Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)

Yovich & Co. Market Update

31st August 2023

	NZX 50G	XAO	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	12056.15	7622.16	3291.04	7699.41	35559.53	14346.02	0.9243	0.6207	5.50%
Month Close	11554.48	7517.78	3119.88	7439.13	34721.91	14034.97	0.9202	0.5967	5.50%
Change	-4.16%	-1.37%	-5.20%	-3.38%	-2.36%	-2.17%	-0.45%	-3.87%	0.00%

All major indices we monitor experienced a decline for the month. The NZ dollar also depreciated against the AUD and USD. Historical data indicates that August is often one of the more unstable and more volatile months. The decision last month by the Bank of Japan to increase its cap on Japanese government bond yields likely played a role. Additionally, Fitch's decision to downgrade the US credit rating may have had an impact. Some optimists might argue that these elevated bond yields are positive, suggesting that markets are growing more hopeful about the economic future. Regardless, after accounting for inflation, bond investors are left with a higher yield, meaning "real" returns have improved. This situation poses a challenge for shares, as conservative assets become more attractive in comparison. Historically, September has proven even more challenging for investors. Year to date, the NZX50 has grown by 0.71%, the US by 17.59%, and Australia by 4.10%.

The biggest movers of the month ending 31th August 2023				
Up			**Down**	
SKYCITY (SKC.nz)	6.28%		Pacific Edge (PEB.nz)	24.46%
Air New Zealand (AIR.nz)	3.21%		Synlait Milk (SML.nz)	19.25%
Fonterra Share Holders Fund (FSF.nz)	3.06%		Investore Property Group (IPL.nz)	14.97%
Infratil (IFT.nz)	2.54%		Vista Group (VGL.nz)	14.87%
Vulcan Steel (VSL.nz)	1.67%		Fletcher Building (FBU.nz)	13.29%

On 16 August, the Monetary Policy Committee (MPC) maintained the Official Cash Rate (OCR) at 5.5%. This decision emphasises the OCR's role in regulating spending and managing inflation, consistent with the Committee's objectives. The primary goal remains: to achieve an annual consumer price inflation rate of 1 to 3% while maintaining employment levels. As anticipated, certain sectors of the New Zealand economy have decelerated due to interest rate dynamics. Additionally, labour shortages have diminished due to decreased demand and increased immigration. Although global economic growth lags, core inflation remains high in several countries. The Committee remains confident that sustained higher interest rates will eventually align inflation with the target range. This strategy reflects the Committee's commitment to both controlling inflation and supporting strong employment levels.

To counteract non-tradeable inflation, the IMF provided recommendations in the New Zealand 2023 Article IV Consultation. These include continuing current monetary tightening policies and emphasising the need for medium-term fiscal consolidation. This combined strategy aims to reinforce rebalancing efforts and create flexibility to address ongoing challenges related to demographic changes and climate change. The IMF endorsed enhancing discretionary spending efficiency and praised the reintroduction of fiscal rules. They also lauded the government's dedication to fiscal sustainability. In alignment with these recommendations, the government introduced a plan expected to reduce spending by approximately $4b, achieved by implementing stricter expenditure controls.

In Jerome Powell's "Progress and the Path Ahead" speech on 25 August, the message was clear: "The Fed’s job is to bring inflation down to our 2% goal, and we will do so." Restrictive monetary policy has tightened financial conditions, and bank lending standards have become more stringent, contributing to a slowdown in economic activity growth. The Fed remains vigilant for signs that the economy might not be cooling as anticipated. The labour market's rebalancing has progressed

Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)

over the past year but is not yet complete. Labour supply has improved, and wage pressures have relaxed. The expectation is that labour market rebalancing will persist. Indications that labour market tightness isn't easing could necessitate a monetary policy response (hawkish).

The NZ Interest Rate Swaps we monitor (2, 5, and 10-year) experienced significant fluctuations in August. The first half saw a trend sideways, with a sharp rise on the 15th, peaking on the 22nd, followed by a decline to end the month. US rates also had a rocky month. The second quarter offset gains from the first quarter, with rates peaking on the 22nd and then mirroring the NZ trend to conclude the month lower. Why such volatility? Interest Rate Swaps are highly sensitive to economic forecasts, influencing future interest rate expectations. If swap rates rise, retail interest rates are also expected to increase. OCR changes have a more pronounced effect on short-term rates. Presently, we observe longer-term rates below short-term rates, indicating an inverted yield curve. This suggests investors anticipate a long-term trend of falling interest rates.

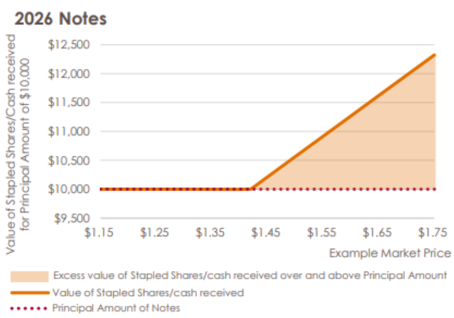
Investment News

Infratil Limited Infrastructure Bond (IFT210.nz) Rollover

Infratil is offering 7½ year fixed-rate infrastructure bonds (2031 Bonds) that will mature on 15 March 2031. The offer consists of a Firm Offer for up to $50m of bonds, with the option for oversubscriptions of up to $25m, and an Exchange Offer for NZ resident holders of maturing 2023 Bonds. The Interest Rate for the 2031 Bonds will be the greater of 7.05% per annum or the sum of the Issue Margin and Base Rate determined on 1 September 2023. The Issue Margin will be set within a range of 2.40% to 2.55% per annum. The Exchange Offer opens after the Firm Offer closes, and all eligible 2023 Bond holders can apply to exchange their holdings. For more details and application information give us a call.
Coupon Rate: 7.08%.

Precinct Properties (PCT.nz)

Has initiated an offer for up to $150 million of subordinated convertible notes, comprised of two series: the 2026 Notes and the 2027 Notes. There's an option for an additional $50 million oversubscription at Precinct NZ's discretion. The offer includes a Shareholder Priority Offer of up to $25 million across both series of notes. The Notes will convert into Precinct NZ ordinary shares. The offer will open on 4 September 2023, with a Shareholder Priority Offer closing on 7 September and a General Offer closing on 8 September. The Notes will pay fixed interest rates over 3-year and 4-year terms. Conversion to shares is based on the Conversion Price (capped at $1.42 and $1.46 for the 2026 and 2027 Notes respectively). At conversion if the market price is greater than the conversion price investors will make a capital gain. Conversely if market price is lower than conversion price there is no capital loss for the investor. Alternatively, the investor may choose to cash out their Notes. The Notes are expected to be quoted on the NZX Debt Market.



Current Share Price: $1.215, **Consensus Target Price**: $1.31, **Consensus Forecast Dividend Yield**: 5.58%.

Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)

Company spotlight - Freightways (FRW.nz)

Continuing from Mainfreight, we turn our attention to another key player in the NZX transport sector: Freightways.
The company went public in September 2003, subsequent to the sale of shares in Freightways Group Ltd. This listing came after the 2002 acquisition of the businesses under AUSDOC, the parent company of Freightways Express Ltd (FXS). Following this, Freightways was restructured as a wholly-owned subsidiary of the selling entity, securing a complete 100% ownership of FXS.

Currently, Freightways boasts a vast network of facilities stretching from Whangarei to Invercargill, further bolstered by a strong foothold in the Australian market. These two markets synergistically contribute to the company's revenue, with New Zealand accounting for 70% and Australia the remaining 30%. Freightways operates in four distinct business sectors: Express Package and Business Mail, Temperature-Controlled Logistics, Information Management Services, and Waste Renewal.

Express Package Business: Freightways' multi-brand strategy in the Australasian courier and business mail markets is tailored to cater to a diverse range of customer needs and delivery timeframes. In New Zealand, courier operations share branch networks, air and road linehaul, and IT infrastructure. This portfolio encompasses brands such as New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express, STUCK, and Pass the Parcel. They provide airfreight capabilities for overnight Express Package delivery services through their joint venture airline, Parcelair, in collaboration with their linehaul partner, Parceline. In Australia, the national network is spearheaded by Allied Express, which offers a comprehensive range of national, local, and third Party Logistics (3PL) courier services. Additionally, DX Mail stands out as New Zealand's sole dedicated business mail specialist, delivering time-sensitive physical postal services.

Temperature Controlled: Their national temperature-controlled business is made up of Big Chill Distribution and ProducePronto. Together, they adeptly cater to the chilled logistics needs of Kiwi businesses. By merging the chilled national linehaul with an urban chilled van network, Freightways offers national delivery, same-day delivery, and both 3PL & 4PL services under one efficient umbrella.

Information Management: The Information Management Group (TIMG) assists businesses in safeguarding and enhancing the value of the data entrusted to Freightways. They provide physical storage and information management services, complemented by digital information processing services like digitalisation, business process outsourcing, online backup, and eDiscovery services. This year, Freightways expanded the use of their storage facilities by launching an eCommerce 3PL service named Stocka.

Outlook:
Freightways has underscored the challenges faced over the past six months, with similar hurdles anticipated in FY24. Volumes from existing customers have decreased, though this has been partly offset by new client acquisitions. While tight labour markets are showing signs of relaxation, Freightways anticipates an effective rate increase of approximately 5.5% in the EP business. However, the company remains vigilant about rising costs. A dual listing on the ASX is expected for the first half of 1H24. The company experienced a significant decline of 53.6%, with profits plummeting to $37.4 million. To counteract these setbacks, Freightways has sharpened its focus on cost management, encompassing measures like a hiring freeze and branch-level efficiencies.

Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)

WEALTH MANAGEMENT

Freightways Metrics	2023A	2024 Forecast	%Change	2025 Forecast	%Change	2026 Forecast	%Change
EPS Normalised	0.431	0.4808	11.57%	0.5502	14.41%	0.622	13.05%
Cash EPS	0.8922	0.912	2.22%	0.9936	8.94%	1.0826	8.96%
Cash Flow / Share	0.8908	0.9182	3.07%	0.9947	8.33%	1.0698	7.55%
Dividend Per Share (DPS)	0.37	0.3816	3.1%	0.4379	14.74%	0.492	12.35%
Price per Earnings (PE) Ratio	19.9304	17.8642	-10.38%	15.6134	-12.59%	13.8103	-11.54%
Net Asset Value / Share	-1.06	-1.0329	-2.56%	-0.9699	-6.10%	-0.8925	-7.98%
Book Value / Share	2.6839	2.7347	1.89%	2.8336	3.61%	2.9194	3.03%
Gross Dividend yield (%)	6.00	6.20	3.33%	7.1	14.52%	8.0	12.68%
Revenue	$ 1,121,620,000	$ 1,218,532,280	8.64%	$ 1,290,354,260	5.89%	$ 1,363,016,870	5.63%
EBIT	$ 133,962,000	$ 148,669,060	10.99%	$ 166,224,700	11.80%	$ 183,077,260	10.14%
Net Income (normalized)	$ 75,144,000	$ 85,494,680	13.77%	$ 97,927,770	14.54%	$ 110,564,900	12.90%
Net (Debt), Cash	-$ 252,709,000	-$ 241,983,080.00	-4.24%	$ 231,173,480	-4.47%	$ 226,545,050	-2.00%
Return on Equity (%)	18.0506	17.6351	-2.30%	19.6616	11.49%	21.518	9.44%
Return on Assets (%)	6.0963	10.926	79.22%	12.1945	11.61%	13.4215	10.06%

Source: IRESS

The forecasted consensus data above forecasts Freightways to have increasing revenues out until 2026 as the economy and debt decrease from $252m to $226m by 2026.

Current Share Price: $8.64, **Consensus Target Price**: $9.14, **Consensus Forecast Dividend Yield**: 6.20%