

Yovich & Co. Market Update

28th August 2022

As at 26th August	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11684.81	7358.72	3258.08	7550.37	33706.74	12705.21	0.9008	0.6213	3.00%
Week Close	11608.29	7345.80	3236.22	7427.31	32283.40	12141.71	0.8901	0.6137	3.00%
Change	-0.65%	-0.18%	-0.67%	-1.63%	-4.22%	-4.44%	-1.19%	-1.23%	0.00%

The US market fell heavily last week, with the S&P 500 down 4.04%, and the NASDAQ down 4.44%, driven by comments from Federal Reserve Chair Jerome Powell. At the annual gathering of central bankers in Jackson Hole, Wyoming, Jerome Powell said in his speech that the Fed will not back off in its fight against rapid inflation, prompting the market to fall based on the prospect of higher interest rates for longer.

Global markets followed the US market downwards, however the NZ market held up better than most, falling 0.65%, while the Australian market fell only 0.18%. With more risk aversion, the NZD fell to 0.6137 against the USD and to 0.8901 against the AUD. The USD continued to climb, with the DXY index up a further 0.69% to 108.78.

Commodity prices rose during the week, with the Dow Jones Commodity Index up 2.32%, and the Brent Crude oil price also jumped higher, up 5.12% to USD\$100.77 per barrel.

Interest rates increased, with the 2-year Treasury rate in the US up 16bps to 3.39% and the 10-year Treasury rate up 15bps to 3.08%. In NZ, the 2-year swap rate increased by 20bps to 4.20%, while the 10-year swap rate increased by 23bps to 4.06%.

KiwiBank have predicted a housing surplus towards the end of 2023, with slowing population growth coupled with increased building activity leading to supply outstripping demand. ASB data suggests that confidence in the housing market is in freefall.

The biggest movers of the week ending 26 th August 2022			
Up		Down	
Freightways Limited	14.36%	Heartland Group	-10.35%
Chorus	1.92%	EROAD	-8.93%
The Warehouse	1.85%	Restaurant Brands	-6.15%

Market Highlight – Heartland Group Holdings Share Purchase Plan

Heartland Group Holdings is conducting a share purchase plan to raise funds, whereby eligible investors can apply for up to \$50,000 worth of new shares, at an application price of \$1.80 per share. This follows a placement that has been fully subscribed.

Acquisition of StockCo Australia

Heartland announced in April that it had agreed to acquire StockCo Australia, a company that provides specialist livestock finance for cattle and sheep farmers across Australia. In June it completed the acquisition for a total consideration of AUD\$154.4m. In NZ, Heartland currently provides various rural loan options, including online finance for

sheep and cattle farmers, and livestock finance similar to that of StockCo Australia. StockCo's livestock finance business will add to Heartland's existing Australian Reverse Mortgage business.

Heartland's strategic vision is to create sustainable growth and differentiation by providing 'best or only' products delivered through scalable digital platforms. This acquisition will extend Heartland's 'best or only' strategy in Australia, by broadening its Australian offering in an area where it already has expertise. The focus now is to build on StockCo Australia's market-leading position by delivering capital for growth, digital enhancements to the existing product offering, and expansion into new market segments.

Capital Raising

Heartland has recently announced a \$200m equity raising, comprising a \$130m fully underwritten placement and a \$70m share purchase plan. Proceeds will be used to repay a AUD\$158m acquisition finance facility outstanding that relates to the acquisition of StockCo Australia, and to provide additional growth capital for Heartland's existing businesses in Australia and NZ. The placement has now been successfully completed, where \$130m of new shares were fully subscribed at the fixed price of \$1.80 per share. The price represents a 12.8% discount to the ex-dividend adjusted last close price of \$2.0650 per share on 22nd August, and a 13.7% discount to the 5-day ex-dividend adjusted VWAP (volume weighted average price) of \$2.0851.

VWAP is a standard measure that provides an average price over a period of time, in this case five days, weighted by the volume of trades each day.

Share Purchase Plan

The \$70m share purchase plan is now open, where shareholders in NZ and Australia can subscribe for up to NZD\$50,000 or AUD\$45,000 worth of new shares. The offer price will be the lower of:

- The placement offer price of \$1.80; and
- A 2.5% discount to the 5-day VWAP of Heartland shares.

The share purchase plan closes on Monday 5th September.

FY22 Results

Heartland has announced its results for FY22, with underlying NPAT of \$96.1m, up 9.3% from FY2021, despite a decrease to the net interest margin, down 19bps to 4.16%. A final dividend of 5.5cps was announced, taking the full-year dividend to 11.0cps. This is flat on FY2021 despite the increase in earnings, in light of the equity raising.

Heartland expects NPAT for FY2023 to be in the range of \$109m-\$114m, which includes AUD\$10m-\$12m from StockCo, meaning the comparable NPAT ex-StockCo is expected to be \$98m-\$101m, an increase of 2%-5% from FY2022 underlying NPAT.

Investment News

Freightways Limited (FRE.NZ) – Full Year Profit Up 4.1%

Freightways announced its full-year adjusted profit for FY22 of \$74m, up 4.1% from FY21. Revenue was up 9.1% to \$873m. The Board declared a final dividend of 19cps, bringing the full year dividend to 37cps, 3.5cps (10%) higher than last year.

Current Share Price: \$10.75, Consensus Target Price: \$12.03

Spark (SPK.NZ) – Full Year Profit Up 7.6%

Spark announced its full-year net earnings of \$410m, up 7.6% from last year, and EBITDA of \$1,150m, up 2.8%. The final dividend of 12.5cps was announced, taking the full year dividend to 25cps, being flat on FY21. Guidance for FY23 is a dividend of 27cps.

Current Share Price: \$5.27, Consensus Target Price: \$5.26

Meridian Energy (MEL.NZ) – Full Year EBITDAF Up 2.5%

Meridian announced its full-year results, with EBITDAF of \$709m, up 2.5% on pcp. Revenue was down 6.6% to \$3,703m. The FY22 improvement is due mainly to higher hydro generation, more than offsetting c. \$40m lower revenue from Tiwai. The final dividend of 11.55cps was declared, taking the full year dividend to 17.4cps, up 3% from last year.

Current Share Price: \$5.00, Consensus Target Price: \$5.32

EBOS Group (EBO.NZ) – Full-Year Profit Up 21.3%

EBOS has announced its full-year profit of \$228.2m, up 21.3% from FY21, with revenue up 16.6%. The final dividend of 49cps was declared, taking the full year dividend to 96cps, up 8.5% from last year. EBOS reiterated its dividend policy of between 60% and 80% of NPAT.

Current Share Price: \$38.42, Consensus Target Price: \$40.92

Port of Tauranga (POT.NZ) – Full Year Profit Up 8.7%

Port of Tauranga announced its full year profit of \$111.3m, up 8.7% from FY21, with revenue of \$375.3m, up 10.9%. A final dividend of 8.2cps was declared, taking the full year dividend to 14.7cps, up 8.9% from FY21.

Current Share Price: \$6.90, Consensus Target Price: \$5.99

Sky TV (SKT.NZ) Full Year Adjusted Profit Up 12%

Sky announced its full year adjusted profit of \$49.2m, up 12% on FY21. The company has reinstated dividends at the lower end of the target 50%-80% of free cash flow payout, with a dividend of 7.3cps declared.

Current Share Price: \$2.57, Consensus Target Price: \$2.85