

Yovich & Co. Market Update

17 December 2018
Investment News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Current Level	8722.51	5678.82	2593.74	6845.17	24100.51	6910.66	0.9473	0.6796	1.75%
January 2018	8455.55	6229.72	3391.75	7724.22	25295.87	7136.56	0.9116	0.7168	1.75%
Change	3.16%	-8.84%	-23.53%	-11.38%	-4.73%	-3.17%	3.91%	-5.19%	0.00%

From all of us at Yovich & Co. we wish you a Merry Christmas and a prosperous New Year. The office will be closed from 4.30pm 21 December and will reopen 7 January. Below is a summary of the year in review:

New Zealand Equities

In summary, the NZX50G is up against the major indices that we track, as trade discussions between USA and China wiped off the gains during the last quarter of the year. With the US Federal Reserve increasing interest rates, and increasing Treasury bond yields also contributing to the sell off.

The NZD vs AUD has appreciated over the last few months which is good timing for New Zealanders heading across the ditch for Christmas and the New Year.

It has been a rollercoaster ride over the past 12 months with the NZ market reaching a high on 21 September, up 9.82% from the beginning of the year. Since the high in September, geo-political risks have caused market volatility. The NZX50G is currently down 7.50% from its high while still up 3.16% for the year.

It has now been over a year since Labour, New Zealand First and the Greens have been in power. The country has seen new political themes ranging from:

- Rebuilding critical public services.
- Promoting economic development and supporting the regions.
- Action on child poverty, housing and the homelessness.
- Enhancing and protecting our natural resources.
- Enriching New Zealand's culture and identity.

These themes have seen changes to:

- The non-renewable energy sector and encouraged industry to focus on renewable energy resources.
- The agriculture sector has been hit by the Mycoplasma Bovis outbreak. The planned programme to eradicate the disease will see an estimated 120,000 cattle culled.
- The one billion tree planting programme is well underway with over 60 million trees planted.
- Current unemployment is tracking lower than projected at 3.9% a -0.5% change since June quarter.
- GDP was up 1% in the June quarter following a 0.5% increase in the March quarter.

Year in Review - Market Themes

Facebook, Amazon, Apple, Netflix and Google known as the FAANGs are the five biggest companies in the Tech sector on the S&P 500. These companies have had a volatile year with share prices off their highs from August.

Company	6 months rolling %	Year Rolling %
Facebook (FB.nas)	-22.19	21.85
Amazon (AMZN.nas)	-11.37	28.98
Apple (AAPL.nas)	-13.19	-5.77
Netflix (NFLX.nas)	-32.96	38.23
Google (GOOGL.nas)	-11.53	-4.32

Brexit: On 29 March 2017 the UK government announced that it will leave the European Union. With the leaving date of 29 March 2019 looming, there is currently no deal between the UK and the EU that UK MPs can agree upon. As the

current deal does not benefit the UK in terms of trade, this is causing unrest in the political arena. Leaving with “no deal” will result in the UK reverting to the WTO rules once it exits. Theresa May has announced that the Parliaments decision to either accept or reject the deal will be announced 14 January 2019.

The NZ upward movers for the year are:

- Ebos up 18.41%. This was helped by winning the contract to supply and distribute pharmaceutical products to the Chemist Warehouse and My Chemist stores. The share price after this agreement rose from \$17.95 to \$20.80, and is currently trading at \$21.00.
- A2 Milk up 30.73%. The company has expanded its US business to the North East region. Established a comprehensive strategic relationship with Fonterra, and increased its shareholding in Synlait Milk by 8.3%.
- Goodman Property Trust up 18.85%, had tax paid profit of \$59.3m, an increase of 50.1%. Their loan to value ratio of 17.5% is the lowest amongst its peers.

This year has seen a number of takeover announcements:

- Tegel Group Holdings delisted due to a 100% takeover at a price of \$1.23 per share, from a Philippine poultry company Bounty Fesh Foods.
- Restaurant Brands proposed acquisition offer from Finaccess Capital, S.A. de C.V of up to 75% of shares at \$9.45 per share. This saw the share price increase from \$7.60 to \$8.67 and is currently trading at \$8.35.
- Methven entered into a Scheme Implementations Agreement with GWA, an Australian supplier of building fixtures and fittings to household, and commercial premises. The offer price is \$1.60 per share and has seen a material increase of 43% on Methven’s share price.
- Trade Me has had a 100% takeover acquisition offer from Apax at \$6.45 per share. This saw the share price increase from \$5.10 to \$5.97 and now trading at \$6.31.

With the OCR remaining at record lows of 1.75%, a large amount of maturing bonds and the lack of new issues, it has been difficult for investors to achieve acceptable return on defensive assets.

The review from the Royal Commission of the Australian banks in August saw the four Australian Banks (NAB, WBC, ANZ and CBA) shred their share prices. Our preferred banks are NAB and WBC. NAB’s gross yield is expected to be 8.4% at the current price of A\$23.55 and WBC’s gross yield is expected to be 7.6% at the current price of A\$24.65.

Napier Port announced on 19 December that 33% to 45% of the port is to be publicly listed. Any final decisions on a share offer will be made in the New Year following the completion of more detailed work.

High Yielding shares	Price	Div Yield	Dividends Payable
Air NZ	3.18	9.5%	March & September
AWF Maddison	1.66	13.3%	July & November
Colonial Motor	7.85	8.6%	April & October
Contact Energy	5.89	7.5%	April & September
Genesis	2.57	8.5%	April & October
Hallenstein Glasson	4.18	14.6%	April & December
Mercury	3.61	5.8%	April & September
Methven	1.52	5.3%	March & September
NZX	0.99	10.1%	September & March
PGG Wrightson	0.49	8.3%	April & October
Sky City	3.45	8%	March & September
Sky TV	2.11	9.7%	March & September
Spark	4.21	7.6%	April & October
Telstra	3.02	7.9%	March & September
Warehouse	2.03	10.8%	April & December
Trust Power	6.16	7.6%	June & December