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Yovich & Co WEALTH MANAGEMENT

# Yovich & Co. Weekly Market Update

**23rd September 2024**

## Market News

| | NZX 50G | All Ords | Shanghai | FTSE | Dow | NASDAQ | NZDAUD | NZDUSD | OCR |
|---|---|---|---|---|---|---|---|---|---|
| **Previous Week 13thSeptember** | 12832.55 | 8323.53 | 2704.09 | 8273.09 | 41393.78 | 17683.98 | 0.9185 | 0.6152 | 5.25% |
| **Week Close 20th September** | 12478.50 | 8437.22 | 2736.81 | 8229.99 | 42063.36 | 17948.32 | 0.9163 | 0.6238 | 5.25% |
| **Change** | -2.76% | 1.37% | 1.21% | -0.52% | 1.62% | 1.49% | -0.24% | 1.40% | 0.00% |

The NZX 50 index saw a notable decline of 2.76% over the week, including a sharp 1.47% drop on Friday, primarily driven by significant index rebalancing. This rebalancing affected multiple indices, including the NZX, Australian ASX, FTSE Russell, and VanEck ETFs, with the NZX 50 closing at 12,478.50—one of the more substantial declines among global markets. Meanwhile, the release of GDP data for the June 2024 quarter revealed a 0.2% contraction, closely aligning with economists' expectations.

The Australian All Ordinaries index climbed 1.37% to 8,437.22, due to stronger commodity prices and positive market sentiment. The mining and resources sector, particularly companies like BHP, benefitted from rising demand for commodities, boosting the materials sector by 2.31%. While the ASX indices underwent rebalancing, they weren't hit as hard as the New Zealand's indices.

China's Shanghai Composite saw a 1.21% gain, closing at 2,736.81, despite lingering concerns about its economic growth. The People's Bank of China left key interest rates unchanged, signalling the need for additional stimulus measures to hit the government's 5% GDP growth target, especially with industrial production and retail sales missing expectations.

The Dow Jones Industrial Average rose by 1.62% to 42,063.36. The NASDAQ also rose by 1.49%, reflecting optimism that the U.S. economy may achieve a soft landing. The market responded well to the Federal Reserve's decision to cut interest rates by 50 basis points. This cut helped ease concerns about the possibility of a recession in the U.S., which was further supported by improving retail sales data.

## Weekly Market Movers

| The biggest movers of the Week ending 20th September 2024 | | | | |
|---|---|---|---|---|
| **Up** | | | **Down** | |
| Turners Automotive Group | 5.14% | | Argosy Property | -9.91% |
| The Warehouse Group | 4.88% | | Vista Group International | -9.36% |
| Fletcher Building | 4.71% | | Skellerup Holdings | -8.98% |
| Westpac Bank | 4.48% | | Freightways | -7.63% |
| Ebos Group | 2.45% | | NZX | -6.67% |

Source: Iress

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## Investment News

### Synlait Milk:

Synlait Milk has narrowly avoided receivership following a crucial meeting in Canterbury, where the company secured a $218 million cash injection from its largest shareholders, Bright Dairy and A2 Milk. This deal boosts Bright Dairy's ownership stake to 65%. The investment was overwhelmingly approved, with over 95% of shareholders in Favor, though it significantly reduces the holdings of minority shareholders from 41% to 15%.

**Current Share Price:** $0.41 **Consensus Target Price:** $0.44, **Consensus Forecast Dividend Yield:** 0.00%, **Total Return:** 7.32%

### Ryman Healthcare:

Ryman Healthcare, New Zealand's largest retirement and aged care provider, has appointed a new Chief Executive Officer following a five-month search. Naomi James, the former CEO of Marsden Point Refinery, Channel Infrastructure, will take on the role. Prior to this, she held senior operational and strategic positions at ASX-listed companies Santos and Arrium.

**Current Share Price:** $4.30 **Consensus Target Price:** $6.25, **Consensus Forecast Dividend Yield:** 0.00%, **Total Return:** 45.35%

### Contact/Manawa Energy:

Contact Energy is set to acquire Manawa Energy in a $2.3 billion merger, resulting in Manawa Energy shareholders owning approximately 18.5% of Contact. The acquisition will be financed through a mix of cash and shares, valuing Manawa at $5.85 per share—a significant premium over its current trading price of $5.05. This deal would greatly enhance Contact’s power generation capacity, as Manawa’s assets are primarily hydroelectric. Following the transaction, Infratil will also hold a 9.5% stake in Contact Energy.

Contact Energy - **Current Share Price:** $7.97 **Consensus Target Price:** $10.16, **Consensus Forecast Dividend Yield:** 6.6%, **Total Return:** 34.1%

### Fletcher Building:

Fletcher Building has announced a $700 million capital raise to reduce its debt and enhance financial stability amid challenging market conditions. The first phase of this raise targets institutional investors and current shareholders for $282 Million. This first phase closes today, Monday the 23rd of September. The shares are priced at NZ$2.40 each, a discount from Fletcher’s current share price of NZ$2.89. The second phase will be $418 million and is aimed at retail investors. The capital raise will close on the 8th of October 2024 and if existing investors do not participate in the capital raise, their shares will be diluted. The capital will be used to reduce Fletcher’s debt from $1.8 billion to $1.1 billion, strengthening its balance sheet and improving financial flexibility. This move is seen as proactive, enabling the company to better weather the downturn in the construction and residential sectors across New Zealand and Australia.

**Current Share Price:** $2.89 **Consensus Target Price:** $3.23 **Consensus Forecast Dividend Yield:** 0.00%, **Total Return:** 11.8%

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## Barramundi:

Barramundi is offering warrants priced at $0.63, with a final exercise date of October 25, 2024. The current share price stands at $0.67, providing warrant holders an opportunity to purchase shares at a slight discount before the expiration (this may change as we head closer to the warrant exercise date).

## Spotlight on the Banking Sector: A Comparative Look at New Zealand and Australia's Leading Banks

The banking sector plays a critical role in the economies of New Zealand and Australia, with major players like ANZ Banking Group, Westpac, Commonwealth Bank, Heartland Group, Macquarie Group, and National Australia Bank dominating the market. Each bank has its own strengths, with some focusing on retail banking and others expanding into investment banking or niche financial services.

However, analysts and insights reveal that the sector currently appears to be overpriced, with several of these major bank's trading at a premium to their target prices. In contrast, Heartland Group stands out as an exception, trading at a discount to its target price and offering higher total return potential, making it a potentially attractive option in the current market. Below are insights into how these banks are positioned, their recent performance, and how they compare in terms of growth, earnings, and sector trends.

### Key Metrics Comparison: Forecasts for Major Banking Institutions

As at Monday, 23 September 2024

| Security Code | Name | Industry | Current Price | Target Price | Target Price Discount / (Premium) | Historical Dividend Yield | Forecast Gross Dividend Yield | Forecast Gross Dividend Yield 2 | Forecast Gross Dividend Yield 3 | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|
| ANZ.ASX | ANZ Group Holdings Limited | Financials | $ 31.74 | $ 28.56 | -10.02% | 5.6% | 5.2% | 5.3% | 5.4% | -4.8% |
| HGH.NZ | Heartland Group Holdings Limited | Financials | $ 1.03 | $ 1.31 | 27.18% | 9.4% | 8.5% | 10.3% | 11.9% | 35.7% |
| WBC.ASX | Westpac Banking Corporation | Financials | $ 33.64 | $ 26.89 | -20.05% | 4.8% | 5.0% | 4.7% | 4.6% | -15.0% |
| CBA.ASX | Commonwealth Bank of Australia | Financials | $ 142.50 | $ 99.23 | -30.36% | 3.5% | 3.3% | 3.4% | 3.5% | -27.0% |
| MQG.ASX | Macquarie Group Limited | Financials | $ 231.61 | $ 202.49 | -12.57% | 2.8% | 3.0% | 3.3% | 3.5% | -9.5% |
| NAB.ASX | National Australia Bank Limited | Financials | $ 39.68 | $ 32.98 | -16.89% | 4.2% | 4.2% | 4.3% | 4.4% | -12.6% |

**1. ANZ Banking Group (ANZ.AX, ANZ.NZ)**

Overview: ANZ Banking Group is a major player in both New Zealand and Australia, offering services across retail and corporate banking. The bank has been focusing on digital innovation and expanding its presence in Asia.

Recent Performance: ANZ recently reported a 4% increase in cash profit for FY24, driven by higher interest rates and robust loan growth in both countries. However, rising funding costs and a potential cooling housing market pose risks.

Outlook: Currently, ANZ is trading at a 10.02% premium to its target price of $28.56, indicating it may be overvalued based on analyst projections. Despite this, its strong dividend yield of 5.4% remains attractive to income-focused investors, though its total return prospects are projected at -4.8%, suggesting limited near-term growth potential.

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**2. Heartland Group Holdings (HGH.NZ)**

Overview: Heartland Group Holdings, primarily operating in niche financial services across New Zealand and Australia, is known for its specialty in reverse mortgages and motor vehicle financing. Despite broader economic challenges, Heartland continues to capture strong demand for its reverse mortgage product, positioning itself for sustained growth.

Recent Performance: Heartland has seen strong demand for its reverse mortgage product, with a significant increase in net interest income. However, rising interest rates have squeezed margins, and the bank is investing heavily in digital transformation to reduce costs.

Outlook: The stock is trading at $1.03 with a target price of $1.31, representing an upside potential of 27.18%. Heartland has a robust historical dividend yield of 9.4%, reflecting the company's commitment to providing shareholder returns. Analysts remain positive about Heartland's continued focus on digital transformation and its ability to leverage niche markets.

**3. Westpac Banking Corporation (WBC.ASX, WBC.NZ)**

Overview: Westpac is one of Australia's largest banks, with significant operations in New Zealand. It has a strong presence in retail and business banking.

Recent Performance: Westpac has faced pressure from higher funding costs and regulatory scrutiny. The bank reported a modest increase in net profit for FY24, but ongoing restructuring efforts and cost-cutting initiatives are seen as crucial to its future performance.

Outlook: Westpac is trading at a 20.05% premium to its consensus target price of $26.89, indicating it is also overvalued. With a forecasted gross dividend yield of 4.6%, Westpac offers solid income potential, but its total return projection of -15% highlights the bank's current challenges in delivering capital growth.

**4. Commonwealth Bank of Australia (CBA.ASX)**

Overview: Commonwealth Bank is Australia's largest bank by market capitalisation and has a strong retail banking presence. CBA acquired ASB in 1989.

Recent Performance: CBA posted record earnings in FY24, benefiting from rising interest margins. However, the bank has warned of slowing loan growth due to increasing economic uncertainty.

Outlook: Commonwealth Bank of Australia (CBA.AX) is currently trading at a 30.36% premium to its consensus target price of $99.23, suggesting that the stock is overvalued in the current market. With a forecasted gross dividend yield starting at 3.3% and gradually increasing to 3.5% over the next three years, CBA provides a stable income stream. However, its total return is projected at -27.0%, reflecting concerns about capital growth potential given the stock's high valuation and potential market headwinds.

**5. Macquarie Group Ltd (MQG.AX)**
Overview: Macquarie is not a traditional retail bank but rather an investment bank, focusing heavily on asset management and infrastructure investments.

Recent Performance: Macquarie has continued its strong performance, with significant growth in its commodities and global markets division. The group has also benefited from its investments in renewable energy and data infrastructure.

Outlook: Trading at a 12.57% premium to its target price of $202.49, Macquarie's valuation reflects investor confidence in its future growth. Despite its premium valuation, Macquarie offers a forecasted gross dividend yield of 3.5%, supported by its strong performance in renewable energy and infrastructure projects. However, its total return projection stands at -9.5%, signalling cautious near-term prospects.

**6. National Australia Bank (NAB.ASX)**
Overview: NAB focuses on commercial and retail banking, with a large presence in both Australia and New Zealand. NAB acquired BNZ in 1992, and it has operated as a fully owned subsidiary of NAB since then.

Recent Performance: NAB's recent results were buoyed by strong growth in its business banking segment, although rising costs and regulatory pressures have impacted overall profitability.

Outlook: National Australia Bank (NAB) is currently trading at a 16.89% premium to its consensus target price of $32.98, indicating it may be overvalued. The bank offers a steady income stream with a historical dividend yield of 4.2%, rising to a forecast gross dividend yield of 4.4%. However, despite its solid income potential, the total return projection of -12.6% signals concerns over capital growth in the near term.

**Wrap Up**

In summary, the banking sector in New Zealand and Australia faces a challenging valuation landscape. Major players like ANZ, Westpac, Commonwealth Bank, and National Australia Bank are trading at significant premiums to their consensus target prices, reflecting potential overvaluation concerns. Despite attractive dividend yields, these banks are projecting negative total returns, highlighting limited growth prospects in the near term.

However, Heartland Group emerges as our preferred investment, trading at a discount with a potential upside of 27.18% and a strong total return forecast of 35.7%. Heartland's focus on niche markets such as reverse mortgages and motor vehicle financing, coupled with its robust dividend yield of 9.4%, makes it a standout choice in the sector. The bank's ongoing digital transformation efforts also position it well for future growth, ensuring operational efficiency and cost management in a competitive market.

While the broader sector faces headwinds, opportunities for strategic investment exist, particularly in banks like Heartland, which have demonstrated resilience and niche market strengths.

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Upcoming Dividends: 24th September to 24th October.

| Description | Security | ExDivDate | BooksClose | Gross Dividend Amount | Pay Date |
|---|---|---|---|---|---|
| BRISCOE | BGP | 24-Sep-24 | 25-Sep-24 | 17.36 cps | 9-Oct-24 |
| GENESIS ENERGY | GNE | 25-Sep-24 | 26-Sep-24 | 9.72 cps | 11-Oct-24 |
| COLMOTOR | CMO | 26-Sep-24 | 27-Sep-24 | 27.78 cps | 7-Oct-24 |
| VULCAN STEEL | VSL | 26-Sep-24 | 27-Sep-24 | 13.4 cps | 10-Oct-24 |
| DELEGATS | DGL | 03-Oct-24 | 04-Oct-24 | 27.78 cps | 18-Oct-24 |
| SKELLERUP | SKL | 03-Oct-24 | 04-Oct-24 | 18.51 cps | 18-Oct-24 |
| SOUTHPORT | SPN | 24-Oct-24 | 25-Oct-24 | 27.08 cps | 08-Nov-24 |

Source: Iress

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