

Yovich & Co. Market Update

25th April 2022

As at 22nd April	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11891.58	7822.24	3211.24	7616.38	34451.23	13351.08	0.9141	0.6764	1.50%
Week Close	11908.40	7768.16	3086.92	7521.68	33811.40	12839.29	0.9168	0.6638	1.50%
Change	0.14%	-0.69%	-3.87%	-1.24%	-1.86%	-3.83%	0.29%	-1.86%	0.00%

The NZ market closed slightly up over the week, while other global markets recorded losses. The NASDAQ index fell 3.83%, with the standout movement being the fall in Netflix shares of 35% in one day following the company's report that it lost subscribers in the first quarter.

The big news for NZ economics in the last two weeks was the inflation rate of 6.9%, the highest in three decades, and the Reserve Bank's announcement, lifting the OCR by 0.50% from 1.00% to 1.50%. Short-term market interest rates have risen, with the 3-month bank bill rate now at 1.86%, up 18bps over the past two weeks. The 5-year swap rate is now at 3.86%, rising 22bps over the last week.

The housing market is showing clear signs of slowing, and even declining in some regions. The Equifax consumer credit demand index for the March quarter showed overall credit applications were down 32% compared to the same period a year ago, while home loan applications fell 42%.

The biggest movers of the week ending 22nd April

Up		Down	
Air New Zealand	4.68%	NZX	-5.07%
Ebos Group	2.98%	Fonterra Shareholder's Fund	-4.79%
Genesis Energy	2.87%	Pushpay	-4.63%

Market Spotlight – Asian Tech Sector

The Asian tech sector has taken a beating since the highs of 2021, after a very strong upward rise during 2020. Volatility is normal for emerging markets, but there were specific reasons for the pullback in this sector during 2021 that meant this pullback occurred at a time when global equity markets, and the global tech sector in particular, continued to surge ahead during 2021.

China's Regulatory Crackdown

While China is not all of Asia, it is the largest economy in emerging markets, and the second largest economy in the world. After a strong performance in 2020, the Chinese share market as a whole took a dramatic turn due to a number of regulatory policy changes by the Chinese government aimed at stamping out excessive anti-competitive practices, including an anti-trust review of online marketplace Alibaba, and other regulations related to consumer protection and data privacy.

Is Now a Good Time to Buy?

After such a prolonged sell-off, the Asian tech sector looks attractive compared to the tech-based NASDAQ index in the US, and compared to the MSCI World Index, based on forward PE ratios. The regulation that has been imposed is not controversial and relates to standard issues such as consumer protection and data privacy. In response to the sell-off, Liu He, vice premier and President Xi's close economic adviser, made a public intervention to reassure investors, highlighting the need to facilitate Chinese companies' access to international capital markets by "offering a standardised, transparent, and predictable approach to the regulation of tech giants."

Disclaimer: "Yovich & Co Limited believes the information in this publication is correct, and it has reasonable grounds for any opinion or recommendation found within this publication on the date of this publication. However, no liability is accepted for any loss or damage incurred by any person as a result of any error in any information, opinion or recommendation in this publication. Nothing in this publication is, or should be taken as, an offer, invitation or recommendation to buy, sell or retain any investment in or make any deposit with any person. The information contained in this publication is general in nature. It may not be relevant to individual circumstances. Before making any investment, insurance or other financial decisions, you should consult a professional financial adviser. This publication is for the use of persons in New Zealand only. Copyright in this publication is owned by Yovich & Co Limited. You must not reproduce or distribute content from this publication or any part of it without prior permission."

Further to the more attractive prices, China has not been hit with the recent inflation that the US has experienced lately. This has meant interest rates have risen in the US with the expectation of more to come. Conversely, China is expected to ease monetary policy by lowering policy interest rates to stimulate economic growth. Combined with the broad sell-off, the stimulatory environment could favour Asian technology.

Asia Technology Tigers ETF

One way to get exposure to the Asian tech sector theme is via the BetaShares Asia Technology Tigers ETF on the Australian exchange, which provides exposure to the 50 largest Asian technology companies, ex-Japan. Investing in an ETF like this provides investors with diversification away from the US tech sector, while also providing greater exposure to industries such as semiconductors, where there is a worldwide shortage, plus access to the large and fast-growing Asian consumer market.

Investment News

SkyCity (SKC.NZX) – Market Update Regarding Restrictions

SkyCity have announced they will operate their NZ properties without restrictions on mass gatherings and physical distancing requirements from 14th April, following the NZ government's announcement moving NZ to the Orange setting.

Current Share Price: \$2.87, **Consensus Target Price:** \$3.49

Kiwi Property (KPG.NZ) Increases FY22 Dividend Guidance

Kiwi Property increased its FY22 dividend guidance following a stronger than expected fourth quarter, which saw strong rental growth. The company now expects to pay a dividend of 5.6cps, up 5.7% from 5.3cps as previously announced. CEO Clive MacKenzie said: "We're continuing to transition out asset base and deliver on our strategy of creating mixed-use communities at key metropolitan centres, with good progress being made on build-to-rent and the 3 Te Kehu Way office development, in particular."

Current Share Price: \$1.085, **Consensus Target Price:** \$1.19

Contact Energy (CEN.NZ) – Joint Venture to Developer Solar Generation

Contact Energy will enter a 50/50 joint venture with global solar developer Lightsource bp, to source, develop, and construct multiple solar farm projects in various locations across NZ. Contact will be able to purchase the electricity generated from the projects via a long-term power purchase agreement. The goal is to create up to 380,000 megawatt hours of clean, affordable electricity by 2026; enough to power 50,000 homes across the country.

Current Share Price: \$8.11, **Consensus Target Price:** \$8.86

Precinct Properties (PCT.NZ) Launches Retail Green Bond Offer

Precinct Properties has announced an offer of up to \$125m of secured, unsubordinated, fixed rate six-year green bonds. The indicative margin range is 1.30% to 1.40% pa, subject to a minimum interest rate of 5.00% per annum. The net proceeds are intended to finance or refinance energy efficient buildings meeting company's Sustainable Debt Framework, which ensures consistency with the Green Bond principles. The offer closes on 29th April, with the final interest rate being set on that day.

Current Share Price: \$1.54, **Consensus Target Price:** \$1.63