

# Yovich & Co. Market Update

27<sup>th</sup> March 2022

As at 25th March	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	12175.85	7571.15	3251.07	7404.73	34754.93	13893.84	0.9315	0.6908	1.00%
Week Close	12055.00	7689.87	3212.24	7483.35	34861.24	14169.30	0.9261	0.6974	1.00%
Change	-0.99%	1.57%	-1.19%	1.06%	0.31%	1.98%	-0.58%	0.96%	0.00%

Global sharemarkets made further gains last week, with the S&P 500 in the US rising 1.8%, and the NASDAQ up 1.98%, making up more of the ground lost at the start of the year. The UK market was up 1.06%, and the Australian market continued its climb, up 1.57%. The NZ market went against the trend, falling 0.99%, mainly due to a large fall for Fisher & Paykel Healthcare following a lower than expected revenue guidance announcement.

NZ interest rates continued to climb, with the 3-month bank bill rate increasing from 1.47% to 1.48%, and the 5-year swap rate increasing from 3.27% to 3.38%. The market is pricing in a 50% chance of a 0.50% increase in the OCR at the next Reserve Bank decision in two weeks' time.

The biggest movers of the week ending 25 <sup>th</sup> March			
Up		Down	
Arvida Group	7.59%	Fisher & Paykel Healthcare	-11.56%
Ebos Group	5.58%	Summerset Group Holdings	-3.58%
EROAD	5.56%	Heartland Group Holdings	-3.49%

## Market Highlight – Sheffield Resources – Thunderbird Mineral Sands Project Update

Sheffield Resources released last week their much anticipated report on the Ore Reserve for the Thunderbird Mineral Sands Project. For background, Kimberley Mineral Sands (“KMS”) is a joint venture between Sheffield and YGH Australia Investment (Yansteel), with the purpose to develop the Thunderbird project. Thunderbird is one of the largest and highest grade mineral sands discoveries in the last 30 years. KMS have now released their Bankable Feasibility Study (“BFS”), so-called because the study assesses the feasibility of KMS to sufficient detail and objectivity to submit to investors or lenders when seeking finance for the project. The Ore Reserve forms the basis of the KMS BFS.

### Ore Reserve

The Ore Reserve estimate has been updated by 6 million tonnes to 754m tonnes at 11.0% heavy mineral (HM). The mine life is now 36 years.

### Change to Project Scope

The original project included the Ilmenite Processing Circuit, which included the Low Temperature Roaster circuit (“LTR”) and Ilmenite Magnetic Separation circuit. This has now been removed under a simplified flowsheet, with the resulting products simplified to 100% mineral sand concentrates rather than final end products. Yansteel’s offtake agreement for 100% of the LTR ilmenite from Stage 1 has been amended to 100% of the magnetic concentrate from Stage 1. The removal of the LTR leverages facilities already under construction at Yansteel’s smelter and pigment plant in China, and mitigates the potential market risk associated with producing a magnetic concentrate. While this significantly simplifies the process flowsheet, it also reduces the headline capex by 8%, and assists the overall rate of return for the project.

## BFS

With the simplified operation, Thunderbird will produce three products. Zircon concentrate remains the primary revenue product, comprising 59% of life of mine (LOM) revenue. Magnetic concentrate comprises a further 37% of LOM revenue, with the remainder being Paramagnetic concentrate.

With the simplified flowsheet, the net present value (NPV) for Stage 1 + Stage 2 is now A\$1.28b (an increase of 31% from the previous BFS), and the internal rate of return (IRR) is 27.5%. Sheffield's 50% share of this NPV is A\$640m. A key input in determining the NPV and IRR is the long-term estimate of the zircon price of US\$1,516/t. With the spot price at over US\$2,000/t, and the continuing tight market for the product, the forecast could be considered conservative.

## Financing

The total funding requirement for the project is estimated at \$484m, including capitalised financing costs, working capital, and a cost overrun facility. The target gearing ratio is c. 60%, and Yansteel has already contributed equity of \$130.1m, leaving a further estimated equity to be funded of \$62m. The KMS shareholder agreement requires Sheffield to contribute \$10m plus 50% of the remaining estimated new equity, therefore Sheffield needs to contribute a further \$36m in equity, with Yansteel to contribute \$26m of new equity.

Sheffield's cash reserve of \$5.1m, combined with \$36m in cash proceeds received to date from the sale of the Eneabba and McCalls projects, means that Sheffield is expected to fund 100% of the KMS new equity required from existing cash reserves.

## EPC Construction

In order to minimise cost escalation risk, KMS has executed an engineering, procurement, and construction (EPC) contract with GR Engineering Services ("GRES") for a fixed price of \$179.5m.

## Timeline

- **Debt Facilities:** The due diligence, documentation, and approvals process to secure the required debt facilities is targeted for completion in late Q2 2022.
- **EPC Contract Commencement:** KMS has provided GRES with a Limited Notice to Proceed, enabling GRES to mobilise to site in April 2022 to commence site works, with the Full Notice to Proceed intended to be provided upon KMS completing the full project financing, expected in mid-2022.
- **Production:** The target date for first production of Q1 2024 remains unchanged.

## Investment News

### Fisher & Paykel Healthcare (FPH.NZ) Provides FY22 Revenue Guidance

FPH expects full year operating revenue for FY2022 to be in the range of \$1.675b-\$1.70b. The company reports that second half hospital consumables revenue is similar to the first half, citing the Omicron variant's lower respiratory intervention requirements, as well as a relatively mild flu season in the Northern Hemisphere.

The company also noted that freight rates remain elevated and are expected to impact their long-term gross margin target of 65% by approximately 250 basis points.

The share price fell 7.89% on the day of the announcement, and was down 11.56% over the week.

**Current Share Price:** \$24.41, **Consensus Target Price:** \$28.26

### KMD Brands (KMD.NZ) – First Half Loss of \$5.5m

KMD (previously known as Kathmandu Holdings) released its 1H FY21 results, with sales of \$407m, down 0.8% YoY, but showing a positive rebound in Q2 following Q1 Covid lockdown impacts on Kathmandu and Rip Curl. Gross margin was

down at 57.7% compared with 59.0% on pcp, due to elevated international freight costs. The result was in line with expectations, and the company has increased the interim dividend by 50% to 3cps.

**Current Share Price: \$1.36, Consensus Target Price: \$1.60**

#### Goodman Property Trust (GMT.NZ) Signals \$150m Portfolio Revaluation

GMT is expecting a property revaluation gain for the second half of FY2022 of around \$150m. The 3.4% gain is in addition to the record \$504.7m first half revaluation, and as a result, the portfolio is expected to have a value of around \$4.7b at 31<sup>st</sup> March 2022. CEO John Daikin said that values of high-quality logistics and warehouse property have continued to increase over the last 6 months. With cap rates stable, it has been strong rental growth and new leasing that have been the main drivers of the revaluation gain. Underpinned by a growing digital economy, customer demand for distribution space close to consumers continues to exceed supply.

**Current Share Price: \$2.355, Consensus Target Price: \$2.43**

#### Goodman Property Trust (GMT.NZ) Announces New Green Bond Issue

GMT has lodged a Product Disclosure Statement (PDS) for a new green bond issue of up to \$100m. The bond will be a 5-year fixed rate, senior secured green bond. GMT has adopted the Sustainable Finance Framework to ensure that the green bonds comply with the Green Bond Principles. GMT intends to use the proceeds of the bond issue to refinance existing bank debt, and allocate the proceeds to assets that are currently being developed and have been verified as targeting a NZ Green Building Council's 5 Green Star Design and/or Built rating.

#### Air New Zealand (AIR.NZ) – First Half Loss of \$376m

Air NZ reported an interim loss of \$376m, reflecting the substantial impact the pandemic continues to have on the airline. Passenger flying was down 26% on pcp and was down 84% compared to pre-Covid levels. CEO Greg Foran said that the airline has typically derived two-thirds of its revenue from its international passenger network, and much of that was effectively grounded for the majority of the first half.

**Current Share Price: \$1.39, Consensus Target Price: \$1.09**

#### Z Energy (ZEL.NZ) – Shareholders Vote In Favour of Scheme

Shareholders have voted in favour of the Scheme, under which 100% of the shares in the company will be acquired by Ampol Holdings NZ Ltd. Regulatory approvals remain pending, expected to be obtained by mid-April. Once implemented, shareholders will be paid \$3.76 per share in May 2022.

**Current Share Price: \$3.74, Consensus Target Price: \$3.66**