Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Brock Fannin (FSP 1002346)

Yovich & Co WEALTH MANAGEMENT

# Yovich & Co. Market Update

30th January 2023

| As at 27th January | NZX 50G | All Ords | Shanghai | FTSE | Dow | NASDAQ | NZDAUD | NZDUSD | OCR |
|---|---|---|---|---|---|---|---|---|---|
| **Previous Week** | 11977.48 | 7666.28 | 3264.81 | 7770.59 | 33375.49 | 11140.43 | 0.9290 | 0.6474 | 4.25% |
| **Week Close** | 12036.05 | 7709.54 | 3264.81 | 7765.15 | 33978.08 | 11621.71 | 0.9134 | 0.6538 | 4.25% |
| **Change** | 0.49% | 0.56% | 0.00% | -0.07% | 1.81% | 4.32% | -1.69% | 0.98% | 0.00% |

Sharemarkets continued the positive trend last week, with the NZ market up 0.49%, bringing it to 4.88% up this year. Ryman Healthcare was a stand-out performer, rallying by 18% over the week to recapture some of the losses sustained in the final quarter of 2022. Serko was up even higher, rising 23% following a positive revenue guidance upgrade. In the US, the S&P 500 Index increased by 2.47%, while the NASDAQ was up 4.32% as investors bet on more subdued inflation and lower interest rates. The Australian market increased by 0.56%, bringing it to 6.29% up for the year.

Interest rates were up slightly over the week in the US, with the 2-year US Treasury rate up 4bps to 4.19%, and the 10-year Treasury rate up 11bps to 3.53%. Rates were flat in NZ, with the 2-year swap rate was down 3bps to 4.91%, while the 5-year swap rate was down 2bps to 4.25%.

The positive risk sentiment extended to commodity currencies, with the NZD and AUD stronger over the week. The NZD rose 0.98% against the USD to $0.6538. The Dow Jones Commodity Index was flat over the week, down 0.57%, while the price of Brent Crude oil was down 1.45%, closing at US$86 per barrel.

NZ's Consumer Price Index inflation report was delivered last week, reporting a CPI increase of 1.4% for the quarter to December, bringing annual inflation to 7.2%, which was unchanged from the previous quarter, and in line with expectations. Non-tradeable inflation, which the RBNZ will be focussed on, was 6.6%, while tradeable inflation was 8.2%. The main drivers continued to be household costs, higher food prices, and building costs. The key offset for the quarter was a 7.2% fall in petrol prices.

The Warehouse Group is proposing to cut 190 jobs at its Auckland support offices.

Flooding in Auckland has already racked up thousands of claims and insurance companies are bracing for more to come. Meanwhile, the government is weighing up Treasury advice on whether to intervene in the residential insurance market as flood-prone properties come under climate change pressure. The issue was forced when insurer Tower pushed up premiums for residential houses deemed at risk of earthquakes and flooding events at an individual or granular level.

| The biggest movers of the week ending 27th January 2023 | | | | |
|---|---|---|---|---|
| **Up** | | | **Down** | |
| Serko | 23.19% | | Fisher & Paykel Healthcare | -4.34% |
| Ryman Healthcare | 18.17% | | NZX | -3.85% |
| Oceania Healthcare | 8.54% | | Pacific Edge | -3.06% |
| Arvida Group | 7.21% | | Stride Property | -2.78% |
| Tourism Holdings | 6.56% | | KMD Brands | -2.75% |

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## Market Spotlight – NZ Housing Sector Update

Last year, a government working group was set up to study the drivers of house prices and rents in NZ. The Housing Technical Working Group was a joint effort by Treasury, the Reserve Bank of NZ, and the Ministry of Housing and Urban Development. The Group released its Assessment of the Housing System report on 18th August 2022, in which it focussed on the Hamilton-Waikato area to ground its assessment of NZ's housing market. The report's key conclusion is that a combination of a global decline in interest rates, the tax system, and restrictions on the supply of land for urban use, are the main cause of higher house prices in NZ over the past 20 years.

The decline in interest rates significantly reduced the cost of debt-servicing, meaning buyers were able to afford higher prices, therefore increasing demand and lifting prices. The study found however that if land supply had been more responsive, then over time that initial price rise would have incentivised a supply response to match the increased demand, leading to prices reverting downwards. Due to NZ's land supply restrictions, the decline in interest rates was captured by higher land prices, and in fact, land prices rose much further than construction costs. Regarding tax, the study finds that, again due to a restricted land supply, changes to the tax system are simply captured as changes to the value of land, as opposed to affecting the incentives to build more houses.

The key point therefore is that land supply needs to be more responsive to demand, and other factors that affect house prices in a traditional supply-demand model need to be viewed in the context of restricted land supply. Given that restricted land supply is a key issue in the housing market, the three agencies plan on developing land performance metrics to better understand and help improve the supply of developable land in key urban areas.

Now that we have seen a sharp rise in interest rates over the past year, the report concludes that this has been the main cause of the recent decline in house prices, and will likely dampen house prices further. CoreLogic NZ's latest update shows the property market had a quarterly decline of 2.1% to the end of December, suggesting an easing in the downturn. However, they warn it is too soon to conclude that the easing in the housing downturn would last, with uncertainty still high in relation to ongoing inflationary concerns, mortgage rates potentially yet to peak, and a recession looming. Overall, CoreLogic suspects sales volumes will remain fairly low in 2023, estimating a fall in values of perhaps another 5% to 10%, taking the total drop from the peak to around 20%.

## Investment News

### Serko Limited (SKO.NZ) Upgrades Revenue Guidance

Serko has upgraded its FY23 revenue guidance following stronger than expected revenue performance in its primary markets over the traditionally seasonally low period from late December to mid-January, which has given greater certainty over expected revenue. Total income is expected to be in the range of $42m-$47m, compared to the total income achieved in FY22 of $18.9m.
**Current Share Price**: $2.55, **Consensus Target Price**: $3.33

### Kiwi Property Group (KPG.NZ) – Record-Breaking Sales in 2022

Kiwi Property Group's shopping centres recorded just under $1.7b in total sales in 2022, setting a record for the company, and up significantly compared to 2021, including an increase of 5% in December versus the same time last year. Customers spent more than $200m at the company's centres in December alone.
**Current Share Price**: $0.94, **Consensus Target Price**: $0.97

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## Mercury NZ (MCY.NZ) – FY2023 EBITDAF Guidance Confirmed

Mercury has confirmed its FY23 EBITDAF guidance of $620m, or normalised EBITDAF of $795m after adjusting for the non-cash unwind of acquired swaps relating to the Norske Skog, Tilt, and Trustpower transactions.

**Current Share Price**: $5.94, **Consensus Target Price**: $6.20