

Yovich & Co. Weekly Market Update

14th May 2024

Investment News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 3 rd May, 2024	11938.08	7897.52	3104.82	8213.49	38675.68	16156.33	0.9094	0.6011	5.50%
Week Close 10 th May, 2024	11755.17	8022.65	3154.55	8433.76	39512.84	16340.87	0.9116	0.6020	5.50%
Change	-1.53%	1.58%	1.60%	2.68%	2.16%	1.14%	0.24%	0.15%	0.00%

The markets experienced mixed movements last week. The NZX 50G saw a decline of -1.53%, unlike all other indices that we monitor that had gains. The All Ords, Shanghai, FTSE, NASDAQ and Dow recorded gains ranging from 1.14% to 2.68%. This indicates regional variations in market sentiment and economic outlooks. The NZD strengthened slightly against both the AUD and USD, reflecting possible confidence in New Zealand's economic fundamentals. Overall, these fluctuations underscore the intricate interplay of global economic factors influencing market behaviour, with investors closely monitoring developments for strategic decision-making. Federal Reserve Bank of San Francisco President Mary Daly said interest rates are currently restraining the economy, but it may take "more time" to return inflation to the central bank's goal (Source Bloomberg).

The biggest movers of the Month ending 30 st March 2024			
Up		Down	
The a2 Milk Company	3.96%	Tourism Holdings	-30.88%
ANZ Bank	3.91%	KMD Brands	-11.54%
Air New Zealand	3.74%	Vulcan Steel	-8.53%
Contact Energy	1.84%	Serko	-8.16%
Meridian Energy	1.15%	Skellerup Holdings	-8.14%

The local market appears to be in a holding pattern amidst persistently high but gradually decreasing inflation, often referred to as "sticky" inflation. There's a prevalent anticipation of an OCR cutdown, widely projected for February 2025, with next review "May Monetary Policy Statement and OCR" scheduled on 22nd May 2024 by the Reserve Bank of New Zealand (RBNZ). Investors are also eagerly awaiting the commencement of the company reporting season, which is anticipated to yield mixed results. These factors collectively contribute to a sense of cautious anticipation within the market, with stakeholders closely monitoring upcoming developments for insights into future economic trajectories.

Company News

Tourism Holdings Downgrades NPAT Forecast for FY24 Amid Global Economic Headwinds

Tourism Holdings anticipates a lower-than-expected NPAT for FY24, now projected between \$50m and \$53m compared to earlier guidance of ~\$75m. This downgrade is attributed to the adverse impact of the weakening economy across regions and business divisions, particularly evident in declining vehicle sales volumes and margins globally. The Australian Retail Dealership division notably contributes to over 50% of the overall group EBIT decline, primarily due to a shortfall in high-margin ex-fleet vehicle sales. However, consensus target price is still \$3.75

Last week closing price: \$1.97, Consensus Target Price [Dec '24]: \$3.75, Gross Forecasted Yield [12m]: 13.89%

Delegat Group Share Price Declines on Harvest Update: Positive long-term outlook

Delegat Group's share price dropped by \$1.31 over two weeks following a harvest update indicating a 25% decrease compared to the previous corresponding period. This decline is attributed to cool weather and dry conditions across its regions, resulting in what appears to be the lowest per hectare yield in the last 10 years. Despite this, Jarden maintains an Overweight rating on the stock.

Last week closing price: \$5.64, Consensus Target Price [Dec '24]: \$7.35, Gross Forecasted Yield [12m]: 4.92%

WasteCo Completes \$12.77m Refinancing with Kiwibank, Streamlining Financial Operations

WasteCo reached a significant milestone by successfully refinancing its asset finance facilities, transferring a total of \$12.77 million from non-bank financiers to Kiwibank. This move consolidated all debt and asset financing arrangements under Kiwibank, alongside a restructuring of existing facilities. Shane Edmond, WasteCo's chairman, described this achievement as a pivotal moment for the company. By consolidating debt and asset financing with Kiwibank, WasteCo has streamlined its financial operations, marking a strategic advancement for the organisation.

Last week closing price: \$0.04, No consensus data published.

QBE Insurance Group Limited: Potential Upside Risks to FY24E Performance

QBE Insurance Group Limited (QBE.AU) has held firm on its FY24E guidance, but signs point to potential upside. Analysis indicates that while QBE reaffirmed its growth and guidance metrics for the fiscal year in its 1Q24 update, recent performance suggests the likelihood of better-than-expected earnings. With catastrophe costs running below projections and premium rate increases surpassing expectations, there's a growing chance of achieving a lower combined operating ratio (COR) than initially forecasted. Though the COR outlook remains unchanged for now, adjustments to earnings per share (EPS) estimates have been made, with an upward revision for both FY24E and FY25E, driven by robust investment yields and improved performance in select segments. Despite near-term moderation in certain factors, QBE's current valuation offers an attractive proposition, trading at a notable discount and potentially providing avenues for capital management initiatives in the future. Consequently, the Buy rating on QBE is reiterated from Jarden analysts.

Last week closing price: \$17.61, Consensus Target Price [Dec '24]: \$19.19, Gross Forecasted Yield [12m]: 5.05%

Spotlight

Briscoe Group (BGP): Thriving Against the Odds

Briscoe Group (BGP) defied challenging consumer conditions in its robust 1Q trading update, showcasing resilience, particularly through its standout performer, Rebel Sport. Despite headwinds, the company reported a 1% y/y increase in group sales to NZ\$183.0m, driven by a remarkable 4.3% growth in sporting goods, which overshadowed a slight 1.1% drop in homeware sales.

The dip in homeware sales was attributed to cooler temperatures earlier in the prior period, but optimism remains for a potential rebound in 2Q. Notably, BGP seems to be gaining market share in a weak retail environment, with the sports and apparel clothing segment tracking at approximately 3.1% y/y growth.

While trading conditions are expected to stay subdued due to various economic factors, BGP's 1Q performance provides some comfort, with group NPAT aligning with the prior comparable period. Encouragingly, the company's inventory position improved, with quarter-end inventory 8% lower than the previous corresponding period, hinting at a positive margin outcome from supply chain enhancements.

Though challenges persist, BGP maintains its quality status amid heightened consumer risk, reflected in its Overweight rating. With a forward PE ratio at the lower end of its historical range, there's potential for earnings upside if BGP continues its cost and productivity initiatives. However, risks such as changes in the consumer backdrop and increased competition loom, underscoring the need for vigilance in the evolving retail landscape.

Last week closing Price: \$4.35, Consensus Target Price [Dec '24]: \$4.92, Gross Forecasted Yield [12m]: 6.85%