

# Yovich & Co. Weekly Market Update

30<sup>th</sup> September 2024

## Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 20 <sup>th</sup> September	12478.50	8437.22	2736.81	8229.99	42063.36	17948.32	0.9163	0.6238	5.25%
Week Close 27 <sup>th</sup> September	12457.41	8476.77	3087.53	8320.76	42313.00	18119.59	0.9186	0.6340	5.25%
<b>Change</b>	-0.17%	0.47%	12.81%	1.10%	0.59%	0.95%	0.25%	1.64%	0.00%

The NZX 50 index experienced a minor decline of 0.17%, closing the week at 12,457.41, slightly down from 12,478.50 the previous week. The Index was generally flat for the week but saw quite a lot of trading on Friday, with A2 Milks share price climbing over 10% before entering a trading halt. The ANZ Consumer confidence index rose 3 points to 95.1 which is at its highest level since January 2022. This lift was driven by expectations of the future.

The All-Ordinaries index in Australia rose by 0.47%, ending the week at 8,476.77, up from 8,437.22.

The standout performer of the week was the Shanghai Composite Index, which surged by 12.81% to reach 3,087.53, a sharp jump from 2,736.81 the week before. The rally was driven by renewed optimism regarding stimulus measures by the Chinese government, including cuts to its benchmark interest rate as the world's second largest economy battles a slowdown. The Peoples Bank of China also announced government funding to boost the stock market, and aid share buybacks as well as further support for the property sector.

The FTSE 100 index climbed 1.10%, closing at 8,320.76, up from the previous 8,229.99. The index responded positively to favourable news from China, which boosted the mining sector—led by Anglo American, Antofagasta, and Glencore, with gains ranging from 4% to 7%. The luxury retail sector also saw strong performance, with Burberry and Watches of Switzerland surging 8.7% and 11.1%, respectively. However, the energy sector experienced some pressure as crude oil prices declined.

The Dow Jones increased by 0.59%, ending the week at 42,313.00. The gains were relatively muted compared to other markets but reflected optimism regarding ongoing resilience in the U.S. economy. The NASDAQ climbed by 0.95%, reaching 18,119.59. Tech stocks were buoyed by a combination of easing bond yields and continued expectations that the Federal Reserve may adopt a more dovish stance moving forward, especially if inflation continues to show signs of moderating.

## Weekly Market Movers

The biggest movers of the Week ending 27 <sup>th</sup> September 2024			
Up		Down	
The a2 Milk Company	16.07%	The Warehouse Group	-6.98%
Fonterra Shareholders' Fund	9.23%	Tourism Holdings	-6.32%
Port of Tauranga	7.88%	Goodman Property Trust	-6.18%
Mercury NZ	5.18%	Spark	-5.79%
Auckland International Airport	4.83%	Genesis Energy	-5.56%

Source: Iress

## Investment News

### A2 Milk Limited

A2 Milk saw a significant rally of over 16% last week, driven by the prospect of a potential acquisition and positive economic news from China, which remains A2 Milk's largest market for infant formula. The company has since entered a trading halt on both the NZX and ASX in anticipation of the acquisition. Trading is expected to resume on Tuesday, October 1<sup>st</sup>.

**Current Share Price: \$6.79 Consensus Target Price: \$6.88, Consensus Forecast Dividend Yield: 0.00%, Total Return: 1.3%**

### Synlait Milk Bond: SML010 – Early call

Synlait plans to pause trading of these bonds for 10 working days to allow current bondholders the option of early redemption. If you wish to redeem your bonds early, they will be redeemed on November 13<sup>th</sup> instead of the original maturity date of December 17<sup>th</sup>. You have until Wednesday, October 15<sup>th</sup> to decide, and trading will resume from Wednesday 16<sup>th</sup> of October. If you do not opt for early redemption, the bonds will remain until the maturity date. The assumed redemption price will be \$1.00 per bond plus any accrued interest. If \$50 million or less of the \$180 Million SML010 Bonds remain on the market from October 15<sup>th</sup>, then Synlait have the option of redeeming all outstanding bonds.

### The Warehouse Group

The Warehouse Group has reported one its largest losses in its 42-year history, posting a net loss of \$54.2 million compared to a \$29.8 million profit just a year earlier. The company, which owns The Warehouse, Warehouse Stationery, and Noel Leeming, stated that its financial performance was significantly impacted by the sale of Torpedo7 for just \$1 in March. However, even excluding the Torpedo7 sale, underlying profits were still down compared to the previous year, indicating broader financial challenges. Consequently, The Warehouse Group's share price fell by 6.98% for the week.

**Current Share Price: \$1.20 Consensus Target Price: \$1.17, Consensus Forecast Dividend Yield: 5.9%, Total Return: 3.4%**

### Meridian Energy

Meridian Energy has received resource consent to construct a 120-MW solar farm in Northland, consisting of over 250,000 solar panels. This project will be in Ruakākā, just south of Whangārei. Once operational, the solar farm is expected to generate between 150 to 200 gigawatt hours of electricity annually—enough to power more than half of the homes in Northland. Currently, most of New Zealand's electricity generation is concentrated in the lower South Island and the North Island south of Auckland, making this project a significant contribution to Northland's energy independence. Pending the appeal period and the Meridian board's final investment decision, construction on the Ruakākā Solar Farm is scheduled to commence in early 2025, with completion anticipated by late 2026. In addition, Meridian Energy has announced plans to restructure its retail operations across Powershop and Meridian brands. This restructuring will involve the elimination of some roles, while also creating new positions to better align with the company's future needs.

**Current Share Price: \$5.95 Consensus Target Price: \$6.54, Consensus Forecast Dividend Yield: 5.1%, Total Return: 15.00%**

## Genesis Energy


Genesis Energy has announced that it has entered into an exclusivity agreement with ChargeNet, New Zealand's leading provider of electric vehicle charging solutions and infrastructure. During this exclusive period, both parties aim to finalise the terms for a strategic partnership, which includes Genesis potentially acquiring an equity interest in ChargeNet. Additionally, Genesis Energy's ex-dividend date was last week, a factor that likely contributed to the 5.56% decline in its share price over the week.

**Current Share Price:** \$2.13 **Consensus Target Price:** \$2.54, **Consensus Forecast Dividend Yield:** 9.0%, **Total Return:** 28.6%

## Spotlight on Heartland Bank: A Potential Buying Opportunity Amidst Innovation and Growth

Heartland Group Holdings Limited, based in New Zealand, operates as a specialist financial services provider, offering niche products such as reverse mortgages and motor vehicle financing across New Zealand and Australia. Established in 1875, it has a strong focus on both retail and business banking, with a significant presence in vehicle finance, personal loans, and commercial lending. Heartland Bank converted from a Building Society in 2013 and became the first New Zealand registered bank to be listed on the NZX Main board in 2015. Since 2018, Heartland group holdings has been listed on the ASX as well. In 2024, Australian Challenger Bank Limited was acquired by Heartland, which made Heartland the first New Zealand bank to acquire an Australian authorised deposit taking institution.

The company's expertise in reverse mortgages, especially for seniors looking to leverage their home equity, sets it apart from traditional banks. In addition, its expansion into digital banking solutions positions it to stay competitive in the evolving financial landscape of Australia and New Zealand.

Security Code	HGH.NZ				
Description	Heartland Group Holdings				
Exchange	NZ				
Industry	Banks				
Market Capitalisation (NZD)	\$965.5 Million				
Index	NZX 50				
Weighting in Index	0.26%				
Current Price (NZD)	\$		1.01		
Target Price (NZD)	\$		1.31		
Discount to Target Price	29.70%				
5 Year Hist Return	-3.80%				
5 Year Hist Risk (SD)	29.58%				
					
Forecasts	6/2024A	6/2025F	6/2026F	6/2027F	
PE Ratio	7.63	9.16	6.83	6.18	
Dividend Yield (%)	6.8	6.15	7.44	8.58	
Revenue (NZD)	\$291 Million	\$357 Million	\$404 Million	\$434 Million	
EBITDA (NZD)	\$151 Million	\$186 Million	\$226 Million	\$251 Million	
Net Debt (NZD)	\$1.4 Billion	\$1.03 Billion	\$667 Million	\$301 Million	
\$	1.05	\$ 1.18	\$ 1.31	\$ 1.44	\$ 1.57
	Strong Buy	Buy	Hold	Sell	Strong Sell
	↑				

### Fundamental Analysis:

Heartland Bank's projected P/E ratio is expected to rise to 9.16 over the next 12 months, before declining to 6.18 by 2027. This trend indicates that the company could become more attractively valued in the longer term. Revenue is anticipated to experience significant growth over the next year, reaching \$434 million by 2027, which reflects ongoing improvements in operational efficiency and profitability. This increase in revenue is likely linked to the acquisition of Challenger Bank. Despite the high current net debt, largely due to the Challenger acquisition, forecasts suggest that net debt will decrease steadily over the next three years. This decline demonstrates Heartland's commitment to enhancing its financial health and positioning itself for sustainable growth. Investors may view this debt reduction positively, particularly as it aligns with the expected rise in revenue and profitability. The dividend yield is forecasted to increase from 6.8% in 2024 to 8.58% by 2027, potentially appealing to income-focused investors seeking higher returns over time.

Heartland Group Holdings is currently trading at \$1.01, which is a 29.7% discount to the consensus target price of \$1.31. According to our methodology, Heartland Group Holdings is assigned a "strong buy" rating.

### Recent Performance

For the fiscal year ending in 2024, Heartland reported revenues of NZ\$243.9 million, a 6.9% decline compared to FY 2023. The company's net profit was down by 22% to NZ\$74.5 million, mainly due to tighter interest margins and reduced earnings in key areas such as motor financing and business lending. However, Heartland continues to capture demand in reverse mortgages, which remains a crucial growth area.

Despite missing earnings estimates by 16%, the bank's revenue is expected to grow by 19% annually over the next three years, much higher than the banking sector average of 4.3%

### Wrap Up

While Heartland faced challenges in FY24 with declining revenues and profits, its future growth outlook, driven by niche services and digital advancements, remains strong. Trading at a discount and offering robust dividend yields, Heartland is an attractive option in the New Zealand financial sector, especially compared to its overvalued peers like ANZ and Westpac.

### Upcoming Dividends: 1<sup>st</sup> October to 1<sup>st</sup> November.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
FONTERRA	FCG	01-Oct-24	02-Oct-24	40cps	11-Oct-24
FONTERRA SHAREHOLDERS FUND	FSF	01-Oct-24	02-Oct-24	40cps	11-Oct-24
DELEGATS	DGL	03-Oct-24	04-Oct-24	27.78 cps	18-Oct-24
FCITRUST	FCT	03-Oct-24	04-Oct-24	7.65cps	01-Nov-24
SKELLERUP	SKL	03-Oct-24	04-Oct-24	18.51 cps	18-Oct-24
BANKINV	BIT	24-Oct-24	25-Oct-24	1.43cps	08-Nov-24
SOUTHPORT	SPN	24-Oct-24	25-Oct-24	27.08 cps	08-Nov-24

Source: Iress

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