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

Yovich & Co. Market Update

28th May 2023

As at 26th May	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	12099.74	7471.48	3283.54	7756.87	33426.63	12657.90	0.9437	0.6275	5.25%
Week Close	11830.03	7334.53	3212.50	7627.20	33093.34	12975.69	0.9276	0.6046	5.50%
Change	-2.23%	-1.83%	-2.16%	-1.67%	-1.00%	2.51%	-1.70%	-3.65%	0.25%

The NZ share market fell by 2.23% last week due to some share price falls of large names as reporting season continues. Fisher & Paykel Healthcare fell 10.52% while Mainfreight fell 5.16%. The Australian and UK markets also fell last week, by 1.83% and 1.67% respectively. The US market however rose by 0.32%, helped by the tech sector, as the NASDAQ index rose by 2.51% while the Dow Jones fell 1.00%. The tech sector was boosted by the rally of AI-related stocks.

The Reserve Bank of NZ raised the OCR by a further 25bps last week to 5.50%, the highest since December 2008. This was lower than some economists had estimated after the government's expansionary budget. The RBNZ believes that inflation has now peaked, and expects it will fall to 4.9% by the end of 2023 and 2.5% by the end of 2024. The OCR is now at the RBNZ's forecast peak at 5.50%, but the bank has signalled it is now in watch and wait mode.

Interest rates in NZ actually declined due to the OCR increase being the lower 25bps increase. The 2-year swap rate decreased by 23bps to 5.26%, while the 5-year swap rate decreased by 3bps to 4.58%. The opposite happened in the US, with the 2-year Treasury rate increasing sharply by 29bps to 4.51%, and the 10-year Treasury rate increasing by 17bps to 3.79%.

The NZ dollar declined as a result of the lower interest rates comparative to other currencies, falling 3.65% against the USD to 0.6046, and falling 1.70% against the AUD to 0.9276. The Dow Jones Commodity Index was down by 0.51% last week, and the price of Brent Crude oil rose by 1.81% to finish above US$77 per barrel.

The RBNZ Q2 Household expectations survey highlights NZ households expect CPI inflation to be 7.4% in a year's time, up from 7.0% in Q1. Two-year ahead inflation expectations are 4.5% while 5-year expectations are 1.1%. Expectations for house-price inflation remain low at 0.6% one-year ahead.

NZ retail sales declined for the second quarter in a row with the total volume of actual retail sales -4.1% year-on-year in the March quarter.

The biggest movers of the week ending 26th May 2023				
Up			Down	
Stride Property	4.65%		Fisher & Paykel Healthcare	-10.52%
Sky Network Television	3.60%		Serko	-6.25%
Oceania Healthcare	2.63%		Mainfreight	-5.16%
Synlait Milk	2.63%		Arvida Group	-5.04%
Infratil	2.62%		NZX	-4.24%

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Yovich &Co WEALTH MANAGEMENT

Stock Focus – Ryman Healthcare

Ryman Healthcare released its full-year results for FY23 recently, showing a better underlying profit than expected, and ahead of FY22. Given the turbulent year for Ryman, and the significant drop in the share price over the year, the result was some relief to investors, with the share price seeing a strong uplift in response.

Capital Raising to Repay Debt

In February, Ryman went to the market to raise equity, with the purpose of strengthening the balance sheet through the repayment of debt. Essentially, the company had allowed itself to build up too much debt via successive years of negative cash flows, caused by their focus on investing in new growth. Ryman explained it as a period of accelerated investment from the start of FY18, where investing cash flows (outward) exceeded operating cash flows (inward), resulting in elevated levels of debt.

The new capital was targeted at repaying US Private Placement (USPP) debts, being the most expensive tranche of debt, which had become an unacceptable risk to the company according to the CEO. The capital raise was successful, and has reduced debt from 45.3% down to 33.1% as at the end of FY23. However, the general slowdown in the residential housing market, coupled with the fact that Ryman had pushed on with its high investment strategy to the detriment of its growing debt levels, put doubt into the market, resulting in Ryman's share price dropping by 19% during the month of February, even after having made significant falls during the later part of 2022.

FY23 Results

Ryman produced a solid result in its recent earnings announcement, with underlying profit of $301.9m, up 18.4% on FY22, and ahead of previous guidance of $280m-$290m. The increased revenue and underlying profit were driven by increased margins in both new sales (up 5.1%) and resales (up 4.2%), especially in Australia. Australia's underlying profit lifted 36.1%, contributing approximately one quarter of group underlying profit. According to Ryman, the new sale pricing reflects shifts in the mix to high value locations, while the resale pricing reflects the maturing of villages in Auckland and Melbourne.

The reported net profit for FY23 was much lower than FY22 (-62.8%) due to lower revaluation gains, and also the costs of repaying the USPP debt early.

Cash Flow Forecast

Net cash flow for FY23 was -$389.0m, given net investing cash flows were higher ($1,039.9m) than net operating cash flows ($650.8m). This net cash flow was lower than FY22, impacted by increased settlement times and broader cost pressures. Continued negative cash flows resulted in the higher debt position that Ryman found itself in, which is why the company made several decisions regarding pulling back on planned investment activity as part of the capital raising, while also putting a halt to paying dividends. Ryman is targeting positive free cash flow by FY25.

Outlook

The company expects FY24 underlying profit to be in the range of $310m-$330m. The board will consider the resumption of dividends in FY24, based on performance, cash flow, and market conditions. Given that their target for positive free cash flow is for FY25, it may be unlikely for any dividends to be paid in FY24.

With their balance sheet de-risked, and a renewed focus on lower density villages with lower peak debt and an improved cash flow profile, we believe Ryman's current share price represents a good buying opportunity for investors.

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Investment News

Kiwi Property Group (KPG.NZ) – Net Rental Income Up 13.9%

Kiwi Property Group announced its full-year results for FY23, showing a 13.9% increase in net rental income to $203.7m. 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 $3.2b, with occupancy of 99.3%, and a weighted average lease term of 4.4 years. The full-year dividend for FY23 is 5.70c per share, up 1.8% on last year.
Current Share Price: $0.915, **Consensus Target Price**: $0.96

Infratil (IFT.NZ) – Proportionate EBITDAF Up 12%

Infratil announced its full-year results for FY23, showing a 12% increase in proportionate EBITDAF to $531.5m compared to FY22. FY24 guidance is for proportionate EBITDAF to be in the range of $570m-$610m. The imputed dividend is 12.5cps, taking the full-year dividend to 19.25cps.
Current Share Price: $10.00, **Consensus Target Price**: $10.19

Oceania Healthcare (OCA.NZ) – Underlying EBITDA Up 5%

Oceania Healthcare announced its full-year results for FY23, showing a 5% increase in underlying EBITDA from FY22 to $80.0m. Underlying NPAT increased by 3.4% to $58.6m. Total assets increased to $2.5b due to continued development across 11 sites. Operating cash flow was $70.2m, compared to $105.5m in FY22, due to the buyback of units at development sites and a lower number of new sales. A final dividend of 1.3cps was declared, taking the full-year dividend to 3.2cps.
Current Share Price: $0.78, **Consensus Target Price**: $1.07

Mainfreight (MFT.NZ) – Net Profit Up 20.0%

Mainfreight announced its full-year results for FY23, showing a 20.0% increase in net profit to $426.5m. Revenue was up 8.8% to $5.68b. The company however expects a challenging 6-12 months in its outlook, with inflationary pressures impacting cost management. The company has a hiring freeze in place. The final dividend will be 87.0cps, taking the full-year dividend to 172.0cps, being a 21.1% increase over FY22.
Current Share Price: $68.00, **Consensus Target Price**: $89.12

Fisher & Paykel Healthcare (FPH.NZ) – Net Profit Down 34%

Fisher & Paykel Healthcare announced its full-year results for FY23, showing a 34% decrease in net profit to $250.3m. Revenue was down 6% to $1.58b. This was a recovery year following the slowdown after the Covid-19 increase, however the second half of the year saw an increased operating revenue compared to the second half of FY22. FY24 guidance is for operating revenue of $1.70b. Total dividend for the year was 40.5cps, up 3% on FY22.
Current Share Price: $23.98, **Consensus Target Price**: $23.87