

# Yovich & Co. Market Update

4<sup>th</sup> September 2022

As at 2nd September	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11608.29	7345.80	3236.22	7427.31	32283.40	12141.71	0.8901	0.6137	3.00%
Week Close	11628.25	7056.31	3186.48	7281.19	31318.44	11630.86	0.8970	0.6112	3.00%
Change	0.17%	-3.94%	-1.54%	-1.97%	-2.99%	-4.21%	0.78%	-0.40%	0.00%

Last week Yovich & Co farewelled a long-standing and highly-valued team member. **MaryRose Bailey** was well known to most of our clients, having provided great service over a number of years. On Thursday we celebrated her very last day with us (with cocktails), as she heads into her very well-deserved retirement. MaryRose has been with Yovich & Co for 24 years, and has seen a lot of change in that time, as she recalls typing out share portfolios on her typewriter, and receiving contract notes via fax. We wish you a very happy and fun retirement MaryRose; enjoy being a grandmother and doing things on your own schedule.

To the markets, it was another week of pain for the US sharemarket, with the S&P500 index down 3.29%. After having recovered from the low in June, with a positive month of July, the US market has given up some of that recovery, down 4.24% during August. The trend continues from the previous week, where investors are expecting higher interest rates for longer, due to hawkish statements from Federal Reserve Chair Jerome Powell. The Australian and UK markets followed suit, with falls of 3.94% and 1.97% respectively during the week. The NZ market, by contrast, was flat, rising by 0.17%.

The NZD gained against the AUD, but still below 0.90, however was down further against the USD. The USD continues to strengthen, with the DXY index up again last week, now at 109.6. Commodity prices fell during the week, with the Dow Jones Commodity Index down 4.47%, and the price of iron ore falling heavily. Oil fell as well, with the Brent Crude oil price down 7.5% to \$93 per barrel.

Interest rates in NZ continued to increase, with the 2-year swap rate up 11bps to 4.31%, and the 5-year swap rate up 13bps to 4.16%. In the US, the 2-year Treasury yield was up 12bps to 3.50%, while the 10-year Treasury yield increased by 18bps to 3.26%.

According to ASB's latest quarterly economic forecast, NZ is probably just over halfway through one of the biggest drops in nominal house prices that the country has ever seen. Bank economists said house prices were expected to continue to fall until mid-next year and the official cash rate would peak at 4% by the end of the year before falling in 2024.

The biggest movers of the week ending 2 <sup>nd</sup> September 2022			
Up		Down	
A2 Milk	17.92%	Restaurant Brands	-5.85%
Serko	4.29%	Fonterra Shareholders' Fund	-5.50%
Pacific Edge	3.37%	Vista Group	-4.79%

## Market Highlight – Cleanaway Waste Management Share Purchase Plan

Cleanaway Waste Management is raising AUD\$400m of equity to finance a new acquisition and provide increased balance sheet capacity. AUD\$350m has been raised via a placement to institutional investors, and a further AUD\$50m is being sought from retail investors via a share purchase plan (SPP).

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### **What Do Cleanaway Waste Management Do?**

Cleanaway Waste Management is Australia's largest integrated waste management company, operating across a range of different industries and providing a range of waste-related services, including recycling, solid waste management, liquid and hazardous waste management, industrial services, and waste equipment manufacturing. With the trend towards recycling and reusing materials, Cleanaway's focus is on developing circular waste capabilities via its BluePrint 2030 strategy.

### **Acquisition of Global Renewables Holdings (GRL)**

In August, Cleanaway announced that it is acquiring GRL for AUD\$168.5m. GRL is a licensed composting facility that processes approximately 20% of Sydney's 'Red bin' household waste at its Eastern Creek site, and delivers approximately 30% landfill diversion and better carbon emission outcomes compared to landfill. The acquisition is a good fit with Cleanaway, as they are the exclusive provider of waste to the facility, and have deep existing relationships with surrounding councils. It also assists with the company's circular waste strategy. The GRL facility currently composts organics from 'Red bin' households, and will gradually transition to source separated food organics and garden organics (FOGO) feedstock.

### **Capital Raising**

Cleanaway is raising AUD\$400m of equity, which will result in surplus capital of AUD\$231.5m after the GRL acquisition is taken into account. This will immediately provide balance sheet support for further medium-term opportunities to deliver on the BluePrint 2030 strategy. The company has flagged AUD\$40m-\$45m of future capital expenditure requirements at GRL. The strategy also incorporates around AUD\$2b of investment into integrating and extending the company's network of infrastructure assets to provide high circularity, low carbon solutions, such as energy-to-waste projects.

### **Share Purchase Plan**

The AUD\$50m share purchase plan is now open, where shareholders in NZ and Australia can subscribe for up to AUD\$30,000 worth of new shares. The offer price will be the lower of:

- The placement offer price of AUD\$2.50; and
- The 5-day VWAP (volume weighted average price) of Cleanaway shares up to the closing date of 12<sup>th</sup> September.

### **Share Dilution**

Shareholders who do not take up the offer will see their shareholding diluted as a result of new shares being issued. The total equity raise represents 7.8% of Cleanaway's shares on issue. So, for investors to maintain their current ownership stake in Cleanaway, they would have to apply for 7.8% of their current investment in the SPP.

### **Why a Placement and Share Purchase Plan?**

Placements allow a company to raise capital quickly. Offers involving retail shareholders (e.g. entitlement offers and share purchase plans) can take weeks to conclude, while placements to institutional investors can be finalised in days. This however has the effect of diluting retail investors' shareholding.

A share purchase plan will typically follow an institutional placement, as it provides an opportunity for retail investors to invest further to maintain their percentage holding in the company following the dilutionary effect of the placement.

### **FY22 Results**

Cleanaway has announced its results for FY22, with underlying NPAT of \$145m, down 6.0% from FY21, despite net revenue increasing by 18.4%. Higher revenue was primarily driven by new customer contracts, recent acquisitions,

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pandemic related clinical waste, and higher commodity revenue. This was offset by higher fuel prices, and Covid-related impacts, floods, and labour availability.

The company declared a final dividend of 2.45cps, taking the full year dividend to 4.90cps, 6.5% higher than FY21.

## Investment News

### A2 Milk Company (ATM.NZ) – Full Year Profit Up 52% - Company Announces Share Buyback

A2 Milk had revenue growth of 19.8% for FY22, and EBITDA was up 59.0%. Adjusted NPAT was up 51.9% to \$122.5m. Due to the strong result, and the company's balance sheet, it has announced a share buyback of up to \$150m. A2 Milk has a positive outlook for FY23, forecasting high single digit revenue growth and EBITDA margin improvement.

**Current Share Price:** \$6.45, **Consensus Target Price:** \$6.67

### Restaurant Brands (RBD.NZ) – Half-Year Profit Down 55.7%

Restaurant Brands reported revenue of \$584.9m for 1H22, which is up 8.2% on pcp, assisted by 17 new stores and a stronger USD. Net profit of \$15.3m was down 55.7% on pcp however, due to inflationary pressures driving significant cost increases. The company forecasts FY22 NPAT of \$32m-\$37m.

**Current Share Price:** \$8.05, **Consensus Target Price:** \$10.68

### Kiwi Property Group (KPG.NZ) Moves to Quarterly Dividends

Kiwi Property Group has advised that it will begin paying dividends on a quarterly basis, with the next dividend to be paid on Wednesday 21<sup>st</sup> September. CEO Clive MacKenzie said this will assist investors by providing more frequent returns.

**Current Share Price:** \$1.00, **Consensus Target Price:** \$1.11

### Fisher & Paykel Healthcare (FPH.NZ) to Acquire Land in Karaka, Auckland

FPH has entered into a sale and purchase agreement to acquire a 105ha site in Karaka, Auckland for \$275m. The company will construct a second NZ campus on the site to complement its existing location at the Highbrook development in East Tamaki, Auckland. Their current site is nearing capacity, and the development of the new campus will occur over a 20-30 year period, with a focus on earthworks and core infrastructure over the next five years.

**Current Share Price:** \$19.79, **Consensus Target Price:** \$21.25