

Yovich & Co. Weekly Market Update

12th August 2024

Investment News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 05th August	12453.04	8170.39	2905.34	8174.71	39737.26	16776.16	0.9147	0.5957	5.50%
Week Close 12th August	12243.46	7990.73	2862.19	8168.10	39497.54	16745.30	0.9127	0.5999	5.50%
Change	-1.68%	-2.20%	-1.48%	-0.08%	-0.60%	-0.18%	-0.22%	0.71%	0.00%

The NZX 50G index dropped by 1.68%, closing at 12,243.46. This decline reflects a pullback in investor sentiment, particularly influenced by recession fears over the strength of the US Economy which injected volatility into the global markets. The RBNZ have their OCR review on Wednesday and many of the main banks' economists are not ruling out a 25bps cut.

In Australia, the All-Ordinaries index fell by 2.20%, ending the week at 7,990.73. The index saw significant selling earlier in the week due to concerns about the US economy.

The Shanghai Composite index in China also decreased by 1.48%, closing at 2,862.19. China's economy continues to face headwinds, including weaker-than-expected industrial production and retail sales figures. The FTSE 100 in the UK saw a minor decline of 0.08%, closing at 8,168.10.

In the US, the Dow Jones Industrial Average dropped by 0.60%, finishing at 39,497.54. This was largely due to investor concerns over potential recessions and mixed economic data, including labour market figures that have fuelled worries about the sustainability of economic growth. The NASDAQ also edged down by 0.18% to close at 16,745.30, reflecting continued volatility in the technology sector. The market recovered significantly by market close on Friday, if compared to Mondays sell off prompted by fears of a recession and unwinding of a global yen-funded carry trade.

On the currency front, the NZD/AUD pair fell by 0.22%, closing at 0.9127, while the NZD/USD pair rose by 0.71% to finish at 0.5999.

Weekly Market Movers

The biggest movers of the Week ending 09th August 2024			
Up		Down	
Vista Group International	18.60%	Tourism Holdings	-8.11%
Sky Network Television	5.88%	KMD Brands	-6.98%
Genesis Energy	4.40%	Manawa Energy	-6.45%
NZX	3.31%	Air New Zealand	-5.98%
Ryman Healthcare	2.43%	ANZ Bank	-5.36%

Investment News:

Vista Group International share price surged 18.60% after releasing their half-year results. Although revenue was below analysts' expectations, they now expect the business to reach profitability sooner than previously assumed. The analysts are also expecting Vista Group International's growth to accelerate, with the forecast 10% annualised growth to the end of 2024 ranking favourably alongside historical growth of 3.3% per annum over the past five years.

Sky Network Television stock went up 5.88% on a relatively light volume of 47,000 shares. This may be attributed to increased viewership from the Paris Olympic Games.

KMD Brands fell 6.98% amid concerns of the companies' earnings. KMD revealed in its half yearly results that it would fail to pay an interim dividend. KMD brands reported an over 8% decline.

Manawa Energy's share price dropped 6.45% last week following news that Prime Energy, one of its electricity retailers, defaulted on payments to them. Additionally, Manawa has revised its earnings forecast downward by \$35 million, with approximately half of this adjustment attributed to a provision for potential bad debt.

Spotlight on ResMed Inc versus Fisher & Paykel Healthcare:

Company Profiles:


ResMed Inc (RMD.ASX) is a leading global provider of innovative solutions for the treatment of sleep apnea, chronic obstructive pulmonary disease (COPD), and other chronic respiratory conditions. Founded in 1989, ResMed has grown its operations to serve millions of patients across more than 140 countries. The company's comprehensive product portfolio includes cloud-connected devices, software solutions for patient management, and a wide range of sleep and respiratory care products. ResMed employs over 8,000 staff members worldwide, with a focus on improving patient outcomes through cutting-edge technology and digital health platforms. The company's market capitalisation is AUD 45.729 billion.

Fisher & Paykel Healthcare (FPH.NZ) is a prominent global leader in designing, manufacturing, and marketing innovative medical devices and systems for use in respiratory care, acute care, and the treatment of obstructive sleep apnea. Established in 1934, the company has significantly expanded its global presence, serving patients in over 120 countries. Fisher & Paykel Healthcare's extensive product range includes respiratory humidifiers, continuous positive airway pressure (CPAP) devices, and neonatal care equipment. The company employs more than 5,000 staff members globally, with a strong emphasis on research and development to drive medical advancements. Fisher & Paykel Healthcare's market capitalisation stands at NZD 17.526 billion.

A recent analysis by strategic partner Jarden noted the following:

"ResMed posted an impressive quarter with 30% NPAT (Net profit after tax) (non-gaap) growth. Investments lifts this to 35.7% and represents a 4.6% beat of consensus. The highlight was the acceleration of US mask growth, up 17.4% (12.1% in 3Q24), contributing in part to another step up in the gross margin to 59.1%, up 62bps q/q. Our thesis is the recovery of the gross margin is well on the way, made even more certain by fresh guidance for FY25 GM of 59-60%. We now see the GM peaking at 60.1% and expect further upside if freight rates return to more normal levels. RMD is looking the best it has in a long time on 21.3x, whilst delivering FY25 growth of 26%."

Security Code	RMD			
Description	ResMed Incorporated			
Exchange	ASX			
Industry	Health Care Equipment			
Market Capitalisation (AUD)	\$47.27 Billion			
Index	ASX 200			
Weighting in Index	0.81%			
Current Price (AUD)	\$	33.08		
Target Price (AUD)	\$	35.89		
Discount to Target Price	7.83%			
5 Year Hist Return	15.88%			
5 Year Hist Risk (SD)	29.98%			




Forecasts	6/2024A	6/2025F	6/2026F	6/2027F
PE Ratio	28.17	23.64	21.48	20.05
Dividend Yield (%)	0	1.06	1.16	1.28
Revenue (AUD)	\$4.685 Billion	\$5.055 Billion	\$5.399 Billion	\$5.730 Billion
EBITDA (AUD)	\$1.576 Billion	\$1.777 Billion	\$1.927 Billion	\$2.065 Billion
Net Debt (AUD)	\$469 Million	\$-359 Million	\$-1.307 Billion	\$-2.311 Billion
\$	28.71	\$ 32.30	\$ 35.89	\$ 39.48
	Strong Buy	Buy	Hold	Sell
			↑	

Fundamental Analysis:

ResMed Inc.'s P/E ratio is projected to decline from 28.17 to 20.05 by 2027. While this suggests a relatively average P/E ratio, it also indicates that the company is becoming more appealing from a valuation standpoint. Expected increases in revenue and EBITDA growth over the coming years highlight the company's solid business fundamentals. ResMed is anticipated to have a net cash position by 2025 and build substantial cash reserves, reflecting a strong balance sheet. Additionally, although the forecasted dividend yield is expected to rise, it remains relatively modest, aligning with the company's ongoing growth strategy.

ResMed is currently trading at \$33.08 which is a 7.83% discount to the consensus target price of \$35.89. According to our methodology, ResMed is assigned a 'hold' rating, despite trading at a discount to the target price.

Security Code	FPH			
Description	Fisher & Paykel Healthcare			
Exchange	NZX			
Industry	Healthcare Equipment			
Market Capitalisation (NZD)	\$14.945 Billion			
Index	NZX 50			
Weighting in Index	10.49%			
Current Price (NZD)	\$	32.73		
Target Price (NZD)	\$	25.89		
Discount to Target Price	-26.42%			
5 Year Hist Return	20.84%			
5 Year Hist Risk (SD)	31.79%			



Forecasts	3/2024A	3/2025F	3/2026F	3/2027F
PE Ratio	72.56	56.46	46.72	38.91
Dividend Yield (%)	1.26	1.34	1.51	1.66
Revenue (NZD)	\$1.743 Billion	\$1.957 Billion	\$2.181 Billion	\$2.428 Billion
EBITDA (NZD)	\$468 Million	\$580 Million	\$680 Million	\$800 Million
Net Debt (NZD)	\$32.2 Million	\$17.24 Million	\$32.14 Million	\$-5.58 Million
\$	20.71	\$ 23.30	\$ 25.89	\$ 28.48
	Strong Buy	Buy	Hold	Sell
				↑

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Fundamental Analysis:

Fisher & Paykel Healthcare's P/E ratio is expected to decrease significantly as revenue grows, though it remains relatively high. The company's weight in the index is notable at 10.49%. Forecasts indicate steady revenue and EBITDA growth over the next few years. However, with a high P/E ratio of 72.56 in 2024, which is projected to decline to 38.91 by 2027, the stock currently appears expensive relative to its earnings. The company is anticipated to maintain a modest dividend yield, which will gradually increase, though it will remain relatively low, consistent with its ongoing growth strategy. Additionally, Fisher & Paykel Healthcare is expected to have a net cash position by 2027, and the company is projected to have some cash reserves, reflecting a strong balance sheet.

FPH is currently trading at \$32.73 which is a 26.42% premium to the consensus target price of \$25.89. According to our methodology, FPH is assigned a 'Strong Sell' rating.

Conclusion:

Both ResMed Inc (RMD) and Fisher & Paykel Healthcare (FPH) are significant players in the healthcare equipment industry, with each company exhibiting strengths and potential challenges. Here's a comparative conclusion:

Valuation: ResMed is currently trading at a discount to its target price, presenting a potential upside of 7.83%. In contrast, FPH is trading at a premium, indicating a downside risk of 26.42%.

Investment Opportunity: ResMed appears to offer a more attractive entry point due to its more reasonable valuation compared to FPH.

Growth: Both companies demonstrate strong growth in revenue and EBITDA, but FPH's starting valuation is significantly higher.

Financial Flexibility: While both companies are improving their debt positions and offering growing dividends, ResMed's earlier reduction in net debt may provide it with greater financial flexibility in the near term.

P/E Ratios: Both companies are experiencing decreasing P/E ratios.

Upcoming Dividends: 13th of August to 13th of September.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	PayDate
AUSTFOUND	AFI	14-Aug-24	15-Aug-24	15.87 cps	30-Aug-24
Vital Healthcare	VHP	04-Sep-24	05-Sep-24	2.44 cps	19-Sep-24
Argosy	ARG	10-Sep-24	11-Sep-24	1.97 cps	25-Sep-24

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