

FLOW & EBB

THE FLOOD OF LIQUIDITY THAT HAS FLOWED TO FINANCE COMPANIES OVER THE LAST DECADE HAS EBBED. SOME HAVE NOT SURVIVED. WHAT ARE THE IMPLICATIONS FOR THOSE THAT REMAIN?



NEW ZEALAND FINANCE COMPANIES REPORT 2007

FOR EVERY BORROWER THERE IS AN INVESTOR. THIS REPORT PROVIDES THE ESSENTIAL TOOLS TO ASSIST INVESTORS IN CHOOSING A QUALITY FINANCE COMPANY.



New Zealand

Finance Companies

Sector
Research

Where to from here?

Much of the New Zealand finance company sector faces a crisis of confidence. The collapse of 12 companies in eighteen months has delivered a series of body blows to the sector's credibility and stability.

A tarred brush is having a significant impact on investment flows. For the worst prepared companies, the resulting ebb in sector liquidity has delivered their collapse in a matter of days.

But despite the apparent gloom, most of the sector remains, on paper, in good health. Profitability has been strong, liquidity has improved and the quality of loan books remains generally sound.

As most of the failures have demonstrated however, past performance is no guarantee of future success. Debenture flows have declined markedly since the start of most 2007/08 financial years, particularly for smaller companies. With over three-quarters of sector funding traditionally sourced from the public, companies will need to continue to adapt rapidly.

The singular and collective challenge for all companies is to reinforce to the investor, the sector, and the wider economy, the vital importance of finance companies in New Zealand's funding mix. This will take time, and with the likelihood that further companies will fail along the way, the battle to restore confidence will be hard-fought.

In the meantime, the focus for all companies will fall increasingly on asset and liability management. Funding line diversity is already proving important for those that have it. Non-debenture financing is set to become a more prominent feature on finance company balance sheets, but only for those companies able to secure it.

For companies starting on the back foot with weaker loan books, unbalanced maturity profiles and tighter funding lines, the road ahead may prove too much. For companies starting from relative positions of strength, there will be both challenges and opportunities.

All companies, regardless of size, are likely to be considering consolidation options over the next 12-24 months. Some will be beneficiaries, most will not.

This report provides an update to our March 2006 report on the sector. As well as addressing these issues, it discusses the impact of global events since then on the domestic finance sector. The report includes an analysis of the major company failures to identify common risk markers. It also presents an applied analysis of the impact of drying debenture flows on finance company loan books, the results of which give reason for both concern and optimism.

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