

Yovich & Co. Market Update

11th September 2022

As at 9th September	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11628.25	7056.31	3186.48	7281.19	31318.44	11630.86	0.8970	0.6112	3.00%
Week Close	11757.77	7138.99	3262.05	7351.07	32151.71	12112.31	0.8920	0.6105	3.00%
Change	1.11%	1.17%	2.37%	0.96%	2.66%	4.14%	-0.56%	-0.12%	0.00%

Global sharemarkets had a positive week, with the US market leading the way. The S&P500 index was up 3.65% during the week, ending a 3-week negative run. Other markets made gains also, with the NZ market up 1.11%, the Australian market up 1.17%, and the UK market up 0.96%.

The USD continues to be strong, with the DXY index remaining at elevated levels near its peak. The NZD was down against the USD, closing the week at 0.6105, and also down against the AUD, to 0.8920. Commodity prices were relatively flat last week, however iron ore was up 3%. Oil continued to fall last week, with the Brent Crude oil price down 1.08% to USD\$92.20 per barrel.

Both the European Central Bank and the Reserve Bank of Australia raised their cash rates during the week as expected. The ECB hiked rates by 0.75%, taking their cash rate from zero to 0.75%. Expectations are for the ECB to continue hiking over the next 12 months. The RBA raised its cash rate by a further 0.50%, taking it to 2.35%, the highest since January 2015. The RBA Governor however made comments to suggest that further rate hikes are likely to be at a slower pace, as the RBA has approached the neutral rate. Rate hikes from here are likely to be 25bp hikes.

US interest rates were relatively flat during the week, with the 2-year Treasury rate down 3bps to 3.47%, and the 10-year Treasury rate up 2bps to 3.28%. NZ interest rates however fell heavily, with the 2-year swap rate down 13bps to 4.19%, and the 10-year swap rate down 5bps to 4.11%.

The Grocery Supplier Cost Index, which measures the cost of more than 60,000 grocery products supplied to the Foodstuffs co-operative showed the cost of groceries from suppliers rose at an annual pace of 8.7% in August.

The biggest movers of the week ending 9 th September 2022			
Up		Down	
Pacific Edge	8.70%	Vista Group	-10.61%
Fonterra Shareholders' Fund	7.19%	A2 Milk Company	-3.57%
Scales Corporation	4.54%	KMD Brands	-2.80%

Market Highlight – Spark NZ

Spark's share price has had a very good run on the NZX in recent weeks, increasing by 6.25% during July, and a further 6.27% during August. In the 2022 year to date, Spark's share price has risen by 21%. The chart below tracks the share price over the last 5 years, showing a general upwards trend, plus a recent upwards spike.



Spark has managed this share price growth in a year where we have seen a downwards correction in global share prices, as a result of interest rates trending upwards for the first time in years due to rising inflation. Moreover, high dividend yielding stocks such as Spark are particularly vulnerable to interest rate rises, as the dividend has less relative appeal as interest rates increase. So what has Spark done differently?

FY22 Results and FY23 Guidance

Spark's FY22 results saw net profit increase by 7.6% on FY21, and EBITDA was up by 2.8%. The dividend was flat on FY21, however the dividend has increased from 2019 and 2020, at the same time as many companies chose to cut dividends during the pandemic. Guidance for FY23 implies growth in EBITDA of almost 5%, and an increase in the dividend from 25cps to 27cps (8% increase).

With a sustainable high dividend yield with modest growth in a defensive industry, investing in Spark is attractive given the volatility of returns from the market in general.

Capital Management Policy Update and Share Buyback

In July, Spark announced the sale of 70% of TowerCo (comprising 1,263 tower sites) for net cash proceeds of \$900m. The company has now announced that it will use \$350m of the proceeds to return to shareholders via a share buyback. A further \$350m is earmarked for future growth investment, and the remaining \$200m will be retained to offset the TowerCo lease liability. This sale frees up capital for Spark to continue investing for growth while maintaining an investment grade credit rating. Spark has reiterated its intention to maintain a gearing ratio over the long-run of unadjusted net interest-bearing debt to EBITDA of not greater than 1.4 times, which is considered consistent with an A-rating.

With capital available for continued investment into growth opportunities, particularly infrastructure investment, Spark is well placed for continued growth in a highly competitive market where organic growth is difficult to achieve.

At the current price, Spark is trading at a Price to Earnings (PE) ratio of 24.3x FY23 earnings, and the forecast gross dividend yield is 6.4%.

Investment News

Kiwi Property Group (KPG.NZ) Secures Conditional Northlands Sale

As part of its strategy to focus on the development of mixed-use town centres, Kiwi Property has secured a conditional agreement to sell Northlands Shopping Centre in Christchurch for \$160m, which represents a property level internal rate of return of 10.9% since inception. The proceeds of the sale will be used to fund the company's mixed-use development pipeline and provide further balance sheet flexibility.

Current Share Price: \$1.01, **Consensus Target Price:** \$1.11

Heartland Group Holdings (HGH.NZ) Completes Share Purchase Plan Offer

Heartland has successfully completed its share purchase plan (SPP), receiving applications totalling approximately \$68.8m, against a target total SPP offer size of up to \$70m. The new shares under the SPP will be issued at a price of \$1.7674, being a 2.5% discount to the 5-day VWAP.

Current Share Price: \$1.83, **Consensus Target Price:** \$2.22

Fonterra (FCG.NZ) Boosts 2023 Guidance on Strong Dairy Demand

Fonterra has raised its 2023 earnings guidance to 45-60cpa, citing strong demand for dairy. The co-op had previously forecast earnings of 30-45cps for the year. The company has seen improved prices and higher margins, particularly in cheese and protein products such as casein.

Current Share Price (FSF.NZ): \$3.13, **Consensus Target Price:** \$3.50