Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Yovich & Co WEALTH MANAGEMENT

Yovich & Co. Weekly Market Update

9th December 2024

Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 29th November	13066.92	8699.09	3326.46	8287.30	44910.65	19218.17	0.9080	0.5912	4.25%
Week Close 6th December	12809.59	8689.31	3404.08	8308.61	44642.52	19859.77	0.9124	0.5829	4.25%
Change	-1.97%	-0.11%	2.33%	0.26%	-0.60%	3.34%	0.48%	-1.40%	0.00%

The New Zealand NZX50 Index declined by 1.97% over the week, weighed down by a 3.89% drop in Fisher & Paykel, which makes up over 16% of the index. Additional downward pressure came from Fletcher Building, Ryman Healthcare, and Contact Energy, which also posted losses. While across the ditch, the Australian All Ordinaries Index decreased slightly by -0.11%.

China's Shanghai Composite Index increased by 2.33%, due to better-than-expected economic data in manufacturing demand, vehicle sales, and real estate sales from October to November. Investor sentiment was further boosted by anticipation of the Central Economic Work Conference (CEWC), which is expected on December 11–12, where additional economic stimulus measures are expected to be announced.

The UK's FTSE 100 edged up by 0.26%, with gains tempered by underperformance in the precious metals, mining, and utilities sectors, which collectively weighed on the index.

In the United States, the Dow Jones Industrial Average fell by 0.60%, while the tech-heavy NASDAQ surged by 3.34%. The divergence was driven by the latest U.S. jobs data, which fuelled speculation that the Federal Reserve may cut interest rates later this month. The data showed 227,000 new jobs added, slightly exceeding expectations but not strong enough to deter the Fed from a potential 25-basis-point rate cut. One standout performer in the U.S. market was Lululemon, which soared 16% after the company raised its full-year forecast, signalling strong consumer demand and robust business performance.

Weekly Market Movers

The biggest movers of the Week ending 6th December 2024				
Up			**Down**	
Auckland International Airport	4.64%		Hallenstein Glasson	-7.27%
Manawa Energy	3.08%		Tourism Holdings	-6.83%
Serko	2.71%		Fonterra Shareholders' Fund	-6.79%
Port of Tauranga	2.28%		Vulcan Steel	-6.18%
Sky Network Television	2.04%		Fletcher Building	-6.11%

Source: Iress

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Investment News

Summerset Group Limited – Research from Jarden

Summerset Group showcased its strengths at its recent investor day, highlighting its impressive track record in property development. The company continues to perform strongly in New Zealand, excelling in sales, development, and construction. Summerset also announced new land acquisitions to replenish its New Zealand land bank, setting it apart from competitor Ryman Healthcare (RYM). However, the outlook in Australia remains uncertain, with slower-than-expected progress. Cautious financial management, while prudent for protecting the balance sheet, may be limiting the company's growth potential in this early-stage market. Despite these challenges, Jarden analysts maintain confidence in Summerset's overall performance and growth prospects, with a current target price of NZ$13.85.

Current Share Price: $12.82 **Consensus Target Price:** $14.06, **Consensus Forecast Dividend Yield:** 1.92%, **Total Return:** 11.6%

Fonterra Limited

Fonterra Co-operative Group (FCG) shares declined by 1.78% this week, while Fonterra Shareholders' Fund units (FSF) saw a sharper drop of 6.79%. The decline in FSF units is likely tied to Fonterra's recent announcement of a 50-cent increase in its farmgate milk price forecast. While this adjustment is a positive development for farmers, it could put pressure on Fonterra's profitability. Fonterra reported a 30% decline in first-quarter profit, falling to $263 million compared to $346 million in the same period last year. The drop was driven by lower sales volumes and higher milk prices, which squeezed earnings. On the upside, improved global demand for dairy has lifted milk prices, resulting in an increased farm payout forecast. This highlights the balancing act Fonterra faces between supporting farmers and managing its bottom line in a challenging economic environment.

Current Share Price: $5.08 **Consensus Target Price:** $5.17, **Consensus Forecast Dividend Yield:** 6.6%, **Total Return:** 8.4%

Air New Zealand – Research from Jarden

At its recent investor day, Air New Zealand (AIR) presented a strategy aimed at boosting EBITDA by approximately NZ$300-400 million by FY28. The company's revenue growth initiatives focus on expanding capacity and upgrading its long-haul fleet to offer more premium services. On the cost side, AIR is targeting savings of around NZ$100 million. The airline also outlined plans to invest NZ$3.2 billion over the next five years, with a projected reduction in capital expenditures thereafter. With a strong balance sheet, management indicated the potential for a future capital return, although Jarden analysts expect AIR to take a cautious approach until economic conditions and earnings stabilise. Jarden's current target price for AIR is NZ$0.61.

Current Share Price: $0.55 **Consensus Target Price:** $0.66, **Consensus Forecast Dividend Yield:** 3.9%, **Total Return:** 23.9%

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Market Spotlight: Unlocking Value in New Zealand listed property investments

Listed Property investments offer exposure to different property markets and provide attractive dividend yields. Having some allocation to listed property investments as part of a diversified portfolio may provide some certainty of income through dividends, due to the majority of revenue being distributed to shareholders. In New Zealand, leading listed property investments such as Stride Property Group, Argosy Property, Goodman Property Trust, Kiwi Property Group, Vital Healthcare Property Trust, and Property for Industry provide a wide range of opportunities across retail, industrial, healthcare, and office properties.

Listed property investments generally benefit more in a falling interest rate environment. This is because Interest rates and property valuations are inversely correlated. Lower rates reduce the discount rate applied to future rental income, leading to higher property valuations.

- Boosts Net Asset Value (NAV): Higher valuations directly increase the listed property companies NAV, potentially driving up the share price.
- Improved Collateral for Borrowing: Higher property valuations provide stronger collateral, enabling listed property companies to secure more favourable lending terms.

Listed property investments also rely heavily on debt to finance property acquisitions, developments, and renovations. Falling interest rates reduce borrowing costs, which can:

- Boost Profit Margins: Lower financing expenses mean more of the rental income can flow to the bottom line.
- Increase Growth Opportunities: Listed property companies can acquire or develop more properties at a lower cost, enhancing their portfolios and earnings potential.
- Refinancing Benefits: Existing debt can often be refinanced at lower rates, further improving cash flow.

The Reserve Bank of New Zealand (RBNZ) has set the Official Cash Rate (OCR) at 4.25%. Major banks and economists are forecasting a further 25 to 50 basis point reduction in February, followed by incremental 25 basis point cuts throughout 2025. These adjustments could bring the OCR down to a range of 3.25% to 3.50%, contingent on economic conditions and inflation trends. The anticipated decline in interest rates is poised to provide a direct boost to Property companies, enhancing their profitability and attractiveness to investors.

Despite the positive outlook, certain challenges remain. High vacancy rates in office spaces and evolving retail shopping habits pose risks to specific segments of the listed property market. As a result, investors need to carefully evaluate these factors when assessing the growth and income potential of New Zealand's listed property investments.

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Stride Property Group (SPG.NZX)
Overview: Stride Property Group focuses on owning and managing diversified commercial properties, with a strategic emphasis on industrial assets. Stride also holds stakes in specialty property funds, allowing it to tap into niche markets. Primarily commercial, office, industrial retail town centres and shopping centres.

Recent Performance: Stride Property Group reported its interim results for the six months ending 30 September 2024, delivering solid performance. Net income rose to $36.0 million, a 3.5% increase compared to HY24, reflecting steady growth in its operations. Profit after income tax surged to $18.5 million, representing a significant turnaround of $68.0 million from the previous period.

Argosy Property Limited (ARG.NZX)
Overview: Argosy is known for its diversified portfolio across office, industrial, and retail properties. The trust has been increasing its focus on sustainable and green-certified buildings to attract tenants and align with ESG investment trends. Argosy owns 52% Industrial, 38% office, and 10% large format retail. In total, Argosy owns more than 50 properties.

Recent Performance:
Argosy Property has reported a net profit of $33 million for the six months ending September, a turnaround from a loss of $19.3 million in the same period last year, reflecting a 270.4% improvement. The strong result was driven by an $8.7 million revaluation gain on its property portfolio, compared to a $50.8 million revaluation loss in the previous year. Net property income from the company's diverse portfolio of over 50 office, industrial, and retail properties remained stable at $58.4 million, reflecting a slight decline of 0.1% from the same period in 2023.

Goodman Property Trust (GMT.NZX)
Overview: Goodman Property Trust is a leading industrial property-focused with assets concentrated in high-demand logistics and warehousing sectors. Goodman Property own 15 properties with a valuation of more than $4.6 Billion in New Zealand.

Recent Performance: Goodman Property Trust has reported an after-tax profit of $45.5 million for the six months ending September 30, marking a 127.9% increase compared to the same period last year. This represents a significant recovery from the $163.2 million loss reported during the first half of last year, despite the challenging market conditions. Net property income (revenue) grew by 11.3% to $111.4 million, fuelled by additional revenue from new development completions and a 7.3% increase in rental growth.

Kiwi Property Group (KPG.NZX)
Overview: Kiwi Property Group is retail-focused with ownership stakes in some of New Zealand's largest shopping centres, alongside mixed-use developments.

Recent Performance: Kiwi Property Group has delivered an impressive 218% turnaround in its after-tax profit over the past six months, reaffirming its strategic focus on retail-led, mixed-use developments. The company reported an after-tax profit of $43.2 million for the six months ending September 30, a significant improvement from the $36.5 million loss in the same period last year. Property revenue rose by 9.2% to $126.4 million, driven by rental growth, tenancy termination fees, and an increase in recovery income, showcasing the strength of its portfolio and operational strategy.

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Vital Healthcare Property Trust (VHP.NZX)

Overview: Vital Healthcare owns 18 healthcare related properties in Australia and 13 in New Zealand including hospitals and medical centres. Included in their portfolio is the property that Kensington Hospital operates out of in Whangarei. This niche market provides stable, long-term lease agreements with healthcare providers.

Recent Performance: Vital Healthcare Property Trust reported a solid performance for the quarter ending 30 September 2024, with gross property income rising 7.7% to $41.02 million, supported by a 3.2% increase in like-for-like net property income to $34.53 million (excluding one-off items). Total net property income grew modestly by 1.8% to $37.18 million despite higher property expenses, which increased to $6.49 million. On the balance sheet, total assets in investment properties stood at $3.18 billion, a slight decline of 0.9% from June 2024, while properties held for sale surged to $47.16 million, reflecting asset repositioning efforts. Borrowings rose by 2.1% to $1.32 billion, reflecting a moderately increased debt position.

Property for Industry (PFI.NZX)

Overview: Property for Industry specialises in industrial properties, with a strong focus on logistics and manufacturing facilities. The trust's portfolio has benefited from rising demand for warehousing amid supply chain constraints.

Recent Performance: Property for Industry (PFI) reported solid results in their annual meeting in October, with a profit after tax of $21.2 million, a significant improvement of $51.7 million compared to the prior corresponding period. Adjusted Funds from Operations (AFFO) were 4.58 cents per share (cps), consistent with the prior year, while dividends totalled 4.15 cps, matching the annualised 2023 level. The valuation of PFI's investment property portfolio has stabilised, supported by re-leasing spreads exceeding the portfolio's under-renting gap.

Comparative Overview

Listed Property Companies	Ticker	Forecasted Dividend Yield (2025)	Current Price	Target Price	Discount Premium	Focus	Key Strengths	Market Cap
Stride Property	**SPG**	6.25%	$1.28	$1.42	11.00%	Diversified	Industrial demand, fund management	$721M
Argosy Property	**ARG**	6.28%	$1.05	$1.14	9.00%	Diversified	Green-certified buildings, industrial	$902M
Goodman Property	**GMT**	3.17%	$2.05	$2.18	6.00%	Industrial	Logistics growth, strong balance sheet	$3.18B
Kiwi Property	**KPG**	5.90%	$0.92	$1.00	9.00%	Retail	High-yielding, stable rental income	$1.47B
Vital Healthcare	**VHP**	5.33%	$1.81	$2.03	12.00%	Healthcare	Defensive, essential services focus	$1.24B
Property for Industry	**PFI**	3.94%	$2.15	$2.22	3.00%	Industrial	Logistics-driven demand	$1.09B

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

New Zealand listed property companies are well-positioned to benefit from falling interest rates, which could drive property valuations higher and reduce financing costs. Industrial and healthcare-focused trusts like Goodman Property, Vital Healthcare, and Property for Industry offer resilience and growth potential in high-demand sectors. Retail-focused property companies like Kiwi Property may face structural challenges but remain attractive for their high dividend yields.

Investors seeking income and diversification in their portfolios should consider the unique strengths and challenges of each listed property company, keeping a close eye on economic trends and sector-specific dynamics.

Upcoming Dividends: 10th December to 10th January.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
PLP Fund	PLP	11-Dec-24	12-Dec-24	0.96cps	19-Dec-24
Restaurant Brands	RBD	11-Dec-24	12-Dec-24	25cps	23-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
FCIT Trust	FCIT	31-Dec-24	03-Jan-25	7.74cps	03-Feb-25
Scales Corp	SCL	06-Jan-25	07-Jan-25	10.07cps	17-Jan-25
Turners Automotive	TRA	09-Jan-25	10-Jan-25	9.72cps	29-Jan-25

Source: Iress

For more information and to stay updated subscribe to our newsletter and consult with your Financial Adviser to tailor your investment strategy.