

# Yovich & Co. Market Update

## November 20<sup>th</sup> 2017

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	8084.99	5969.28	3416.81	7505.03	21830.31	6701.26	0.8956	0.6877	1.75%
Week Close	8061.98	6038.26	3382.91	7380.68	21674.51	6782.79	0.9009	0.6816	1.75%
Change	-0.28%	1.16%	-0.99%	-1.66%	-0.71%	1.22%	0.60%	-0.89%	0.00%

### Market Themes

- The New Zealand market has bounced back after a six day losing streak early in November to consolidate on its gains and remain above the significant 8,000 point level.
- Market leaders for the month include:
  - Z Energy – Recording strong first half result with earnings increasing to \$221 Million from \$186 Million last year.
  - Kathmandu – Announced an improved final dividend of 9 cents per share from 8 cents last year.
  - Heartland Bank – A Rights issue has been offered to shareholders to continue to fund the growth of the loan book.
- Stronger commodity and energy prices have helped the Aussie markets make further gains. Over the past two month the All Ords are up over 5%.
- US Stocks have been weaker recently due to concerns about the impact that Trump's Tax reforms will have on companies.
- After a period of stability and market gains in Europe, sentiment has turned negative as concerns rise on the outcome of Brexit negotiations.
- The Kiwi Dollar has continued to fall against the US, making it a fall of over 5.2% since the election on August 23 and its lowest level since May 2016.

### Investment News

#### Green Cross Health (GXH.nz)

We have recently added Green Cross Health (GXH.nz) to our preferred list of investments with First NZ Capital initiating coverage on the Pharmacy and Healthcare business. GXH is a national healthcare services provider, operating through three divisions; Pharmacy, Medical and Community Health. GXH operates its Pharmacy division through the brands Unichem and Life Pharmacy, with a network covering 354 equity-owned stores and licensee members. The Medical division operates through 40 equity-owned and licensee medical centres, providing general practice services through more than 900 doctors, nurses and health care practitioners. GXH recently expanded into the Community Health division through the acquisition of Access community health and Total care health services in 2015 and 2016 respectively. The community division provides personal care, household assistance and fully qualified nursing to around 20,000 clients across New Zealand.

GXH's economic drivers reflect the nature of its business as a store-focused retailer and healthcare provider.

- Store count, sales and efficiency – Sales and profitability are ultimately constrained by GXH's store base. While greater store numbers drive incrementally greater sales, incrementally greater profit does not necessarily follow. Sales and efficiency drive profitability, while store count is important for capital invested. It is a combination of these elements which drive incremental ROIC.
- Brand – Image and brand awareness are important not only for driving incremental customers and brand loyalty but also for the company to drive additional franchisees. While a greater number of franchisees drives incremental profit, it requires additional focus on brand control, store presentation, marketing and staff to maintain brand quality.
- Government funding – is critical for revenue within all divisions of GXH and in turn company margins. While this driver is not controllable directly by the company, being aware of issues within the sector and working with the government on decisions to prepare for change is key to mitigate issues arising from change in regulation.
- Head office capability – is important for marketing, inventory management, staff efficiency and capital allocation (supply chain, infrastructure and equity ownership). Through successful execution of these elements, management can drive greater sales, develop brand, and manage margins.

First NZ Capital has a \$2.25 12 month Price Target and an Outperform Recommendation. The current share price is \$1.76.

Financials & Forecasts		2017 A	2018 E	2019 E	2020E
Adjusted Earnings	(NZ\$m)	17	18	19	20
EPS Adjusted	(NZc)	12.2	13.2	13.9	14.7
EPS Growth	(%)	7.7	8.3	5.3	5.7
P/E	(x)	15.6	14.4	13.7	13
EV/EBITDA	(x)	8.2	7.3	6.9	6.7
Net DPS	(NZc)	7	7	7	7.5
Gross Yield	(%)	5.5	5.5	5.5	5.9

Source – FNZC Research and IRESS Market Data

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