Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
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Yovich & Co WEALTH MANAGEMENT

Yovich & Co. Market Update

17th January 2023

Happy New Year 2023!

Welcome to the first newsletter of the year. We hope you enjoyed a relaxing break over the Christmas and New Year period (despite the weather!) and are looking forward to new investment opportunities in the year ahead. 2022 was a particularly rough year for share markets, and we look forward to a better 2023.
To recap 2022, the NZ market declined 11.97% (14.51% decline if we discount dividends), following the global trend. In the US, the S&P 500 declined by 19.44%; in Australia, the ASX 200 declined by 5.45%, having been saved by a strong energy sector; while in the UK, the FTSE 100 increased by 0.91%.

The Year Ahead – 2023

Looking backwards at 2022, the themes we saw play out were labour shortages and supply chain constraints leading to inflation and interest rate rises. This was expected, but the extent of the inflation was underestimated by central banks and investors, as the Russian invasion of Ukraine pushed up commodity prices, including oil, and China continued with measures to contain the spread of Covid. As a result, inflation was much higher than predicted, forcing central banks to rapidly revise their forecasts and hike up interest rates much faster and higher than originally anticipated. Higher interest rates have the effect of pushing down asset prices, which we saw with shares and property, including the housing market.

Looking forward to the new year, the good news is that P/E ratios (Price-to-Earnings ratios) are much more reasonable, and historically share markets have proven to bounce back after years of large negative returns. We have likely seen the peak of inflation (although this is expected to drag on), and we are likely nearing the peak of interest rates in the first half of 2023. However, the big unknown going into 2023 is what earnings are going to look like. The point of raising interest rates is to make it harder for people to spend money, and to incentivise saving, meaning we should see a slowdown in overall spending in the economy. The question is whether this slowdown turns into a recession, and how this affects the earnings of companies on the share market.

This will likely affect each sector differently, with the consumer discretionary sector facing a tougher environment than defensive sectors. Companies with low debt in a higher interest rate environment, and the ability to increase pricing with inflation, will be more resilient in a slowing economy. We think investors should remain cautious, but remain vigilant throughout the year to seek opportunities when we see a recovery.

2023 Herald Brokers' Picks – Yovich & Co Preferred

The annual NZ Herald Brokers' Picks article published on 26th December 2022 included six brokers each putting forward their top five stocks for 2023. In total, 22 stocks were mentioned, with five stocks being picked by more than one broker. At Yovich & Co, we have selected 10 stocks from the list of 22 that we believe offer the best value at current prices, as listed in the table below.

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Company	Current Price	Consensus Target Price	Forward PE Ratio
Arvida Group	$1.15	$1.80	10.2
Contact Energy	$7.90	$8.76	30.8
Delegat Group	$9.80	$12.50	16.0
Fletcher Building	$5.12	$6.48	8.1
Infratil	$8.65	$9.26	15.9
Mercury NZ	$5.74	$6.20	42.6
NZX Limited	$1.26	$1.48	26.5
Oceania Healthcare	$0.82	$1.27	9.2
Tourism Holdings	$3.66	$4.45	15.7
Vector	$4.40	$4.52	22.5

Our investment approach in general is to invest in quality companies across different sectors and regions that deliver earnings and dividend growth over the long-term. The above list is limited to the picks chosen by the brokers in the Herald article. We have chosen those in the list that we see as more undervalued at current prices, divided by sector as much as possible. The list above has a mix of defensive sectors as well as growth sectors.

Investment News

Warehouse Group (WHS.NZ) Trading Update

The Warehouse Group has provided a trading update for the second quarter of FY23, from 31st October to 26th December. Group sales have decreased 5.5% compared to the same period in FY22. Within this: The Warehouse sales were down 1.3%; Warehouse Stationery sales were down 9.2%; Noel Leeming sales were down 11.8%; and Torpedo7 sales were down 8.5%.

Current Share Price: $2.61, **Consensus Target Price**: $3.28