

# Yovich & Co. Weekly Market Update

05<sup>th</sup> August 2024

## Investment News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
<b>Previous Week 26<sup>th</sup> July</b>	12349.47	8153.41	2890.90	8285.71	40589.34	17357.88	0.8993	0.5888	5.50%
<b>Week Close 02<sup>nd</sup> August</b>	12453.04	8170.39	2905.34	8174.71	39737.26	16776.16	0.9147	0.5957	5.50%
<b>Change</b>	0.84%	0.21%	0.50%	-1.34%	-2.10%	-3.35%	1.71%	1.18%	0.00%

The NZX 50 index closed the week up 0.84% at 12,453.04, driven by strong performances in the healthcare and consumer staples sectors. The business confidence report for July showed an improvement, with confidence jumping 21 points to +27. Additionally, firms' expectations of their own activity increased by 4 points to +16. However, reported past activity, which closely correlates with GDP, continued to decline. A net 24% of firms reported that their activity in the previous month was lower than a year earlier, although the average increased from 1.2% to 1.4%.

In the construction sector, pricing intentions were the lowest at 1%. There is growing evidence that monetary policy has been effective, possibly even too effective, leading to widespread expectations that the Reserve Bank of New Zealand (RBNZ) will begin easing the Official Cash Rate this year.

The Australian All Ordinaries index saw a slight rise of 0.21%, closing at 8,170.39. Despite broader market concerns, the Australian market was supported by resilience in the mining sector, which benefitted from stable commodity prices. In China, the Shanghai Composite index increased by 0.50% to close at 2,905.34.

The FTSE 100 index in the UK fell by 1.34% to 8,174.71. This decline was influenced by mixed economic data, which weighed on export-heavy sectors. The market also responded negatively to the weak US Jobs report.

The Dow Jones Industrial Average in the US dropped by 2.10%, closing at 39,737.26. The decline was driven by investor concerns over slower economic growth, with tech stocks notably performing poorly and contributing to the broader market weakness. Similarly, the NASDAQ Composite experienced a significant decline, falling by 3.35% to 16,776.16, reaching a two-month intraday low. The drop was primarily due to ongoing concerns about the outlook for the US economy, exacerbated by a closely watched Labor Department report showing much lower-than-expected employment growth and a rise in unemployment from 4.1% to 4.3% in June.

The New Zealand Dollar (NZD) showed positive movement against major currencies. The NZD/AUD pair rose by 1.71%, reaching 0.9147, while the NZD/USD pair increased by 1.18%, closing at 0.5957. This strength in the NZD can be attributed to improved economic data from New Zealand and a general weakening of the USD amid uncertain economic data.

## Weekly Market Movers

The biggest movers of the Week ending 02 <sup>nd</sup> August 2024			
Up		Down	
Fonterra Shareholders' Fund	5.36%	The Warehouse Group	-15.49%
Spark	5.26%	Fletcher Building	-5.72%
Hallensteins Glassons	5.22%	Sky Network Television	-3.77%
Skellerup Holdings	4.08%	Property for Industry	-3.56%
Mainfreight	3.88%	KMD Brands	-3.37%

### Investment News:

**Hallensteins Glassons** share price increased 5.22% after reporting a significant increase in first-half profits, driven by improved margins. Sales for the six months ended 1st February reached \$122.9 million, marking a 9.4% increase over the prior period. Net profit after tax rose by 34.7% to \$9.185 million. The gross margin improved from 56.6% to 58.1%, attributed to a favourable exchange rate and better product cost prices. Glasson's experienced robust sales growth in both New Zealand and Australia. The current share price is \$5.85, representing a 12.82% discount to the consensus target price of \$6.60.

**The Warehouse Group's** share price declined by 15% following an announcement that Stephen Tindall and a private equity firm failed to secure support from a significant shareholder for a takeover bid. The takeover requires 75% shareholder support to proceed, but a key shareholder opposed the current terms. The current share price is \$1.18, a 2.54% premium to the consensus target price of \$1.15.

**Briscoes Group Limited** is thinking about the future of its investment in struggling outdoor goods business KMD Brands. Briscoes owns almost 7% of KMD and revealed in its half yearly results that it would be impacted by KMD's failure to pay an interim dividend. KMD Brands reported an over 8% decline in second-half sales compared to the previous year. KMD Brands' stock is down 3.37% for the week and is currently trading at \$0.42, a 33% discount to the consensus target price of \$0.55.

**Kiwi Property Group** has terminated the \$458 million sale of the 38-storey Vero Centre in Auckland after the Hong Kong-based buyer failed to meet key conditions. Kiwi Property Group CEO Clive Mackenzie stated that despite efforts, the purchaser missed the deadline for the deposit and obtaining OIO approval, leading to the termination of the conditional sale contract. This is a slight positive for Kiwi Property Group as property values are likely to increase due to interest rates falling. KPG is currently trading at \$0.86, an 8.14% discount to the consensus target price of \$0.93.

**Fletcher Building** announced an expected earnings impact of \$10-\$30 million for the coming year due to issues with the vessel transporting its cement around the North Island. The vessel carries cement from Fletcher Building's Portland plant to outlets around the North Island. Fletcher Building's share price fell 5.72% this week and is currently trading at \$3.10, a 13.23% discount to the consensus target price of \$3.51.

## Spotlight on Mainfreight Limited - Technical and Fundamental Analysis


### Company Profile:

Mainfreight Limited is a prominent freight forwarding and distribution company, specialising in managed warehousing, hazardous substance transportation, international air and ocean freight, full truckload freight, and global supply chain logistics. Established in 1978, Mainfreight has grown its global network to over 330 branches across 27 countries, employing more than 11,000 staff members. The company's extensive warehousing footprint surpasses 1 million square meters. Mainfreight's market capitalisation stands at NZD 7.35 billion.

The company has been expanding its presence in the European and Asian markets through a combination of organic growth and strategic acquisitions. Mainfreight has also implemented advanced IT systems to enhance logistics management and customer service. The "Mainchain" system, streamlines operations and improves supply chain visibility. As global trade recovers, Mainfreight is well-positioned to capitalise on emerging opportunities, driving future growth and profitability.

A recent analysis by strategic partner Jarden indicated a soft trading update for the first 15 weeks of FY25, with profit before tax declining by 11.2%. This decrease was primarily due to lower freight rates and ongoing margin normalisation. Despite these results, it is anticipated that Mainfreight will see improvements throughout the remainder of the year, driven by seasonal volume increases, better utilisation of Australian warehousing, and higher sea freight rates.

<b>Security Code</b>	MFT			
<b>Description</b>	Mainfreight Limited			
<b>Exchange</b>	NZX			
<b>Industry</b>	Logistics			
<b>Market Capitalisation (NZD)</b>	\$7.35 Billion			
<b>Index</b>	NZX50			
<b>Weighting in Index</b>	4.94%			
<b>Current Price (NZD)</b>	\$ 73.00			
<b>Target Price (NZD)</b>	\$ 80.61			
<b>Discount to Target Price</b>	9.44%			
<b>5 Year Hist Return</b>	16.17%			
<b>5 Year Hist Risk (SD)</b>	28.34%			



Forecasts	3/2024A	3/2025F	3/2026F	3/2027F
PE Ratio	26.7	25.99	22.24	19.2
Dividend Yield (%)	2.33	2.31	2.32	2.58
Revenue (NZD)	\$4.718 Billion	\$5.162Billion	\$5.647Billion	\$6.215Billion
EBITDA (NZD)	\$721 Million	\$757 Million	\$842 Million	\$934 Million
Net Debt (NZD)	\$-66 Million	\$-5.5 Million	\$-14.6 Million	\$-25 Million
\$ 57.77	\$ 69.19	\$ 80.61	\$ 92.03	\$ 103.45
Buy	Outperform	Hold	Underperform	Sell
		↑		

### Fundamental Analysis:

Mainfreight's price-to-earnings (P/E) ratio is average for a growth company but is expected to decrease as earnings significantly increase. With no debt and a projected net cash position through to 2027, Mainfreight demonstrates strong financial health and growth potential without reliance on debt. The company's consistent growth in EBITDA reflects improving operational efficiency and profitability. Additionally, dividend yields are forecasted to remain around 2.3%, which is reasonable for a growth-focused company. Mainfreight has demonstrated a strong historical annualised 5-year return of 16.17%.

Mainfreight is currently trading at \$73.00 which is a 9.44% discount to the consensus target price of \$80.61. According to our methodology, Mainfreight Limited is assigned a 'hold' rating, despite its trading discount to the target price.



Source: Iress

### Moving Averages:

Weekly Chart: The 50-week moving average (red line) is currently below the 200-week moving average (blue line). This "death cross" formed in late 2021, indicating a bearish trend. However, the stock has shown resilience and is approaching a potential bullish crossover, which could signal a reversal of the recent downtrend.

### MACD (Moving Average Convergence Divergence)

The MACD line (white) is converging with the signal line (red), indicating a potential bullish crossover in the near term. This convergence suggests that the downward momentum is weakening, and a bullish crossover could confirm a trend reversal if the MACD line crosses above the signal line.

### RSI (Relative Strength Index)

Current Level: RSI is around 55.8, which is above the neutral 50 line but below the overbought threshold of 70, indicating bullish momentum without being overbought.

### Conclusion:

Mainfreight demonstrates strong financial health, with significant revenue and EBITDA growth projected over the next few years. The company's ability to maintain a net cash position and provide consistent dividend yields further solidify its attractiveness as an investment. Despite the current high P/E ratio, the expected earnings growth supports a positive long-term outlook. However, potential investors should consider the inherent volatility in the stock price as indicated by the historical risk metric. Overall, Mainfreight is positioned well for continued growth and value creation.

### Upcoming Dividends: 06<sup>th</sup> of August to 06<sup>th</sup> of September.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	PayDate
AUSTFOUND	AFI	14-Aug-24	15-Aug-24	15.87 cps	30-Aug-24

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