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Yovich & Co. Market Update

1st August 2023

August is Money Month - Money Month is a public awareness and engagement campaign coordinated the Retirement Commission, in partnership with the financial capability community. Throughout August, they will be focusing on helping New Zealanders to maximise their money in a way that's empowering and relevant in the current climate, as well as adaptable for partners to use. Show your interest by looking at this link. https://sorted.org.nz/money-month-events.

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	11916.47	7401.54	3202.06	7531.53	34407.60	13787.92	0.9210	0.6111	5.50%
Month Close	12056.15	7622.16	3291.04	7699.41	35559.53	14346.02	0.9243	0.6207	5.50%
Change	1.17%	2.98%	2.78%	2.23%	3.35%	4.05%	0.36%	1.57%	0.00%

The NZ50G has had an modest increase this month ending up 1.17%, continuing the upwards trend this year, with the market up 5.08% for the year to date. The US (S&P 500) and Australian markets (S&P ASX 200) both outstripped the NZ market, up 3.11% and 2.88% respectively. Year to date, the US increased 19.52% and Australia is up 5.28%.

The biggest movers of the month ending 31th July 2023				
Up			Down	
Pacific Edge (PEB.nz)	54.02%		KMD Brands (KMD.nz)	9.00%
Channel Infrastructure (CHI.nz)	11.56%		Tourism Holdings (THL.nz)	8.53%
Argosy Property (ARG.nz)	9.42%		Vulcan Steel (VLS.nz)	6.91%
Stride Property (SPG.nz)	9.29%		Mainfreight (MFT.nz)	4.09%
ANZ Banking Group (ANZ.nz)	7.76%		Manawa (MNW.nz)	3.03%

ANZ Truckometer - Traffic flows are a real-time and real-world proxy for economic activity - particularly for the New Zealand economy, where a large proportion of freight is moved by road. It represents a timely barometer of economic momentum. The ANZ Truckometer records two economic indicators: the Heavy Traffic Index (HTI), which shows a strong simultaneous relationship to GDP, and the Light Traffic Index (LTI), which has a six-month lead on activity as measured by GDP. The results showed the LTI (motorbikes, cars, and vans) an indicator of demand, particularly for consumer goods, rose slightly (0.3%) for June, and was basically flat for the quarter, despite growth in the population. This is consistent with RBNZ's effort of reducing consumer spending. Conversely, the HTI (mostly trucks) a good steer on production GDP, fell 1% in June, ending the quarter up 0.4%. This is consistent with ANZ's view that the economy is bumping along at a reduced speed as tailwinds (population growth, fiscal stimulus) battle headwinds (the lagged impacts of monetary tightening and falling export prices).

This month the Monetary Policy Committee (MPC) of the RBNZ held the OCR at 5.50%, as expected by most economists. Their reasoning is "The level of interest rates are constraining spending and inflation pressure as anticipated and required. Global economic growth remains weak and inflation pressures are easing. This follows a period of significant monetary policy tightening by central banks internationally. Global inflation rates continue to decline, assisted by the normalisation of international supply chains, and the decline in shipping costs and energy prices."

While in the US the Federal Reserve lifted its rate by 0.25% to now match NZ's rate. This is a 22 year high for the US. Looking forward the Fed is leaving the door open for more increases, data-dependent, and using the meeting-by-meeting approach. The Fed resumed the tightening campaign after a pause in June while noticing the economy has been expanding at a moderate pace, job gains have been robust in recent months, and the unemployment rate has remained low while inflation remains elevated. The financial markets are expecting the Fed to have reached its peak monetary policy tightening and expecting rates to hold firm until the CPI rate is 2% or below. The July Non-Farm payroll, and a lower average hourly wage-earning result (out 4th August) will increase the probability that the Fed has finished the tightening.

In response to the Fed hiking rates, the US 2-year Treasury rate increased slightly but ended July down 43bps at 4.90%, while the 10-year increase a substantial 252bps reaching 3.98%. Correspondingly in New Zealand rates have been on an upward trajectory. Notably, the 2-year swap rate surged by 59bps, closing July at 5.50%. Similarly, the 5-year swap rate experienced a significant increase of 229bps, reaching 4.78%. Notably, these figures indicate an inverse yield curve, leading investors to anticipate a long-term trend of declining interest rates.

Investment News

The end of July and August is a reporting month for the NZ market. We will be looking if companies met their forecasts, and their outlook for the future. Along with whether they expect higher or lower revenues, and where margins are trending (compressing/expanding). This reporting season captures 28 FY23 results and 9, 1HFY24 results, representing circa 63% of the NZX50 index weight. In general, we are expecting improved operating performance as companies rebuild post-COVID disruption and/or adjust pricing and business models to meet an inflationary environment.

Infratil Infrastructure Bond (IFT330.nz)

The $150m of new bonds was heavily sort after with applications having to be scaled. The fixed 6-year coupon rate of 6.90% will be paid quarterly on 31st January, 30th April, 31st July, and 31 October. With a maturity date of 31 July 2029, investors will be receiving a premium of 1.55% over a 5-year TD (on today's rates).

Coupon Rate: 6.90%, **Current Yield to Maturity (YTM): 6.69%**

Westpac New Zealand Limited (WNZ2T2.nz)

Has a new issue of up to $100m, unsecured subordinated notes. The Offer will raise Tier 2 Capital to help WNZL meet its regulatory capital requirements and manage its capital position and used by WNZL for general corporate purposes. The initial interest rate will be set August 3rd and be paid quarterly for the first 5.5 years. At which time the issuer may redeem (14 August 2029) the notes or reissue with a 3 month floating rate that resets at quarterly intervals plus the same issue margin (2.00% -2.20%), until the maturity date 14th February 2034 or earlier at its discretion.

Company spotlight

Mainfreight (MFT.nz)

Mainfreight was founded in Auckland, New Zealand in 1978 by Bruce Plested with just one truck and $7,200. The company quickly grew to become one of the largest freight companies in New Zealand. In 1996, it went public and listed 60% of the shares on the New Zealand Stock Exchange at 96 cents per share. The company started as a specialist freight forwarding and distribution business, with interests also in managed warehousing, transportation of hazardous substances, air & ocean international freight, full truckload freight, and Global Supply Chain Logistics. Since the 1990s, Mainfreight has experienced remarkable growth through mergers and acquisitions, and as of March 2023, it boasts an impressive revenue of NZ$5.68 billion. The company operates with 331 branches spread across 26 countries and has a workforce of 11,311 team members.

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Now, Mainfreight remains a specialist forwarding and distribution business with diverse interests, including managed warehousing, transportation of hazardous substances, air & ocean international freight, full truckload freight, and Global Supply Chain Logistics. The company currently enjoys a substantial revenue of NZ$5.68 billion as of March 2023. Operating in 331 branches across 26 countries, Mainfreight proudly employs a dedicated workforce of 11,311 team members.

Future Plans:
Mainfreight has five main revenue regions; Europe, Asia, Americas, Australia, and New Zealand. Within these regions, there are three divisions; transport, warehousing, and air and ocean. Going forward Mainfreight's 5 year strategic road map is to expand into new regions such as India and Indonesia. Growth through providing exceptional service thus increasing sales. Investing $1b in technology to improve efficiency and customer service an example of this is developing a new software platform providing real-time visibility of shipments.

In its Annual Shareholders meeting, the bellwether company provided a trading update for the first three months of FY24. Over the last two years, Mainfreight has experienced robust financial gains, allowing it to grow bigger and better. However, the cooling economy has also affected their financial results. The slowdown in economic activity, lower shipment volumes, and moderating freight congestion have contributed to the following results: Transport revenue is down 0.35%, amounting to $538.4 million, with profit before tax (PBT) standing at $34 million, a decline of 35.9%. Warehousing PBT has also decreased to $11.6 million, representing a fall of 9.4%, while Air and Ocean PBT has experienced a significant decline of 53.6%, reaching $37.4 million. To combat these undesirable outcomes, the company has implemented a focus on cost management, which includes a hiring freeze and branch-level efficiencies. Additionally, Mainfreight has shifted its focus towards sales and customer service. Thanks to a strong balance sheet and access to a $323 million debt facility, which remains undrawn, Mainfreight is strategically positioned to seize opportunities for further growth, capitalizing on planned network expansion and gaining market share.

Mainfreight Metrics							
	2023A	2024 Forecast	%Change	2025 Forecast	%Change	2026 Forecast	%Change
EPS Normalised	4.2352	2.778	-34.41%	3.2308	16.30%	3.7876	17.23%
Cash EPS	6.608	5.4696	-17.23%	5.6776	3.80%	6.1601	8.50%
Cash Flow / Share	7.52	5.5186	-26.61%	6.4976	17.74%	7.2313	11.29%
Dividend Per Share (DPS)	1.72	1.72	0%	1.644	-4.42%	1.8746	14.03%
Price per Earnings (PE) Ratio	16.0205	24.424	52.45%	21.0009	-14.02%	17.9135	-14.70%
Net Asset Value / Share	14.421	15.3913	6.73%	16.8519	9.49%	18.9739	12.59%
Book Value / Share	17.148	18.2681	6.53%	19.9135	9.01%	21.86	9.78%
Dividend yield (%)	2.535	2.535		2.423	-4.42%	2.7629	14.03%
Revenue	$ 5,675,709,000	$ 4,885,228,980	-13.93%	$ 5,487,774,200	12.33%	$ 6,085,670,670	10.90%
EBIT	$ 612,039,000	$ 418,384,400	-31.64%	$ 490,387,530	17.21%	$ 567,020,620	15.63%
Net (Debt), Cash	$ 155,203,000	-$ 34,397,290.00	-122.16%	-$ 110,517,490	221.30%	-$ 132,963,410	20.31%
Return on Equity (%)	27.0257	15.5297	-42.54%	16.849	8.50%	17.7685	5.46%
Return on Assets (%)	13.1812	11.49	-12.83%	12.29	6.96%	13.43	9.28%

The forecasted consensus data above shows that Mainfreight is expected to have lower revenue for FY24 then increase in FY25 as the economy picks up and as rewards are received from implemented investment strategies.
Current Share Price: $67.80, **Consensus Target Price**: $77.10, **Consensus Forecast Dividend Yield**: 2.42%