

Yovich & Co. Market Update

14th May 2023

As at 12th May	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11889.01	7413.08	3334.50	7778.38	33674.38	12235.41	0.9323	0.6274	5.25%
Week Close	11938.84	7453.17	3272.36	7754.62	33300.62	12284.74	0.9319	0.6195	5.25%
Change	0.42%	0.54%	-1.86%	-0.31%	-1.11%	0.40%	-0.05%	-1.25%	0.00%

Share markets were relatively flat last week, with the NZ and Australian markets up 0.42% and 0.54% respectively, while the US market was down 0.29%, and the UK market was down 0.31%.

The Bank of England (BOE) was the latest to hike rates again last week, lifting the cash rate by 0.25% to 4.50% as expected. While inflation is still running high in the UK at over 10%, the BOE chief economist said that inflation is at a turning point and will turn sharply lower from energy related base effects. Additional rate hikes are still expected given the still-high inflation rate however, with the market expecting the rate to peak at 4.75% or 5.00% later this year.

The latest US CPI inflation for April was released last week, showing a rise of 0.4% for April in line with expectations. This pulled the annual inflation rate down to 4.9%. The RBNZ's quarterly survey of expectations showed the one-year forward inflation expectations fell from 5.11% to 4.83%, and the two-year average expectation dropped to 2.79%, showing respondents have confidence that inflation will be brought back down to acceptable levels.

Interest rates fell in NZ following the release of the survey results, with the 2-year swap rate down 11bps to 4.90%, while the 5-year swap rate remained flat at 4.23%. In the US, the 2-year Treasury rate increased by 10bps to 3.92%, while the 10-year Treasury rate was up slightly by 2bps to 3.41%.

The NZD weakened, ending the week below the 0.62 mark against the USD, and also declined slightly against the AUD, finishing at 0.9319. The Dow Jones Commodity Index fell further, down 1.14%, and the price of Brent Crude oil was down a further 1.45% to finish the week below US\$75 per barrel.

The national REINZ house price index fell 0.8% in April, taking average prices down 17.6% from the peak in November 2021. Auckland prices are down 22.8% from the peak.

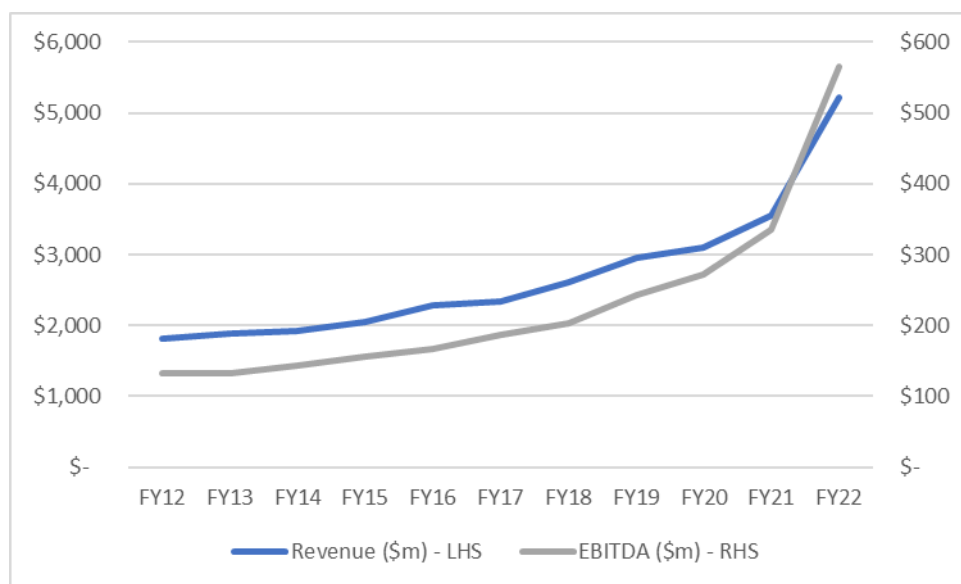
The biggest movers of the week ending 12 th May 2023			
Up		Down	
Serko	3.14%	Tourism Holdings	-8.71%
Arvida Group	2.94%	Hallenstein Glasson	-5.33%
Meridian Energy	2.80%	Fonterra Shareholders' Fund	-5.09%
Channel Infrastructure NZ	2.78%	Vulcan Steel	-3.64%
Air New Zealand	2.63%	Pacific Edge	-3.41%

Stock Focus - Mainfreight

Mainfreight is a global supply chain logistics provider with operations in New Zealand, Australia, Asia, US and Europe. Its services cover the entire supply chain, from warehousing and inventory management to international and domestic freight forwarding. The company has a strong market position in NZ and Australia, and a growing global footprint, and has been a quality stock for investors with a proven track record of earnings growth.

Covid Boost

Mainfreight has a solid history of continual growth, both domestically in warehousing and logistics, adding more services and locations, and internationally by establishing key markets and growing the network. Over the Covid lockdown period however, we saw a step-change in growth, driven by the Air and Ocean (A&O) division of the company. The chart below shows Mainfreight's revenue and EBITDA over the last 10 years, highlighting the sharp increase during FY22.



Mainfreight's A&O revenue lifted on higher sea and air freight rates during the Covid disruption, with higher earnings reflecting its role in assisting shippers through a period of significant complexity and supply chain stress.

Reversion to Normal Freight Prices

Global freight indices have declined from their peaks and are back around the levels seen prior to Covid, as supply chain pressures have eased back to more normal levels. This will have an effect on Mainfreight's growth rate for earnings and revenue, and it is expected that there will be likely be a decline in revenue and earnings from FY24. Revenue and earnings have continued to grow in the current financial year (FY23), with the latest update from the company in February showing an increase for the first three quarters of the year. However, it is expected that the last quarter of FY23 will reflect weaker pricing in the A&O division, and we will likely see weakness in pricing and volumes during FY24 when compared to the favourable Covid-period conditions. This reversion has been reflected in the share price, as shown in the following chart.



While the company will see some normalisation in the short-term, Mainfreight remains a high-quality growth business with a long track record. The forecast earnings decline in the short term will have little impact on the long-term outlook. Investors should view the recent decline in share price as an opportunity to invest at a more reasonable price, with a view to long-term growth despite short-term volatility.

Investment News

NZX Limited (NZX.NZ) – Subordinated Bonds Election

NZX subordinated notes (NZX010) have an election date coming up on 20th June 2023. Election dates occur at 5-yearly intervals, with the first one being this year. Investors who own the notes can now make an election to either retain some or all of the notes subject to new terms and conditions, or have some or all of their notes redeemed on election date. The new interest rate from 20th June will be the higher of 6.50%pa, or the mid-market 5-year interest swap rate on the election date plus a 2.25% margin. The default is to retain all notes. The new subordinated notes will have a new ticker code, being NZX020.

Current Share Price: \$1.15, **Consensus Target Price:** \$1.43

Westpac Banking Corporation (WBC.NZ) – Half-Year NPAT Up 22%

Westpac Bank has announced its half-year results, showing growth in revenue of 8% compared to 1H22, while operating expenses decreased by 7%. NPAT of \$4.00b was an increase of 22% compared to 1H22. The net interest margin of 1.96% was an increase of 5bps from 1H22, but flat on 2H22. The result reflects growth in home and business loans together with ongoing cost discipline. An interim dividend of 70cps was announced, being a 15% increase from 61cps in 1H22.

Current Share Price: \$22.65, **Consensus Target Price:** \$24.65

Tourism Holdings (THL.NZ) – Profit Guidance Remains Unchanged

Tourism Holdings has provided a trading update, with no change to their earlier guidance for expected FY23 net profit above \$48m. This translates to above \$75m on a pro-forma basis, which includes Apollo Tourism & Leisure Ltd’s NPAT for the five months prior to completion of the merger. According to THL, travel and tourism has remained resilient and is experiencing strong growth, with forward booking activity for the 2023 high season in the northern hemisphere showing an increase in international volumes, and early forward booking activity for the 2023/24 high season in NZ/Aus indicating international volumes will continue to grow.

Current Share Price: \$3.88, **Consensus Target Price:** \$5.06

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WEALTH MANAGEMENT

The Warehouse Group (WHS.NZ) Provides Third Quarter Trading Update

The Warehouse has provided a trading update for Q323, with group sales of \$801.3m up 3.8% on the same period in FY22. While sales in The Warehouse were up 10.5%, sales in Warehouse Stationery, Noel Leeming, and Torpedo7 were down. Group gross margin was 34.0%, down 160bps from FY22 Q3, however an improvement from the half year gross margin. The CEO said the company has reprioritized its focus on trading in response to current economic conditions, and their attention remains on managing costs and delivering gross profit across the group.

Current Share Price: \$1.77, Consensus Target Price: \$2.00