

# Yovich & Co. Market Update

10<sup>th</sup> January 2022

## Happy New Year 2022!

Welcome to the first newsletter of the year. We hope you enjoyed a relaxing break over the Christmas and New Year period and are looking forward to new investment opportunities in the year ahead.

To recap 2021, the NZ market declined 0.44% (2.9% decline if we discount dividends), while world markets showed good recoveries after the 2020 year. In the US, the S&P 500 increased by 26.89%; in Australia, the ASX 200 increased by 13.02%; while in the UK, the FTSE 100 increased by 14.3%.

## The Year Ahead – 2022

The world is still feeling the impacts of the Covid virus, and we still face a lot of uncertainty regarding when and how fast economies can re-open. The themes that are present for the investment outlook include **labour shortages** and **supply chain constraints**, leading to **inflation**, **interest rate rises** and the **easing of stimulatory monetary policy**.

Covid restrictions worldwide have resulted in supply chain constraints, and when coupled with strong consumer demand for goods, has led to increasing prices. Ultimately, these cost pressures are likely to be temporary, as Covid restrictions relax and consumer spending switches away from expensive goods towards services. However, the key risk is whether the current price inflation sparks wage inflation, leading to a wage-price spiral. With businesses already under pressure, this would further delay a recovery.

Central Banks around the world are starting to reduce monetary stimulus by reducing their large scale asset purchases (see the newsletter dated 14<sup>th</sup> December 2021), however interest rate rises will only occur when wage inflation is persistently higher. This risk is higher in NZ due to the tightness in our labour market, and we have already seen the Reserve Bank of NZ (RBNZ) raise the Official Cash Rate (OCR) to 0.75% with more expected.

Despite higher interest rates ahead, leading economic indicators and a positive yield curve suggest a low probability of a recession in the next year or two. Historically, it is only at relatively high interest rates that equity returns have suffered due to interest rate rises. While equity valuation multiples are high historically, higher forecast earnings growth continues to be positive for major equity markets.

## 2022 Herald Brokers' Picks – Yovich & Co Preferred

The annual NZ Herald Brokers' Picks article published on 28<sup>th</sup> December 2021 included seven brokers each putting forward their top five stocks for 2022. In total, 26 stocks were mentioned, with five stocks being picked by more than one broker. At Yovich & Co, we have selected 10 stocks from the list of 26 that we believe offer the best value at current prices, as listed in the table below.

Company	Current Price	Consensus Target Price	Forward PE Ratio
Pushpay	\$1.23	\$1.98	24.59
AFT Pharmaceuticals	\$4.48	\$5.88	30.23
SkyCity Entertainment Group	\$2.99	\$3.69	33.29
Arvida Group	\$1.92	\$2.36	15.98
Mainfreight	\$92.41	\$107.33	29.92
Summerset Group	\$13.85	\$15.57	22.33
Comvita	\$3.63	\$4.00	19.78
Contact Energy	\$8.09	\$8.96	32.84
Freightways	\$12.86	\$13.25	26.31
Skellerup	\$6.38	\$6.25	27.31

The overall dividend yield for the above 10 stocks is forecast at 2.01% assuming equal amounts of investment into each of the 10 stocks. The 10 picks are weighted more to growth stocks than high yielding income stocks.

## Investment News

### Goodman Property Trust (GMT.NZ) – Acquisition of 3.2 ha Infill Site in Albany

GMT has acquired the site on Bush Road in Albany, with plans to develop a new 17,992sqm parcel processing centre for NZ Post, who have committed to a 20-year lease over the new facility. The property is close to large consumer catchments in the north and west of the city, and GMT CEO John Dakin says it is an ideal location for fulfilment and delivery service providers like NZ Post.

**Current Share Price:** \$2.66, **Consensus Target Price:** \$2.50

### SkyCity Entertainment Group (SKC.NZ) – Expands Partnership with Online Gaming Platform

SKC has an existing strategic partnership with European-based online gaming platform provider Gaming Innovation Group (GiG), following the launch of the SkyCity Online Casino in August 2019. SKC has expanded this partnership, having agreed to provide €25m of new equity to support the funding of GiG’s acquisition of France-Pari/Sportnco (Sportnco). Sportnco is a European-based online sports provider, licensed in regulated and high-growth markets globally. GiG will acquire Sportnco for €70m.

**Current Share Price:** \$2.99, **Consensus Target Price:** \$3.69