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Yovich & Co WEALTH MANAGEMENT

Yovich & Co. Market Update

20th November 2022

As at 18th November	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11311.76	7350.10	3087.29	7318.04	33747.86	11323.33	0.9124	0.6091	3.50%
Week Close	11380.61	7354.74	3097.24	7385.52	33745.69	11146.06	0.9217	0.6044	3.50%
Change	0.61%	0.06%	0.32%	0.92%	-0.01%	-1.57%	1.03%	-0.78%	0.00%

The NZ share market was up 0.61% last week, while other major markets were relatively flat following a strong performance the previous week. The Australian market was up 0.06%, while the S&P500 index in the US was down 0.69%, and the NASDAQ was down 1.57%.

Markets seem to have taken a breather following the previous US Fed Funds Rate rise and softer US CPI report, now awaiting the next reports in mid-December. In the meantime, rhetoric from Fed officials has largely been hawkish, suggesting that inflation has not meaningfully slowed, and rates will therefore continue to rise.

The next Monetary Policy Statement from the Reserve Bank of NZ is this Wednesday, and markets are pricing in a 50/50 chance of a 50bps rise vs a 75bps rise. NZ’s continued strong CPI and jobs numbers might push the RBNZ to err on the higher side, especially as inflation expectations have risen.

Higher OCR expectations have pushed the NZD higher against the AUD, which has now pushed above 0.92. The NZD remains volatile against the USD, as the US Dollar Index increased by 0.54% last week, however the NZDUSD rate remains above the 0.60 mark.

NZ interest rates were flat last week, with the 2-year swap rate up 2bps to 4.96%, and the 5-year swap rate down 10bps to 4.48%. US interest rates were mixed, with the 2-year Treasury rate up 13bps to 4.45%, and the 10-year Treasury rate down 5bps to 3.77%.

As wage inflation persists, Countdown and First Union formally signed a new collective employment agreement that will result in Countdown’s supermarket workers receiving an average wage increase of 12% this year and 7% next year. This means an average $4 per hour pay rise for its 18,000 staff.

In housing, REINZ data for October highlighted residential sales down 35% YoY and down 31% on October 2019. On an annual basis the national house price index was down 10.9% (and is -12.4% from the November 2021 peak).

The biggest movers of the week ending 18th November 2022				
Up			**Down**	
Mercury Energy	5.99%		EROAD	-12.93%
Fonterra Shareholders’ Fund	4.29%		Ryman Healthcare	-6.62%
Contact Energy	3.81%		Mainfreight	-5.04%
Pacific Edge	3.19%		Tourism Holdings	-4.93%
Fisher & Paykel Healthcare	2.76%		Synlait Milk	-3.93%

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Market Highlight – ANZ Bank FY22 Result

ANZ has been in the news recently since it announced its results, revealing a record-breaking profit along with other banks. This prompted Prime Minister Jacinda Ardern and Finance Minister Grant Robertson to criticise the banks for posting mega-profits during a cost-of-living crisis. Ardern said, "I think questions need to be asked to managers of these banks as to whether or not they are serving their communities well."
At the same time, ANZ Banking Group CEO Shayne Elliott commented that ANZ doesn't have to be the sharpest on deposit pricing, so they are not. This caused some negative press, with some labelling the comments as arrogant.

The net interest margin certainly increased in the second half of the financial year, and profit increased 16% year-on-year, but the ANZ share price actually declined 3.29% on the day the results were announced. Why?

FY22 Results

While the full-year net interest margin (NIM) decreased from 1.64% in FY21 to 1.63%, the NIM grew by 13bps from the first half of the year to the second half, contributing to double-digit revenue growth in the second half. Put simply, net interest margin is the difference between what a bank receives in interest from loans, and what it pays in interest via deposits, being the core business of a bank. The improvement in NIM was mostly driven by deposits, which is consistent with comments made by the CEO regarding not leading in deposit pricing.

Rising Costs

On the downside however, while NIM and revenue showed strong momentum, there was also intense mortgage competition, limiting growth in volume, and also rising costs. ANZ forecasts further growth in NIM into FY23, but this growth will likely be limited given an eventual ramp up in deposit competition and mortgage competition. The Bank also predicts costs will continue to rise by around 5% in FY23, driven mainly by wage inflation.

Share markets are forward-looking, and buying or selling pressure in the market is driven both by the current financial results vs previous expectations, and also expectations for the future. In this way the result is a mixed bag, in that profit increased and beat expectations, but this was countered by higher costs than expected, and predicted higher costs in the future. The Bank forecasts revenue to grow more than costs in FY23, which should support profit and dividend growth.

Investment News

ANZ Bank (ANZ.NZ/ANZ.ASX) Agrees to Settle Consumer Credit Insurance Class Action

ANZ has reached an agreement to settle a class action brought against it by Slater & Gordon in 2020. The class action is against a number of parties, including ANZ, and relates to the sale of three consumer credit insurance products. ANZ will contribute $42m to the settlement, which is covered by provision held as at 30th September 2022. The settlement is without admission of liability and remains subject to court approval.
Current Share Price: $26.82/AUD$24.50, **Consensus Target Price**: $28.73/AUD$26.50

Infratil (IFT.NZ) – Half Year Proportionate EBITDAF Up 11%

Infratil's half-year proportionate EBITDAF of $275.6m is up 11% from the first half of FY22, with a net parent surplus of $350.5m. The FY23 interim dividend announced is 6.75cps, an increase of 4% from the prior period. The company's guidance on proportionate EBITDAF is a range of $510m-$540m, which has narrowed from the previous forecast range of $510m-$550m.
Current Share Price: $8.68, **Consensus Target Price**: $9.26

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Infratil Limited Bonds (IFTHA.NZ) – Rate Reset to 6.45%pa

The interest rate payable on Infratil Ltd Bonds IFTHA (perpetual infrastructure bonds) has been reset to 6.45%pa with effect from 16th November 2022.

Investore Property Ltd (IPL.NZ) – Half-Year Net Rental Income Up 7.8%

Investore Property's net rental income for the first half of FY23 of $30.2m was up 7.8% from the first half of FY22. The portfolio value was $1.2b, down 3.4% as a result of property devaluation. The company has 44 properties, with an occupancy rate by area of 99.5%, and a WALT of 8.5 years. The quarterly dividend is 1.975cps, with the full-year dividend guidance being 7.9cps.
Current Share Price: $1.52, **Consensus Target Price**: $1.58

Summerset Group (SUM.NZ) Acquires Seventh Australian Site

Summerset has purchased its seventh property in Victoria, a 9.96ha site at Drysdale, about 20km east of Geelong. The area is well serviced by amenities, and many people like to retire in the neighbourhood. This continues Summerset's growth into Australia, where the number of people aged over 75 is forecast to increase 140% to 4.1m over the next 30 years. Summerset has 36 villages in NZ, with 7 proposed sites, plus 7 in Australia, taking the total to 50.
Current Share Price: $9.74, **Consensus Target Price**: $14.42

Ryman Healthcare (RYM.NZ) – Half-Year Underlying Profit Up 44.8%

Ryman's half-year results showed underlying profit of $138.8m, up 44.8% on the first half of FY22, driven by strong resale margins. Reported profit decreased 31.1% to $194.0m due to lower unrealised revaluation gains. The interim dividend is 8.8cps, which is unchanged from last year, and represents 31.7% of underlying profit. Ryman's development programme continues to progress, with work under way on ten sites in New Zealand and another five in Australia.
Current Share Price: $7.62, **Consensus Target Price**: $11.24