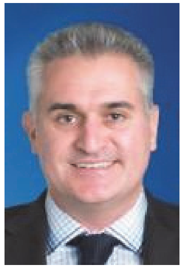
Note 1: The land areas above includes freehold and leasehold land acquired over a five year period. The leasehold land acquired in the last two years equates to approximately 48,000.

Note 2: This estimate assumes that agricultural land accounts for 43% of New Zealand's land area, based on a 2011 World Bank estimate.

Contact details

Contact details

- For further information on this report please contact the following KPMG Partners.

KPMG contacts			
	Contact		Contact
	**Greg Knowles** Partner – Head of China Business T: (09) 367 5989 E: gknowles@kpmg.co.nz		**Ian Proudfoot** Partner – Head of Agribusiness T: (09) 367 5882 E: iproudfoot@kpmg.co.nz
	**Mark Crawford** Partner – Head of Japan Business T: (09) 363 3450 E: mwcrawford@kpmg.co.nz		**Dinesh Naik** Partner – Head of India Business T: (09) 367 5867 E: dnaik@kpmg.co.nz
	**Justin Ensor** Partner – Deal Advisory T: (09) 367 5934 E: jmensor@kpmg.co.nz		**Trevor Newland** Partner – Head of Maori Business T: (07) 858 6560 E: tnewland@kpmg.co.nz

cutting through complexity