

Yovich & Co. Market Update

31 October 2023

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	11296.43	7249.67	3110.48	7608.08	33507.50	13219.32	0.9322	0.5995	5.50%
Month Close	10757.69	6967.47	3018.77	7321.72	32928.96	12853.79	0.9182	0.5825	5.50%
Change	-4.77%	-3.89%	-2.95%	-3.76%	-1.73%	-2.77%	-1.50%	-2.83%	0.00%

According to research historically October picks up after September, not so this year. October is now the third month running where all major indices we monitor, experienced a decline for the month. The NZ dollar continued to depreciate against the AUD and USD to 0.918 and 0.5825 respectively. The overarching factors affecting the markets are the tension between Israel and Hamas, data regarding inflation, interest, and unemployment rates, along with disappointing earnings from listed companies. All these factors lead to investors leaning toward less risky assets and currency traders moving to the safe haven USD currency.

The biggest movers of the month ending 31 October 2023				
Up			Down	
Sky Network Television (SKT.nz)	16.13%		Pacific Edge (PEB.nz)	17.36%
Stride Property Group (SPG.nz)	7.09%		Heartland Bank (HGH.nz)	14.04%
Spark (SPK.nz)	3.33%		Port of Tauranga (POT.nz)	13.27%
EBOS Group (EBO.nz)	2.31%		Tourism Holdings Limited (THL.nz)	12.43%
Fonterra Shareholders' Fund (FSF.nz)	1.99%		Mainfreight Limited (MTF.nz)	12.18%

The election was held, and I am sure most if not all our readers voted. Due to the special votes yet to be counted, the government has not yet been officially formed.

The ANZ NZ Truckometer showed that both the Light and Heavy Traffic readings were lower by 1.3% and 3.5% respectively for the month of September. The Light Traffic which represents consumer demand, maintained a mild upward trend due to population growth. It often leads economic trends. Heavy Traffic (production GDP) was more volatile. The data shows the New Zealand economy is fluctuating, influenced by factors like the cost of living and monetary policy. Tourism and the housing market are rebounding, and fiscal policy and population growth are positive factors. The overall economic slowdown's severity and its impact on inflation remain uncertain.

The US GDP third quarter reading came in at 4.9% slightly higher than the predicted 4.7%, and a lot higher than the second quarter of 2.1%. The sharp increase could give the Fed some impetus to keep policy tight, this will be known in early November 2023.

The factors mentioned above have been seen in the Volatility Index (VIX.ID) increase by 2.68% for the month to be now at a level of 17.99. The VIX is a contrarian indicator, with the theory of buying when the VIX is high (above 10) and selling shares when the VIX is low.

Of the NZ interest and US rate swaps (2, 5, and 10-year), the NZ 2-year was the only one that decreased in October, with New Zealand rates finishing the month at 5.58%, 5.31%, and 5.43% respectively. With the current uncertainty and higher fixed interest rates, across most markets, we are seeing Blue Chip companies trading at significant discounts to their 12-month target price.

Investment News

Marlin Global (MLN.nz)

With the current exercise price for the (MLNWF) being 92 cents, it is what they call "out of the money". This means the exercise price is higher than the current share price of 90 cents. The final exercise date for the Marlin Global Limited warrants ("MLNWF") is Friday, 10 November 2023. The final day of trading MLNWF is Wednesday, 8 November 2023. If you would like to know what your options are please contact your Financial Adviser.

Port of Tauranga (POT.nz)

One of New Zealand's major infrastructure companies announced a drop in cargo volumes in the first quarter of the 2024 financial year. In the three months to 30 September, total trade was down 9.0% in volume compared to the same period last year, to 5.8m tonnes. Total container volumes in the first 3 months have decreased 20.9% to just over 250,000 TEU (twenty foot equivale). A key factor in the reduction in container volumes was due to changes in coastal vessel rotations resulting in containerised transshipment decreasing 31% for the period. Containerised imports are down 23% on the previous year reflecting weaker domestic consumption and increased rail costs. However, some recovery is expected due to the usual pre-Christmas boost to imports. Forecasted FY24 earnings are expected to be in the range of \$95m to \$107m, between an 8% and 19% decrease on FY2023. The share price moved 4.63% lower to \$5.15 on the back of these announcements.

Current Share Price: \$5.08, Consensus Target Price: \$5.55, Consensus Forecast Dividend Yield: 4.10%.

Freightways Group (FRW.nz)

Is seen as a bellwether company for the NZ share market and the general economy. First-quarter 2024 results indicate soft underlying operating conditions. Operating revenue was \$298m (up 25.5%), and net profit after tax was \$18.4m (down \$4.7m). The increase in operation revenue was dominated by the inclusion of Allied Express acquired after 1Q23. Existing customers continue to trade approximately 5% below the pcp (on average), new business has helped close some of that gap in both NZ and AU. Because of a worse than expected economic environment, the company is expecting EBITA to be at or below the level of last year.

Current Share Price: \$7.48, Consensus Target Price: \$8.65, Consensus Forecast Dividend Yield: 6.50%.

The list below consists of our preferred stocks with a forecast three-year dividend greater than 4%.

Yovich & Co. Stock Forecasts										
As at Wednesday, 1 November 2023										
Security Code	Name	Industry	Current Price	Target Price	Target Price Discount / (Premium)	Historical Dividend Yield	Forecast Gross Dividend Yield 1yr	Forecast Gross Dividend Yield 2yr	Forecast Gross Dividend Yield 3yr	Total Return
FMC.NYS	FMC Corporation Common Stock	Materials	\$53.20	\$81.99	54.1%	4.4%	4.3%	4.6%	4.9%	58.4%
VOW3.ETR	VOLKSWAGEN AG VZO O.N.	Consumer Discretionary	\$100.46	\$152.69	52.0%	20.4%	8.8%	9.0%	9.2%	60.8%
OCA.NZ	Oceania Healthcare Limited	Health Care	\$0.68	\$1.03	51.5%	4.7%	5.2%	5.9%	6.6%	56.7%
ARV.NZ	Arvida Group Limited	Health Care	\$1.15	\$1.57	36.5%	4.2%	3.2%	3.8%	4.6%	39.8%
MFT.NZ	Mainfreight Limited	Industrials	\$56.99	\$76.40	34.1%	4.2%	4.2%	4.0%	4.6%	38.3%
HGH.NZ	Heartland Group Holdings Limited	Financials	\$1.53	\$2.01	31.4%	10.4%	11.3%	12.1%	12.7%	42.7%
MS.NYS	Morgan Stanley Common Stock	Financials	\$70.82	\$91.30	28.9%	4.6%	4.6%	4.9%	5.3%	33.5%
C.NYS	Citigroup, Inc. Common Stock	Financials	\$39.49	\$50.89	28.9%	5.2%	5.3%	5.5%	5.7%	34.1%
DXS.ASX	Dexus	Real Estate	\$6.48	\$8.28	27.8%	8.0%	7.4%	7.5%	7.6%	35.2%
GPT.ASX	GPT Group	Real Estate	\$3.62	\$4.62	27.6%	6.9%	6.9%	6.9%	7.2%	34.5%
NZX.NZ	NZX Limited	Financials	\$1.02	\$1.30	27.5%	8.3%	8.3%	8.3%	8.4%	35.8%
MMM.NYS	3M Company Common Stock	Industrials	\$90.95	\$110.96	22.0%	6.6%	6.7%	6.7%	7.0%	28.7%
SGP.ASX	Stockland	Real Estate	\$3.54	\$4.27	20.6%	7.4%	7.1%	7.4%	7.8%	27.8%
CEN.NZ	Contact Energy Limited	Utilities	\$7.73	\$9.25	19.7%	6.0%	6.4%	6.7%	7.1%	26.0%
TLS.ASX	Telstra Group Limited	Communication Services	\$3.81	\$4.54	19.2%	4.5%	4.7%	5.0%	5.2%	23.8%
IPL.ASX	Incitec Pivot Limited	Materials	\$2.74	\$3.26	19.0%	9.9%	5.2%	4.0%	4.0%	24.2%
SHL.ASX	Sonic Healthcare Limited	Health Care	\$28.75	\$34.12	18.7%	3.6%	3.7%	3.9%	4.1%	22.4%
MQG.ASX	Macquarie Group Limited	Financials	\$160.98	\$191.01	18.7%	4.7%	4.1%	4.4%	4.7%	22.8%
SKL.NZ	Skellerup Holdings Limited	Industrials	\$4.52	\$5.35	18.4%	5.8%	6.1%	6.6%	7.4%	24.4%
KPG.NZ	Kiwi Property Group Limited	Real Estate	\$0.78	\$0.92	17.9%	8.8%	8.8%	8.5%	8.5%	26.7%
VSL.ASX	Vulcan Steel Limited	Materials	\$7.15	\$8.42	17.8%	6.9%	5.5%	7.5%	8.8%	23.3%
APA.ASX	APA Group	Utilities	\$8.24	\$9.65	17.1%	6.7%	6.8%	7.0%	7.2%	23.9%
FRW.NZ	Freightways Group Limited	Industrials	\$7.48	\$8.65	15.6%	6.9%	6.5%	7.7%	8.9%	22.2%
TCL.ASX	Transurban Group	Industrials	\$11.82	\$13.61	15.1%	4.9%	5.3%	5.5%	5.8%	20.4%
PCT.NZ	Precinct Properties NZ & Precinct Properties Investments Ltd	Real Estate	\$1.11	\$1.27	14.4%	6.0%	6.1%	6.0%	5.9%	20.5%
GNE.NZ	Genesis Energy Limited (NS)	Utilities	\$2.32	\$2.64	14.0%	10.6%	10.6%	10.7%	10.8%	24.7%
ALX.ASX	Atlas Arteria	Industrials	\$5.31	\$6.04	13.7%	7.5%	7.5%	7.7%	7.8%	21.3%
RIO.LSE	RIO TINTO PLC	Materials	\$52.55	\$59.14	12.5%	6.1%	7.8%	7.7%	7.3%	20.4%
PGW.NZ	PGG Wrightson Limited	Consumer Staples	\$3.20	\$3.60	12.5%	9.5%	8.2%	8.5%	9.5%	20.7%
MPL.ASX	Medibank Private Limited	Financials	\$3.43	\$3.85	12.2%	4.3%	4.6%	5.0%	5.1%	16.9%
MEL.NZ	Meridian Energy Limited (NS)	Utilities	\$4.87	\$5.45	12.0%	4.8%	5.2%	5.7%	6.1%	17.3%
ULVR.LSE	UNILEVER PLC	Consumer Staples	\$38.89	\$43.39	11.6%	3.9%	4.4%	4.7%	4.9%	16.0%
AGL.ASX	AGL Energy Limited.	Utilities	\$10.75	\$11.88	10.5%	2.9%	5.2%	6.0%	5.7%	15.7%
TRA.NZ	Turners Automotive Group Limited	Consumer Discretionary	\$4.05	\$4.46	10.1%	8.2%	5.0%	5.6%	5.9%	15.1%
VHP.NZ	Vital Healthcare Property Trust	Real Estate	\$2.00	\$2.19	9.8%	6.0%	6.1%	6.1%	6.2%	15.8%
POT.NZ	Port of Tauranga Limited	Industrials	\$5.08	\$5.55	9.3%	4.3%	4.1%	4.7%	5.1%	13.4%
SPG.NZ	Stride Property Ltd & Stride Investment Management Ltd (NS)	Real Estate	\$1.33	\$1.45	9.0%	5.7%	6.3%	6.2%	6.3%	15.3%
CNU.NZ	Chorus Limited (NS)	Communication Services	\$7.18	\$7.80	8.7%	5.9%	6.6%	7.0%	7.3%	15.3%
EBO.NZ	Ebos Group Limited	Health Care	\$34.91	\$37.50	7.4%	3.5%	3.8%	3.7%	4.0%	11.2%

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Company Spotlight – Ryman Healthcare (RYM.nz)

Ryman Healthcare Limited is the largest provider of retirement living options for New Zealanders over the age of 70. The company provides a range of retirement living and care options, including independent townhouses and apartments, serviced apartments, and care centres providing rest home, dementia, and hospital-level care. Ryman's developments over the last decade have been large, averaging over 400 units + beds with care accounting for circa 5% and serviced apartments nearly 20% of units + beds. Of the circa 55% independent living units, 68% are apartments.

Current Situation

As of FY23 Ryman has 9 land bank villages (largely awaiting commencement), totalling 2,611 beds and units, consisting of 22% care centers, 20% service apartments, 44% apartments, and 14% bed and unit.

The recent increase in interest rates, the housing market, and cost inflation have had a large negative effect on Ryman's performance and share price, as completed villages and developments have significant valuation consequences.

Investors focus on the turnover in cash flow generated from these completed villages which has slowed in the current economic environment. With that in mind, Ryman's forward NZ land bank has smaller villages with slightly less care and a reduced skew to apartments, which should position Ryman well for better turnover outcomes in the future in NZ.

Ryman Healthcare Metrics							
	2023A	2024 Forecast	%Change	2025 Forecast	%Change	2026 Forecast	%Change
EPS Normalised	0.585	0.4637	-20.73%	0.4608	-0.64%	0.5162	12.04%
Cash EPS	0.6749	0.5474	-18.89%	0.5777	5.54%	0.6288	8.85%
Cash Flow / Share	1.2605	0.95	-24.63%	1.05	10.53%	0.95	-9.52%
Dividend Per Share (DPS)	0.088	0.1182	34.34%	0.1364	15.41%	0.147	7.78%
Price per Earnings (PE) Ratio	9.6239	12.1407	26.15%	12.2189	0.64%	10.9058	-10.75%
Net Asset Value / Share	0	7.45	0	8	7.38%	8.58	7.25%
Book Value / Share	9.0329	7.2526	-19.7092	7.7225	6.48%	8.3183	7.71%
Gross Dividend yield (%)	1.56	2.10	34.34%	2.4234	15.41%	2.6	7.78%
Revenue	\$ 570,977,000	\$ 630,752,400	10.47%	\$ 692,706,250	9.82%	\$ 758,037,350	9.43%
EBIT	\$ 348,900,000	\$ 377,056,290	8.07%	\$ 367,965,800	-2.41%	\$ 403,160,420	9.56%
Net Income (normalized)	\$ 301,892,000	\$ 316,138,870	4.72%	\$ 311,275,370	-1.54%	\$ 354,076,120	13.75%
Net (Debt), Cash	\$ 2,303,071,000	\$ 2,494,901,050	8.33%	\$ 2,587,784,100	3.72%	\$ 2,640,453,740	2.04%
Return on Equity (%)	7.4556	7.4199	-0.4783	7.0434	-5.07%	7.2112	2.38%
Return on Assets (%)	2.1965	2.11	-3.9381	1.64	-22.27%	1.62	-1.22%

Source: IRESS

Outlook Financial Year 2024

Underlying profit is expected to be in the range of \$310-\$330m (\$301.9m for FY23), the portfolio to grow by 750-800 retirement village units and aged care beds, and care beds to match FY23. Net cash flows are estimated to be in the range of \$0.80-\$1b. The board will consider the resumption of paying dividends in FY24 considering trading performance, cash flow, and market conditions. The dividend policy is currently being reviewed with an update expected at the time of the interim results in November.

With their balance sheet de-risked, and a renewed focus on lower-density villages with lower peak debt and an improved cash flow profile, we believe Ryman's current share price represents a good buying opportunity for investors.

Current Share Price: \$5.75, Consensus Target Price: \$8.05.