

Yovich & Co. Market Update

14th August 2022

As at 12th August	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11728.47	7250.30	3227.03	7439.74	32803.47	12657.55	0.9026	0.6235	2.50%
Week Close	11730.52	7288.81	3276.89	7500.89	33761.05	13047.19	0.9067	0.6452	2.50%
Change	0.02%	0.53%	1.55%	0.82%	2.92%	3.08%	0.45%	3.49%	0.00%

The NZ market was flat last week, rising 0.02%, while the Australian market was up slightly higher by 0.53%. The US market however continued its recent strong trend, with the Dow Jones up 2.92% and the NASDAQ up 3.08%. Overall in the US, the S&P 500 index rose by 3.26% during the week. The CBOE Market Volatility Index, VIX, showing the market's expectation of volatility, was down 7.7%.

Commodity prices rose during the week, with the Dow Jones Commodity Index up 3.55%, as well as oil, up 3.65% to just under US\$98 per barrel.

The NZD and AUD were both up against the USD during the week on more positive risk appetite, with the NZD up 3.49% to 0.6452 against the USD. The US Dollar Index, DXY, was down 0.8%.

Interest rates continued to trend higher in NZ, with the 2-year swap rate up 18bps to 3.96%, while the 5-year swap rate increased by 19bps to 3.71%, and the 10-year swap rate increased by 24bps to 3.73%. In the US, the 2-year Treasury rate increased by 14bps to 3.19%, while the 10-year Treasury yield increased by 19bps to 2.88%.

The Reserve Bank of NZ will deliver its next Monetary Policy Statement (MPS) this week, where the market has forecast another 50bps rate hike, which would take the OCR to 3.0%.

NZ house prices fell 2.9% in the year to July, and were down 10.8% from the November peak, according to the Real Estate Institute of NZ's (REINZ) house price index.

The biggest movers of the week ending 12 th August 2022			
Up		Down	
Air New Zealand	8.06%	Synlait Milk	-5.03%
Sky TV	6.28%	Chorus	-3.89%
Fonterra Shareholders' Fund	6.16%	A2 Milk	-3.76%

Economic News – Commerce Commission Building Supplies Report

In November 2021, the government initiated a Commerce Commission review into whether competition for residential building supplies (plasterboard, structural timber, and concrete) is working well. Their draft report was released on 4th August, with the final report due out in December. The draft report comes at a time of high inflation generally, but particularly so in the building industry, where there has been a shortage of GIB plasterboard. As a result, residential builds have seen major delays, and those needing GIB sooner are paying astronomical prices for the privilege.

Currently, around 95% of the plasterboard used in NZ is the GIB brand manufactured by Winstone Wallboards, a subsidiary of Fletcher Building. During the Covid lockdown, Winstone was forced to shut down its factory, creating a shortfall in the supply of GIB at a time of high demand caused by a construction boom. With GIB being such a common

product in NZ, it is actually specified in a lot of councils' building consent application documents. To use a different brand of plasterboard then requires a minor variation to the application, costing more money and time.

In response to the GIB shortage, the government in June established a taskforce to investigate ways of increasing plasterboard supplies. By the end of July, Building and Construction Minister Megan Woods announced that there are four alternative plasterboard products able to be used as substitutes for GIB, that meet the requirements of the NZ Building Code for bracing qualities, being Elephant Board, USG Boral, ProRoc, and SaveBoard. Also announced was the fact there are now 12 importers of plasterboard, and about 100 containers on their way to NZ; enough for about 440 houses.

Initial Report

In light of the current shortage, and realisation of the reliance the NZ building industry has on one company, there was a lot of anticipation around the ComCom's findings. The initial findings and recommendations are very benign, with the Commission making general recommendations that could improve access to markets over time, driven more by regulatory changes than by forced short-term changes. This suggests nothing of concern for Fletcher Building.

Of particular concern for Fletcher Building would have been their vertical integration, however the ComCom has no problem with integrated players, indicating that this is unlikely to be anti-competitive. The Commission did note that the competition in the supply of plasterboard is not working well, however also noted that NZ's small market size and isolated location make it challenging for domestic manufacturers to reach efficient scale and less attractive to import products, limiting the number of suppliers who can feasibly operate in NZ.

Investment News

A2 Milk Company (ATM.NZ) – FDA Defers Request to Import Infant Milk Formula

Last week we reported that A2 Milk had applied to the US Food and Drug Administration (FDA) to allow the company to import infant milk formula products into the US. During the week, the company announced that the FDA has deferred further consideration of the company's request.

Current Share Price: \$5.37, **Jarden Target Price:** \$5.00

Vital Healthcare Property Trust (VHP.NZ) – Full Year Net Property Income Up 12.2%

VHP has announced their full year results for FY22, with net property income up 12.2% to \$123.0m, and EBIT up 8.6% to \$85.5m. Excluding the capital gain on investment property, their adjusted funds from operations (AFFO) was up 18.0% to \$67.8m. A dividend for the fourth quarter of 2.4375cps has been announced, taking the full-year dividend to 9.625cps. The forecast dividend for FY23 is 9.75cps; an increase of 1.3%.

Current Share Price: \$2.835, **Consensus Target Price:** \$2.80

Commonwealth Bank of Australia (CBA.ASX) – Full-Year Cash Profit Up 11%

CBA has announced their full year results for FY22, with cash net profit up 11% to AUD\$9,595m. Net interest income was up 1% to AUD\$19,473m, despite the net interest margin falling from 2.08% to 1.90% over the year.

Current Share Price: AUD\$100.34, **Consensus Target Price:** AUD\$92.20