

Yovich & Co. Market Update

7th August 2022

As at 5th August	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11492.65	7173.75	3253.24	7423.43	32845.13	12390.69	0.8997	0.6202	2.50%
Week Close	11728.47	7250.30	3227.03	7439.74	32803.47	12657.55	0.9026	0.6235	2.50%
Change	2.05%	1.07%	-0.81%	0.22%	-0.13%	2.15%	0.33%	0.53%	0.00%

Global sharemarkets continued the upward trend from July, with the NZ market adding a further 2.05% gain during the week. The NZ market has now recovered 10.4% since the low point of June, despite still being down 11.4% this year. In the US, the NASDAQ made a 2.15% gain, while the Dow Jones was slightly down by 0.13%. Overall in the US, the S&P 500 index was slightly up by 0.36%. The US market has now recovered 14.0%, despite still being down 13.0% this year. The Australian market gained a further 1.07% during the week, closing the year's loss to 5.76% down.

Commodity prices have declined, including the price of oil, which fell 14% during the week to US\$94 per barrel. The Dow Jones Commodity Index was down 3.51% during the week, and is now 16% below the high point in June.

Interest rates in NZ moved only slightly, with the 2-year swap rate up 4bps to 3.78%, while the 5-year swap rate dropped 3bps to 3.52%. The US saw higher short-term interest rates, with the 2-year Treasury yield up 19bps to 3.05%, while the 10-year Treasury yield dropped slightly to 2.69%.

The Reserve Bank of Australia continued its tightening process, lifting the cash rate by a further 0.50% last week, taking it to 1.85%. Market expectations are for the cash rate to finish above 3% by the end of the year. The Bank of England also raised its policy rate by 0.50%, taking it to 1.75%. Inflation continues to be very high in the UK due to high energy prices, and the Bank of England expects the UK to be in recession at the end of this year.

Unemployment in NZ is slightly up from 3.2% in March to 3.3%, which is still a very low level. Wages were up, which will add pressure for the Reserve Bank of NZ to tackle inflation before we fall into a wage-price spiral.

The biggest movers of the week ending 5 th August 2022			
Up		Down	
A2 Milk	11.82%	Pacific Edge	-33.33%
Infratil	8.29%	EROAD	-8.37%
Mercury	5.93%	Restaurant Brands	-4.57%

Market Highlight – Channel Infrastructure NZ

In May, we highlighted the closure of the Marsden Point Oil Refinery, and the change from Refining NZ to Channel Infrastructure NZ (CHI), an import-only terminal. Recently CHI held an Investor Day, where they provided an update on the conversion progress, their updated forecasts, and the expected dividend.

Conversion

CHI has reconfirmed the original budget of \$200m-\$220m for the conversion, which includes the shutdown and decommissioning of the refinery, the transition of the business and workforce, and the terminal upgrade projects. The refinery shutdown has been completed, and decommissioning underway, which is set to be completed in the first half of

2023. The first private storage tanks have been commissioned, with other projects still to come, including the commissioning of additional jet fuel storage and additional private storage. The workforce has been transitioned from refinery to terminal organisation and decommissioning.

In all, \$74m of the budget has been spent to date, with the riskier activities now completed.

Forecasts

CHI have reported a successful first quarter of terminal operations, being Q2 of 2022, to the end of June, with 690ML of throughput of petrol, diesel, and jetfuel. CHI have reaffirmed their FY2023 forecasts (first full year of normal trading):

Terminal and other revenue	\$116m-\$120m
Operating costs	\$36m-\$40m
Normalised EBITDA	\$76m-\$84m
Financing costs	\$15m-\$18m
Income tax	Nil

Dividend Guidance

With normal capital expenditure expected to be \$5m-\$12m per annum, the free cash flow is expected to be in the range of \$50m-\$60m. The reconfirmed dividend policy payout of 60%-70% of free cash flow implies a dividend range for FY2023 of \$30m-\$40m, which is equivalent to 8-11cps.

At the current price per share of \$1.23, this implies a forward gross dividend yield of 6.5%-8.9%.

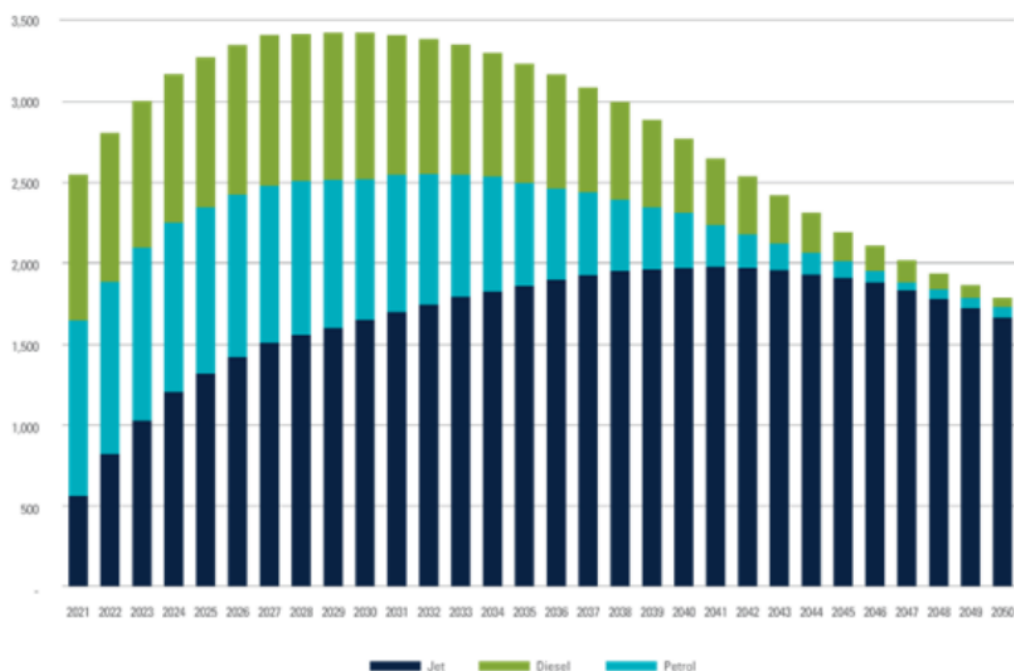
Inflation

CHI has long-term contracts, which are subject to indexation to the PPI (Producer's Price Index). CHI is set to benefit from the current inflationary environment, via increased fee revenue.

Long-Term Growth

Total fuel demand is forecast to grow over the medium term, but to then decline over the long-term, as per the following chart from CHI:

Auckland and Northland Product Demand (Million Litres)



Jet fuel demand is forecast to grow, while petrol and diesel demand is forecast to fall over the long-term.

Opportunities for CHI in the short-term include:

- Escalation of fees based on current inflation trends.
- Potential government-mandated fuel storage reserve expansion.
- Opportunities to reduce electricity costs.

Investment News

Infratil (IFT.NZ) Announces New Capital and Co-Investor for Longroad Energy

Infratil has announced there is a new investor in Longroad Energy, of which Infratil is a shareholder, as well as the NZ Super Fund. Longroad Energy is a Boston-headquartered renewable energy developer focussed on wind and solar energy throughout the US. MEAG, an asset management firm, is investing US\$300m for a 12.5% stake in Longroad Energy. Both Infratil and NZ Super Fund will each also invest a further US\$100m to retain an approximate 37% stake each. At the completion of the transaction, Infratil will have invested a net US\$112m in Longroad since 2016, and achieved an IRR of 59% based on the value implied by this transaction. This represents a significant value boost to Infratil's investment.

Current Share Price: \$9.075, **Consensus Target Price:** \$9.07

A2 Milk Company (ATM.NZ) Seeks Approval to Import Infant Milk Formula Products Into the US

A2 Milk has responded to a media article in the Australian Financial Review suggesting that the company is nearing approval from the US Food and Drug Administration (FDA) to allow A2MC to import infant milk formula products into the US. A2 Milk has confirmed that their application is under active review by the FDA, but at this stage there is no certainty as to the outcome of the application.

Current Share Price: \$5.58, **Consensus Target Price:** \$6.38

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WEALTH MANAGEMENT

NZX (NZX.NZ) To Establish Corporate Governance Institute

NZX is to establish a new institute as a centre of excellence for corporate governance in NZ's listed companies. The new body will make recommendations to NZX on the settings for issuers' corporate governance practices. The aim is to improve performance and increase shareholder value in a sustainable manner, while lowering issuers' cost of capital.

Current Share Price: \$1.23, Consensus Target Price: \$1.49