

Yovich & Co. Market Update

26th September 2022

As at 23rd September	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11580.46	6975.19	3126.40	7236.68	30822.42	11448.40	0.8917	0.5986	3.00%
Week Close	11434.82	6788.72	3088.37	7018.60	29590.41	10867.93	0.8797	0.5742	3.00%
Change	-1.26%	-2.67%	-1.22%	-3.01%	-4.00%	-5.07%	-1.34%	-4.07%	0.00%

Last week was eventful and volatile for equity and foreign exchange markets. The Federal Reserve in the US hiked the upper bound of the Fed Funds Rate by another 0.75%, taking it to 3.25%, compared to 0.25% just half a year ago. The Fed released its economic projections, signalling continued sharp interest rate rises. The US share market declined, with the S&P 500 index down 4.65%, and the NASDAQ down a hefty 5.07%.

In the UK, the Bank of England also increased interest rates, raising the policy rate by 0.50%, taking it to 2.25%. Inflation is still rampant in the UK, and the market predicts continued aggressive rate hikes. At the same time, the UK government under new Prime Minister Liz Truss has released its mini-budget, which includes drastic tax cuts, which will pour more fuel on the inflation fire. Markets have responded with higher long-term interest rates, due to the expectation of further tightening to control inflation, and a falling GBP against other currencies, especially against the USD which continues to strengthen. The UK share market fell 3.01% during the week.

Amongst the global volatility, the NZ market fared reasonably well, dropping just 1.26% over the week. With increased nervous sentiment globally, investors flocked to the safety of the US dollar, pushing up the DXY index further still, which was up 3.13% last week. The NZD is now at US\$0.5742 against the USD.

Market interest rates continued to rise, with the NZ 2-year swap rate up 13bps to 4.62% and the 5-year rate up 16bps to 4.42%. In the US, the 2-year Treasury rate rose by 26bps to 4.16%, and the 10-year rate was up 25bps to 3.71%. Commodity prices declined, with the Dow Jones Commodity Index down 3.36%, and oil continued to fall, with the price of Brent Crude down 5.4% to US\$86.

The biggest movers of the week ending 23 rd September 2022			
Up		Down	
Air New Zealand	5.04%	Serko	-9.07%
Scales Corporation	4.17%	EROAD	-6.29%
KMD Brands	2.91%	Pacific Edge	-5.88%

Market Highlight – Atlas Arteria Entitlement Offer

Atlas Arteria is conducting a pro-rata accelerated non-renounceable entitlement offer, whereby eligible investors can apply for 1 new share for every 1.95 shares held, at an offer price of AUD\$6.30 per share. The company is raising equity of approximately AUD\$3.098b to fund its acquisition of 66.67% in the Chicago Skyway Toll Bridge.

What Do Atlas Arteria Do?

Atlas Arteria is a global owner, operator, and developer of toll roads. The company currently consists of four businesses: Interest in two toll roads in the east and south-east of France, comprising a 2,406km motorway network; 100% economic

interest in the Dulles Greenway, a 22km toll road in Virginia, USA; and 100% ownership of the Warnow Tunnel in Rostock, in north-east Germany.

Acquisition of the Chicago Skyway

Built by the City of Chicago in 1958, the Chicago Skyway is a 12.5km toll road that boasts a 2.4km-long steel truss bridge, known as the 'High Bridge'. In 2005, the City of Chicago leased the operation of the Skyway to Skyway Concession Company under a 99-year operating lease. This marked the first privatisation of an existing toll road in the US.

On 13th September, Atlas Arteria entered into an agreement to acquire a 66.67% interest in the Skyway, representing an equity value of USD\$2.013b (AUD\$2.945b), to be funded by an equity capital raising. The deal establishes a partnership with the Ontario Teachers' Pension Plan, which is retaining its 33.33% interest. Ontario Teachers' is a Canadian public pension fund founded in 1990, with over C\$240b in net assets, and investments in over 50 countries.

Atlas Arteria's CEO has said that the acquisition marks an important milestone in the execution of their strategy, and extending the average concession life of the company's portfolio, as the lease has 81 years remaining. While providing diversification to the company's portfolio, it provides a link to inflation, and upside exposure to US economic growth.

Entitlement Offer

Atlas Arteria is raising AUD\$3.098b via a 1 for 1.95 entitlement offer, which will result in the issue of approximately 491.8m new shares, representing 51.3% of existing shares on issue. The offer price is AUD\$6.30 per new share, which reflects a 12.1% discount to the distribution-adjusted TERP (theoretical ex-rights price) of AUD\$7.17, and a 17.2% discount to the distribution-adjusted closing price on 12th September of AUD\$7.61 before the announcement of the equity raising.

The entitlement offer is made up of an institutional component and a retail component. The institutional component has been completed, which raised approximately AUD\$2.5b. The retail component is expected to raise approximately AUD\$550m. Retail investors can now choose to either:

- Take up some or all of your entitlement at the offer price of AUD\$6.30 per share; or
- Do nothing and let your entitlement lapse.

As the offer is non-renounceable, you cannot sell your entitlements. If you do not participate in the offer, your shareholding will be diluted, and you will not receive any value for your entitlement. Those investors that take up all of their entitlement may also apply for additional shares under the oversubscription facility.

Half-Year Performance

Toll revenue is up 25% compared to the first half of 2021, and net profit is up 108%. This reflects higher traffic and increased toll rates.

Investment News

KMD Brands (KMD.NZ) – Net Profit Down 33.7%

KMD Brands, which owns the Rip Curl, Kathmandu, and Oboz Footwear clothing brands, reported their FY22 results to the end of July. Sales were actually up on FY21 by 6.2%, and gross profit up by 6.5%, however operating expenses were also up by 12.2%, due to higher wage and rent costs, and supporting teams during significant periods of COVID-related store closures, particularly in Q1. This meant that net profit after tax was down by 33.7%. Despite this, the company

increased their full-year dividend by 20%; the final dividend is 3cps, taking the full-year dividend to 6cps, up from 5cps in FY21.

Current Share Price: \$1.06, Consensus Target Price: \$1.42

Air New Zealand (AIR.NZ) Provides Half-Year Earnings Guidance for FY23

Air NZ reports strong forward sales so far this financial year, particularly for travel through to January 2023. Based on the continuation of sales at the current rate, the company expects earnings for the first half of FY23 to be in the range of \$200m-\$275m.

Current Share Price: \$0.73, Consensus Target Price: \$0.75

Fonterra (FSF.NZ) – Normalised Net Profit Up 0.5%

Fonterra have announced their results for FY22 to 31st July. Normalised net profit was up \$3m to \$591m, and gross profit was up 7%. The main driver of the performance was from the ingredients channel due to stronger underlying demand, resulting in higher product prices and higher margins. The full-year dividend is unchanged from FY21 at 20cps.

Current Share Price: \$3.40, Consensus Target Price: \$3.54

Goodman Property Trust (GMT.NZ) Commits to \$221.4m of New Development Projects

GMT has secured new development commitments from existing customers Mainfreight and Cotton On, at the Trust's Savill Link and Roma Road Estates. Along with two smaller projects, the package of four new projects has a combined net lettable area of almost 50,000sqm and a total project cost of \$221.4m. This takes the total development workbook to \$635.7m of projects underway, driven by a constrained leasing market and growing digital economy. Around 93% of the almost 150,000sqm development space is pre-committed, with an average lease term of over 13.5 years, and an expected annual rental of \$31.4m once complete.

Current Share Price: \$2.12, Consensus Target Price: \$2.12

Tourism Holdings (THL.NZ) – NZ Commerce Commission Grants Clearance to Merge with ATL

The NZ Commerce Commission has provided clearance for THL to merge with Apollo Tourism and Leisure Ltd (ATL), subject to an undertaking by THL and ATL to divest certain ATL assets in NZ. NZCC has confirmed that the sale of the NZ assets to Jucy is an acceptable remedy that addresses its competition concerns. THL and ATL have entered into an agreement to sell certain ATL assets to Jucy Group for an indicative purchase price of approximately \$45m. The merger remains subject to clearance from the Australian Competition and Consumer Commission and the Australian Foreign Investment Review Board.

Current Share Price: \$2.75, Consensus Target Price: \$4.19

Vulcan Steel (VSL.NZ) – Net Profit Up 119%

Vulcan Steel's underlying net profit for FY22, \$142m, was up 119% from FY21. Revenue of \$973m was up 33% on last year, and gross margin was 40% compared with 37% in FY21. In July 2022, VSL bought Ullrich Aluminium, one of Australasia's major aluminium product distributors, to continue the company's growth strategy. The final dividend is 37.5cps, taking the full-year dividend to 65.0cps, which represents approximately a 60% payout ratio.

Current Share Price: \$8.20, Consensus Target Price: \$9.15

Contact Energy (CEN.NZ) – Launches New Green Bond

Contact is launching a new green bond to raise up to \$200m. The bonds will be for a term of 5.5 years, with an indicative interest rate of approximately 5.85%-6.00%, and a minimum interest rate of 5.45%pa. The proceeds of the issue will be used by Contact for the financing and refinancing of renewable generation assets.

Current Share Price: \$7.82, Consensus Target Price: \$8.87

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