

Yovich & Co. Market Update

January 15th 2018

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	8396.43	6167.31	3297.06	7592.66	21830.31	6959.96	0.9101	0.7022	1.75%
Week Close	8242.35	6176.84	3428.94	7778.64	21674.51	7261.06	0.9165	0.7254	1.75%
Change	-1.84%	0.15%	4.00%	2.45%	-0.71%	4.33%	0.70%	3.29%	0.00%

Market Themes

- Despite finishing the first week of the year in the Black, a fall of 2.52% last week has seen the market fall from record highs.
- Market leaders for the month include:
 - a2 Milk – After being added to the ASX 100 and outlining their expansion plans in the USA, ATM is back at record highs.
 - Scales – Positive expectations for Apple prices saw strong buying pressure for Scales.
 - Ryman – Strong offshore passive funds have been buying Ryman as a result of a re-weighting of the MSCI Global Index.
- A switch out of income stocks and into cyclical like BHP and RIO has seen the Aussie market consolidate on the gains made last year.
- Tech stocks have jumped over the past month in the US with growth stocks being preferred over defensives, as expectations of interest rate rises start to increase.
- A strong fiscal surplus of 5.3 billion Euros for the German government has continued to give Investors confidence in Europe and the UK.
- The Kiwi has strengthened in the past four weeks, recovering some of the losses after the election last year.

Investment News

Telstra Corporation (TLS.nz, TLS.asx)

Telstra has fallen out with investors in 2017 as a delay in the rollout of the National Broadband Network (NBN) in Australia, and the possible entry of TPG Telecom into the mobile market, look to constrain revenues. The decision to defer the rollout of NBN into new areas will reduce revenues for TLS but also reduces near term costs so the impact on the bottom line is small. The more meaningful risk is the increasing competition from TPG which is predicted to have almost 25% market share of NBN users compared to Telstra's 45%. TPG is also entering the mobile market so increasing competition in this market is likely to constrain near term growth.

For these reasons, the share price for Telstra has fallen by almost 29% in 2017 and the net yield has increased to 6.1%. Expectations are that the current revenues and dividends are sustainable in the medium term with longer term upside. With the share price sitting below \$4.00 it appears good value to accumulate at this time. We also like the historically low P/E ratio and the defensive nature of Telstra's cash flows.

First NZ Capital has a \$4.00 AUD 12 month Price Target and an Outperform Recommendation.

Morningstar Australia has a \$4.60 AUD Fair Value estimate and an Accumulate Recommendation.

The current share price is AUD \$3.62.

Financials & Forecasts		2017 A	2018 E	2019 E	2020E
Revenue	(AUD\$m)	25,912	25,796	25,673	25,657
Net Income	(AUD\$m)	3,891	38,10	4173	2,970
EPS Adjusted	(AUc)	32.48	32.04	35.09	24.98
EPS Growth	(%)	-1	-1.4	9.5	-28.8
P/E	(x)	10.7	10.8	9.9	13.9
Gross DPS	(AUc)	31	22	22	22
Gross Yield	(%)	9	6.1	6.1	6.1

Source – FNZC Research and IRESS Market Data