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Yovich & Co. Weekly Market Update

24th February 2025

Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 14th February	12989.18	8825.09	3346.72	8732.46	44546.08	20026.77	0.9012	0.5721	4.25%
Week Close 21st February	12752.58	8570.93	3379.11	8659.37	43428.02	19524.01	0.9031	0.5743	3.75%
Change	-1.82%	-2.88%	0.97%	-0.84%	-2.51%	-2.51%	0.21%	0.38%	0.50%

The NZX 50 Index declined by 1.82% over the past week, closing at 12,752.58. The index was affected by Sparks Half-year result, with almost $1 billion in sell offs. The Reserve Bank Official Cash rate reduced by 0.50% with Adrian Orr signalling further cuts quicker than what they projected in November.

The Australian All Ordinaries Index faced a decline of 2.88% for the week. The market was weighed down by underperforming sectors, particularly consumer discretionary and financials. Conversely, mining giants BHP and Rio Tinto performed well with utilities and materials being in the green.

Chinese markets maintained their upward momentum, with the Shanghai Composite Index gaining 0.97% over the week. This growth was driven by continued government stimulus measures and a strong emphasis on artificial intelligence initiatives. Investor optimism remains high, particularly in China's tech and innovation sectors, as confidence in their potential strengthens. Alibaba surged more than 15% after reporting results that exceeded market expectations, fuelling a broader rally in Chinese tech stocks.

The UK FTSE 100 Index fell 0.84% over the week. Meanwhile, UK retail sales surged past economists' expectations, rising 1.7% month-over-month, driven by the strongest increase in food store sales since March 2020. However, market volatility persists amid concerns over US tariffs.

U.S. stock markets faced a sharp downturn over the week, with the S&P 500 dropping 1.7%, the Dow Jones Industrial Average falling 2.5%, and the Nasdaq Composite also declining 2.5%. Investor sentiment was weighed down by uncertainty surrounding President Trump's rapid policy shifts, including major spending cuts and new tariffs. Adding to the pressure, economic data revealed a slowdown in business activity, which hit a 17-month low. In February, U.S. business activity nearly stalled as concerns over import tariffs and deep federal spending cuts intensified, wiping out gains made since Trump's election victory. Meanwhile, long-term inflation expectations reached their highest level since 1995.

Weekly Market Movers

The biggest movers of the Week ending 21st February 2025				
Up			**Down**	
The a2 Milk Company	29.33%		Heartland Group	-19.44%
NZX	9.15%		Spark	-17.93%
Turners Automotive Group	7.91%		Westpac Bank	-11.04%
Fonterra Shareholders' Fund	6.79%		ANZ Bank	-8.31%
Vulcan Steel	6.47%		SKYCITY Entertainment Group	-7.53%

Source: Iress

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Investment News

Ryman Healthcare (RYM.NZ)

Ryman is undertaking a fully underwritten equity raise of approximately NZ$1.0 billion, consisting of a NZ$313 million institutional placement ("Institutional Placement") and a 1-for-3.05 pro-rata accelerated non-renounceable entitlement offer ("Entitlement Offer") to raise approximately NZ$688 million. The purpose of the equity raise is to reset the companies balance sheet (gearing) from 37.3% to 23.1%. The Entitlement Offer includes an accelerated institutional entitlement offer ("Institutional Entitlement Offer") for eligible institutional shareholders and a retail entitlement offer ("Retail Entitlement Offer") for eligible retail shareholders, who may also apply for additional new shares up to 75% of their entitlement at the fixed offer price of NZ$3.05 per share. The Institutional Entitlement Offer and Institutional Placement together form the "Institutional Offer." The Offer Price represents a 21.9% discount to the theoretical ex-rights price (TERP) of NZ$3.90 per share and a 29.2% discount to RYM's last closing price of NZ$4.31 per share on NZX as of Friday, 21 February 2025.

Current Share Price: $4.31 (Currently in a trading halt) **Consensus Target Price:** $5.96, **Consensus Forecast Dividend Yield:** 0.0%, **Total Return:** 38.3%

Spark New Zealand (SPK.NZ)

Spark New Zealand saw its share price tumble by 18% last week, wiping nearly $1 billion from its market value. The sharp decline came after the company reported lower revenue, EBITDAI, and net profit (NPAT), reflecting tough economic conditions. Despite this, Spark has maintained its leading position in mobile and broadband.

This marks the fourth consecutive downgrade, shaking investor confidence. The company lowered its FY25 EBITDAI guidance to $1,040-$1,100 million, mainly due to weaker performance in its Enterprise and Government division. Businesses have been cutting spending, reducing mobile fleets, and facing increased competition, all of which have weighed on Spark's earnings. In response, Spark is taking aggressive cost-cutting measures, aiming to save $80-$100 million in labour and operating expenses in FY25 and $110-$140 million in annualised savings by FY27. Additionally, the company is streamlining its operations, including the sale of its Connexa stake for approximately $310 million, set to close in Q3, and looking for a capital partner to help expand its data centre business. Despite the near-term challenges, Spark remains focused on long-term growth and delivering value to shareholders.

Current Share Price: $2.32 **Consensus Target Price:** $3.62, **Consensus Forecast Dividend Yield:** 14.5%, **Total Return:** 71.4%

Precinct Limited (PCT.NZ)

Precinct Properties delivered steady rental income in its first-half 2025 results, with net property income (NPI) rising to $71.4 million from $68.4 million in the same period last year, and funds from operations (FFO) increasing to $72.7 million from $67.7 million. However, total comprehensive income after tax dropped to $3.2 million, down from $12.9 million, while adjusted funds from operations (AFFO) dipped slightly to 3.23 cents per share (cps) from 3.26 cps. The company's net tangible asset (NTA) per share fell to $1.25 from $1.35, though FY25 dividend guidance remains unchanged at 6.75 cents per stapled security. On the operational front, portfolio occupancy declined to 96% from 98%, with the weighted average lease term (WALT) slightly lower at 6.3 years compared to 6.4 years. Despite this, demand for premium office space remained strong, driving a 22.8% increase in contract rents across 5,720 square metres of leasing transactions. While higher costs and market conditions have weighed on overall profitability, Precinct continues to benefit from strong demand for high-quality office space, supporting its long-term outlook.

Current Share Price: $1.17 **Consensus Target Price:** $1.34, **Consensus Forecast Dividend Yield:** 5.9%, **Total Return:** 20.4%

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Heartland Group Holdings (HGH.NZ)

Heartland Group Holdings reported a $49.6 million impairment in its interim results, citing New Zealand's weaker economy and a more proactive and prescriptive approach to managing car and business loan arrears. As a result, group half-year profit is expected to drop to between $2 million and $5 million. Operating in both New Zealand and Australia, Heartland attributes the impairment to ongoing economic deterioration in New Zealand and the derisking and repositioning of certain NZ lending portfolios. The impairment expense, primarily driven by loan arrears in NZ motor finance and business lending, has risen sharply from $23.9 million in 1st half 24. Despite the significant increase, Heartland believes this move will strengthen and reposition its lending portfolios, benefiting the business, customers, and shareholders in the long run.

Current Share Price: $0.87 **Consensus Target Price:** $1.26, **Consensus Forecast Dividend Yield:** 9.8%, **Total Return:** 54.7%

Turners Automotive Limited (TRA.NZ)

Turners Automotive Group Limited has raised its FY25 guidance, now expecting a net profit before tax of at least NZ$53 million, an increase from its previous forecast of exceeding NZ$50 million. This represents an 8% rise from the NZ$49.1 million achieved in FY24 and marks the company's fifth consecutive year of record profits. CEO Todd Hunter expressed confidence in Turners' performance, stating, "We are pleased to exceed our FY25 profit target of $50 million despite ongoing economic challenges. Our team continues to deliver exceptional results, providing strong momentum as we work toward our next goal of $65 million by FY28." The company is set to release its full-year results in late May.

Current Share Price: $5.94 **Consensus Target Price:** $5.64, **Consensus Forecast Dividend Yield:** 3.7%, **Total Return: -**1.3%

ANZ Bank Limited (ANZ.NZ)

The latest research by Jarden say that ANZ remains well-positioned to deliver superior asset quality outcomes in this unusual and subdued cycle, where fiscal policy has outpaced monetary policy, and aggregate wealth remains concentrated among the affluent. The Suncorp (SUN) acquisition is a positive move, adding 1.2 million customers and $124 billion in footings (assets, deposits, loans) ($70 billion in gross loans and advances, with 77% in home loans; $54 billion in deposits, with 67% from households). This also increases ANZ's presence in Queensland, Australia's most dynamic state. While the ASIC investigation and APRA's $750 million capital add-on in response to non-financial risk management concerns present challenges, we view the capital as quarantined rather than lost. Additionally, we anticipate that ASIC's decision, expected by mid-2025, will not be materially adverse. The appointment of new CEO Nuno Matos (effective July 3, 2025) brings valuable retail banking experience from competitive and innovative markets like the UK. A revitalised C-suite, drawing from ANZ's extensive global network, could further drive positive transformation within the bank.

Current Share Price: $32.22 **Consensus Target Price:** $32.75, **Consensus Forecast Dividend Yield:** 5.78%, **Total Return:** 7.31%

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Spotlight on Fixed Interest – Navigating the Changing Interest Rate Cycle

New Zealand's financial landscape is experiencing notable shifts, creating a compelling case for investors to reassess their fixed-income strategies. The Reserve Bank of New Zealand (RBNZ) has been proactively cutting the Official Cash Rate (OCR) in an effort to stimulate the economy amid recent periods of economic contraction and uncertainty. The OCR was recently lowered by 50 basis points to 3.75%, with forecasts suggesting a further decline to 3.25%–3.00%. Economists widely anticipate two additional 25-basis-point cuts in April and May.

While this monetary easing supports borrowers by reducing mortgage costs, it also leads to declining real returns on term deposits. As a result, investors may find it timely to explore alternative defensive investments that can provide stable income and help optimise portfolio returns in a low-rate environment.

Understanding the Yield Curve and Market Expectations

The yield curve, which plots interest rates of bonds with varying maturities, serves as a barometer for investor sentiment and economic forecasts. Currently, New Zealand's yield curve reflects a moderate upward slope, suggesting market expectations of stable or slightly higher long-term interest rates. As of mid-February 2025, the 10-year government bond yield stands at 4.68%, while the 2-year yield is at 3.71%. This spread suggests that while investors anticipate some near-term monetary easing, long-term rates remain elevated, possibly due to inflation concerns or expectations of economic resilience. In tandem, swap rates—which are agreements to exchange future interest rate payments—have been gradually rising across most maturities. As of the latest data, the 2-year swap rate stands at 3.585%, while the 5-year swap rate is at 3.87%. The upward movement in longer-dated swaps, with the 10-year rate reaching 4.27%, suggests that while markets still expect some easing, they are also factoring in a floor to rate cuts or a more measured approach to monetary policy adjustments.

Strategic Timing: Locking in Higher Yields

In a falling interest rate environment, the timing of fixed-income investments becomes crucial. Existing bonds with higher coupon rates become more valuable as new issuances offer lower yields. By investing in bonds now, investors can lock in these higher rates, potentially benefiting from capital appreciation if these bonds are sold before maturity at a premium. Conversely, waiting for new bond issues may result in accepting lower yields, underscoring the advantage of acting promptly in the current market.

Yovich & Co. Fixed Interest List

As at Monday, 24 February 2025

Code	Name	Bond Type	Quote	Current Price	Coupon	Maturity Date	Assumed Redemption	Yield To Redemption
IFTHA.NZ	IFT 00/00/00 5.51% Infratil Limited Infrastructure Bonds	Hybrid 1 Year Reset	Price	$ 0.63	5.51%	Perpetual	Perpetual	8.73%
QHLHA.NZ	QHL 00/00/00 6.64% Quayside Holdings Ltd Preference Shares	Hybrid 3 Year Reset	Price	$ 0.97	6.64%	Perpetual	Perpetual	6.83%
WKSHA.NZ	WKS 00/00/00 9.43% Works Finance (NZ) Limited Pref Shares	Hybrid 1 Year Reset	Price	$ 1.04	9.43%	Perpetual	Perpetual	9.11%
BNZHB.nz	BNZ 00/00/00 7.28% Bank of New Zealand Preference Shares	Hybrid 5 Year Reset	Price	$ 1.05	7.28%	Perpetual	21/08/2030	6.18%
KWBHB.nz	KWB 00/00/00 7.38% Kiwibank Limited Preference Shares	Hybrid 5 Year Reset	Price	105.55%	7.38%	Perpetual	24/04/2030	6.12%
IFTHC.NZ	IFT 15/12/2029 6.24% Infratil Limited Bonds	Hybrid 1 Year Reset	Price	$ 0.97	6.24%	15/12/2029	15/12/2029	7.03%
CHI030.nz	CHI 14/11/2029 6.75% Channel Infrastructure NZ Limited Bonds	Vanilla Bond	Price	5.31%	6.75%	14/11/2029	14/11/2029	5.31%
SBS1T2.nz	SBS 22/08/2034 7.62% Southland Building Society Bonds	Vanilla Bond	Yield	6.13%	7.62%	22/08/2029	22/08/2029	6.13%
OCA020.NZ	OCA 13/09/2028 3.3% Oceania Healthcare Limited Bonds	Vanilla Bond	Yield	$ 0.06	3.30%	13/09/2028	13/09/2028	6.34%
ANBHC.NZ	ANB 00/00/00 6.95% ANZ Bank New Zealand Limited Preference Shares	Hybrid 5 Year Reset	Yield	103.10%	6.95%	Perpetual	18/07/2028	5.94%
NZX020.NZ	NZX 20/06/2033 6.8% NZX Limited Notes	Vanilla Note	Price	5.95%	6.80%	20/06/2033	20/06/2028	5.95%
HBL1T2.nz	HBL 28/04/2033 7.51% Heartland Bank Limited Notes	Vanilla Notes	Yield	6.75%	7.51%	28/04/2028	28/04/2028	6.75%
FBI220.NZ	FBI 15/03/2028 6.5% Fletcher Building Industries Limited Notes	Vanilla Note	Yield	7.27%	6.50%	15/03/2028	15/03/2028	7.27%
ARV010.NZ	ARV 22/02/2028 2.87% ARV Limited Bonds	Vanilla Bond	Yield	6.39%	2.87%	20/02/2028	20/02/2028	6.39%
OCA010.NZ	OCA 19/10/2027 2.30% Oceania Healthcare Limited Bonds	Vanilla Bond	Yield	7.04%	2.30%	19/10/2027	19/10/2027	7.04%
GNE070.NZ	GNE 09/06/2052 5.66% Genesis Energy Limited Bonds	Hybrid 5 Year Reset	Yield	5.70%	5.66%	9/06/2052	9/06/2027	5.90%

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Comparing Term Deposits and Bonds

	Term Deposits	Bonds
Fixed terms	Term deposits are locked in for the duration of the chosen term. Breaking term deposits usually require 31 days' notice and lose interest accrued. In some cases, Term PIES cannot be broken until the end of the term.	You can 'sell' your bond on the secondary market prior to the maturity date. The price of the bond depends on where interest rates are at, and the quality of the bond. As interest rates fall existing bonds usually start trading at premiums as these bonds are more attractive from a yield perspective.
Interest rate	While term deposits offer security and predictable returns, their interest rates are closely tied to the OCR. With the recent rate cuts, banks are likely to lower term deposit rates, diminishing their appeal.	Bonds, especially those with longer maturities, can lock in current higher yields, providing a hedge against future rate declines. Depending on the credit quality of the bond, some lower quality bonds usually offer very high yields to reflect their credit risk. Therefore, an investor can dictate their yield by the level of the risk they are willing to take.

Inflation and RBNZ Policy Outlook

As of February 2025, New Zealand's economic landscape is marked by moderated inflation and rising unemployment. In the December 2024 quarter, the annual inflation rate held steady at 2.2%, aligning with the Reserve Bank of New Zealand's (RBNZ) target range of 1% to 3%. This stability provides the central bank with the flexibility to maintain an accommodative monetary policy stance. RBNZ Chief Economist Paul Conway has indicated that, barring unforeseen economic shocks, the Official Cash Rate (OCR) is expected to move toward a neutral level, estimated between 2.5% and 3.5%. The current OCR stands at 4.25%, suggesting potential for further reductions as inflationary pressures subside. However, the labour market presents challenges, with the unemployment rate rising to 5.1% in the December 2024 quarter, up from 4.8% in the previous quarter. This increase reflects ongoing economic uncertainties and the lagging effects of prior higher interest rates on certain sectors. In this context, while declining interest rates may benefit borrowers, they also lead to reduced returns on traditional savings instruments like term deposits. Consequently, investors might consider diversifying into alternative defensive assets to secure stable income and enhance portfolio performance amidst the evolving economic conditions.

Conclusion

The current trajectory of New Zealand's monetary policy, characterised by declining interest rates and a stable inflation environment, presents a favourable landscape for fixed-income investments. By strategically allocating assets into bonds, investors can secure higher yields, achieve portfolio diversification, and enhance income stability. However, it's imperative to remain vigilant of global economic developments and assess individual risk tolerances. Engaging with one of our Financial Advisers can provide personalised insights tailored to specific investment goals and market conditions.

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Upcoming Dividends: 25th February to 25th March.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
Investore	IPL	25-Feb-25	26-Feb-25	2.24cps	14-Mar-25
DOWNEREDI	DOW	26-Feb-25	27-Feb-25	11.98cps	27-Mar-25
EBOS	EBO	27-Feb-25	28-Feb-25	62.54cps	21-Mar-25
Stride	SPG	27-Feb-25	28-Feb-25	2.61cps	11-Mar-25
SOUTHPORT	SPN	27-Feb-25	28-Feb-25	10.42cps	7-Mar-25
Ventia	VNT	27-Feb-25	28-Feb-25	11.7914cps	7-Apr-25
BARRAMUNDI	BRM	5-Mar-25	6-Mar-25	1.5367cps	28-Mar-25
KINGFISH	KFL	5-Mar-25	6-Mar-25	3.0444cps	28-Mar-25
MARLIN	MLN	5-Mar-25	6-Mar-25	2.05cps	28-Mar-25
VITALHEALTH	VHP	5-Mar-25	6-Mar-25	2.4375cps	20-Mar-25
VITALHEALTH	VHP	5-Mar-25	6-Mar-25	0.4958cps	20-Mar-25
AIRNZ	AIR	6-Mar-25	7-Mar-25	1.25cps	19-Mar-25
FREIGHTWAY	FRW	6-Mar-25	7-Mar-25	26.3889cps	1-Apr-25
PRECINCT	PCT	6-Mar-25	7-Mar-25	1.7364cps	21-Mar-25
SKELLERUP	SKL	6-Mar-25	7-Mar-25	10.75cps	20-Mar-25
SKTTV	SKT	6-Mar-25	7-Mar-25	11.8056cps	21-Mar-25
Vulcan Steel	VSL	13-Mar-25	14-Mar-25	2.6944cps	27-Mar-25
NZX	NZX	18-Mar-25	19-Mar-25	4.3056cps	2-Apr-25
AUCKAIR	AIA	19-Mar-25	20-Mar-25	8.6806cps	4-Apr-25
a2 Milk	ATM	20-Mar-25	21-Mar-25	11.8056cps	4-Apr-25
COLMOTOR	CMO	20-Mar-25	21-Mar-25	20.8333cps	31-Mar-25
Spark	SPK	20-Mar-25	21-Mar-25	16.1458cps	4-Apr-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.