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Yovich & Co. Market Update

30 November 2023

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	10757.69	6967.47	3018.77	7321.72	33052.87	12851.24	0.9191	0.5825	5.50%
Month Close	11330.20	7297.72	3029.67	7453.75	35430.42	14127.17	0.9317	0.6158	5.50%
Change	5.32%	4.74%	0.36%	1.80%	7.19%	9.93%	1.36%	5.72%	0.00%

It has been a volatile month for stock markets, but I'm pleased to report that the trend appears to be upward. Reserve banks globally are indicating the possibility of reaching the end of the rate hike/tightening cycle, expected around mid-2025. The market is witnessing a resurgence in higher risk appetite, reflected in the weakening of the USD against the NZ dollar. This marks a reversal from last month when the NZD appreciated against the AUD and USD, reaching 0.9317 and 0.6158, respectively.

The biggest movers of the month ending 30 November 2023				
Up			**Down**	
Mainfreight Limited (MFT.nz)	15.68%		Investore Property Limited (IPL.nz)	13.68%
Fisher & Paykel Healthcare Limited (FPH.nz)	11.66%		Arvida Group Limited (ARV.nz)	9.17%
Skellerup Holdings Limited (SLK.nz)	11.65%		KMD Brands Limited (KMD.nz)	8.33%
Mercury NZ Limited (MCY.nz)	9.78%		Synlait Milk Limited (SML.nz)	7.19%
Kiwi Property Group Limited (KPG.nz)	8.11%		Ryman Healthcare Limited (RYM.nz)	5.76%

Charlie Munger, renowned for his association with Warren Buffett, passed away at the age of 99. While often overshadowed, Munger's influence on Buffett was pivotal. Before their encounter, Buffett followed a classic value investing approach termed "cigar butt investing," focusing on undervalued companies. However, as market dynamics shifted in the 1960s, Buffett abandoned this strategy, leading to the dissolution of the Buffett Partnership. Munger, a Harvard Law School graduate turned investor, played a transformative role. Together, they revamped their approach, prioritising exceptional businesses with enduring advantages and fair valuations—a strategy synonymous with Berkshire Hathaway. Their collaboration altered investment perspective, emphasising long-term ownership over short-term gains. Here are three of Charlie's insightful quotes:

- "The big money is not in the buying and the selling, but in the waiting."
- "Like Warren, I had a considerable passion to get rich, not because I wanted Ferraris – I wanted independence. I desperately wanted it."
- "There is no better teacher than history in determining the future… there are answers worth billions of dollars in a history book."

It is great to see that the New Zealand government has finally been formed, with a coalition between National, Act, and NZ First. The coalition has now announced its 100-day plan, which includes 49 actions. These actions involve introducing legislation to remove the Auckland regional fuel tax, repealing the clean car discount scheme, and introducing legislation to refocus the Reserve Bank on a single mandate of price stability.

The Reserve Bank of NZ announced on Wednesday that it will hold the OCR at 5.5%, with forecasted cuts in mid-2025, longer than the market expected. The Committee is confident that the current OCR level is restricting demand. However, ongoing excess demand and inflationary pressures are of concern, given the elevated level of core inflation. If inflationary pressures were to be stronger than anticipated, the OCR would likely need to increase further. In New Zealand, demand growth has eased, but by less than anticipated over the first half of 2023, in part due to strong population growth. The OCR will need to stay restrictive so that demand growth remains subdued and inflation returns to the 1 to 3 percent target range.

Over the past few years (since COVID and low-interest rates), we have seen investors irrationally and fearfully swapping from fixed-interest assets, mainly term deposits, to growth assets (shares) to increase their income. Then, as interest rates increased (late 2022 through late 2023), we have seen the reverse happen, with investors selling shares, sometimes crystallising losses, to now chase income from fixed interest assets. Personal Portfolio Service clients have been able to avoid this swapping and stressing, as their portfolios were created with the correct asset allocation (a mixture of fixed interest and growth assets) to match their risk profile and financial goals, such as income requires. It is important to ensure that your assets are aligned with your goals and risk tolerance. If you feel that you have been or are one of the first investors as above, feel free to talk to us at Yovich & Co.

In the US, the comments made by FED speakers and respected Governor Waller have helped extend the moves in markets we've seen so far in November. Waller conveyed a policy-on-hold message, saying, "I am increasingly confident that policy is currently well-positioned to slow the economy and get inflation back to 2%... I am encouraged by what we have learned in the past few weeks – something appears to be giving, and it's the pace of the economy."

Over the month the NZ interest and US rate swaps (2, 5, and 10-year), yield decreased as bond prices increased with the long-term expectations that rates would decrease. New Zealand rates finishing the month at 5.15%, 4.69%, and 4.74%, respectively.

Investment News

Fisher & Paykel Healthcare (FPH.nz)

Net profit after tax (NPAT) for the 6 months ending 30 September (1st half FY 2024) was up 12% at $107m, revenue was up 16% at 803m, and net tangible assets increased from $2.11 to $2.68 per share. Managing Director and Chief Executive Officer Lewis Gradon stated, "Our first-half result indicates a continuation of stable ordering patterns in our Hospital business and a robust performance for Homecare." The Homecare product group, including products used in the treatment of obstructive sleep apnea (OSA) and respiratory support in the home, generated revenue of $314.4 million, a 26% increase over the prior comparable period (pcp). Another impressive product is the Evora Full, which has been available in the United States for more than a year and is receiving impressive demand. The company plans to build on this momentum by rolling out the F&P Solo mask beyond New Zealand and Australia. The gross margin was 60.5%, up 65 basis points pcp. Currently, headwinds such as freight rates and manufacturing inefficiencies continue to ease. With the focus on controlling raw materials and manufacturing costs remaining high due to inflationary pressures. Looking forward, the company expects operational revenue for 2024 to be approximately $1.7b, with a net profit in the range of $250m to $260m. The Board has announced a gross interim dividend of 25 cents with an ex-dividend date of 5 December and payable on 18 December 2023.

Current Share Price: $23.56, **Consensus Target Price:** $22.46, **Consensus Forecast Dividend Yield:** 1.65%.

Ryman Health Care (RYM.nz)

Tax-paid profit for the 6 months ending 30 September 2023 was down 3.8% at $186.6m. Revenue from continuing operations was up 17.8%, while total revenue (including total revenue of the group plus the fair-value movements of investment property) increased by 4.6% to $13.09b. Ryman continues to make progress on the strategy reset outlined at the equity raise, reflecting an increased focus on cash flow and capital management. Free cash flow improved by $138.5 million from -$296.9 million in 1H23 to -$158.4 million in 1H24, driven by improved cash flows from existing operations and a reduction in net spending on development activity. Expected NAPT for FY24 is in the range of $300-$330m (previously $310-$330 million). This wider range reflects ongoing levels of market uncertainty and dependency on sales in the new year. ***The suspended dividend decision will be reviewed by the Board in FY26, which will impact clients who hold a large position in Ryman and have been relying on dividends to support their lifestyle. If you are concerned, please call your adviser.***

Current Share Price: $5.40, **Consensus Target Price:** $7.88, **Consensus Forecast Dividend Yield:** 0%.

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Yovich & Co WEALTH MANAGEMENT

Company Spotlight – EBOS (EBO.nz)

EBOS Group, the largest and most diverse Australasian marketer, wholesaler, and distributor of healthcare, medical, and pharmaceutical products, is also a leading figure in animal care brands. Boasting a substantial annual revenue of $12.2 billion, the company serves thousands of customers across Australasia, dedicated to building better communities through high-quality healthcare and animal care products. With over 5,000 employees in 108 locations spanning Australia, New Zealand, and Southeast Asia, EBOS Group has a profound daily impact on millions of lives, both human and animal, within the communities it serves.

Current Situation

EBOS has been taking the spotlight lately, starting with losing the Chemist Warehouse contract worth revenue of approx. $2b. The company recognised that the contract renewal was a risk and are confident in the Group's alternate growth strategies that are well established and diverse. Over two days that followed the announcement the share price dropped $5.96 (14.87%), which has still not recovered. We are expecting that once the Board finds a replacement revenue stream shares price will gradually restore share price. More recently the focus has been on the rumoured announcement that Ebos was purchasing the Australian brand Green Cross Pet Wellness Company. The speculation and four day trading halt was lifted after Ebos announced that the transaction would not proceed.

Healthcare and Animal Care are two businesses that Ebos operate. Under the Healthcare business the three segments are, community pharmacy, institution healthcare, and contract logistics. These well-managed businesses have yielded investors with a gross dividend of $1.20 an increase of 14.6% in FY22.

			Ebos Metrics				
	2023A	2024 Forecast	%Change	2025 Forecast	%Change	2026 Forecast	%Change
EPS Normalised	1.5982	1.6854	5.46%	1.5807	-6.21%	1.7605	11.37%
Cash EPS	2.3052	0	0.00%	0	0.00%	2.492	0.00%
Cash Flow / Share	2.2188	2.6725	20.44%	2.2441	-16.03%	2.016	-10.16%
Dividend Per Share (DPS)	1.0871	1.1952	9.95%	1.1862	-0.76%	1.2839	8.24%
Price per Earnings (PE) Ratio	23.0891	21.8942	-5.18%	23.3439	6.62%	20.9601	-10.21%
Net Asset Value / Share	-0.3245	-0.842	159.4841	-0.4325	-48.63%	0	-100.00%
Book Value / Share	13.8011	14.2769	3.4477	14.6284	2.46%	15.0942	3.18%
Gross Dividend yield (%)	2.95	3.24	9.95	3.2146	-0.76%	3.5	8.24%
Revenue	$ 13,223,311,750	$ 13,864,296,560	4.85%	$ 12,292,488,340	-11.34%	$ 12,773,679,310	3.91%
EBIT	$ 523,171,930	$ 559,062,750	6.86%	$ 527,234,100	-5.69%	$ 576,803,540	9.40%
Net Income (normalized)	$ 304,533,580	$ 322,731,270	5.98%	$ 305,827,890	-5.24%	$ 344,331,690	1259.00%
Net (Debt), Cash	$ 828,361,410	$ 1,060,908,850	28.07%	$ 872,302,920	-17.78%	$ 756,670,560	-1325.60%
Return on Equity (%)	11.9947	11.9858	-0.0745	11.2147	-6.43%	11.8848	597.56%
Return on Assets (%)	4.4036	6.0532	37.4602	5.9378	-1.91%	5.9882	84.96%

Source: IRESS

Outlook Financial Year 2024

EBOS has had a pleasing start to FY24, four months to 31 October with high single digit earning growth. Revenue went up 5.9%, EBIT increased by 7.4% and NPAT improved 7.0%. The comment made by the board was "The macroeconomic outlook continues to be uncertain however our earnings have shown resilience in this environment, reflecting the defensive and diverse nature of our Group".

Current Share Price: $37.00, **Consensus Target Price**: $37.39, **Consensus Forecast Dividend Yield:** 3.23%.