

Yovich & Co. Market Update

3rd April 2022

| As at 1st April | NZX 50G | All Ords | Shanghai | FTSE | Dow | NASDAQ | NZDAUD | NZDUSD | OCR |
|-----------------|----------|----------|----------|---------|----------|----------|--------|--------|-------|
| Previous Week | 12055.00 | 7689.87 | 3212.24 | 7483.35 | 34861.24 | 14169.30 | 0.9261 | 0.6974 | 1.00% |
| Week Close | 12089.43 | 7785.89 | 3282.72 | 7537.90 | 34818.27 | 14261.50 | 0.9231 | 0.6930 | 1.00% |
| Change | 0.29% | 1.25% | 2.19% | 0.73% | -0.12% | 0.65% | -0.33% | -0.64% | 0.00% |

The NZ market was slightly up last week, with a 0.29% gain, while the Australian, UK and European markets posted higher gains. In the US, the overall market was relatively flat, however the NASDAQ gained 0.65%.

NZ short-term interest rates rose during the week, with the 3-month bank bill rate increasing from 1.48% to 1.53%, and the 1-year swap rate increasing from 2.66% to 2.76%. The Reserve Bank makes its next OCR decision on Wednesday, where the market is pricing in a more than 50% chance of a 0.50% rise (from 1.00% currently to 1.50%).

| The biggest movers of the week ending 1 st April | | | |
|---|--------|------------------|--------|
| Up | | Down | |
| EROAD | 16.58% | Air New Zealand | -8.99% |
| Pacific Edge | 6.45% | Ryman Healthcare | -4.18% |
| Mercury Energy | 4.00% | A2 Milk | -3.27% |

Market Highlight – Air New Zealand Rights Issue

Air NZ has been impacted heavily by domestic lockdowns and ongoing Covid-related travel restrictions across its international network. Half-owned by the NZ government, the Crown has so far injected \$2.0b into the company via \$1b of redeemable shares, and a \$1b Crown loan facility. The company’s plan has been to raise equity in the first quarter of 2022, coinciding with the phased reopening of borders.

FY22 Loss Guidance

In February, Air NZ had expected a loss for FY2022 of over \$800m before tax. Since that time, there has been a limited period of sales after the government’s decision to accelerate the plan to open the borders. The company now expects the loss to be less than \$800m. Beyond 2022, they expect further losses in the near-term, with the amount of such losses subject to the level and pace of the return of demand.

Recapitalisation Package

Air NZ has now announced a \$2.2b recapitalisation package to help position the airline for recovery. The recapitalisation has been sized with a view to maintaining Air NZ’s investment grade credit rating (Moody’s Baa2 – stable outlook) and to support the company to execute its strategic priorities.

The recapitalisation comprises:

- A pro rata renounceable rights offer to raise \$1.2b. (The Crown has committed to participate in the offer to ensure it holds a 51% share holding in the company on completion of the offer).
- \$600m of redeemable shares to be issued to the Crown.
- A new 4-year Crown loan of \$400m.

Use of Funds

The proceeds from the rights issue and the redeemable share issue (totalling \$1.8b) will be used to:

- Repay the outstanding amount of \$850m under the existing Crown loan.
- The remaining \$950m will be used to strengthen the airline's balance sheet, improve liquidity, and help position Air NZ for recovery.

The \$400m new Crown loan is not intended to be drawn, and is available to provide additional liquidity if required through the recovery period.

Rights Issue

Eligible shareholders are offered the right to buy new shares at a ratio of 2 for 1, meaning they may buy 2 shares for every 1 share owned as at the Ex-date (4th April). The price of new shares is \$0.53 per new share. This is a 61.5% discount on the last traded price of \$1.375 on 30th March, before the announcement.

It is standard for companies, when raising funds via a right issue, to offer new shares at a discount to the current market price. This offer is heavily discounted, one because the outlook for the company is uncertain, and they need to offer an attractive price to compensate investors for the risk, and two because of the size of the capital raising: the company needs to ensure that the deal gets done.

Theoretical Ex-Rights Price (TERP)

The TERP is a calculation used to determine what the price of the shares might be after the Ex-date. The market value of a company's shares is simply the number of shares in the company multiplied by the current share price. On 30th March, the last price was \$1.375, and the number of shares was 1.122b, giving a market capitalisation of \$1.544b. To work out the TERP, we add the new capital being raised (\$1.2b), and then divide that by the total number of shares, being the existing shares plus the new shares offered (c. 2.246b shares). The result is a TERP of \$0.81 per share.

The new shares of \$0.53 are at a 35% discount to the TERP.

Options for Investors

Investors that hold shares as at 4th April can:

- Take up some or all of their rights at \$0.53 per share.
- Sell their rights on the market (between 4th April and 26th April).
- Do nothing.

New shares that are not taken up by investors are offered through a shortfall bookbuild. Any premium achieved above the offer price of \$0.53 per share during this process will be paid to those shareholders who did not take up their rights.

Investment News

Z Energy (ZEL.NZ) – Takeovers Panel No Objection Statement Received

The Takeovers Panel has provided Z Energy with a 'no objection' statement with respect to the Scheme of Arrangement with Ampol Ltd. The Scheme remains subject to approval from the Overseas Investment Office and final orders of the High Court, expected by mid-April.

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

Synlait (SML.NZ) Publishes Half Year Result

Synlait published its financial result for 1H2022, with adjusted NPAT up 128%, and revenue up 19% on pcp. The CEO commented that the result validates that momentum is building, and improving systems, tools and processes will be their focus for the second half.

Current Share Price: \$3.35, **Consensus Target Price:** \$3.98

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WEALTH MANAGEMENT

Heartland (HGH.NZ) to Acquire Livestock Business in Australia

Heartland has signed conditional sale documentation to acquire StockCo Holdings 2 Pty Ltd from its current shareholders StockCo Australia Holdings Ltd and Elders Rural Service Australia Ltd. StockCo Australia is a company that specialises in livestock finance for cattle and sheep farmers across Australia. Heartland's strategic vision is to create sustainable growth and differentiation by providing 'best or only' products delivered through scalable digital platforms. The total acquisition cost is A\$143m, plus a potential top-up of A\$11m based on performance metrics.

Current Share Price: \$2.28, **Consensus Target Price:** \$2.23

ANZ (ANZ.NZ) Commences Joint Venture with Worldline

ANZ today announced the commencement of ANZ Worldline Payment Solutions, a joint venture with leading European payments provider Worldline. The new JV will provide ANZ Australia's customers with access to market-leading point-of-sale and online payment technology.

Current Share Price: \$29.59, **Consensus Target Price:** \$32.10