ATTACHMENT 8

memo

CAMERON PARTNERS

PRIVATE & CONFIDENTIAL

To: Peter Gudsell, CFO Christchurch City Council
From: Hugo Ellis, Partner Cameron Partners
Date: 12 February 2015

Financial Strategy - Proposed Asset Recycling Programme

Summary

We consider that the quantum and timing of the proposed asset recycling is achievable:

- ***CCC can realise $750 million in asset sales from full or partial sale of some or all of its subsidiaries under current market conditions which are relatively conducive to mergers and acquisitions (M&A) activity and public market listings***
- ***CCC can realise $500 million in assets sales by 30 June 2016 and a further $250 million by 30 June 2017 provided that:***
    - ***CCC begins preparation for the asset sales shortly and commences actual sale processes almost immediately at the completion of the LTP consultation***
    - ***CCC establishes processes that ensure timely decision making***
- ***The book values of CCC's subsidiaries is an appropriate proxy for their market value although actual sale proceeds may differ depending on the final structure and terms of any sale***

Introduction

You have asked us to review the proposed asset recycling programme contained CCC's latest draft financial strategy (Financial Strategy III) and briefly comment on whether:

- The quantum of the proposed capital recycling is achievable under current market conditions
- The proposed timing is achievable
- The book value of the CCC subsidiaries likely to be part of any asset recycling is an appropriate proxy for market value (and also sale proceeds)

Key assumptions in the latest draft financial strategy in relation to the proposed asset recycling programme are:

- Aggregate sale proceeds $750 million
- $500 million realised by 30 June 2016
- Remaining $250 million realised by 30 June 2017

Quantum of asset recycling programme under current market conditions

We consider that CCC can raise up to $750 million from asset recycling under current market conditions

- CCC's commercial subsidiaries have total 'book' equity value of over $1.8 billion (as discussed below we believe book values are an appropriate proxy for market value and basis for calculating potential sale values) and the proposed $750 million capital raise represents less than half of this

- Given the quantum and announcements to date it appears likely that CCC will wish to implement the proposed $750 million capital raising through more than one transaction (although a full sale of CCC's Orion stake could conceivably achieve its $750 million capital release objective). These sales could be implemented through either:
  - Private (ie unlisted sales to 'trade', financial, public sector or other buyers) and/or
  - Public market (ie listed) sales

- Both the M&A environment (private market) and the public IPO market are currently relatively buoyant (see appendix 1 and 2)

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- Market conditions can change although we note it is likely that a considerable part of the asset sale programme will occur through private sales involving trade / strategic partners. These potential buyers are generally well capitalised and while changes in market conditions are likely to be reflected in changes in their views on value they are unlikely to affect their willingness to participate in CCC's asset sales programme

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- In general (and with a transparent and well-managed sale process, appropriate sale structure and terms) we consider the CCC commercial subsidiaries to be relatively 'saleable' – ie that there will be reasonable demand for the assets and that sales could be achieved at close to 'fair' value. In particular we note that Orion, LPC and CIAL (representing over 85% CCC's commercial subsidiaries portfolio commercial value) are mature, stable 'infrastructure' assets and we already are aware of considerable investor interest in these assets

- Notwithstanding, the structure (eg % shareholding sold; listed vs unlisted) and terms of any sale (eg potential non-value maximising CCC requirements) will impact the appetite from potential investors and therefore potential sale proceeds and ultimately the saleability of the assets (see section on book value vs market value and realisable sale value below). In this regard we note that the Council has announced some specific preferences for the asset recycling programme (eg regarding % shareholdings and the nature of the investor – such as a strategic investor or public entity – see appendix 3) which may potentially have implications on the saleability and values achievable from certain transactions. We understand that the final decisions relating to the proposed asset recycling programme will not be made until after the LTP consultation process and these preliminary announcements may change

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Timing of asset recycling programme

We consider that CCC can realise $500 million in assets sales by 30 June 2016 and a further $250 million by 30 June 2017

- From this point in time the proposed capital release deadlines provides ~17 months and ~29 months to raise $500 million and a further $250 million respectively from asset sales. However, CCC cannot commence any sale processes until the LTP consultation process has been completed at 30 June 2015. This allows 12 months to raise $500 million and 24 months to raise a further $250 million

- In our experience a full sale process takes between 4 to 8 months to complete. Allowing for some of the idiosyncrasies likely to be associated with any CCC asset recycling 12 months is a reasonable period for CCC to implement an orderly sale process or processes

- Notwithstanding, sales processes (both private and public market) require numerous timely decisions and raise potential legal issues for Councillors. Accordingly we consider it will be critical that CCC has appropriate processes in place and support from advisors to ensure that this can occur. We understand that CCC is currently establishing new structural arrangements and processes with this in mind

Book value vs market value and realisable sale value

The book values of CCC's subsidiaries is an appropriate proxy for their market value although actual sale proceeds may differ depending on the final structure and terms of any sale

- We have not undertaken a detailed valuation analysis. Our high-level analysis (see appendix 4) supports the book values and that these represent a fair proxy for likely market values:
  - The book values are based on DCF; Net Asset Values and in the case of LPC recent market data (and the low end of an independent valuer's valuation range) analysis prepared by EY
  - We have cross-checked these using earnings multiple analysis for comparable companies

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- It is possible that through the sale process strategic partners could add value to existing business plans (eg through synergies and additional capabilities). In the event that higher value can be created CCC may be able to achieve sale values over and above current book values although this will depend on the:
  - Sale structure and terms - ie:
    - Economic rights – eg % shareholding; CCC potential requirements for non-value maximising behaviour

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- Control rights – eg the ability to influence the strategy, business plan, management, implementation etc
- Liquidity / exit rights – the ability to sell a stake at 'fair' value

- Sale process - an appropriate competitive process is typically required to 'extract' some of the value added by a strategic partner

- Conversely current book values effectively reflect the value of the subsidiaries under the current ownership, business plan and management and full control. If a minority stake with limited control and exit rights only is sold, potential investors will typically require a discount

- Consequently the specific details of any transaction will impact the premium or discount (if any) to book/market value and the sale proceeds that can be obtained. Council will need to consider these trade-offs when it makes its final sale structure and sale process decisions

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Conversely strategic partners could add value to existing business plans. To the extent that higher value can be created and arrangements with partners / buyers via shareholders' agreements provide them with substantial control rights, buyers are likely to pay full value for their stake, including some of the potential higher incremental value assuming an appropriate competitive process can extract some of this value. In this situation higher values than current book values could potentially be achieved

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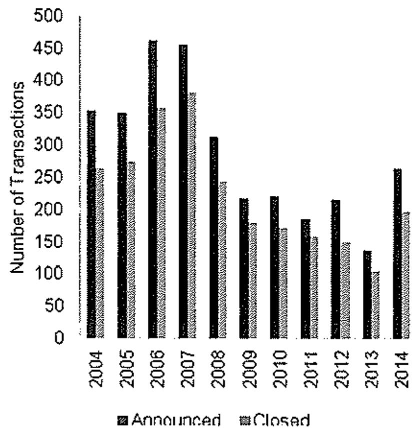
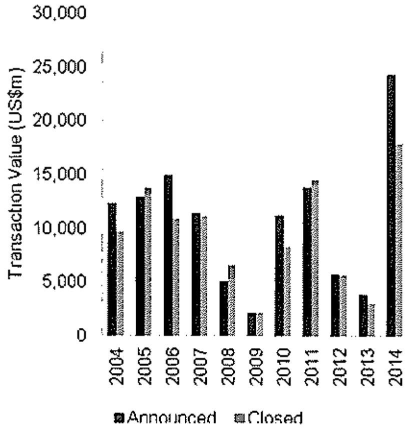
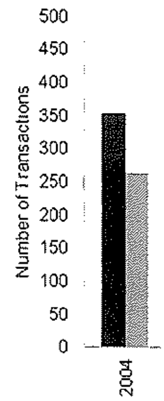
Appendix 1 – New Zealand M&A activity[1]







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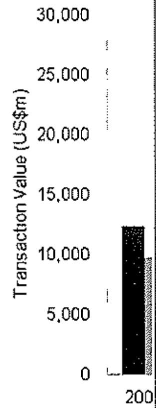

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[1] Source: Thomson & Reuters

Appendix 2 – New Zealand Public Market / IPO conditions

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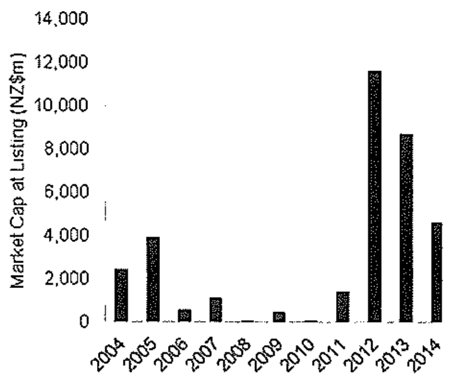

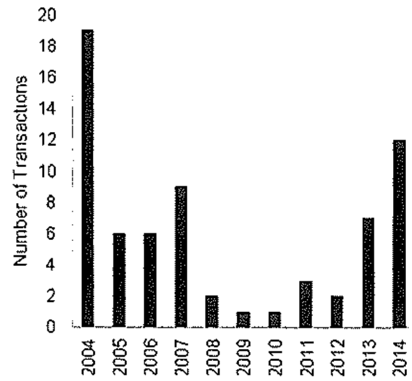

Global markets remain volatile, but investors have appetite for strong investment propositions in a low interest rate environment

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- There is over $100 billion of retail funds in New Zealand bank accounts earning a low interest rate (a 27% increase since December 2008)
- KiwiSaver funds of $15.2 billion are building strongly and are expected to strongly benefit New Zealand institutions' funds under management (FUM) going forward. KiwiSaver net inflows are projected to be in the order of $750 million to $1 billion per quarter over the next two to three years
- We assess the FUM of New Zealand institutions to be over $12.5 billion due to large gains in the NZX50 market capitalisation and growth in KiwiSaver FUM (of which New Zealand equities account for 9.8% and this is expected to increase)

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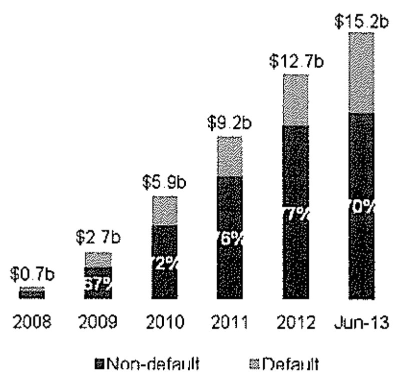
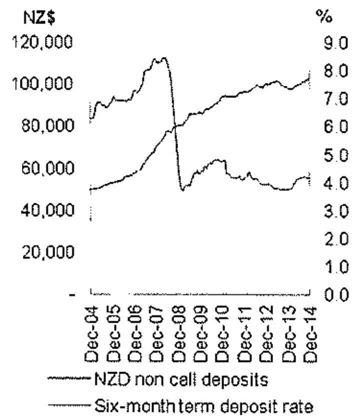
Analysis NZ KiwiSaver schemes[2]



Non call bank deposits and interest rates[3]



[2] Source RBNZ
[3] Source: Report of the Government Actuary

Appendix 3 – Capital Recycling - Council Announcements

On 5 December 2014, the Council announced decisions relating to a number of capital recycling and capital management / restructuring options for public consultation, including:

- The sale of up to 34% of LPC to a suitable strategic partner
- The sale of 9% of CIAL to a suitable strategic partner
- The sale of 14.3 % of Orion on condition that the shares are only offered to another public entity, such as another TA, or an institutional investor such as NZ Super Fund, and that any agreement would be subject to the shares returning to CCC should the investor wish to sell down its share at a future date
- The $90 million capital repayment from Orion
- The facility to raise up to $150 million through preference shares when and if required over the term of the LTP either as a form of bridging finance or in the event other assumptions underpinning the strategy are not realised
- A resolution to consult on the removal of specified assets from the Council's current list of strategic assets. This consultation will take place as part of the LTP consultation and be on the basis that those specified assets removed from the list of strategic assets can be sold without further public consultation, provided that all statutory requirements are met
- Agreement to consult the public on reducing CCHL's interest in CIAL, LPC and Orion

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Appendix 4 – High-level value analysis

We have reviewed the major CCC subsidiary companies' book values reasonableness. Book values are based on valuations undertaken by EY, with the exception of LPC.

CCC Subsidiary Equity Values and Implied EBITDA multiples

Company	Book Value	CCC % Ownership	Total Equity Value	Net Debt (Jun 2014)	EV	FY14A EBITDA	FY15F EBITDA	FY14 Multiple	FY15 Multiple
CIAL	534	75%	712	306	1018	79	96	12.9x	10.6x
Orion	753	89.3%	843	76	919	109	112	8.4x	8.2x
LPC	343	100%	343	0*	343	33	27	10.4x	12.6x
City Care	136	100%	136	17	154	29	27	5.4x	5.7x
Enable	44	100%	44	100	143	(3)	(3)	NA	NA
Red Bus	23	100%	23	(5)	18	1	2	12.8x	10.5x
EcoCentral	12	100%	12	5	17	3	3	5.0x	5.7x
Total	**1,845**		**2,113**						

Source| CCC, Capital IQ
**LPC currently holds significant cash holdings as a result of a large insurance payout. However, these funds are allocated to port repairs. We have made an assumption of zero debt for EV purposes.*

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The CIAL valuation implies multiples of 12.9x historic and 10.6x forecast EBITDA. The EY valuation basis was a discounted cashflow (DCF) valuation for the core airport operations and net asset value (NAV) for property holdings.

The implied forward multiple of 10.6x compare to forward EBITDA multiples for Auckland International Airport and Sydney Airport of 18.4x and 18.8x respectively. However, the median and mean for forward EBITDA multiples for the entire global set are 12.5x and 13.0x respectively. We would expect CIAL to be valued at a discount relative to Auckland and Sydney, which are primary hub airports for New Zealand and Australia.

We consider the CIAL valuation to be reasonable given the comparable multiples.

Orion

The Orion valuation implies an EBITDA multiple of a little over 8x (8.4x historic and 8.2x forward). EY used a DCF analysis as the basis of its valuation.

The Orion EBITDA multiple compares to a historic multiple on Horizon of 8.0x and Vector multiples of a little over 9x. The Australian comparables of Spark Infrastructure Group and Ausnet services are trading at higher multiples, with forward EBITDA multiples of 11.7x and 10.5x respectively.

We consider the Orion valuation to be reasonable given the comparable multiples.

LPC

The LPC book valuation of $343 million implies a per share value of $3.35 (based on 102 million shares outstanding). CCHL's takeover offer of $3.95 implied an equity valuation of $404 million. The share price prior to the takeover announcement on 1 August 2014 was $3.30, and the independent advisor report provided a reasonable range of $3.35 to $3.65. The book valuation implies historic and forward EBITDA multiples of 10.4x and 12.6x respectively.

The LPC multiples compare to Port of Tauranga historic and forward multiples of 20.5x and 18.4x respectively, and an historic South Port EBITDA multiple of 8.9x. We do not consider Marsden Maritime holdings a comparable port, due to its land holdings and only 50% share in Northland Port Corporation.

We consider the LPC valuation reasonable, relative to other port valuations and the recent independent appraiser's report.

City Care

The City Care valuation is based on EY's DCF valuation analysis, and implies an historic and forward EBITDA multiples of 5.4x and 5.7x respectively.

While comparable companies for City Care are limited, we do not believe those selected raise any issues with the implied City Care multiple. Leighton Holdings trades on a 5.5x forward EBITDA multiple, while Downer EDI trades on only a 3.9x multiple. In New Zealand Fletcher Building trades on an 8.2x forward EBITDA multiple

We consider the City Care valuation reasonable in light of the limited comparable company data.

Enable

Enable is valued by EY based on its net asset value. Enable is still building the required infrastructure and incurring operating losses. Future forecasts of fibre uptake are uncertain making a DCF valuation difficult. We do not know of appropriate comparable companies (we have shown Chorus, but note their existing copper infrastructure impacts comparability). Enable's operating losses prohibit comparable company EBITDA multiple analysis at any rate.

We note simply that the valuation implies that CCHL's investment in Enable is not impaired. We consider this assumption reasonable given the early stage of the business.

Other Subsidiaries

We have not assessed the valuations of the smaller subsidiaries of Red Bus and Eco Central, which were valued by EY on a net asset value basis and DCF basis respectively.

CCC Subsidiary Trading Comparables

	Country	Market Cap	EV	EV/EBITDA Historic	EV/EBITDA Forward
Christchurch International Airport Ltd.	New Zealand	712	1,018	12.9x	10.6x
Auckland International Airport Limited	New Zealand	5,405	6,903	19.5x	18.4x
Sydney Airport Limited	Australia	11,946	18,542	18.7x	18.8x
Aéroports de Paris Société Anonyme	France	15,722	20,451	12.7x	11.8x
Fraport AG	Germany	7,473	13,060	9.7x	10.8x
Københavns Lufthavne A/S	Denmark	5,247	6,178	15.7x	NA
Flughafen Zuerich AG	Switzerland	5,716	7,029	9.2x	9.4x
Japan Airport Terminal Co., Ltd.	Japan	4,478	4,828	22.8x	17.6x
Flughafen Wien AG	Austria	2,456	3,262	9.0x	8.4x
Save SpA	Italy	1,081	1,255	15.2x	13.6x
Società Aeroporto Toscano (S.A.T.)	Italy	217	230	15.7x	NA
Aeroporto di Firenze S.p.A.	Italy	208	226	24.3x	NA
Malaysia Airports Holdings Bhd	Malaysia	3,626	5,111	17.8x	15.7x
Shanghai International Airport Co., Ltd.	China	8,541	7,495	11.9x	10.7x
SATS Ltd.	Singapore	3,384	3,205	13.3x	13.0x
Shenzhen Airport Co., Ltd.	China	2,261	2,500	12.0x	12.0x
Hainan Meilan International Airport Company	China	616	676	6.6x	NA
Aerodrom Ljubljana	Slovenia	356	305	18.6x	16.6x
Guangzhou Baiyun International Airport Co., Ltd	China	2,620	2,169	5.0x	5.3x
Median				**14.3x**	**12.5x**
Mean				**14.3x**	**13.0x**
Orion New Zealand Ltd	New Zealand	843	910	8.4x	8.2x
Horizon Energy Distribution Ltd.	New Zealand	77	119	8.0x	NA
Vector Limited	New Zealand	2,927	5,405	9.6x	9.2x
Spark Infrastructure Group	Australia	3,431	4,305	13.6x	11.7x
AusNet Services	Australia	41,729	5,233	10.3x	10.5x
Median				**10.0x**	**10.5x**
Mean				**10.4x**	**10.4x**
Lyttelton Port Company Limited	New Zealand	343	343	10.4x	12.6x
The Port of Tauranga Limited	New Zealand	2,431	2,689	20.5x	18.4x
South Port New Zealand Limited	New Zealand	104	109	8.9x	NA
Marsden Maritime Holdings Limited	New Zealand	114	112	13.9x	NA
Median				**13.9x**	**18.4x**
Mean				**14.4x**	**18.4x**
City Care Ltd.	New Zealand	136	154	5.4x	5.7x
Downer EDI Limited	Australia	1,885	2,308	3.6x	3.9x
Leighton Holdings Limited	Australia	7,667	8,760	10.7x	5.5x
Fletcher Building Ltd.	New Zealand	5,722	7,405	9.1x	8.2x
Median				**9.1x**	**5.5x**
Mean				**7.8x**	**5.9x**
Enable Networks Limited	New Zealand	44	100	NM	NM
Chorus Limited	New Zealand	1,146	2,944	5.0x	4.9x

Source| Capital IQ

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