Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Brock Fannin (FSP 1002346)

Yovich & Co. Market Update

21st August 2022

As at 19th August	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11730.52	7288.81	3276.89	7500.89	33761.05	13047.19	0.9067	0.6452	2.50%
Week Close	11684.81	7358.72	3258.08	7550.37	33706.74	12705.21	0.9008	0.6213	3.00%
Change	-0.39%	0.96%	-0.57%	0.66%	-0.16%	-2.62%	-0.64%	-3.70%	0.50%

NZ and US markets were both down during last week, falling 0.39% and 1.21% respectively, while the Australian and UK markets saw modest increases. Higher interest rates weighed on markets, with expectations of continued central bank rate rises.

The Reserve Bank of NZ raised the Official Cash Rate by the expected 50bps, bringing it to 3.0%. The RBNZ signalled further rate hikes, with the OCR expected to reach 4.0% by early 2023, six months earlier than expected in the May policy statement.

After last week's surge, the NZD fell a hefty 3.70% against the USD. The USD rebounded last week, with the DXY index rising 2.35%, based on higher rates and more risk aversion.

Commodity prices fell during the week, with the Dow Jones Commodity Index down 1.48%, while the Brent Crude oil price fell 2.04% to under US$96 per barrel.

Interest rates climbed further in NZ, with the 2-year swap rate up 4bps to 4.00%, while the 5-year swap rate increased by 11bps to 3.82%. In the US, the 2-year Treasury rate increased by 4bps to 3.23%, and the 10-year rate increased by 4bps to 2.92%.

The biggest movers of the week ending 19th August 2022				
Up			**Down**	
NZX Limited	8.00%		EROAD	-11.58%
Pushpay Holdings	3.94%		Pacific Edge	-10.58%
Fletcher Building	3.70%		Fisher & Paykel Healthcare	-4.75%

Market Highlight – Sheffield Resources – Thunderbird Mineral Sands Project Update

Sheffield Resources has announced a US$110m debt facility with Orion Resource Partners. This, together with the A$160m debt funding secured from NAIF (North Australian Infrastructure Facility) in April, provides Sheffield with their required debt funding, totalling circa A$317m.

Background

Kimberley Mineral Sands (KMS) is a joint venture between Sheffield and Yansteel, with the purpose of developing the Thunderbird project in northern Western Australia, being one of the largest and highest grade mineral sands discoveries in the last 30 years. In March, we provided an update on the Thunderbird project following the Bankable Feasibility Study (BFS), which detailed the estimated ore reserve. The following summarises the previous update:

- The mine life was assessed as 36 years.

- The scope of the project was simplified, with Thunderbird producing 100% mineral sand concentrates rather than final end products, reducing the capital expenditure requirement.
- The NPV of the project was assessed at A$1.28b, with Sheffield's 50% share being A$640m, based on a zircon price of US$1,516/t.
- The total funding requirement for the project is $484m, with 40% of that required from equity, Sheffield's share of which could be funded from existing cash reserves.
- The next step was to gain the required 60% remaining project cost via debt funding.

Debt Facilities

In April, KMS secured A$160m of NAIF funding, which was a crucial step before seeking commercial debt. Sheffield has now announced that they have secured the balance of the required debt funding via a US$110m debt facility with Orion Resource Partners, allowing KMS to achieve financial close, which is expected in the coming months following due diligence and satisfying the conditions precedent of the loan facility.

The loan term is 7 years, and the interest rate is the SOFR (Secured Overnight Financing Rate) (subject to a minimum of 2%) plus a margin of 5%. There is also a royalty attached, being 1.6% of revenue, commencing 7 years after drawdown, and will last for 25 years.

The total cost of the debt is estimated to be around 12%.

Progress and Next Steps

Construction of Stage 1 of the project is already underway, using the equity funding, with Yansteel's $130m equity having largely been spent. Work completed includes the completion of an access road and site village, civil earthworks at the plant site, and pouring of concrete foundations for the plant. Finalisation of the debt facility will allow construction to continue uninterrupted, with the bulk of the civil work aiming to be completed before the wet season in December. With the completion of the civils, the contractor (GR Engineering) will be able to continue with the construction of the plant during the wet season with minimal disruption. This will then allow completion of the project next year, with the first product available towards the end of 2023. Commissioning and first production remain scheduled for Q4 2023.

Investment News

Contact Energy (CEN.NZ) – Full Year Profit Down 3%

Contact Energy has announced their full year results for FY22, with net profit down 3% from pcp to $182m, and EBITDAF down 3% to $537m. The company faced higher costs due to increases to coal and gas prices, and carbon costs. Contact has responded by increasing renewable generation, and continuing to invest in their decarbonisation strategy. The company has approved a $300m investment to develop a new geothermal power station at Te Huka, near Taupo. The final dividend is 21cps, taking the full year dividend to 35cps, equal to FY21.
Current Share Price: $7.86, **Consensus Target Price**: $8.68

Mercury Energy (MCY.NZ) – Full Year Profit of $469m Announced

Mercury has announced their full year results for FY22, a transformational year for the company that saw it become NZ's largest wind generator through the acquisition of Tilt's NZ operations. Due to the larger operations, net profit increased by 233%, and EBITDAF increased by 25% to $581m. A final dividend of 12cps was declared, taking the full-year dividend to 20cps.
Current Share Price: $6.28, **Consensus Target Price**: $6.27

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Fletcher Building (FBU.NZ) – Full Year Normalised EBIT Up 13%

Fletcher Building has announced their full year results for FY22, with normalised EBIT of $756m, up from $668m in 2021. This was modestly ahead of market expectations, and their forecast for FY23 is an increase of $100m of EBIT, implying c. $856m. A final dividend of 22cps was declared, taking the full year dividend to 40cps.
Current Share Price: $5.60, **Consensus Target Price**: $6.80

Auckland International Airport (AIA.NZ) – Underlying Net Loss of $11.6m

AIA has announced their full-year results for FY22, with net profit down 59% on pcp to $191.6m. This however included capital movements, including property value gains, excluding which takes the result to a net loss of $11.6m. Guidance for FY23 is underlying NPAT of $50m-$100m. No dividend was declared.
Current Share Price: $7.62, **Consensus Target Price**: $7.53

Precinct Properties (PCT.NZ) – Rental Income Increase of 1.3%

Precinct has announced their full year results for FY22, with rental income up 1.3% to $129.4m, and AFFO (Adjusted Funds From Operations) up 19% to $101.5m. However, with equity raisings during the year, the AFFO per share was up a more modest 6%. The full year dividend was 6.7cps, and the guidance is for 6.7cps for FY23 also.
Current Share Price: $1.41, **Consensus Target Price**: $1.48

Fisher & Paykel Healthcare (FPH.NZ) Provides Guidance for First Half of FY23

FPH expect operating revenue for 1HFY23 to be approximately $670m and NPAT to be approximately $85m-$95m. This would represent an increase in revenue on pre-pandemic levels ($570.9m) and a decline in revenue compared to the prior comparable period ($900.0m)
Current Share Price: $19.85, **Consensus Target Price**: $22.26