

# Yovich & Co. Market Update

13<sup>th</sup> November 2022

As at 11th November	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11230.75	7089.32	3070.80	7334.84	32403.22	10475.25	0.9162	0.5931	3.50%
Week Close	11311.76	7350.10	3087.29	7318.04	33747.86	11323.33	0.9124	0.6091	3.50%
Change	0.72%	3.68%	0.54%	-0.23%	4.15%	8.10%	-0.41%	2.69%	0.00%

US shares made a spectacular come back last week, due to an inflation report there that showed inflation decline for the fourth month to 7.7% in October, the lowest since January, and below forecasts of 8%. This gave confidence to investors, with the result being that the US market bounced back by 5.90% during the week, and the NASDAQ rose 8.10%. The NZ market was up a more modest 0.72%, while the Australian market increased by 3.68%.

Interest rates fell in the US as investors predict a less aggressive Federal Reserve given the lower inflation report. The 2-year US Treasury rate was down 41bps to 4.32%, and the 10-year Treasury rate was down 33bps to 3.82%. NZ interest rates also fell, with the 2-year swap rate down 22bps to 4.94%, and the 5-year swap rate down 25bps to 4.58%.

The NZD continued to make up ground against the USD, as investors have started to sell their USD positions, perhaps brought on by the lower-than-expected inflation report and the slowing US economy. The US Dollar DXY index fell 4.08% over the week, and expectations are that this could continue. The NZD has bounced back to over US\$0.60. Brent crude oil dropped in price by 2.71% to just under US\$96, while some commodities including aluminium and copper rebounded upwards in price. Iron ore was up 5.06%.

Last week, the quarterly RBNZ Survey of Expectations revealed that shorter-term inflation expectations increased, while longer-term expectations remained in the 1%-3% target range. Food price inflation hit 10.1% in October 2022 compared with October 2021, the highest annual increase since November 2008 with rises across all broad food categories.

The biggest movers of the week ending 11 <sup>th</sup> November 2022			
Up		Down	
EROAD	19.51%	Manawa Energy	-9.98%
Pacific Edge	10.59%	Mercury Energy	-5.32%
A2 Milk	9.32%	Serko	-3.99%

## Market Highlight – Zenith Minerals Demerger

Zenith Minerals Ltd is demerging its 100%-owned subsidiary, Mackerel Metals Ltd. As a result, existing shareholders of Zenith Minerals will receive approximately 0.48 shares in Mackerel Metals for every Zenith share held. At the same time, Mackerel is seeking to raise a minimum of \$6m in an IPO (Initial Public Offering), with existing Zenith shareholders being entitled to a priority offer for \$1.5m.

### Zenith Minerals and Mackerel Metals

Zenith is a minerals exploration company, which has increasingly turned its focus to metals that are critical to the manufacture of batteries, most notably lithium. Other minerals in the existing portfolio are gold and base metals. Zenith has three lithium projects in Western Australia via a joint venture with EV Metals, and a portfolio of several gold and base metal projects across Australia.

As the company begins its journey with EV Metals and shifts its focus towards the development of battery minerals, the board has decided that the growth and advancement of the gold and base metal portfolio can best progress under a new board and management team. As a result, Zenith is demerging its gold and base metal projects, with the assets being transferred to Mackerel Metals, which will split off as its own ASX-listed company.

### **Priority Offer**

Mackerel is seeking to raise a minimum of \$6m in an IPO, with the right to accept oversubscriptions of up to \$4m, to fund further exploration and development of its gold and base metal assets. Zenith has agreed to make an equity investment of \$1.9m in Mackerel, paying approximately \$0.30 per share. The IPO will include a priority offer for existing Zenith shareholders, which closes on 25<sup>th</sup> November. Shareholders can apply for new shares at a price of AUD\$0.30 per share, with a minimum subscription of AUD\$2,000.

After the priority offer period, the IPO will be available to the public.

### **Demerger**

As part of the demerger, Zenith will be issued with Mackerel shares, which will be distributed to shareholders by way of an In-Specie Distribution (which simply means the shares will be distributed, as opposed to the equivalent amount in cash). Shareholders will receive approximately 0.48 Mackerel shares for every Zenith share held as at 13<sup>th</sup> December. Following the IPO, Zenith will hold a general meeting to approve the proposed capital return and in-specie distribution, with the anticipated listing date for Mackerel shares on the ASX being 16<sup>th</sup> December.

### **Options and Potential Implications**

Existing Zenith shareholders need to decide whether they want to continue to hold their Zenith shares, and by implication receive Mackerel shares, and whether they want to invest more money to increase their holding in Mackerel shares.

The current Zenith share price is AUD\$0.29, with a current market cap of just under \$100m, and the proposed distribution of 0.48 Mackerel shares for every Zenith share held implies that the Mackerel assets are worth approximately one third of the existing company. This would imply that the Mackerel assets are worth approx. \$32.4m, with a current market price of approx. \$0.09 per share. Zenith has valued the Mackerel shares at \$0.30 per share.

If existing shareholders agree with the \$0.30 valuation, they can apply for new shares to increase their holding, or simply do nothing and receive the distribution of new Mackerel shares if that is approved.

Shareholders who wish to avoid having their Zenith holding split into two smaller shareholdings may want to consider selling their Zenith shares prior to 13<sup>th</sup> December.

## **Investment News**

### **Westpac (WBC.NZ/WBC.ASX) – Full Year Profit Up 4%**

Westpac has announced its FY22 results, with net profit up 4% on FY21. Net interest margin was down 17bps to 1.87%, however costs were down 19% (7% excluding notable items), driven by their simplification program and a reduction in FTE employees of 2,667. The final dividend is AUD64cps, taking the total FY22 dividend to AUD\$1.25 per share, up 6% from FY21.

**Current Share Price:** \$26.47/AUD\$24.08, **Consensus Target Price:** \$27.39/AUD\$24.98

#### Manawa Energy (MNW.NZ) – Half Year Revenue Down 58%

Manawa Energy's half-year revenue of \$286.8m is down 58% from the first 6 months of the previous year. Profit is up due to discontinued operations (due to the sale of the Trustpower retail arm), however profit from continuing operations is down 64% to \$41.0m. An interim dividend of 7.5cps will be paid, and the company is targeting a full-year dividend of 16cps.

**Current Share Price:** \$5.05, **Consensus Target Price:** \$6.16

#### Mainfreight (MFT.NZ) Half-Year Profit Up 66%

Mainfreight's half-year profit is up 66% on the previous period, to \$217m, with revenue up 32% to \$729m. The results were in line with the company's expectations and guidance provided. The interim dividend of 85cps has been announced, representing an increase of 54.5% on the previous interim dividend.

**Current Share Price:** \$73.40, **Consensus Target Price:** \$96.11

#### Goodman Property Trust (GMT.NZ) – Half-Year Operating Earnings After Tax Up 11.0%

Goodman's operating earnings after tax for the first 6 months of the year are up 11.0% compared to the previous period, to \$54.6m, with current occupancy at 99.6%, and a WALE of 6.4 years. The company has \$635.7m of development work in progress. The second quarter distribution is \$1.475, taking the half-year distribution to \$2.95, up 7.3% on last year.

**Current Share Price:** \$2.08, **Consensus Target Price:** \$2.02