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Utilities stocks take on shine

By SIMON HARTLEY

DEFENSIVE utilities stocks — primarily in New Zealand's electricity sector — are expected to play a bigger role in investors' portfolios this year after a "lacklustre" performance in 2009.

While lacking in gains from growth, the utilities stocks of generators/retailers Contact Energy, with a $3.7 billion market capitalisation; TrustPower with $3.84 billion; Infratil with $904 million; and lines companies Vector with $497 million and Horizon Energy with $76 million, offered secure cashflows and reliable dividends, Craigs Investment Partners broker Peter McIntyre said

"Utilities have the possibility of outperforming other stocks this year after a lacklustre showing in 2009," Mr McIntyre said.

Utilities stocks are often viewed long term as a good hedge against inflation. They offer strong cashflows from supplying the wider public with services, and subsequently provide reliable dividend payouts.

Mr McIntyre said following the equity market bottoming out in March last year, investors left the defensive "relatively conservative" utilities stocks to seek gains elsewhere in riskier stocks, such as the rebounding resource sector.

"[However,] it's not all clear sailing ahead for the utilities sector", Mr McIntyre cautioned.

He said the sector was "wide open" to "wildcard" interference from Government regulation and also noted natural gas prices rose 25% last year.

Generators such as Contact rely on gas to boost their share of the country's generation, of which 25% is supplied through gas-fired production.

There were also opportunities for investors in Australian utilities, with the New South Wales Government preparing to privatise its large electricity-generating assets and client bases, Mr McIntyre said.

Buyers could include Australian-listed Origin Energy, which owns 50.1% of Contact and has a $A15.1 billion ($NZ18.9 billion) market cap, or gas and electricity generator and lines company AGL Energy Ltd, with 3.2 million customers and a $A6.4 billion market cap.

"The New South Wales privatisations could raise anywhere from $A500 million up to $A3 billion, depending on which customer base is acquired. Should some of the foreigners decide to depart, chunky portfolios of generation and retail assets could also come up for grabs," he said.

On Wednesday, the New South Wales Government released its sales market strategy, to sell electricity trading rights and future generation sites to its electricity retailers.Its existing generators will not be sold.

In a statement, Finance Minister Joe Tripodi said there were cashed-up companies willing to buy, and interest from Chinese investors was welcome. He hoped sales could be finalised by the end of the year.

Chief investment officer of New Zealand Funds Management Michael Lang told NZPA despite the country going through one of the worst economic crises in the past hundred years, power companies had still reported double-digit growth.

"New Zealand households did not hesitate to turn on their electric heaters."

Even during the 1992 hydro lake-level crisis, efforts by New Zealanders to cut power consumption, involving cold shower campaigns and major cuts by business users, resulted in only 15-20% reductions, Mr Lang said.

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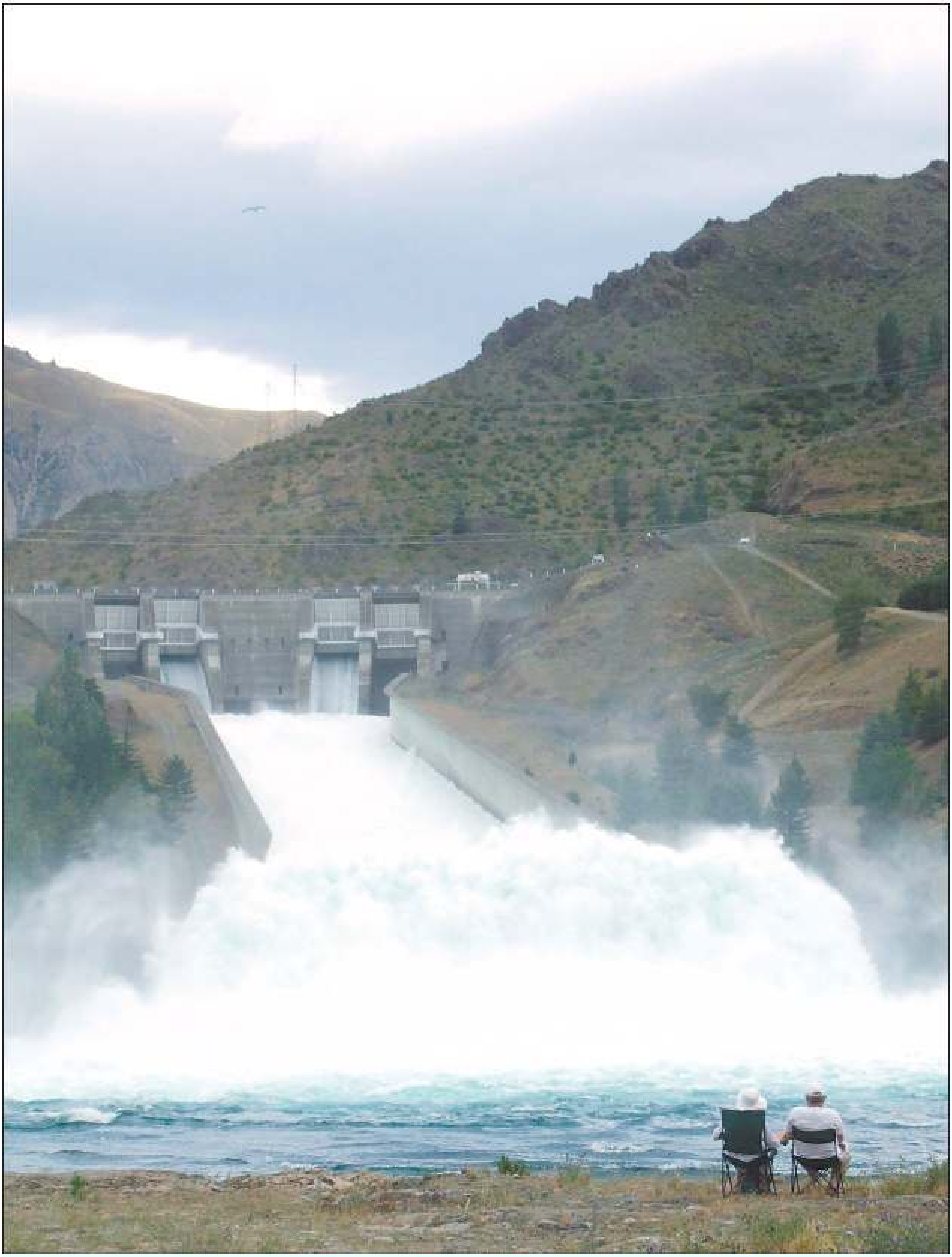

Power play . . . the defensive stocks of New Zealand and Australian electricity generators will be under investor scrutiny this year. A couple watch spilling from Benmore dam a year ago (January 9, 2009).

PHOTO: SALLY RAE