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

Yovich &Co WEALTH MANAGEMENT

Yovich & Co. Market Update

21st May 2023

As at 19th May	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11938.84	7453.17	3272.36	7754.62	33300.62	12284.74	0.9319	0.6195	5.25%
Week Close	12099.74	7471.48	3283.54	7756.87	33426.63	12657.90	0.9437	0.6122	5.25%
Change	1.35%	0.25%	0.34%	0.03%	0.38%	3.04%	1.27%	-1.17%	0.00%

The NZ share market was strong last week, up 1.35%, with some strong gains following company results announcements, including Ryman Healthcare, which was up 12.43% over the week. The US market also had a good week, up 1.65%, led by the NASDAQ which rose 3.04%, while the Australian and UK markets were up slightly by 0.25% and 0.03% respectively.

The NZ Government delivered the Budget last week, which was more stimulatory than expected, with lower revenue and higher spending necessitating higher debt levels. The market is now expecting higher inflation as a result, with market expectations being for the OCR to peak at either 5.75% or 6.00%, rather than 5.50% as previously expected.

Interest rates increased as a result, along with higher rates globally last week. In NZ, the 2-year swap rate jumped significantly by 59bps to 5.49%, while the 5-year swap rate rose by 38bps to 4.61%. In the US, the 2-year Treasury rate increased by 30bps to 4.22%, while the 10-year Treasury rate was up 21bps to 3.63%.

The USD strengthened last week, as the DXY index increased by 0.5%, sending the NZD down against the USD by 1.17% to 0.6122. However, the NZD was up against the AUD by 1.27%, to 0.9437. The Dow Jones Commodity Index was flat last week, and the price of Brent Crude oil rose by 2.16% to finish above US$75 per barrel.

The latest report from Auckland-based BWA Insolvency shows a steady increase in business failures across the country. In Q1 2023, there were 355 formal insolvency proceedings lodged in NZ compared to the corresponding period in 2022 when there were 277; an overall increase of 28%. Construction (90) and property and real estate (39) had the highest number of formal insolvency proceedings by sector.

The Auckland commercial property market showed increased occupancy for prime property, with JLL's half-yearly review showing prime vacancies in Auckland's CBD have decreased 1.6% to 8.1%. Average rents increased by $10/sqm, with the highest recorded rent more than $850/sqm. In residential NZ property, CoreLogic data indicates low yields, high mortgage rates, high deposits and interest deductibility changes are deterring property investors.

The biggest movers of the week ending 19th May 2023

Up			Down	
Serko	39.13%		Hallenstein Glasson	-5.78%
Arvida Group	13.33%		Manawa Energy	-4.00%
Ryman Healthcare	12.43%		Sky Network Television	-3.85%
Oceania Healthcare	11.76%		The Warehouse Group	-3.39%
Summerset Group	10.61%		Ebos Group	-2.49%

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Economic News – Trust Tax Rate Increases to 39%

Labour's Finance Minister Grant Robertson delivered his sixth Budget on Thursday 18th May, touted as the "Bread and Butter" budget by the government. Mr Robertson had previously said that the government did not plan to introduce any new taxes (including a capital gains tax) in its current term, and that this budget sought to strike a balance between being prudent with spending to not add to inflation pressures, but to also support those in need during the cost of living crisis.

The budget included raising the tax rate for trusts from 33% to 39%, which did not come as a surprise to accountants. When the 39% top personal tax rate was introduced from 1 April 2021, the government had been advised by Inland Revenue that the trust rate should also increase to minimise incentivising taxpayers to make use of trusts to avoid the 39% top personal tax rate. Revenue Minister David Parker said that "new information from Inland Revenue has shown an almost 50 percent spike in income subject to the trustee rate, from $11.4 billion in the 2020 tax year to $17.1 billion in the 2021 tax year", showing that taxpayers have sought to circumvent the top personal tax rate.

This is also a response to the IRD's recent High Wealth Individuals research, which the government suggests revealed "a large difference between the average tax rate ordinary New Zealanders pay on their full income compared to the super-wealthy. This change is this Budget's response to that research." With 400,000 trusts registered in NZ, the increased rate, along with increased compliance costs in recent years, will mean the use of trusts will likely become less popular.

What Does This Mean for Investors?

If you hold investments via a trust, you may be wise to discuss the implications of the increased tax rate with your accountant. Trusts with lower tax-rate beneficiaries can continue to distribute trustee income to beneficiaries to use the beneficiaries' lower marginal tax rates. Also, there are some exemptions such as deceased estates and trusts for disabled persons, allowing "trustee income of an eligible trust to be taxed as though it is the income of deceased person or the disabled beneficiary of the trust".

Investors might also ask themselves what was the reason for setting up the trust in the first place, and whether that reason is still valid today, i.e. was the reason to mitigate tax, or was it to protect assets? If the reason was to mitigate tax, then that reason may not be valid from 1st April 2024 when the new tax rate takes effect. With the costs of implementing and maintaining a trust having increased in recent years, it may be worth considering winding up the trust in this case.

Otherwise, trusts remain a valid way of protecting assets. For example, they can be used to protect your family home from a business failure, set aside funds for your children, ensure your children's inheritances are protected from their partners, or protect your estate from unwanted claims.

Investment News

Ryman Healthcare (RYM.NZ) – Full-Year Underlying Profit Beats Guidance

Ryman Healthcare announced its full-year results for FY23, with underlying profit of $301.9m, up 18.4% on FY22, and ahead of previous guidance of $180m-$290m. Following the $900m capital raise during the year, USPP debt of $855m was repaid, reducing gearing from 45.3% in September to 33.1% as at March 2023. Revenue was up on FY22, with an increase in gross new sales margin and gross resales margin. Reported profit was down on FY22 due to lower revaluation gains. The board will consider the resumption of dividends in FY24. FY24 underlying profit is expected to be in the range of $310m-$330m.

Current Share Price: $6.06, **Consensus Target Price**: $7.57

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Investore Property (IPL.NZ) – Net Rental Income Up 3.4%

Investore Property Ltd announced its full-year results for FY23, showing a 3.4% increase in net rental income of $60.3m. Profit before the net change in fair value of properties was $35.2m, up from $34.3m. Due to a negative revaluation of properties, the company made a loss of $185.3m. Adjusted Funds From Operations (AFFO) was $28.6m, up 9.3% from FY22. The portfolio valuation is $1.1b, with occupancy of 99.5%, and a weighted average lease term of 8.1 years. The full-year dividend for FY23 is 7.90c per share.
Current Share Price: $1.45, **Consensus Target Price**: $1.59

Goodman Property Trust (GMT.NZ) – Net Rental Income Up 12.7%

Goodman Property Trust announced its full-year results for FY23, showing a 12.7% increase in net rental income of $177.0m. Profit before revaluations was $126.5m, up from $118.3m, however revaluations of property resulted in the company making a loss of $126.0m. The total property portfolio is $4.8b, with occupancy at 99.5%, and a weighted average lease term of 6.4 years. The total cash distributions for the year were 5.90c per unit, being a 7.3% increase.
Current Share Price: $2.23, **Consensus Target Price**: $2.17

Argosy Property (ARG.NZ) – Net Rental Income Up 7.3%

Argosy Property Ltd announced its full-year results for FY23, showing a 7.3% increase in net rental income of $112.8m. Profit before revaluations was $102.0m, up from $93.3m, however revaluations of property resulted in the company making a loss of $70.9m. The total property portfolio is $2.2b, with occupancy at 99.3%, and a weighted average lease term of 5.4 years. The total dividends for the year were 6.65c per share, an increase from 6.55c in FY22. The guidance for FY24 dividend is 6.65cps.
Current Share Price: $1.10, **Consensus Target Price**: $1.19