

Yovich & Co. Weekly Market Update

25th November 2024

Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 15 th November	12684.88	8538.98	3330.73	8063.61	43444.99	18680.12	0.9078	0.5868	4.75%
Week Close 22 nd November	13041.90	8633.06	3267.19	8262.08	44296.51	19003.65	0.8972	0.5835	4.75%
Change	2.81%	1.10%	-1.91%	2.46%	1.96%	1.73%	-1.17%	-0.56%	0.00%

The New Zealand NZX50 index saw a rise of 2.81%, largely due to optimism around interest rate cuts and a rebound in specific sectors. The upcoming OCR announcement is on Wednesday the 27th at 2pm, and some economists (ASB, BNZ, Westpac) are forecasting a 50bps rate cut.

The Australian All Ordinaries Index also rose by about 1.10% last week, underpinned by a rise in commodity prices, particularly for gold and lithium, which supported mining stocks. The Shanghai Composite index declined by -1.91%, driven by ongoing concerns about China's economic slowdown and US Tariffs.

The FTSE rose by 2.46%, its biggest weekly gain in more than six months, predominantly due to the pound hitting its lowest level since May. This benefitted international firms like Astra Zeneca, Shell and BP whose share price rose in response.

The Dow Jones increased by 1.96%, and the NASDAQ followed with a 1.73% rise. Positive retail sales data as households boosted purchases of motor vehicle and electronic goods, suggesting the economy has kicked off the fourth quarter on a strong note. Improved corporate earnings in tech and consumer discretionary sectors also contributed. The latest firm print in US purchasing Managers Index (PMI) index helped bolster investment sentiment on Friday.

Weekly Market Movers

The biggest movers of the Week ending 22nd November 2024			
Up		Down	
The a2 Milk Company	17.79%	Vital Healthcare Property Trust	-4.33%
Genesis Energy	9.71%	Tourism Holdings	-2.58%
Gentrack Group	7.07%	Vulcan Steel	-2.42%
Auckland International Airport	6.59%	KMD Brands	-2.35%
Turners Automotive Group	5.78%	Sky Network Television	-2.33%

Source: Iress

Argosy Property:

Argosy has reported their interim FY25 result. Key points were that Argosy has net property income of \$58.4 Million for the period, with \$33 Million net profit after tax, an improvement from last years \$19.3 Million loss. This was supported by an \$8.7 million property valuation gain, compared to a \$50.8 million loss in the previous year. Distributable income fell 6.9% to \$27.5 million due to higher taxes from changes in depreciation rules. Key portfolio metrics remain strong, with 95.8% occupancy, a weighted average lease term of five years, and annualised rental growth of 2.6% from reviews. Argosy's achievements were recognized at the Property Council NZ Awards, where two 6 Green Star properties earned top honours. Net tangible assets per share rose to \$1.46, while gearing remained steady at 37.2%.

Current Share Price: \$1.09 Consensus Target Price: \$1.14, Consensus Forecast Dividend Yield: 6.80%, Total Return: 11%

Infratil Limited:

Infratil Limited is considering the issuance of a new 6-year unsecured, unsubordinated, fixed-rate infrastructure bond. The firm offer is anticipated to open on 28 November 2024, exclusively for lead managers, financial intermediaries, and other financial market participants. An exchange offer is expected to commence on 4 December 2024, providing all holders of IFT260 bonds with an opportunity to exchange their holdings for the new bonds.

Current Share Price: \$12.79 Consensus Target Price: \$13.45, Consensus Forecast Dividend Yield: 1.8%, Total Return: 6.9%

Napier Port:

Napier Port has reported profit after tax of \$24.8 million for the year to 30 September up 49.7% as the region's recovery from Cyclone Gabrielle continues, chief executive Todd Dawson says. The result includes a further \$9.25m from the port's Cyclone Gabrielle insurance claim. The underlying profit after tax nearly doubled to \$20.7m. Revenue increased 15.9% to \$141.4 million from \$122.0m in the previous year, following growth across all trade areas

Current Share Price: \$2.58 Consensus Target Price: \$2.90, Consensus Forecast Dividend Yield: 4.51%, Total Return: 16.18%

Sanford Limited

Sanford has reported a net profit after tax (NPAT) of \$19.7 million for FY24, up 96% from the previous year, despite incurring \$19.9 million in adjustments and a non-cash tax expense due to New Zealand tax changes (removing the ability to claim tax deductions on buildings). Revenue increased 5% to \$582.9 million, driven by a strong focus on inventory management. EBIT rose 75% to \$54.3 million. Operating cash flow also hit a record \$73.0 million, up 78%. Net debt decreased 5% to \$185.5 million. Sanford declared a final dividend of 5.0 cents per share, bringing the full-year dividend to 10.0 cps. Managing Director David Mair highlighted the results as a testament to the team's resilience and ability to navigate challenging economic conditions.

Current Share Price: \$4.19 Consensus Target Price: \$4.98, Consensus Forecast Dividend Yield: 3.3%, Total Return: 22.2%

Turners Automotive Group:

Turners Automotive has reported a net profit of \$19.3 million for the six months to September, up from \$18.5 million the previous year, despite a 2% decline in revenue to \$209 million as competitive pricing pressures impacted the automotive retail sector (it was forced to cut prices between March and August to remain competitive). The 6% percent fall in car sales was largely offset by gains for its finance operations (finance and insurance to buyers). Gains in its finance and insurance operations helped offset a 6% drop in car sales, with chief executive Todd Hunter crediting the group's diversified model and agile response to market challenges for the strong result. An interim dividend of 13 cents per share has been declared. Turners expects a record full-year result, supported by growth in its financing division and increased market share in a softer second-hand car market.

Current Share Price: \$5.05 Consensus Target Price: \$5.51, Consensus Forecast Dividend Yield: 4.5%, Total Return: 13.7%

Market Spotlight: The a2 Milk Company - From Niche Dairy to Global Powerhouse

a2 Milk, founded in 2000 by Dr. Corran McLachlan, is built on the discovery that milk proteins affect people differently. Dr. McLachlan identified a method to distinguish cows that naturally produce milk free of the A1 beta-casein protein, focusing on the A2 protein's digestibility and nutritional benefits. The company partnered with Fonterra in 2018, leveraging its global reach to expand its footprint. With a premium product range including fresh milk and infant formula, a2 Milk has achieved significant success, particularly in China and Australasia, where it ranks among the leading brands. Publicly listed in 2013, a2 Milk continues to stand out through its commitment to scientific research and innovation in dairy.

Research from Morningstar:


Morningstar has raised its fiscal 2025 revenue forecast for a2 Milk by 1% to NZD \$1.8 billion, reflecting a 7% increase compared to fiscal 2024. EBITDA projections have been adjusted upward by a similar percentage, with stable margins expected to remain around 14%. While Matura Valley remains unprofitable, a2 Milk has indicated its impact on EBITDA will be minimal, with Morningstar forecasting a break-even point for Matura Valley by fiscal 2027. Morningstar maintains a fair value estimate for a2 Milk at NZD \$8.00 per share.

Business Strategy & Outlook by Morningstar

Morningstar identifies China as the critical market for a2 Milk's future growth, with the Chinese infant formula market accounting for the majority of the company's earnings. Success in the Chinese-label segment is deemed essential, as it offers more sustainable growth compared to the recovering English-label business, which still relies on resellers. Morningstar believes the Chinese-label segment will continue to drive market share expansion and underpin a2 Milk's long-term success.

At its 2024 Annual General Meeting, a2 Milk announced the introduction of a dividend policy, committing to distribute 60-80% of net profit as dividends, with the first payment expected in February. This move marks a notable transition from a growth-centric strategy, reflecting the company's robust financial position, bolstered by nearly NZD \$1 billion in cash reserves. The potential for special dividends further highlights confidence in sustained profitability. Following the announcement, a2 Milk's share price surged 17.79% last week.

a2 Milk continues to explore acquisition opportunities despite its focus on shareholder returns. The company also resolved disputes with Synlait Milk, a critical supplier, which ensures uninterrupted production of its infant formula products. Recent improvements in its Chinese distribution network and product innovation efforts have solidified its competitive position in this high-growth market.

Security Code	ATM.NZ			
Description	a2 Milk Limited			
Exchange	NZ			
Industry	Packaged Foods & Meats			
Market Capitalisation (NZD)	\$4.554 Billion			
Index	NZX 50			
Weighting in Index	1.16%			
Current Price (NZD)	\$	6.16		
Target Price (NZD)	\$	6.90		
Discount to Target Price	12.01%			
5 Year Hist Return	-9.00%			
5 Year Hist Risk (SD)	40.00%			
				
Forecasts	3/2024A	3/2025F	3/2026F	3/2027F
PE Ratio	26.76	24.86	20.72	17.39
Dividend Yield (%)	0	0	0.52	3.12
Revenue (NZD)	\$1.673 Billion	\$1.783 Billion	\$1.907 Billion	\$2.034 Billion
EBITDA (NZD)	\$234 Million	\$251 Million	\$296 Million	\$335 Million
Net Debt (NZD)	-\$931 Million	-\$1.018 Billion	-\$1.156 Million	-\$1.303 Million
\$	5.52	\$ 6.21	\$ 6.90	\$ 7.59
	Strong Buy	Buy	Hold	Sell
		↑		
				Strong Sell

Fundamental Analysis

a2 Milk Limited demonstrates steady growth with improving financial metrics over the forecasted years. Its price-to-earnings (P/E) ratio is projected to decrease from 26.76 in FY2024 to 20.72 in FY2026, further dropping to 17.39 in FY2027. This consistent decline in P/E suggests the company is becoming more attractively valued, aligning with its forecasted revenue and profitability growth.

a2 Milk's revenue is anticipated to rise steadily, from NZD 1.673 billion in FY2024 to NZD 2.034 billion by FY2027. This reflects the company's ongoing expansion efforts and successful penetration into key markets like China and Australasia. Alongside revenue growth, EBITDA is forecasted to increase from NZD 234 million in FY2024 to NZD 335 million in FY2027, signifying a 43% growth in operational efficiency over this period.

The company's balance sheet remains robust, with net cash of NZD 931 million in FY2024 forecasted to further strengthen to NZD 1.303 billion by FY2027. This significant net cash position highlights a2 Milk's financial discipline and capacity for reinvestment or shareholder returns, including the implementation of its recently announced dividend policy.

a2 Milk Limited is trading at \$6.16 which is a 12.01% discount to the consensus target price of \$6.90.

According to our methodology, a2 Milk Limited is assigned a 'Buy' rating.

Conclusion

a2 Milk's combination of strategic market positioning, financial discipline, and unique product offerings continues to attract investors and consumers alike. The company's shift toward dividend payouts, coupled with its ongoing innovation and market growth, positions it as a compelling investment opportunity in the dairy sector. With strong fundamentals and a focus on long-term shareholder value, a2 Milk demonstrates resilience and adaptability in a competitive global market

Upcoming Dividends: 26th November to 26th December.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
Goodman Property	GMT	27-Nov-24	28-Nov-24	1.63cps	12-Dec-24
Vital Healthcare	VHP	27-Nov-24	28-Nov-24	2.67cps	12-Dec-24
Manawa Energy	MNW	28-Nov-24	29-Nov-24	5.56cps	06-Dec-24
Precinct Property	PCT	28-Nov-24	29-Nov-24	1.55cps	13-Dec-24
Gencap	GEN	29-Nov-24	02-Dec-24	0.76cps	13-Dec-24
MyFoodBag	MFB	29-Nov-24	02-Dec-24	0.90cps	16-Dec-24
Sanford	SAN	29-Nov-24	02-Dec-24	6.94cps	09-Dec-24
Argosy	ARG	03-Dec-24	04-Dec-24	1.91cps	18-Dec-24
Barramundi	BRM	04-Dec-24	05-Dec-24	1.56cps	20-Dec-24
Kingfish	KFL	04-Dec-24	05-Dec-24	3.12cps	20-Dec-24
Marlin	MLN	04-Dec-24	05-Dec-24	1.98cps	20-Dec-24
Hallenstein Glasson	HLG	05-Dec-24	06-Dec-24	34.29cps	13-Dec-24
Napier Port	NPH	05-Dec-24	06-Dec-24	8.33cps	18-Dec-24
Mainfreight	MFT	12-Dec-24	13-Dec-24	118.06cps	20-Dec-24
Seeka	SEK	19-Dec-24	20-Dec-24	13.89cps	20-Jan-25

Source: Iress

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