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Yovich & Co WEALTH MANAGEMENT

Yovich & Co. Market Update

5th March 2023

As at 3rd March	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11905.75	7512.71	3267.16	7878.66	32816.92	11394.94	0.9169	0.6165	4.75%
Week Close	11868.79	7484.04	3328.39	7947.11	33390.97	11689.01	0.9192	0.6219	4.75%
Change	-0.31%	-0.38%	1.87%	0.87%	1.75%	2.58%	0.25%	0.86%	0.00%

US equities had a strong week last week, with the S&P500 Index up 1.9%, and the NASDAQ up 2.58%. The US ISM survey for February showed a contracting manufacturing sector, but a stronger than expected services sector. UK and European markets were also positive, while the NZ and Australian markets were flat, moving down 0.31% and 0.38% respectively.

US interest rates moved higher over the week, with the 2-year Treasury rate up 19bps to 4.88%, and the 10-year Treasury rate up 17bps to 4.04%. NZ rates also moved higher, with the 2-year swap rate up 5bps to 5.44%, and the 5-year swap rate up 8bps to 4.90%.

With higher risk sentiment, the USD index fell by 0.67%, and the NZD was up 0.86% against the USD, moving to 0.6219. The Dow Jones Commodity Index was up 2.97%, while the price of Brent Crude oil moved up by 3.19% to above US$85.

NZ retail sales declined by 0.6% in the December quarter on a seasonally-adjusted and price-adjusted basis. The volume of retail goods and services sold has declined in four of the past five quarters after increasing steadily during most of the pandemic. The biggest declines were in building, gardening and hardware (-15%), and motor vehicles and parts (-10%).

Data from CoreLogic shows that house prices fell another 1% in February; the largest fall since October. Latest realestate.co.nz figures show residential properties for sale on its platform are at 8-year highs, despite record low new listings in February.

The biggest movers of the week ending 3rd March 2023				
Up			**Down**	
Restaurant Brands NZ	9.04%		Summerset Group	-7.11%
Vista Group International	5.04%		Synlait Milk	-5.31%
Argosy Property	4.96%		Pushpay Holdings	-4.65%
The a2 Milk Company	4.59%		ANZ Bank	-4.42%
Ryman Healthcare	3.89%		Westpac Bank	-4.16%

Market Spotlight – Fuel Demand Projections for NZ

Channel Infrastructure recently commissioned a fuel demand outlook by industry experts Hale & Twomey, reflecting the latest industry and Government policy developments. The report used expert passenger demand forecasts from Auckland International Airport to forecast future jet fuel demand, and forecast diesel demand sector by sector to take account of different fuel transition pathways by sector.

The general view is that electrification of transport, and a wider use of biofuels, will result in petrol demand peaking, and starting to decline, in the near term. However, diesel will transition more slowly, with a gradual increase in biofuels and

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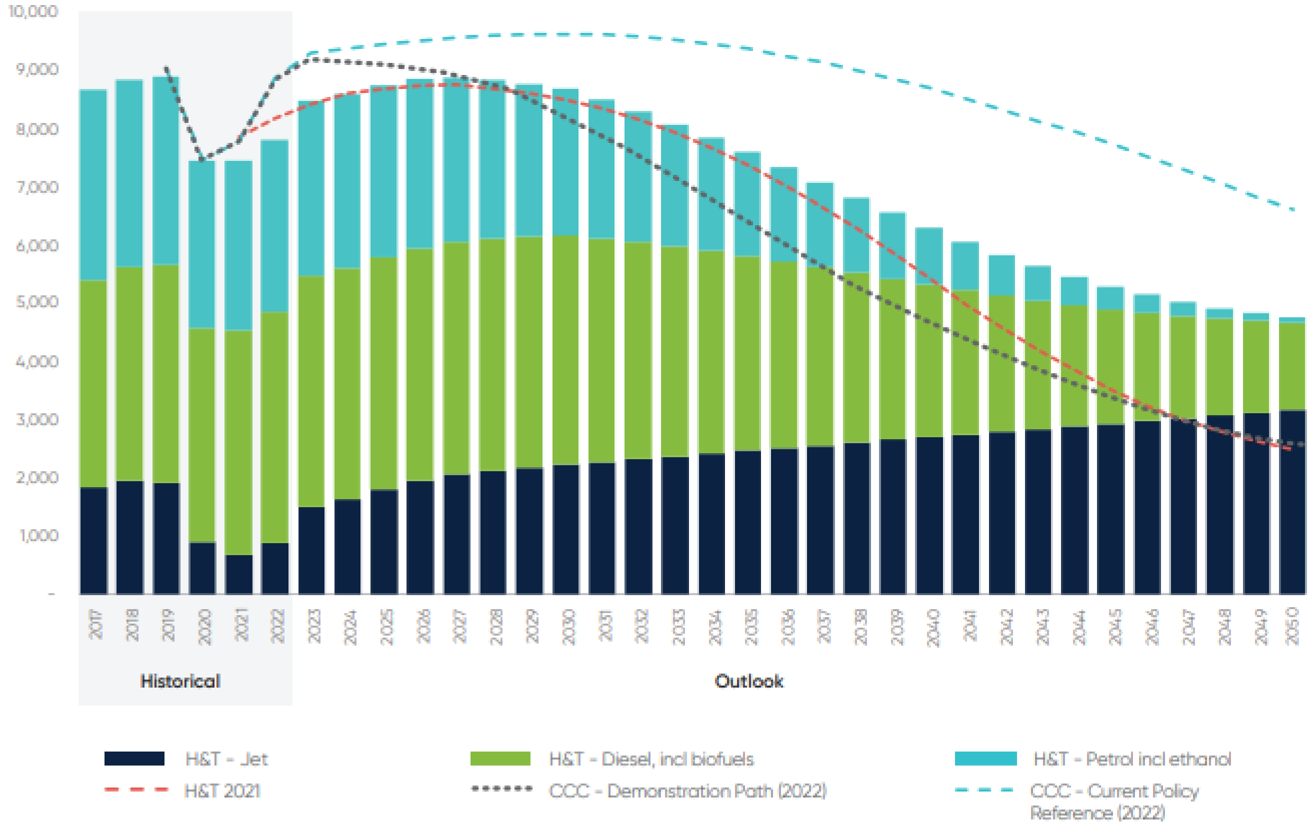
the electrification of light commercial vehicles and buses, and the transition of heavy transport to electric and hydrogen expected to take longer. The chart below illustrates the forecast fuel demand for jet fuel, diesel, and petrol.

Fuel Demand Projections for NZ (million litres)



Source: Channel Infrastructure NZ Sustainability Report 2022

The chart shows petrol demand declining from around 2027, while diesel declines but at a slower rate. Jet fuel demand however is forecast to continue to increase into the future, reaching pre-Covid levels by 2026. The outlook anticipates a near-term re-establishment of long-haul flights, with the extra-long-haul sector (greater than 11,500km) becoming a greater portion.

Regarding the decarbonisation of the aviation industry, this is expected to be largely driven by the gradual substitution of petroleum jet fuel with Sustainable Aviation Fuel (SAF). SAF is regarded as a ‘drop-in fuel’, in that it is chemically identical to fossil jet fuel, and is therefore able to utilise the same tanks, pipelines, and other infrastructure. Air New Zealand’s ambition is to reach 10% SAF uptake by 2030 and 70% emissions reduction by 2050 through SAF and other zero emissions aircraft technology.

25% of regional jet demand is assumed to be electric by 2040, and 10% of short-haul jet demand is assumed to be met by hydrogen by 2050. However, this will have a limited impact on Channel Infrastructure’s jet fuel throughput volumes, which will be driven by long-haul and extra long-haul flights out of Auckland.

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Investment News

Auckland International Airport (AIA.NZ) – First Half-Year Underlying Profit Up 690%

Auckland Airport announced its first half-year results, with revenue of $287.8m, up 128% on pcp, and 78% of 1H19 as the pre-Covid standard comparison. Passenger movements were 71% of 1H19 at 7.6m, while underlying profit of $67.9m was 50% of 1H19. The company has raised its guidance for underlying earnings for FY23 to between $125m-$145m. There is no interim dividend.

Current Share Price: $8.65, **Consensus Target Price**: $8.11

Air New Zealand (AIR.NZ) – First Half-Year Profit Back to Positive

Air New Zealand announced its first half-year results, with revenue of $3,078m, up 174% on the previous year, and 5.2% ahead of IH19, the pre-Covid level. Net profit of $213m compares to a loss of $272m in pcp, and 42% up on 1H19. Gearing has reduced from 45.4% last year to 32.7%. Key pressures are staff shortages and the high-cost environment. The outlook is for passenger capacity at 80%-85% of pre-Covid levels for 2H23, and profit before tax of $450m-$530m, based on an average jet fuel price of US$105 per barrel.

Current Share Price: $0.79, **Consensus Target Price**: $0.86

Summerset Group (SUM.NZ) – Full-Year Underlying Profit Up 21%

Summerset announced its full-year FY22 results, with total revenue of $238.7m, up 16% from FY21, and underlying profit of $171.4m, up 21% on FY21. While Cyclone Gabrielle affected four villages, including Whangarei, there was no material damage to villages. A total of 651 units were developed during FY22 across 12 villages; Summerset currently has 18 villages in construction across 10 regions. The gearing ratio is at 32.4%, up from 27.8% in FY21. The final dividend is 11.6cps, being 30% of underlying profit, where the policy for total dividend remains 30%-50%. The full-year dividend total 22.3cps.

Current Share Price: $9.01, **Consensus Target Price**: $13.75

Port of Tauranga (POT.NZ) – First Half-Year Profit Up 11%

Port of Tauranga announced its half-year results, with revenue of $211.9m up 14% on pcp, and net profit of $62.7m up 11%. The interim dividend is up 4.6% to 6.8cps. the outlook for FY2023 is for port congestion to ease, and the earnings guidance is between $117m-124m.

Current Share Price: $6.26, **Consensus Target Price**: $6.17

Heartland Group (HGH.NZ) – First Half-Year Underlying Profit Up 16.2%

Heartland Group announced its half-year results, with underlying net interest income of $140.8m up 13.6% on pcp, and underlying net profit of $54.7m up 16.2%. The interim dividend is flat at 5.5cps. The outlook for FY2023 is for NPAT to be in the range of $109m-$114m. Heartland's net interest margin is expected to stabilise at its current level as the company manages portfolio pricing and margin in competitive markets.

Current Share Price: $1.79, **Consensus Target Price**: $2.13

Meridian Energy (MEL.NZ) – First Half-Year EBITDAF Up 8%

Meridian Energy announced its half-year results, with EBITDAF of $425m, up 8% on pcp. Underlying NPAT was $181m, up 25% on pcp. The interim dividend of 6cps is a 2.6% increase from 1HFY22.

Current Share Price: $5.365, **Consensus Target Price**: $5.49