Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)

Yovich & Co. Market Update

30th April 2024

Investment News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	12105.29	8153.75	3041.17	7952.62	39807.37	16379.46	0.9181	0.5962	5.50%
Month Close	11957.50	7932.04	3104.82	8144.13	37815.92	15657.82	0.9096	0.5887	5.50%
Change	-1.22%	-2.72%	2.09%	2.41%	-5.00%	-4.41%	-0.92%	-1.26%	0.00%

Last month saw mixed fortunes across global markets. While Shanghai and FTSE posted gains of 2.09% and 2.41% respectively in conjunction with ease in inflation in China and UK. Dow and NASDAQ struggled, down by 5.00% and 4.41% amidst market sentiment indicating rates to remain higher for longer. NZX 50G and All Ords slipped by 1.22% and 2.72% respectively as market sentiment remains cautious, suggesting it may take some time to witness significant momentum. Additionally, New Zealand's annual inflation rate moderated to 4% in the March quarter of 2024, down from 4.7% in the previous quarter. Meanwhile, NZDAUD and NZDUSD fell marginally by 0.92% and 1.26%.

As inflation recedes from its peak in many nations, policymakers caution that achieving central banks' targets—typically set at 2% for advanced economies—may prove challenging in the final stretch. However, amidst this uncertainty, the current market scenario presents an opportunity. Equities are trading below fair value, driven by macroeconomic factors. This provides investors with a chance to enter the market with a long-term mindset, capitalising on potential future growth while navigating through present challenges.

The biggest movers of the Month ending 30st March 2024				
Up			**Down**	
NZX (NZX.NZ)	11.43%		Heartland (HGH.NZ)	15.24%
FISHERHEALTH (FPH.NZ)	10.99%		SKYCITY (SKC.NZ)	14.42%
SANFORD (SAN.NZ)	4.44%		RYMAN (RYM.NZ)	10.55%
FSF (FSF.NZ)	3.35%		Vulcan Steel (VSL.NZ)	10.27%
SKTTV (SKT.NZ)	2.83%		Vista Group (VGL.NZ)	9.50%

Economic News

The latest Financial Stability Report, released on May 1st, 2024, sheds light on key aspects of both the global and New Zealand economic landscapes. Globally, there's a gradual moderation in inflation, leading to expectations of a less contractionary monetary policy. However, central banks remain cautious, especially considering uncertainties surrounding inflation outlooks, with a keen focus on service sectors and labour market conditions. While expectations of monetary policy easing have bolstered equity markets, risks persist from potential sentiment reversals. Specifically, global financial systems face elevated risks, particularly in commercial real estate markets, influenced by tight monetary policy and pandemic-accelerated structural changes.

In New Zealand, the financial system retains its robustness despite challenges posed by higher interest rates. Most borrowers have adjusted to higher rates, impacting both households and businesses. Meanwhile, the housing market grapples with weakened demand due to reduced borrowing capacity and investor interest, despite recent price increases supported by rental growth. Specific risks and challenges persist, with New Zealand banks maintaining strong capital positions and liquidity, even as profitability declines. Businesses across sectors face subdued demand and high operating costs, particularly sensitive to interest rate fluctuations, while the agriculture sector navigates volatile prices and declining profitability.

On the regulatory front, New Zealand authorities are actively refining the prudential regulation framework, with upcoming consultations on new standards for deposit-taker types. Proposed restrictions on debt-to-income ratios aim to mitigate financial stability risks associated with risky mortgage lending during periods of low interest rates.
In summary, while New Zealand's financial system stands strong, it's not immune to global economic uncertainties and domestic adjustments to higher interest rates. Vigilance and proactive measures are crucial to effectively navigate these challenges, ensuring continued stability and resilience.

Company News

CHI.NZ - Channel Infrastructure NZ Limited - Expanding Business Opportunities

CHI recently announced a new private storage agreement aimed at handling transmix, a byproduct of mixed fuels terminal and pipeline operations. This deal is projected to generate approximately $3 million in annual revenue over an initial seven-year period, with the potential for two five-year renewals. The revenue is expected to commence in late Q4 FY24, with minimal additional operational and capital expenses incurred. The construction of a receiving facility and new pipework, costing between $12-15 million, will facilitate this new capability. The need to handle transmix is anticipated to persist as long as multiple fuels are transported through the pipeline. While this deal represents incremental growth for CHI, it underscores the company's ongoing pursuit of new business opportunities in the storage sector.

April Closing Price: $1.55, Consensus Target Price [Dec '24]: $1.69, Gross Forecasted Yield [12m]: 7.32%

SKO.NZ - Serko Limited - Extending Partnership with Booking.com

Serko (SKO) and Booking.com (BKNG.O, Not Covered) have extended their partnership for another five years, alleviating concerns but also raising new questions. The revised contract shifts SKO's revenue share arrangement from a 50% commission rate to a tiered volume structure, with incremental rates decreasing to around 13% for volumes of approximately 8.6 million completed room nights (CRN). Despite changes in revenue sharing, the commercial terms of the contract remain largely unchanged, with marketing expenses likely to align with the blended average commission rate. This extension is viewed positively, indicating confidence in the product, while the reduced revenue share suggests expectations for potential volume growth on the platform's success. The active promotion of BKNG's leisure customers to the Booking.com for Business (B4B) platform is expected to drive the majority of volume growth, but questions regarding timing, volume profile, and promotion milestones remain unanswered.

April Closing Price: $3.72, Consensus Target Price [Dec '24]: $4.46

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Spotlight

Heartland Bank Completes Acquisition of Challenger Bank

Heartland Group has achieved a significant milestone with the completion of Heartland Bank Limited's acquisition of Challenger Bank, marking the first instance of a New Zealand registered bank acquiring an Australian authorised deposit-taking institution (ADI). This strategic move aligns with Heartland's long-term growth objectives and enhances its presence in the Australian market, where it already holds a strong position.

Key Points:

- Equity Raise: Heartland Group successfully concluded a $210 million equity raise to support the Challenger Bank acquisition (~$50 million completed on April 30, 2024) and to accelerate growth in its Reverse Mortgage and Livestock lending businesses. The funds will also be used for recapitalisation of Heartland Bank (Australia) to meet higher regulatory capital requirements.

- Deposit Growth: Challenger Bank has shown promising deposit growth, with retail deposits reaching A$891 million from January to April 2024, in addition to reported deposits of A$287 million in the first half of 2024. This growth trajectory indicates the potential to achieve HGH's projection of ~A$2.4 billion in deposits by FY25, covering a significant portion of HGH's Australian receivables.

- Growth Ambition: Heartland Group aims to achieve a group NPAT of $200 million+ by FY28, driven by initiatives such as leveraging digital technologies for cost reduction, expanding online origination platforms, and capitalising on structural tailwinds supporting receivables growth, particularly in Australia.

- Analysts' Consensus: Despite a slight adjustment in the 12-month consensus target price to NZ$1.43 due to a dilutive equity raise, analysts maintain an overweight rating, citing valuation upside and earnings growth potential driven by demographic trends and improved funding costs in Australia. Risks include regulatory factors, competition, economic conditions, digital initiatives, acquisition integration, and outcomes.

This acquisition and equity raise underscore Heartland's commitment to strategic expansion and financial strength, positioning it for continued growth and value creation in the years ahead.

April Closing Price: $1.06, Consensus Target Price [Dec '24]: $1.43, Gross Forecasted Yield [12m]: 6.57%