

Yovich & Co. Weekly Market Update

18th November 2024

Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 8 th November	12770.33	8552.57	3452.30	8072.39	43988.99	19286.78	0.9058	0.5969	4.75%
Week Close 15 th November	12684.88	8538.98	3330.73	8063.61	43444.99	18680.12	0.9072	0.5872	4.75%
Change	-0.67%	-0.16%	-3.52%	-0.11%	-1.24%	-3.15%	0.15%	-1.63%	0.00%

The New Zealand NZX50 remained relatively flat for the week, dipping slightly by -0.67%.

Across the ditch, the Australian All ordinaries index declined slightly by -0.16% due to shifts in commodity prices.

The Shanghai Composite index dropped sharply by -3.52%, weighed down by concerns over China's economic slowdown, weak manufacturing data, and property sector strains. There is also concern in the markets around a possible trade war between China and the United States.

Over in Europe the UK FTSE Index saw a minor decrease of -0.11%.

The Dow Jones and NASDAQ both fell by -1.24% and -3.15% respectively, due to hawkish federal reserve comments suggesting a delay in rate cuts. This affected sectors sensitive to interest rates, particularly tech and consumer goods. Rising bond yields also triggered a selloff in growth stocks. Sector rotation into value stocks continued, affecting the major tech giants. Upcoming economic data, particularly in the house and job markets are closely being monitored as they could impact future federal reserve policy decisions.

The NZD weakened by -1.63% against the US dollar, influenced by a stronger USD following Federal Reserve Chair Jerome Powell's comments on maintaining higher interest rates for an extended period.

Weekly Market Movers

The biggest movers of the Week ending 15 th November 2024			
Up		Down	
Fonterra Shareholders' Fund	8.63%	The a2 Milk Company	-8.40%
Sanford	7.96%	Investore Property	-7.56%
Vulcan Steel	4.43%	Serko	-6.28%
Channel Infrastructure NZ	2.30%	Stride Property	-5.76%
Goodman Property Trust	2.16%	NZX	-5.41%

Source: Iress

Investment News

Sanford Limited

Sanford's share price surged by 7.96% last week, driven by an impressive full-year result. The company reported revenue of \$582.9 million, marking a 5% increase from the previous year. Its EBIT reached a record \$74.2 million, a 50% rise compared to the same period last year. Net Profit After Tax (NPAT) soared by 96%, hitting \$19.7 million. Operating cash flow also saw a notable 78% increase. Sanford attributed the strong performance to efforts in selling aged inventory and a focused push to accelerate cash collection. The company has announced a full-year dividend of 10 cents per share and expected pay date is 9th December.

Current Share Price: \$4.14 **Consensus Target Price:** \$4.95, **Consensus Forecast Dividend Yield:** 5.62%, **Total Return:** 25.2%

Vulcan Steel Limited

Vulcan Steel Ltd. has announced a notable change in director's interests, with Rhys Jones acquiring 321,188 performance share rights under the company's FY25 long-term incentive plan. These rights, valued at NZ\$2.38 million, are set to be distributed on 1st July 2027, subject to certain conditions, underscoring Vulcan Steel's strategy to align executive incentives with shareholder interests.

Recent research from our strategic partner Jarden suggests a softer-than-expected 1H25 for Vulcan Steel, with recovery anticipated in 2H25. While pre-sales activity among VSL customers has picked up, management cautions that it remains unclear when this will translate into tangible gains in 2025. Given Vulcan Steel's significant exposure to the SME market, which is sensitive to interest rate fluctuations, the recent accelerated reduction in the OCR offers some optimism for a 2H25 recovery. However, Jarden expects it may take until FY27 for VSL to return to mid-cycle volumes and margins.

Current Share Price: \$8.35 **Consensus Target Price:** \$7.78, **Consensus Forecast Dividend Yield:** 2.32%, **Total Return:** -4.51%

Goodman Property Trust

Goodman Property's share price rose by 2.16% following the release of its half-year results for the period ending 30th September 2024. Revenue increased by 12.8% to \$134.8 million, up from \$119.5 million in the same period last year. The company also reported a significant improvement in net profit, swinging from a loss of \$163.2 million to a positive gain, marking a 127.9% turnaround. Goodman is set to distribute its next dividend on 27th November.

Current Share Price: \$2.14 **Consensus Target Price:** \$2.18, **Consensus Forecast Dividend Yield:** 3.13%, **Total Return:** 5.00%

Investore Property:

Investore Property delivered a resilient performance for the six months ended 30 September 2024. Key highlights include a slight decrease in profit before tax to \$17.1 million, down from \$17.6 million in HY24. However, the company reported a strong turnaround with a \$9.7 million profit after tax, compared to a \$66.5 million loss in HY24. Distributable profit fell to \$13.9 million, impacted by changes in tax law, while net rental income increased to \$31.2 million.

Current Share Price: \$1.11 **Consensus Target Price:** \$1.21, **Consensus Forecast Dividend Yield:** 7.2%, **Total Return:** 16.2%

Market Spotlight: Xero Limited – Driving SME Success with Digital Accounting Tools


Xero Limited, a leading global cloud-based accounting software provider, has transformed the way small and medium-sized enterprises (SMEs) manage their finances. Founded in 2006 in New Zealand, Xero has rapidly expanded its presence across multiple markets, including Australia, the United Kingdom, North America, and Asia. The company leverages cloud technology to offer a comprehensive suite of accounting solutions that include invoicing, payroll, expense management, and bank reconciliation. Xero currently has 4.2 million subscribers globally and is focused on integrating AI and machine learning capabilities into their platform to streamline financial management for SMEs.

Acquisitions and Partnerships:

- **Syft Analytics Acquisition (USD \$70 million):** In September 2024, Xero acquired Syft Analytics, a leading global cloud-based platform for reporting, insights, and analytics tailored to small businesses, accountants, and bookkeepers.
- **TaxCycle Acquisition (USD\$58.5 million):** Acquired in December 2021, TaxCycle is a Canadian tax filing software that assists in preparing Canadian income tax returns, enhancing Xero's competitive position in the North American market.
- **LOCATE Inventory Acquisition (USD \$19 million):** In November 2021, Xero acquired LOCATE Inventory, a U.S.-based inventory management platform, to bolster its supply chain capabilities.
- **Planday Acquisition (USD \$222 Million):** Xero acquired Planday, a workforce management platform, to support its mission of enhancing business efficiency. Planday integrates seamlessly with Xero and other accounting solutions, offering real-time insights into staffing needs and payroll costs, alongside key performance metrics. The platform serves over 350,000 employee users across Europe and the UK.
- **Partnership with Stripe:** Xero expanded its partnership with Stripe, enabling seamless integration for automated payment services. This move is set to boost transaction volumes and improve cash flow management for Xero's clients, especially in the e-commerce and retail sectors.

Market Share

Xero has approximately 11.00% of the global market share, trailing behind Quickbooks by Intuit (31.98%), and Bench (15.80%). However, in Australia & New Zealand, Xero has over 60% of the online accounting and software market, if compared to MYOB which has around 20-25%. A decade ago, MYOB was dominant in Australasia with over 80% market share, but since then Xero has experienced tremendous growth.

Security Code	XRO. ASX			
Description	Xero Limited			
Exchange	ASX			
Industry	Application Software			
Market Capitalisation (NZD)	\$26.364 Billion			
Index	ASX 200			
Weighting in Index	0.99%			
Current Price (NZD)	\$	171.02		
Target Price (NZD)	\$	181.56		
Discount to Target Price	6.16%			
5 Year Hist Return	26.75%			
5 Year Hist Risk (SD)	39.72%			
Forecasts	3/2024A	3/2025F	3/2026F	3/2027F
PE Ratio	148.48	114.5	80.48	57.54
Dividend Yield (%)	0	0	0.02	0.04
Revenue (NZD)	\$1.714 Billion	\$2.102 Billion	\$2.488 Billion	\$2.915 Billion
EBITDA (NZD)	\$527 Million	\$658 Million	\$820 Million	\$1.035 Billion
Net Debt (NZD)	\$-422 Million	\$-857 Million	\$-1.291 Billion	\$-1.748 Billion
\$ 145.25	\$ 163.40	\$ 181.56	\$ 199.72	\$ 217.87
Strong Buy	Buy	Hold	Sell	Strong Sell
		↑		

Fundamental Analysis

Xero Limited's projected P/E ratio is expected to decline from 114.5 in FY2025 to 57.54 by FY2027. This suggests the company is becoming more attractive from a valuation standpoint. This reduction in P/E, along with anticipated revenue growth from NZD 2.102 billion in FY2025 to NZD 2.915 billion by FY2027, highlights Xero's strong business fundamentals. EBITDA is expected to grow from NZD 658 million to NZD 1.035 billion during the same period, reflecting operational efficiency improvements.

Xero currently has net debt of -\$422 million, which means they have more cash than their current debt levels. This is forecasted to increase significantly to NZD \$-1.748 billion by FY2027. Xero is maintaining its growth trajectory, indicating confidence in expanding its market share.

Xero is currently trading at \$171.02 which is a 6.16% discount to the consensus target price of \$181.56. According to our methodology, Xero Limited is assigned a 'hold' rating, despite its trading discount to the target price.

Some recent research from our strategic partner Jarden outlined that Xero reported strong results for the first half of FY25, with revenue growing by 24.6% to \$995.9 million and EBITDA up 52% year-over-year to \$312 million. The company's operating expenses were lower than expected, with an opex ratio of 71.2% compared to the forecasted 73%. This efficiency is largely due to delayed hiring and a focus on product development, leading to cost savings. Free cash flow also doubled to \$198.5 million. Xero's strong financial performance has led to Jarden upgrading their target price for Xero to \$177 per share.

Comparative Analysis

- Intuit (INTU): Intuit remains the dominant player in North America, with a market share of over 70%. However, Xero's aggressive expansion and product diversification are gradually closing the gap.
- MYOB: In the Australasian market, Xero has successfully outpaced MYOB due to its cloud-first strategy and superior user interface.
- Sage Group: In the UK, Xero is positioned as a strong competitor to Sage, particularly among SMEs seeking more user-friendly and cost-effective cloud solutions.

Conclusion

Xero Limited stands at a pivotal point in its growth journey, driven by strategic acquisitions, expanding market presence, and strong financial performance, its solid balance sheet, positive cash flow, and ongoing product innovation position it well for sustained growth. Investors may find Xero an attractive long-term investment given its strong fundamentals and market leadership in cloud accounting.

Upcoming Dividends: 19th November to 19th December.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
Infratil	IFT	20-Nov-24	21-Nov-24	7.25cps	10-Dec-24
2 Cheap Cars	2CC	21-Nov-24	22-Nov-24	3.06cps	06-Dec-24
Investore Property	IPL	21-Nov-24	22-Nov-24	2.16cps	10-Dec-24
Goodman Property	GMT	27-Nov-24	28-Nov-24	1.63cps	12-Dec-24
Vital Healthcare	VHP	27-Nov-24	28-Nov-24	2.67cps	12-Dec-24
Manawa Energy	MNW	28-Nov-24	29-Nov-24	5.56cps	06-Dec-24
Precinct Property	PCT	28-Nov-24	29-Nov-24	1.55cps	13-Dec-24
Sanford	SAN	29-Nov-24	02-Dec-24	6.94cps	09-Dec-24
Hallenstein Glasson	HLG	05-Dec-24	06-Dec-24	34.29cps	13-Dec-24
Mainfreight	MFT	12-Dec-24	13-Dec-24	118.06cps	20-Dec-24
Seeka	SEK	19-Dec-24	20-Dec-24	13.89cps	20-Jan-25

Source: Iress

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