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Yovich & Co. Market Update

22nd May 2022

As at 20th May	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11168.18	7307.68	3084.28	7418.15	32196.66	11805.00	0.9064	0.6257	1.50%
Week Close	11267.39	7391.04	3146.57	7389.98	31261.90	11354.62	0.9095	0.6391	1.50%
Change	0.89%	1.14%	2.02%	-0.38%	-2.90%	-3.82%	0.34%	2.15%	0.00%

The NZ and Australian markets saw modest increases over the week, up 0.89% and 1.14% respectively. The US market however had another rough week, with the S&P 500 index falling 3.0%, and the NASDAQ falling a further 3.82%. The US market is now 18.7% below its January highs, while a bear market is generally considered to be a 20% decline from a recent peak.

NZ long-term interest rates continued to decline despite the 3-month bank bill rate increasing from 2.11% to 2.15%, due to global downturn fears. The 5-year swap rate was down 13bps to 3.61%, which is down from a recent peak of 4.14%, while the 2-year swap rate was down 4bps to 3.51%. On Wednesday, the Reserve Bank will deliver its Monetary Policy Statement, where it is expected to increase the OCR by 50bps to 2.0%.

NZ Treasury is forecasting for house prices to fall 5% in 2022, and a further 1.5% in 2023, which translate to larger falls in real terms after high inflation is taken into account. In real terms, Treasury forecasts house prices to fall 17.8% between December 2021 and June 2026.

The biggest movers of the week ending 20th May 2022				
Up			Down	
Arvida Group	6.67%		Serko	-15.63%
A2 Milk	6.29%		Vista Group	-9.36%
Infratil	5.16%		Air New Zealand	-5.71%

Economic News – Budget 2022

Finance Minister Grant Robertson revealed the government's budget for the 2022/23 fiscal year last week. Some of the highlights announced were:

- A $1b cost of living package for low to middle income households, in response to high inflation, which includes a one-off payment of $350 to individuals who earn less than $70,000pa.
- A $1.8b funding increase for Health NZ, plus $1.3b for capital investments, including $572m for Whangarei Hospital.
- An extra $2b in operating funding for Education, plus $855m for capital expenditure on schools.

Also announced were a two-month extension of the fuel excise cuts, and immediate legislation to stop supermarkets from blocking competitors from using land through the use of land covenants.

<u>What is the Effect on Inflation?</u>

Inflation has surfaced as the principal economic challenge in New Zealand, driven by strong domestic demand pushing up against constrained supply, exacerbated by global lockdowns, and also by the war in Ukraine. As we have noted in

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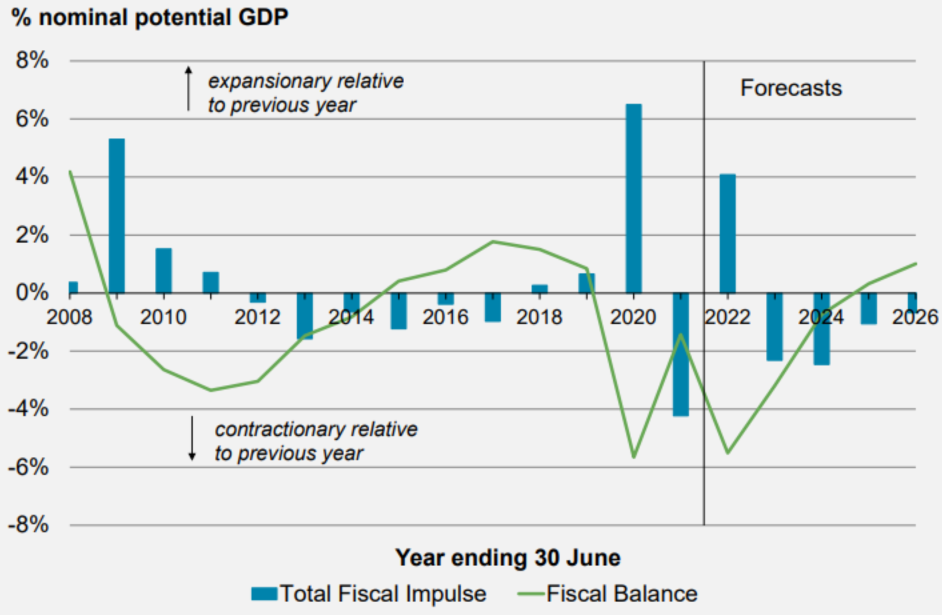
previous updates, the Reserve Bank has responded with increases to the OCR, with more to come, to constrain economic activity. So what is the effect of government spending on inflation?

Fiscal Impulse

Fiscal impulse is a measure used by Treasury to show whether discretionary fiscal policy is becoming more expansionary or contractionary relative to the previous year. The chart below from the Treasury shows historic measures and forecasts based on the budget.

Figure 2.18 – Total fiscal impulse and fiscal balance



Source: The Treasury

2020 saw fiscal expansion due to the initial Covid outbreak and the government support during the initial lockdown. Given that this was extraordinary, the following year in 2021 the fiscal impulse was contractionary relative to 2020. This year the fiscal deficit is forecast to increase as a consequence of the government's response to the recent Delta and Omicron outbreaks. This, coupled with the Reserve Bank's decision to loosen monetary policy during the Covid period, has had an impact on the current high inflation, now running at 6.9%.

However, based on the budget, the fiscal impulse is forecast to be contractionary in 2022/23 and remain so for the next four years, indicating that overall, fiscal policy going forward is dampening inflation pressures. The wage subsidy scheme coming to an end explains a big part of the dampening, and despite this, the budget does potentially add more inflationary pressure than expected, especially the cost of living package that will add directly to spending, putting more pressure on the Reserve Bank. Treasury forecasts for a return to surplus in 2024/25, with net debt peaking in 2023/24 at 19.9% of GDP, falling to 15.0% of GDP by 2026.

Opposition Parties' Response to Budget 2022

National's Christopher Luxon has called it the "backwards budget", saying the government's response to the cost of living crisis is a bandaid solution that will only add to inflation pressures. ACT leader David Seymour has labelled it the "brain drain budget", accusing Robertson of putting half the country on welfare, and saying that people who rely on working for a living are no better off and will be attracted to Australia.

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Investment News

Manawa Energy (MNW.NZ) Announces Annual Results – Considers New Solar and Wind Developments

Manawa Energy, formerly Trustpower, sold their retail business to Mercury NZ on 1st May. Their annual results show total revenue of $1.019m, up 7% on pcp, with revenue from continuing operations $323k, and net profit from continuing operations $108k. A final dividend of 16cps was announced, plus a special dividend of 35cps.
Also announced was that the company has 30 new solar and wind developments under consideration, as part of national efforts to boost renewable electricity share to near 100% this decade.
Current Share Price: $6.91, **Consensus Target Price**: $6.80

Investore Property (IPL.NZ) – Full Year Adjusted Earnings Up 3%

Investore Property has announced their full-year results, net rental income of $58.3m, up $2.5m, and adjusted net profit of $29.9m, up from $29.1m. Reported net profit was lower than last financial year due to a lower revaluation movement. Occupancy is 99.7% by area, and the weighted average lease term (WALT) is 9.1 years. Portfolio valuation is $1.2b, up 8.2%. Annual dividend was 7.90cps, with guidance for FY2023 at 7.90cps.
Current Share Price: $1.55, **Consensus Target Price**: $1.78

Argosy Property (ARG.NZ) – Full Year Earnings Down 4.4%

Argosy Property announced its full-year results, with adjusted net profit down 4.4% from $67.7m in pcp to $64.7m, with net rental income down 6.4%. Full year dividend was 6.55cps. Occupancy is at 98.7%, with a WALT of 5.7 years. Portfolio valuation is $2.2b.
Current Share Price: $1.255, **Consensus Target Price**: $1.39

Infratil (IFT.NZ) Announces Full-Year Results

Infratil announced its full-year results, with proportionate EBITDAF from continuing operations of $474.9m, up $103.6m. A final dividend of 12cps was announced, taking total cash dividends for the year to 18.5cps, up 4.2%. FY2023 guidance for proportionate EBITDAF is set at $510m-$550m.
Current Share Price: $8.15, **Consensus Target Price**: $8.62

Oceania Healthcare (OCA.NZ) Announces Full-Year Results

Oceania healthcare has announced its full-year results, with revenue of $231k, underlying EBITDA of $76k, and net profit of $61k. 450 units were sold in FY2022m made up of 184 new sales and 266 resales, with a resale margin of 21%. 64% of sales were outside Auckland. The average new sale price was $637,000, with a development margin of 28%. A dividend of 2.3cps was announced. Net tangible assets are $1.32 per share.
Current Share Price: $1.04, **Consensus Target Price**: $1.52

Ryman Healthcare (RYM.NZ) - Full-Year Underlying Profit Up 13.6%

Ryman Healthcare has announced its full-year results, with underlying profit of $255.0m, up 13.6%. A final dividend of 13.6cps was announced, taking the full year dividend to 22.4cps. The combined margin from new sales and resales was 25.8%, up from 24.2%, with the new sales margin at 24.3%. Pricing in Auckland is 27% below the median local house price.
Current Share Price: $9.85, **Consensus Target Price**: $12.01

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