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

Yovich &Co WEALTH MANAGEMENT

Yovich & Co. Market Update

19th February 2023

As at 17th February	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	12178.76	7631.13	3260.67	7882.45	33869.27	11718.12	0.9118	0.6312	4.25%
Week Close	12144.66	7552.19	3224.02	8004.36	33826.69	11787.27	0.9077	0.6245	4.25%
Change	-0.28%	-1.03%	-1.12%	1.55%	-0.13%	0.59%	-0.45%	-1.06%	0.00%

The NZ market was relatively flat last week, down just 0.28%, despite some large individual movements, including KMD Brands (up 10.5%) and Scales (down 19.2%). Scales has noted some flooding of its Mr Apple Hawke's Bay orchards, with a full assessment of the impact to be made over the coming days. The US market was also flat, with the S&P 500 Index down 0.28%, as the Dow Jones dropped 0.13% while the NASDAQ was up 0.59%. The Australian market fell 1.03%, while the UK market was up 1.55%.

Inflation expectations in NZ eased according to the latest quarterly survey of expectations, however in the US, the CPI rose more than expected in January, causing US Treasury yields to rise. The next OCR decision from the RBNZ is due this week, and is expected to be a further increase to follow the upward path. Current pricing is for a 50bp rise, which would take the OCR to 4.75%.

Interest rates in the US moved upwards sharply for a second consecutive week, with the 2-year Treasury rate up 22bps to 4.70%, and the 10-year Treasury rate up 25bps to 3.91%. In NZ, the short-term 2-year swap rate was flat, down 2bps to 5.09%, however the 5-year swap rate was up 10bps to 4.54%.

The USD continued to strengthen, with the US Dollar Index increasing by 0.29%. The NZD was down against the USD as a result, dropping 1.06% to 0.6245. The Dow Jones Commodity Index was down 2.02%, while the price of Brent Crude oil dropped by 4.0% to finish the week at US$83 per barrel.

The national REINZ house price index declined 1.4% in January, taking the national average 16.3% below the November 2021 peak. Auckland prices fell 1.6%, taking them to 21.4% below the peak.

Stats NZ said there was a provisional net migration gain of 15,800 people in 2022, compared to a loss of 15,000 in 2021. However, it remained below pre-pandemic gains, which averaged 57,600 during 2014-2019.

The biggest movers of the week ending 17th February 2023				
Up			Down	
KMD Brands	10.48%		Scales Corporation	-19.22%
Tourism Holdings	4.33%		Arvida Group	-9.48%
The a2 Milk Company	3.33%		Fletcher Building	-9.04%
Mercury NZ	3.02%		Manawa Energy	-8.71%
Fisher & Paykel Healthcare	2.90%		Vulcan Steel	-6.18%

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

Market Highlight – Ryman Healthcare Entitlement Offer

Ryman Healthcare is conducting a pro-rata accelerated renounceable entitlement offer to raise $902m of further capital, whereby eligible investors can apply for 1 new share for every 2.81 shares held, at an application price of $5.00 per share. An entitlement offer is sometimes referred to as a rights issue.

Debt Position Too High

The purpose of the capital raise is to strengthen Ryman's balance sheet through the repayment of debt. Ryman explains that there was a period of accelerated investment from the start of FY18, where investing cash flows exceeded operating cash flows, resulting in elevated levels of debt.

During 2021 and 2022, Ryman borrowed via US Private Placement (USPP) debts, being its most expensive tranche of debt. Ryman's chief executive has said that a breach of the loan covenants is not imminent, but also explained that the USPP debt is an unacceptable risk. The company's investor presentation shows that it sought an amendment to the Interest Cover Ratio covenant on its loans, and has received approval from the majority of lenders for an amendment to this covenant until March 2026. This may suggest that the USPP lenders have refused to agree to a similar change.

$872m of the new equity raised will be used to fully repay the USPP notes. Included in this amount are early repayment costs of $134m, which has caused the directors to face a lot of criticism from analysts who have called the costs extraordinary. The debt reduction will reduce pro-forma gearing from 45.3% to 33.9%.

Reducing Cash Outflows – Dividend Halt

In November 2022, Ryman introduced a dividend reinvestment plan, which was a signal that the company was trying to reduce cash outflow. The company has decided now to halt dividends, with no final dividend to be paid for FY23. Dividends are expected to be resumed in FY24.

The company has also revised its development pipeline, including a pause on certain construction projects, and delaying some higher density developments which are capital-intensive. The rebalance towards lower density townhouse style developments will support improved cash conversion, and reduce capital intensity.

Growth Framework

Ryman expects its significant historical development expenditure to underpin its future growth, despite this growth resulting in significant debt levels. It has 15 villages under construction, with 6 currently slowed and/or paused. 10 villages are expected to be completed in the next three years, and the company has a significant landbank for future construction.

Beyond FY25, Ryman intends to return the build rate to its original growth profile. Future developments are expected to be more weighted towards retirement village units to maximise returns, materially reducing the ratio of care beds to retirement village units across the portfolio. The company provided guidance for its FY23 underlying profit of $280m-$290m, an increase of 10%-14% compared to FY22, and FY24 underlying profit is expected to grow by 10%-15% compared to FY23.

Entitlement Offer

The application price for new shares is $5.00, which reflects a 17.1% discount to the theoretical ex-rights price (TERP) of $6.03.

The entitlement offer is made up of an institutional component and a retail component. The institutional offer opened on 15th February, with results to be announced on the 20th. The retail offer opens for retail investors on 21st February, who can choose from 4 options.

<u>Options for Investors</u>

1. Take up some or all of your entitlements at the application price of $5.00 per (closing date 6th March).
2. Take up all of your entitlements and apply for more. If you take up all of your entitlements, you may apply for a dollar amount of additional new shares, which will be issued at the retail bookbuild price.
3. Sell some or all of your entitlements. You can sell them on the NZX, with the price being determined by the market. Usually, the value of the entitlements will relate to the difference between the current price of existing shares and the application price for new shares. Trading of retail entitlements ceases on 28th February.
4. Do nothing, and let your entitlements be sold via the Retail Bookbuild. Any premium achieved above the application price during this process will be paid to those shareholders who did not take up their entitlements.

Options 3 and 4 will result in your shareholding being diluted as a result of the new shares being issued.

Investment News

Contact Energy (CEN.NZ) – First Half-Year Underlying Profit Down 41%

Contact Energy announced its first half-year results, with underlying EBITDAF down 24% on pcp to $246m, and underlying profit down 41% to $79m. Reported profit was a net loss of $7m due to an onerous contract provision of $120m following a review of the estimated available capacity of the Ahuroa Gas Storage Facility (AGS). The result was due to lower wholesale prices, lower renewable and thermal generation, and increased operating costs.
Current Share Price: $7.66, **Consensus Target Price**: $9.01

Fletcher Building (FBU.NZ) – First Half-Year Net Profit Down 46%

Fletcher Building announced its half-year results, with EBIT up 8% to $360m, reflecting a solid performance after a Covid-impacted 1H22, and supply chain pressures also easing. However, after significant items, primarily from $150m increased costs to complete the complex NZICC rebuild, net profit was down 46% on pcp to $92m. Guidance for FY23 EBIT is $800m-$855m. An interim dividend of 18.0cps was declared, being the same level as 1H22.
Current Share Price: $4.93, **Consensus Target Price**: $6.32

SkyCity Entertainment Group (SKC.NZ) – First Half-Year Profit Up 168%

SkyCity announced its half-year results, with normalized revenue up 87% on pcp to $487m, and profit up 168% to $22.8m. Normalised profit was $73.1m, which was down 10% from 1H19, as the more realistic pre-covid comparison period. The dividend is 6.0cps. FY23 normalised EBITDA is expected to track ahead of FY19 levels, with estimates ranging from $305m to $320m.
Current Share Price: $2.59, **Consensus Target Price**: $3.26