

Yovich & Co. Market Update

10th July 2022

As at 8th July	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	10753.16	6720.43	3387.64	7168.65	31097.26	11127.84	0.9109	0.6132	2.00%
Week Close	11169.24	6876.97	3356.08	7196.24	31338.15	11635.31	0.9029	0.6200	2.00%
Change	3.87%	2.33%	-0.93%	0.38%	0.77%	4.56%	-0.88%	1.11%	0.00%

Markets rebounded last week from a terrible first half of the year, with the local NZ sharemarket up 3.87% for the week, and the Australian market up 2.33%. The tech sector in the US rebounded very strongly, with the NASDAQ lifting 4.56%, and the overall US market up 1.94%.

A decline in commodity and oil prices led to hopes of easing inflation pressures. There was also good news for the US economy, with the US jobs report for June being stronger than expected, and the unemployment rate remaining steady at 3.6%. These factors caused a higher risk appetite, reflected in the rebounding sharemarkets, as well as a rebound in commodity currencies. The NZD was up 1.11% against the USD, closing the week at 0.6200 USD.

The price of oil fell 3.9% to close at US\$107 per barrel, after having fallen below US\$100 during the week.

The Reserve Bank of Australia increased its cash rate by a further 0.50% to 1.35% last week, with further rate increases planned for the remainder of the year. The next monetary policy statement for the RBNZ is due on Wednesday, where it is expected that it will raise the OCR another 0.50% to 2.50%.

NZ interest rates fell during the week, with the 2-year swap rate down 22bps to 3.84%, and the 10-year swap rate down 32bps to 3.80%. This means the yield curve has turned negative, which has also occurred in the US.

The biggest movers of the week ending 8 th July 2022			
Up		Down	
EROAD	48.98%	SkyCity Entertainment Group	-11.95%
Serko	10.81%	Skellerup	-2.31%
Port of Tauranga	9.68%	Arvida Group	-1.38%

Market Highlight – ANZ Perpetual Preference Shares (ANBHC)

ANZ has launched an offer of up to \$250m of perpetual preference shares (named ANBHC). The ANBHC security will qualify as Additional Tier 1 (AT1) capital and thereby contribute towards ANZ's regulatory capital requirements. The proceeds of the offer will be used for ANZ's general corporate purposes.

The preference shares will pay interest of 6.95% for the initial fixed-rate period of six years, which equates to the six-year swap rate of 3.70% plus a margin of 3.25%. The issue date for the shares is Monday 18th July.

The security has a credit rating of BBB from S&P Global Ratings.

Capital Adequacy Ratio

Locally incorporated registered banks in NZ must comply with minimum capital ratios in order to cover their risk; these measures have been put in place to safeguard banks' solvency, and overall economic stability. These capital requirements imposed by RBNZ are increasing incrementally, and ANZ is comfortably above the current minimum

requirements. The new preference shares qualify as AT1 capital, and therefore assist the bank in meeting their capital adequacy requirements.

What are Perpetual Preference Shares?

Preference shares are a type of security that lie in between common shares and fixed-interest securities (e.g. bonds), sometimes referred to as a hybrid security.

A standard vanilla bond will typically be offered for a term of five years, paying a fixed interest rate, with the original value of the bond being paid out on the maturity date (five years from issue date), and interest usually paid quarterly. Perpetual preference shares on the other hand have no maturity date, but instead have optional redemption dates, whereupon the issuer has the option to repay the original capital, or to let the shares continue.

In the case of the new ANBHC offer, the initial fixed rate period is for 6 years from issue date to the first optional redemption date (18/07/2028), whereupon ANZ has the option to redeem the shares by repaying the capital. If ANZ do not redeem the shares, the interest rate will be reset at a floating rate, being the 3-month bank bill rate, plus the initial margin. ANZ then has the option of redeeming the shares at any interest payment date thereafter, i.e. every 3 months.

It is considered likely that ANZ will redeem the preference shares on the first optional redemption date, because the interest rate margin reflects a six-year term, and is higher than what would be expected of a shorter dated security.

Ranking

If a company goes into liquidation, the order in which different security holders have a claim to the company's assets is determined by the security type. In general, preference shares will have lower priority than bondholders, but will have higher priority than common shares.

The ANBHC security ranks only above ANZ's ordinary shareholders.

Distributions

With preference shares, the issuer has discretion to cancel distributions. However, generally the issuer cannot pay a dividend to common shareholders if they have withheld the distribution to preference shareholders. If the preference shares are non-cumulative, then the issuer is not obliged to pay any missed distribution at a later date.

With a lower ranking than bondholders, and the distribution being discretionary, this makes preference shares a higher risk security than ordinary bonds. Because of this, preference shares typically demand a higher rate of return to justify the higher risk. Preference shares have some similarities to common shares, in that there is generally no fixed term, and that the distributions are discretionary. However, they are less risky than common shares because they have priority over common shares, and distributions must be paid before any dividends are made. The trade-off is that preference share holders do not share in the growth of the company, either by capital growth or by growth in dividends.

With regard to the ANBHC security, ANZ has full discretion to cancel distributions, and the distributions are non-cumulative. If a distribution is not made however, ANZ must not pay a dividend on its ordinary shares.

At a fixed-rate of 6.95% for six years, we believe this security offers good value relative to comparable securities, and compensates investors well for the higher risk as compared with ordinary bonds.

Investment News

[Pushpay Holdings \(PPH.NZ\) Welcomes Archdiocese of Seattle as a Customer](#)

Pushpay has announced that the Archdiocese of Seattle, Washington has become a customer. The Archdiocese will be leveraging ParishStag, the company's integrated technology platform, to help parishes and dioceses increase engagement and grow their communities. The addition represents an opportunity to reach 174 parishes and a Catholic population of over 600,000 people.

Current Share Price: \$1.30, **Consensus Target Price:** \$1.57

[ANZ Bank \(ANZ.ASX, ANZ.NZ\) Agrees to Divest Share Investment Lending Portfolio](#)

ANZ has announced it has agreed to divest its Share Investment Lending portfolio to Leveraged Equities, a wholly owned subsidiary of Bendigo and Adelaide Bank. ANZ says that the divestment is consistent with the company's simplification agenda, and the financial impact is not material to ANZ.

Current Share Price: AUD\$22.70, **Consensus Target Price:** AUD\$27.41

[Air New Zealand \(AIR.NZ\) Provides Update on FY2022 Outlook](#)

In March 2022, Air NZ confirmed its expectations for a loss of \$800m for FY2022. Due to strong passenger bookings on short haul and international services following the opening of the NZ border, the airline now expects the loss to be less than \$750m. Air NZ remains mindful that the macroeconomic environment continues to be uncertain with disruptions caused by the impact of covid variants, continued travel restrictions in some markets, and the ongoing conflict in Ukraine contributing to high jet fuel prices.

Current Share Price: \$0.625, **Consensus Target Price:** \$0.70