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Yovich & Co WEALTH MANAGEMENT

Yovich & Co. Market Update

27th February 2022

As at 25th February	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	12141.89	7502.83	3490.76	7513.62	34079.18	13548.07	0.9333	0.6702	0.75%
Week Close	11923.38	7273.64	3451.41	7489.46	34058.75	13694.62	0.9328	0.6743	1.00%
Change	-1.80%	-3.05%	-1.13%	-0.32%	-0.06%	1.08%	-0.05%	0.62%	0.25%

The NZ market dropped by 1.80% over the week following news of the Russian invasion of Ukraine (more on that below), despite more positive earnings announcements. NZ shares actually fell 3.31% on Thursday following the attack, but then recovered some of that loss on Friday, increasing by 1.63%.

The NZ dollar fell on Thursday against the USD, falling as far as 0.663, before recovering on Friday to close at 0.6743.

The Reserve Bank RBNZ announced on Wednesday an increase in the Official Cash Rate (OCR) from 0.75% to 1.00%, signalling further tightening over time given the inflation outlook, and also agreed to commence the gradual reduction of their bond holdings under the Large-Scale Asset Purchase (LSAP) programme, both via not re-investing bond maturities, and managed sales.

The best performer in the NZ market over the week was Chorus, after their earnings announcement included raising the FY22 dividend guidance from 26cps to 35cps. Chorus has also announced that they will buy back $150m of shares over 12 months. The weakest stock in the NZ market over the week was NZX, due to their announcement of a 1:9 rights issue at a 15% discount.

The biggest movers of the week ending 25th February				
Up			Down	
Chorus	5.93%		NZX	-14.66%
Summerset	3.50%		Pacific Edge	-9.62%
A2 Milk	2.85%		ANZ Bank	-7.35%

Economic News – Russia Invades Ukraine

On 24th February, Russia began 'military operations' in Ukraine, otherwise known as an invasion, with air raids and Russian tanks and troops rolling into Ukraine from Russia and Belarus. The US has responded with sanctions designed to limit Russia's ability to do business with the rest of the world, including sanctions on Russian banks with a collective US$1 trillion of assets. While US President Biden has stated that US forces would not engage with Russia in Ukraine, US ground forces would be deployed to NATO's eastern European allies.

On the day of the invasion, UK and European stock markets fell almost 4%, while the Russian RTS Index plummeted by 38%, and the Russian Rouble fell to a new low against the USD. Conversely, the US market, after initially trending downwards, ended the day in positive territory, with the S&P 500 Index up 1.5%, and the NASDAQ up 3.3%. This is likely due to investors' expectations of a less aggressive tightening of monetary policy by the Federal Reserve, while presumably there is less fear of the impact on US companies.

Russia accounts for just a fraction of global share indices, so in that respect the sanctions being faced by Russian companies will not have a major impact on world indices. For NZ, Russia makes up less than 1% of our total world trade. However, Russia supplies a large proportion of Europe's energy supply, and is a major producer of commodities, including oil. Brent Crude oil hit the US$100 per barrel mark for the first time since 2014, before falling back slightly below US$100.

What effect will the conflict have going forward? Inflation and volatility. With rising fuel costs and other input costs, this could put further upward pressure on prices, at a time when we are already seeing high inflation. Depending on how long the conflict lasts, the sanctions could further constrain supply chains, leading to more price inflation. Central banks, including the RBNZ, will need to walk the tightrope between tightening monetary policy (increasing the OCR and unwinding the asset-purchase programme) as already planned to combat inflation, and easing away from the tightening plan in order to support the economy in uncertain times.

Nobody knows how the conflict will play out, which means uncertainty, which means volatility in the share market. With NZ's share market dominated by more defensive sectors, our market should be more resilient. We talked last week about the CBOE Volatility Index (VIX), which shows the market's expectations for volatility in the US S&P 500 Index. The VIX has risen almost 10% in the last week.

Our message to investors remains unchanged: stay calm and stay focussed on your investment plan that you have implemented with your adviser. A diversified portfolio of investments is the least volatile and safest way to manage your wealth, and a 'time in the market' approach is more dependable than a 'timing the market' approach.

Investment News

NZX Limited (NZX.NZ) Announces Retail Entitlement Offer

NZX is conducting a pro-rata accelerated renounceable entitlement offer to eligible shareholders to purchase 1 new share for every 9 NZX shares held, at an application price of NZ$1.42 per new share. The application price reflects a 15% discount to the dividend adjusted theoretical ex-rights price of $1.67. NZX has entered into a non-binding agreement with Fonterra and European Energy Exchange (EEX) to acquire a 33% stake in Global Dairy Trade (GDT), the leading global physical trading platform for dairy commodities, for NZ$12.5m. The capital raise will fund this acquisition, and reduce gearing following the recent acquisition of the ASB Superannuation Master Trust.
Current Share Price: $1.49, **Consensus Target Price**: $1.75

Fonterra (FSF.NZ) Lifts Forecast Farmgate Milk Price to $9.60

Fonterra has lifted its forecast range for 2021/22 by 40 cents to $9.30-$9.90, with the midpoint, which farmers are paid off, lifting to $9.60. Fonterra CEO Miles Hurrell says the lift reflects the increase in global dairy prices since January's lift, and good levels of ongoing global demand for dairy. The company remains comfortable with their current 2021/22 earnings guidance of 25-35 cents per share.
Current Share Price: $3.51, **Consensus Target Price**: $4.41

A2 Milk (ATM.NZ) – First Half Adjusted Net Profit Down 53% - Beats Expectations

Revenue of $661m was down 2% on pcp, while NPAT was down 53% on pcp. Earnings fell due to pandemic disruptions and a declining birth rate in China, upending the company's plans for growth. Shares have plummeted by about 70% since August 2020 as the pandemic caused a collapse in infant formula sales, and growth prospects in China became less certain because of a declining birth rate. The earnings announcement actually beat forecasts and as a result, the share price actually increased by 12% on the day of the announcement.
Current Share Price: $5.76, **Consensus Target Price**: $7.03

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Sky TV (SKT.NZ) – Stabilisation in Revenue

After a number of years of decline, revenue seems to have stabilised, increasing 4% on pcp to $372m. Despite this, increased costs meant EBITDA was down 26% to $85.3m, and NPAT was down to $28.3m vs $39.6m in pcp. The outlook includes a return to paying dividends from FY2022 following a return to sustainable free cash flows.
Current Share Price: $2.55, **Consensus Target Price**: $3.04

Spark NZ (SPK.NZ) – First Half Profit Up 21.8% - Plans to Sell Stake in Mobile Towers

NPAT ($179m) was up 21.8% on pcp. Mobile was the clear highlight with 5% services revenue growth, and 7.4% growth in the gross margin.
Spark said it may sell a stake in its 1,500 mobile-telephone network towers in New Zealand to free up cash for investment in other parts of its business. The company said it had established a subsidiary, Spark TowerCo, and said experience overseas shows that shared ownership can improve returns from so-called passive infrastructure.
Current Share Price: $4.615, **Consensus Target Price**: $4.78

Port of Tauranga (POT.NZ) – First Half Profit Up 13.9%

Revenue ($186m) grew by 16.7% on pcp, and normalised NPAT ($56.3m) grew by 13.9% vs pcp, and ahead of forecasts. The dividend was increased to 6.5cps, being an 8.3% vs pcp.
Current Share Price: $6.14, **Consensus Target Price**: $5.78

NZ Refining Company (NZR.NZ) – Finishes Final Year of Refining Crude Oil

NZR announced its final earnings for FY2021 (Dec 21), being the final result under the NZR ticker. Refining will end in March, and terminal services and the CHI (Channel Infrastructure) ticker change will commence in April 2022. Leading into the transition, FY21 refining assets were written down by $567m, and provision made for $176m of conversion and demolition outlays, driving FY21 NPAT down to a $553m loss.
For the new company, private storage deals have been completed, requiring capex, and bringing revenue for the next 10 years. Further deals are possible, with the government consulting on national fuel security recommendations, which could equate to more storage requirements. Guidance from the company re-confirms the intent to restart dividends within 1-2 years. NZR's share price was up 5.21% on the day of the announcement.
Current Share Price: $1.00, **Consensus Target Price**: $1.16

PGG Wrightson (PGW.NZ) – First Half Net Profit Up 32.1%

PGW has a record sales month in November 2021, and with continued commodity price strength and a weak NZD, first half revenue was up 11% vs pcp at %552m. A dividend of 14cps was announced, up vs 12c in pcp.
Current Share Price: $5.04, **Consensus Target Price**: $4.85

Scales Corporation (SCL.NZ) – Full Year Underlying Net Profit Up 8%

Scales announced their FY21 (to Dec 21) results, with their food ingredients division driving their performance, with revenue up 26%. Their horticulture division showed revenue down 1% against pcp, being a solid result in difficult conditions from weather-impacted harvest, supply chain and labour issues. The outlook was unchanged, which was seen as a positive in the market given ongoing pandemic and labour supply difficulties. A good harvest is expected in FY22.
Current Share Price: $4.81, **Consensus Target Price**: $4.93

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Freightways (FRE.NZ) – First Half Profit Up 7.6%

Revenue ($442m) grew 7.7% on pcp, with normalised NPAT ($43.7m) up 7.6% on pcp, beating expectations. The dividend of 18cps is up 16.1%.

Current Share Price: $12.05, **Consensus Target Price**: $13.29

Chorus (CNU.NZ) Announces Share Buy Back

First half underlying EBITDA was $329m vs $328m in pcp. Dividend guidance increased to 35cps from 26cps. Chorus has announced a $150m share buy back over the next 12 months.

Current Share Price: $7.15, **Consensus Target Price**: $6.89