

Yovich & Co. Market Update

11th December 2022

As at 9th December	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11641.85	7503.48	3156.14	7556.23	34429.88	11400.25	0.9432	0.6404	4.25%
Week Close	11596.03	7406.30	3206.95	7476.63	33476.46	11004.62	0.9437	0.6408	4.25%
Change	-0.39%	-1.30%	1.61%	-1.05%	-2.77%	-3.47%	0.06%	0.06%	0.00%

After positive momentum in recent weeks, share markets corrected last week, with the S&P 500 Index in the US down 3.37%, dragged down by the NASDAQ which fell 3.47%. The NZ market fell just 0.39%, while the Australian market was down 1.30%. Equity markets responded to an increase in interest rates, following a stronger-than-expected US Producer Price Index release.

US bond yields pushed higher after the US PPI data release, with the 2-year Treasury rate ending up 5bps to 4.30% over the week, however the 10-year Treasury rate remained down over the week by 6bps to 3.48% due to downward moves earlier in the week. NZ interest rates were up over the week, with the 2-year swap rate up 14bps to 5.14%, and the 5-year swap rate up 2bps to 4.42%.

The Reserve Bank of Australia increased its cash rate by a further 25bps last week, being the eighth increase of the year, to finish at 3.10%. Expectations are for the RBA cash rate to peak at 3.60% during 2023.

The NZD remained steady against the USD and the AUD last week, remaining above US\$0.64. The Brent Crude oil price was down heavily last week, falling 11.45% down to US\$76 per barrel, the lowest level since December 2021. Commodity prices were down slightly, with the Dow Jones Commodity Index down 2.52%.

Stats NZ data shows building activity rose 3.8% in September quarter on quarter, beating expectations, with residential activity up 3.1% and non-residential up 4.9%, excluding inflation. There were 186 companies put into liquidation in November, where nearly 25% were involved in the building and construction industry. The sector continues to struggle with material and labour shortages while also battling rampant inflation.

With interest rates on the rise, interest costs are expected to add \$80 per week to the average household budget, with ASB suggesting more than half of all loans are likely to be repriced over the next 12 months.

The biggest movers of the week ending 9 th December 2022			
Up		Down	
Synlait Milk	11.64%	Tourism Holdings	-8.60%
Fonterra Shareholders' Fund	5.96%	Skellerup Holdings	-6.84%
Pacific Edge	4.44%	Arvida Group	-6.35%
The a2 Milk Company	4.32%	Fisher & Paykel Healthcare	-6.11%
Precinct Properties NZ	4.31%	ANZ Bank	-4.89%

Market Highlight – Fisher & Paykel Healthcare Sales Growth Returns

Fisher & Paykel Healthcare released its half-year result at the end of November, beating the company’s estimates, with the key improvement being in Hospital Consumables. FPH manufactures respiratory/ventilation machines and the associated accessories that includes masks and filters. During the Covid-19 pandemic, FPH’s products were in extremely high demand in hospitals globally, and in FY2021, revenue grew by 56%, compared with historic annual revenue growth of 9%-10%. Having bought consumables in bulk during the pandemic to prepare for each wave of new variant, hospitals afterwards found they were left with large leftover quantities, which translated to a decline in revenue of hospital consumables during FY2022 (overall revenue declined by 15%).

Sales Trough at an End

This sales trough continued through to the first-half of FY2023 as expected, with the result being that the half-year revenue was down 27% compared to the first half of FY2022. However, not only did the revenue beat the company’s expectations, we have now seen sequential monthly revenue growth in hospital consumable sales since May 2022, which has continued into October and November. This suggests that those stocks of consumables that have been built up in hospitals around the world due to bulk orders during the pandemic may be running out, and that the sales trough for FPH may have passed.

Outlook and the Effect on the Share Market

FPH expects revenue in the second half of FY2023 to be higher than the first half, and also that gross margin will improve due to freight costs trending back to normalised rates.

The market reacted very positively and swiftly to the first-half results, and the share price is now up roughly 10% since the announcement. Fisher & Paykel Healthcare is a quality company that shareholders can expect strong returns from over the long-term, and investors should look for opportunities to add this holding to their portfolios. After such a sharp rise in the share price however, a recovery may already be priced in, and investors might be wise to wait for future buying opportunities.

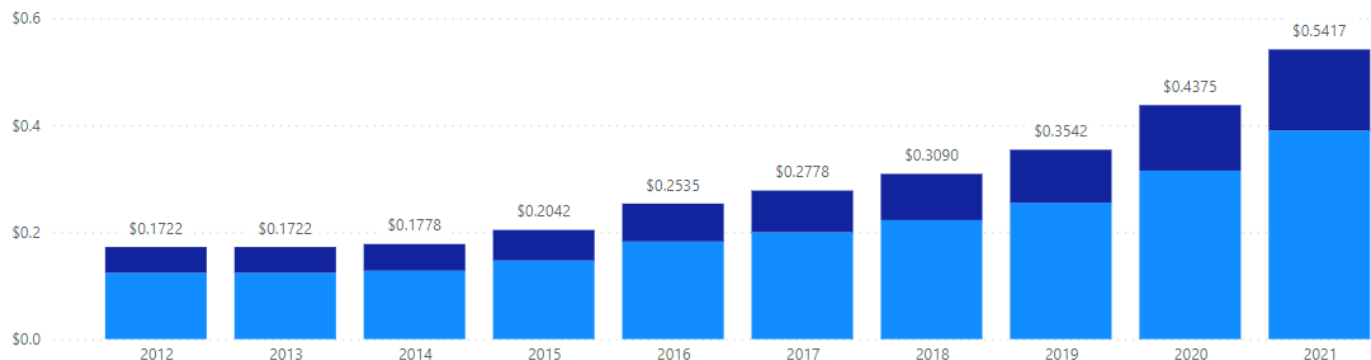
The table below shows some key data points for the stock at present.

Current Price	Consensus Target Price	Forward PE Ratio	Forward Div Yield	Forward Div Yield 2 yrs
\$22.58	\$22.79	61	1.93%	2.15%

Being a growth company, the initial dividend yield is low, as profits are re-invested for growth. This is reflected in the growth of the dividend, which FPH has delivered historically. The chart below shows the dividends over the last 10 years.

Total Dividends

Dividend Type ● Ordinary Dividends ● Imputation Credits



Investment News

Stride Property Group (SPG.NZ) Introduces Dividend Reinvestment Plan

Stride Property Group has introduced a Dividend Reinvestment Plan (DRP), which allows shareholders to reinvest their dividends for more shares in the company. The DRP is optional, and those shareholders who do not wish to participate in the DRP do not need to do anything.

Current Share Price: \$1.42, **Consensus Target Price:** \$1.62

Property For Industry (PFI.NZ) Sells Canada Crescent, Christchurch Property

PFI has sold 8a & 8b Canada Crescent, Christchurch for a gross sales price of \$21.0m, representing a passing yield of circa 6.5%. The properties are 1990s era specialised cold storage facilities, and were purchased in 2012 for \$11.25m. The purchaser is the existing tenant. Settlement is set for April 2023, and proceeds will be used to repay floating rate debt, and towards the funding of the \$66m redevelopment of the Bowden Road site in Mount Wellington.

Current Share Price: \$2.38, **Consensus Target Price:** \$2.41

SkyCity Entertainment Group (SKC.NZ) – Austrac Commences Civil Penalty Proceedings Against SkyCity Adelaide

The Australian Transaction Reports and Analysis Centre (Austrac) intends to file civil penalty proceedings in the Federal Court of Australia against SkyCity Adelaide, alleging contraventions of SkyCity Adelaide's obligations under the Australian Anti-Money laundering and Counter-Terrorism Financing Act 2006. This follows an enforcement investigation commenced in June 2021 into the company's compliance with the Act. SkyCity understands that Austrac has not yet identified the level of penalty it intends to seek.

Current Share Price: \$2.66, **Consensus Target Price:** \$3.49

Air New Zealand (AIR.NZ) Updated Half-Year Earnings Guidance for FY2023

Continued strong travel demand, coupled with a recent decline in jet fuel prices, has accelerated the airline's financial recovery. Air NZ has now upgraded its forecast half-year earnings before tax from \$200m-\$275m previously to \$295m-\$325m. The upgrade is based on current forward sales expectations, an average jet fuel price of US\$127/barrel in the 6 months to December 2022, and 75% of pre-Covid capacity levels.

Current Share Price: \$0.78, **Consensus Target Price:** \$0.76

Scales (SCL.NZ) Provides Updated Guidance for FY2023

Directors have confirmed guidance for FY2023 Underlying Net Profit Attributable to Shareholders range of \$23.5m-\$28.5m remains achievable, although it is very unlikely that this will now be at the top of the range. Apple volumes and selling prices are forecast to be generally consistent with 2021 levels, and the key markets of Europe and China are expected to perform near levels seen prior to Covid-19. The guidance range implies an Underlying Net Profit range of \$35m-\$42m.

Current Share Price: \$4.63, **Consensus Target Price:** \$4.60