

Yovich & Co. Market Update

12th March 2023

As at 10th March	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11868.79	7484.04	3328.39	7947.11	33390.97	11689.01	0.9192	0.6219	4.75%
Week Close	11727.04	7348.23	3230.08	7748.35	31909.64	11138.89	0.9319	0.6131	4.75%
Change	-1.19%	-1.81%	-2.95%	-2.50%	-4.44%	-4.71%	1.38%	-1.42%	0.00%

The US market declined last week, with the S&P500 Index down 4.55%, driven down by the collapse of Silicon Valley Bank (SVB). SVB is the 16th largest bank in the US, and specialises in supporting tech startups. The bank has been caught out by rising interest rates, without using swaps to hedge interest rate risk: SVB had a large portion of its assets held in Treasuries, and with a sharp increase in withdrawals from cash-strapped tech customers, it needed to sell Treasuries at a loss to cover that demand. Regulators took control on Friday after the risk of a bank-run became clear.

Share markets have responded negatively as a result. SVB is the biggest US bank to fail since the Global Financial Crisis in 2008. The FTSE index in the UK was down 2.50% over the week, while the NZ and Australian markets were not as bad, down 1.19% and 1.81% respectively. With the news unfolding on Friday however, we may see more downward movement in NZ at the start of the coming week.

The Reserve Bank of Australia raised its cash rate by a further 0.25% last week, moving it to 3.60%, the highest since 2012. The RBA noted that inflation pressures might have peaked based on wage data. The cash rate is forecast to peak at 4.00% later this year. The US jobs report for February showed slightly higher unemployment, and weaker earnings growth, which is a good sign for inflation concerns.

Interest rates in the US finished lower after the SVB news, after having risen earlier in the week. The 2-year Treasury rate finished the week down 7bps to 4.80%, and the 10-year Treasury rate was down 22bps to 3.82%. In NZ, the short-term 2-year swap rate was down 4bps to 5.39%, and the 5-year swap rate was down 13bps to 4.77%.

The USD was slightly stronger, with the US Dollar Index increasing by 0.12%. The NZD was down against the USD, falling 1.42% to 0.6131. The Dow Jones Commodity Index was down 3.11%, while the price of Brent Crude oil dropped by 3.75% to finish the week below US\$83 per barrel.

Statistics NZ have reported that new building work in the December 2022 quarter was a record high, and up 19.7% compared to the December 2021 quarter. However, the rate of growth has slowed from the September quarter.

The biggest movers of the week ending 10 th March 2023			
Up		Down	
Ebos Group	4.39%	Vista Group International	-6.85%
Restaurant Brands NZ	2.23%	Serko	-6.64%
NZX	1.64%	Vulcan Steel	-6.44%
Sanford	1.51%	KMD Brands	-6.31%
Air New Zealand	1.27%	Ryman Healthcare	-5.88%

Market Highlight – Sheffield Resources Entitlement Offer

Sheffield Resources is conducting a pro-rata non-renounceable entitlement offer to raise approximately \$12.4m of further capital, whereby eligible investors can apply for 1 new share for every 14 shares held, at an application price of A\$0.50 per share.

The total capital raise is for A\$30m, which includes an institutional placement of A\$18m, and the current entitlement offer. Binding commitments have been received for the A\$18m placement.

South Atlantic Project

Sheffield has executed an agreement (RGM Option Agreement) that provides it with an option to acquire a 20% interest in RGM (Rio Grande Mineracao S/A), being the company that owns the South Atlantic Mineral Sands Project in Brazil. This project is located in the south of Brazil, along the coast of the Atlantic Ocean, and consists of a continuous sequence of dunes and beach sands extending for 80km. RGM holds the tenements, and four main deposits have been identified within the project area. The exploration targets comprise sulphate ilmenite and zircon.

The existing infrastructure includes a deep water port adjacent to the deposit, with a power grid and sealed roads in place. Future infrastructure requirements would include mine access roads and power distribution. Rio Grande is a construction hub, with a well trained workforce and existing industrial operations.

Under the RGM Option Agreement, Sheffield provides RGM with an unsecured loan of US\$2.5m to fund project due diligence. Payment of the US\$2.5m grants Sheffield the option to acquire a 20% interest in RGM, which may be exercised with the payment of a further US\$12.5m (US\$15.0m in total). The option is exercisable within an 18-month period.

Sheffield's US\$2.5m contribution, combined with existing RGM shareholder contributions exceeding US\$3.0m, provides RGM with appropriate capital resources to execute an agreed work program over the next 18 months. The work program activities include regulatory approvals, drilling, resource definition, and definitive feasibility studies.

Status of the Thunderbird Project and Sheffield Strategy

The Thunderbird Project remains on schedule and on budget and is over 75% complete, with the first shipment of products scheduled for early 2024. The overall strategy for Sheffield Resources is to assemble a portfolio of global mineral sands development and production assets. Management sees entering joint venture agreements as a way to minimise capital outlay from the company, and maximise the company's expertise in exploration activities.

Entitlement Offer

The application price for new shares is A\$0.50, which reflects a 13.9% discount to the theoretical ex-rights price (TERP) of A\$0.581.

The Placement and Entitlement Offer proceeds will be applied toward the South Atlantic Project opportunity, growth options within Kimberley Mineral Sands, and for general corporate and working capital purposes.

Options for Investors

1. Take up some or all of your entitlements at the application price of A\$0.50 per share (closing date 21st March).
2. Take up all of your entitlements and apply for more. If you take up all of your entitlements, you may apply for additional shares.
3. Do nothing, and let your entitlements lapse. This will result in your shareholding being diluted as a result of the new shares being issued.

Investment News

Meridian Energy (MEL.NZ) Launches Retail Green Bond Offer

Meridian Energy is launching a 5.5 year fixed rate green bond offer. The interest rate has been set at 5.91%pa. The credit rating for the green bonds is BBB+. Meridian intends to use the proceeds to finance or refinance renewable energy and energy efficiency projects and assets that meet the eligibility criteria as set out in the Green Finance Framework, including the refinance of the \$150,000,000 MEL030 green bonds which mature on 14th March 2023.

Current Share Price: \$5.175, **Consensus Target Price:** \$5.49

Kiwi Property Group (KPG.NZ) Launches Retail Green Bond Offer

Kiwi Property Group is launching a 6.5 year fixed rate green bond offer. The interest rate is yet to be set, with the offer to open on 14th March and the rate set date being 17th March. The bonds will have a credit rating of BBB+. Kiwi Property will apply the net proceeds of the offer to repay existing bank debt of the Group.

Current Share Price: \$0.89, **Consensus Target Price:** \$0.97

Ryman Healthcare (RYM.NZ) Completes Bookbuild, Raising \$902m

Ryman Healthcare has completed the shortfall bookbuild of its retail entitlement, concluding the entitlement offer under which the company has raised \$902m. Approximately 25m new shares were offered for sale in the retail bookbuild, representing entitlements that were not taken up. The bookbuild achieved a clearing price of \$5.25, which represents a premium of \$0.25 above the offer price of \$5.00 per new share. The retail premium will be paid to those shareholders who did not take up their entitlements, on or about 14th March. The new shares will be issued on 14th March.

Current Share Price: \$5.28, **Consensus Target Price:** \$8.69