

Yovich & Co. Weekly Market Update

10th March 2025

Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 28th February	12601.42	8403.87	3320.90	8809.74	43840.91	18847.28	0.9012	0.5602	3.75%
Week Close 7 th March	12399.78	8178.50	3372.55	8679.88	42801.72	18196.22	0.9055	0.5710	3.75%
Change	-1.60%	-2.68%	1.56%	-1.47%	-2.37%	-3.45%	0.47%	1.92%	0.00%

The S&P/NZX 50 Index declined by 1.6% over the past week, closing at 12,399.78. Year-to-date, the index has fallen by over 5%, though it remains up 5% compared to the same period last year. Adrian Orr resigned last week from the RBNZ with no reason given.

The Australian All Ordinaries Index declined by -2.68%, its lowest close in six months, due to a heavy sell off in Commonwealth Bank and ongoing concerns of a global trade war which has taken a toll on the index.

The Shanghai Composite Index rose 1.56%, outperforming global markets. This growth was driven by investor optimism over government support for the tech sector, with companies like Alibaba gaining on AI advancements. The National People's Congress (NPC) also played a role, as investors watched for policy signals. Beijing announced ¥1.3 trillion (\$179bn) in special treasury bonds and raised local government borrowing limits to ¥4.4 trillion to fund stimulus efforts. Key priorities include boosting high-tech industries, stabilising the property market, and expanding elderly care programs.

The UK FTSE 100 Index had its worst week of the year, falling by 1.47%. This decline was largely attributed to President Trump's inconsistent stance on trade tariffs, causing significant market volatility

In the United States, ongoing inflation concerns are raising fears that the Federal Reserve may keep interest rates higher for a longer period. Wall Street experienced volatility after a report from the Labor Department revealed that U.S. job growth fell short of expectations in February. Non-farm payrolls increased by 151,000, which was below the forecast of 160,000, and January's number was revised down to 125,000. Additionally, the unemployment rate rose to 4.1%, contrary to expectations that it would remain steady. Uncertainty about U.S. trade policy also contributed to Wall Street's biggest weekly drop in months, with the Dow falling by 2.37% and the tech-heavy NASDAQ dropping 3.45%.

Weekly Market Movers

The biggest movers of the Week ending 07 th March 2025			
Up		Down	
Vulcan Steel	7.48%	Meridian Energy	-8.31%
Vector	2.72%	The Warehouse Group	-6.06%
Tower	2.47%	Westpac Bank	-5.39%
Hallenstein Glasson	2.25%	Port of Tauranga	-4.53%
Turners Automotive Group	1.87%	Ebos Group	-4.36%

Source: Iress

Investment News

Vulcan Steel Limited (VSL.NZ)

Vulcan Steel's share price went up by 7.48% after two weeks of consistent share price growth. Recent research from our Strategic Partner Jarden said that Vulcan Steels first-half earnings for 2025 were NZ\$57 million, which was slightly better than expected, but still down 30% from the same time last year. The company also reduced its dividend from 12 cents to 2.5 cents and lowered the payout range. Despite New Zealand's economic slowdown and slow growth in Australia, Vulcan kept its metal profit margins stable, even though sales volumes dropped by 23-26% since 2022. There are signs of recovery, with more orders coming in and New Zealand expected to improve by late 2025. In Australia, the metal market is stable, but steel sales are weak, particularly in Victoria. Vulcan updated its dividend policy to pay out 40-80% of its earnings (down from 60-80%) and reduced its debt by NZ\$34 million to NZ\$242 million. While there are still challenges, the early signs of recovery suggest a cautiously hopeful future.

Current Share Price: \$8.96, Consensus Target Price: \$7.83, Consensus Forecast Dividend Yield: 1.0%, Total Return: -13.6%

Air New Zealand Limited NZ (AIR.NZ)

Air New Zealand CEO Greg Foran has announced his resignation but will remain in his role until October. Chairwoman Dame Therese Walsh stated in an NZX announcement that Foran felt the airline was well-positioned for continued growth and innovation. She praised his exceptional leadership, particularly during the COVID-19 crisis, and highlighted his role in managing global supply chain challenges.

Current Share Price: \$0.60, Consensus Target Price: \$0.70, Consensus Forecast Dividend Yield: 3.7%, Total Return: 19.9%

Oceania Healthcare (OCA.NZ)

Oceania Healthcare (OCA) provided a sales update that was slightly below expectations, with the loss of Wesley training (Nurse Training Institute) earnings having a notable impact. Wesley training earnings are quite meaningful (~\$5m Underlying EBITDA in FY25). Revenue from this training has been strong in recent years but changes in certification pathways will see it closed. The company has completed a refinancing, which brings minor benefits in cost and loan terms but is otherwise routine. OCA reaffirmed its focus on divestments and cost reductions, with further details expected in the FY25 results in May. It is already working on reducing support costs and improving care earnings, which should help narrow its operating deficit. The biggest downside in the update was the closure of Wesley training, which was expected to contribute around \$5 million in EBITDA for FY25. While we anticipated a decline in earnings from this segment, losing this high-margin revenue entirely is a negative development.

Current Share Price: \$0.67, Consensus Target Price: \$0.93, Consensus Forecast Dividend Yield: 0.00%, Total Return: 38.8%

Spotlight on Megaport (MP1.ASX) – A Leader In Global Network Connectivity

Founded in 2013 and headquartered in Brisbane, Australia, Megaport Limited (ASX: MP1) is a leading provider of Network as a Service (NaaS) solution. The company's global Software Defined Network (SDN) enables businesses to rapidly connect their networks to services via an easy-to-use portal or open API, offering agile networking capabilities that reduce operating costs and increase speed to market compared to traditional networking solutions.

Expansion & Milestones
2015: IPO raised \$25M at \$1.25 per share, with \$2.6M Annual recurring revenue
2016–2017: Expanded into North America, Europe, and Asia, acquiring Germany's Peering GmbH (adding 180 customers) and launching connectivity between Hong Kong and Los Angeles.
2018–2020: Introduced Megaport Cloud Router (MCR) and Virtual Edge (MVE), integrated with Cisco and Fortinet. Revenue surged as global multicloud adoption grew, propelling MP1 into the S&P/ASX200. - The MCR is a virtual routing service which enables customers to connect at layer 3 to and between cloud services without physical infrastructure. Megaport partnered with salesforce and reached over 1000 customers. Global services grew 59%, driven by customers' adoption of multicloud, increasing Annualised Revenue by 68% to over \$54 million. The Company partnered with leading hyperconverged infrastructure provider, Nutanix.
2021–2022: Expanded into Mexico, partnered with KIO Networks, and scaled its partner ecosystem to 146 global partners. Extending its total global reach to 25+ countries across 800+ enabled data centres.
2023: Appointed CEO Michael Reid, launched Global WAN as a Service, introduced 100G VXCs, and deployed Project Centurion to support AI-driven network scaling. ARR reached \$195.3M. and Megaport Internet brings enterprises the ability to deploy dedicated internet connections in just 60 seconds - With a presence in 25+ countries and 800+ enabled data centres, Megaport continues to expand its connectivity ecosystem and enhance its cloud networking solutions.

Half Yearly Results FY25 (20th February 2025)

Megaport Limited reported a strong financial performance for the first half of FY25, showcasing sustained revenue growth, increased profitability, and strategic investments in future expansion.

Financial Performance Highlights

- **Annual Recurring Revenue (ARR):** Increased by 18% year-over-year to \$226.6 million.
- **Revenue:** Grew by 12% to \$106.8 million compared to H1 FY24.
- **Gross Profit:** Rose to \$74.7 million, up 12%, with a stable gross margin of 70%.
- **EBITDA:** Delivered at \$27.6 million, maintaining a 27% margin despite continued investments.
- **Net Cash Flow:** Reached \$15.7 million, an increase of \$3.2 million from the previous year.
- **Cash at Bank:** Increased by 24% to \$89.8 million as of December 31, 2024.

Positive Outlook for FY25

Megaport has tightened its revenue guidance for FY25 to \$216M–\$222M, reflecting confidence in sustained growth across all regions. Net Revenue Retention (NRR) improved to 107%, signalling customer expansion and retention stability. The EBITDA guidance remains unchanged at \$57M–\$65M, incorporating the company's strategic investments. With an expanding global footprint, continued investment in next-generation connectivity, and an emphasis on AI-driven solutions, Megaport is well-positioned to maintain its leadership in the Network-as-a-Service (NaaS) industry.

Strategic Initiatives

Megaport has undertaken several strategic initiatives to bolster its market position:

Global Network Expansion: The company has made strategic investments to expand its global network and market presence, achieving record half-year performance with increased revenue and cash flow.

Product Diversification: Megaport continues to innovate its product offerings, enhancing its SDN capabilities to meet the evolving needs of businesses seeking agile and scalable network solutions.

Competitive Positioning

Megaport operates in a competitive landscape alongside peers such as NextDC (NXT.ASX) and Equinix (EQIX). The company's competitive advantages include:

- **Extensive Network Reach:** Megaport's expansive global network allows for rapid and flexible connectivity solutions, distinguishing it from competitors with more limited reach.
- **Innovative Technology:** The company's SDN platform enables on-demand provisioning of network services, offering a level of flexibility and efficiency that is highly attractive to businesses.


Impact of AI Developments

The rise of advanced AI models like DeepSeek is having a profound effect on the technology sector:

- **Market Disruptions:** The launch of DeepSeek triggered a major sell-off in global equity markets, wiping out over \$1 trillion from American stocks.

Despite these concerns, Citibank analyst Siraj Ahmed views any weakness in Megaport shares stemming from DeepSeek-related fears as a potential buying opportunity. In a note to clients, he explains that he does not expect DeepSeek to have a direct impact on the Australian software company, which specialises in helping businesses create and manage internet network connections. Moreover, Ahmed believes that the rise of cost-effective AI models like DeepSeek could drive greater AI adoption, ultimately benefiting Megaport in the long run. However, he acknowledges that short-term volatility may persist amid broader market uncertainty.

Analysis:

Security Code	MP1.asx				
Description	SaaS and Internet exchange				
Exchange	ASX				
Industry	Internet Services & Infrastructure				
Market Capitalisation (AUD)	\$1.74 Billion				
Index	ASX200				
Weighting in Index	0.07%				
Current Price (AUD)	\$	10.83			
Target Price (AUD)	\$	11.81			
Discount to Target Price	9.05%				
5 Year Hist Return	26.88%				
5 Year Hist Risk (SD)	63.76%				
Forecasts	6/2024A	6/2025F	6/2026F	6/2027F	
PE Ratio	180.5	124.13	73.39	50.05	
Dividend Yield (%)	0	0	0	0	
Revenue (AUD)	\$195 Million	\$222 Million	\$253 Million	\$288 Million	
EBITDA (AUD)	\$57.1 Million	\$61.23 Million	\$72.21 Million	\$86.29 Million	
Net Debt (AUD)	-\$61.20 Million	-\$87.21 Million	-\$117 Million	-\$161 Million	
\$	8.86	\$ 10.33	\$ 11.81	\$ 13.29	\$ 14.76
Strong Buy	Buy	Hold	Sell	Strong Sell	
		↑			

Megaport Ltd continues to show strong revenue growth and improving profitability, underpinned by a robust net cash position. The company's P/E ratio is forecasted to decline from 180.5 in FY2024 to 50.05 in FY2027, reflecting a more attractive valuation as earnings improve. Revenue is projected to grow from \$195 million in FY2024 to \$288 million by FY2027, driven by increasing adoption of its Network-as-a-Service (NaaS) solutions. EBITDA is also set to rise from \$57.1 million to \$86.29 million, demonstrating scalability and improving margins.

Importantly, Megaport maintains a strong and growing net cash position, increasing from \$61.2 million in FY2024 to \$161 million by FY2027. This financial strength enhances its ability to invest in growth initiatives, expand its network, and weather potential market volatility. At its current price of \$10.83, Megaport trades at a 9.05% discount to its target price of \$11.81. However, the stock's historical volatility (63.76% standard deviation over five years) suggests a higher-risk profile. According to our methodology, Megaport Ltd (MP1.ASX) is assigned a **'Hold'** rating.

Conclusion

Megaport's strong financial performance, strategic growth initiatives, and robust competitive positioning make it a compelling consideration for long-term investors. However, potential investors should remain cognisant of the risks associated with technological advancements, competitive dynamics, and regulatory landscapes. Given the company's proactive approach to innovation and market expansion, Megaport may serve as a valuable component in a diversified portfolio, offering exposure to the burgeoning global network connectivity sector.

Upcoming Dividends: 11th March to 11th April.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
ARGOSY	ARG	11-Mar-25	12-Mar-25	1.86 cps	26-Mar-25
CHANNEL	CHI	12-Mar-25	13-Mar-25	6.6 cps	27-Mar-25
GOODMAN PROPERTY	GMT	12-Mar-25	13-Mar-25	1.63cps	20-Mar-25
SUMMERSET	SUM	13-Mar-25	14-Mar-25	13.2 cps	27-Mar-25
VULCAN STEEL	VSL	13-Mar-25	14-Mar-25	2.69 cps	27-Mar-25
CHORUS	CNU	17-Mar-25	18-Mar-25	23 cps	15-Apr-25
NZME	NZM	18-Mar-25	19-Mar-25	8.33 cps	31-Mar-25
NZX	NZX	18-Mar-25	19-Mar-25	4.3 cps	2-Apr-25
AUCKAIR	AIA	19-Mar-25	20-Mar-25	8.68 cps	4-Apr-25
GENESISENRGY	GNE	19-Mar-25	20-Mar-25	9.9 cps	10-Apr-25
SEEKA	SEK	19-Mar-25	20-Mar-25	6.94 cps	15-Apr-25
A2 Milk	ATM	20-Mar-25	21-Mar-25	11.8 cps	4-Apr-25
COL MOTOR GROUP	CMO	20-Mar-25	21-Mar-25	20.83 cps	31-Mar-25
SPARK	SPK	20-Mar-25	21-Mar-25	16.14 cps	4-Apr-25
TOURISM HOL	THL	20-Mar-25	21-Mar-25	3.47 cps	4-Apr-25
VECTOR	VCT	20-Mar-25	21-Mar-25	12 cps	31-Mar-25
NZ LAND	NZL	24-Mar-25	25-Mar-25	2.54 cps	22-Apr-25
PGGWRIGHT	PGW	25-Mar-25	26-Mar-25	3.47 cps	3-Apr-25

Source: Iress

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