

Yovich & Co. Weekly Update

October 6th 2014

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD
Previous Week	5253.49	5316.63	2347.72	6649.39	17113.15	4512.19	0.8976	0.7867
Week Close	5236.99	5315.44	2363.87	6527.91	17009.69	4475.62	0.8955	0.7771
Change	-0.31%	-0.02%	0.69%	-1.83%	-0.60%	-0.81%	-0.23%	-1.22%

This Week's Themes

- The new quarter has started quietly with the New Zealand Gross Index making a small loss after reaching another record high in the previous week.
- The Mining Sector continued to hold the Australian market back, but gains late in the week by the Finance Sector saw the market close on its high, and finish the week almost unchanged.
- Volatility in the U.S. markets has increased with some large swings over the past three weeks. Both the Dow and NASDAQ finished the week in the red with Energy Stocks falling as the oil price slumped to multi-year lows.
- The New Zealand Dollar has now fallen over 12% since mid July as lower than expected GDP growth, lower inflation figures and a falling Dairy price impacts on confidence and expectations for the NZ Economy.

Investment News

Woolworths (WOW.asx) – Capital Expenditure Points to Earnings Growth

The result that was announced last month was positive with strong profits being led by the Australian Food and Liquor division. Competition in the Australian domestic supermarket environment looks to be benign with WOW giving guidance of between 4% to 7% growth for net profit in 2015. Supporting these growth figures was the announcement that WOW plans to increase their investment in Capital Expenditure (CAPEX) by \$400 million in 2015 which will further accelerate profit growth. In addition to the usual return on investment for the CAPEX, it would be likely that WOW could squeeze an additional few percentage points in market share and profit growth from extending its leadership in the online food and liquor channel. There is therefore a reasonable prospect of delivering a better than expected return on the capital spend.

As a Consumer Staples supplier, Woolworths provides a defensive cash flow type of investment but with the planned investment in Capital Expenditure for 2015, there is an expectation for earnings and dividends to continue to grow. FNZC has assigned an outperform recommendation with a target price of \$39.00 and a current share price of \$34.20.

Financials & Forecasts		2014A	2015F	2016F	2017F
Revenue	(A\$m)	60952.2	63577	67059.1	70430
Earnings Per Share Adjusted	(A\$m)	4741.2	4951.8	5316.7	5701.5
Earnings per Share Growth	%	3.2	5.9	6.8	7.5
Price to Earnings (P/E) Ratio	Times	18.5	17.5	16.3	15.2
Dividend Per Share	AUD cents	137	143.63	153.78	165.62
Net Dividend Yield	%	4.01	4.20	4.50	4.84
Net Debt/Equity	%	32.6	28.8	22.9	17.4

NZ Market Summary – September

- The release of June 2014 quarter GDP data showed an annual growth rate of 3.9% and is expected to represent a peak in the current NZ growth cycle.
- Reflecting the magnitude of the recent fall in dairy auction prices and the potential reduction to the farm pay-out for 2015 suggests that the risks to near-term GDP forecasts are skewed towards the downside.
- The NZD continued its fall from record highs, which helped to soften the impact from the fall in Dairy prices.
- RBNZ kept the Official Cash Rate (OCR) unchanged at 3.50% at its 11 September Monetary Policy Statement (MPS).
- However, the September MPS was somewhat more dovish than market expectations and the OCR may remain unchanged until mid 2015.