

# Yovich & Co. Weekly Market Update

29<sup>th</sup> July 2024

## Investment News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
<b>Previous Week 19<sup>th</sup> July</b>	12325.60	8209.17	2982.31	8155.72	40287.53	17726.94	0.8990	0.6009	5.50%
<b>Week Close 26<sup>th</sup> July</b>	12349.47	8153.41	2890.90	8285.71	40589.34	17357.88	0.8993	0.5888	5.50%
<b>Change</b>	0.19%	-0.68%	-3.07%	1.59%	0.75%	-2.08%	0.03%	-2.01%	0.00%

The NZX 50 index closed the week at 12,349.47 after reaching an intraday high of 12,422.63. Contributing factors to the index increase was due to the Healthcare and Consumer staples sectors having a positive performance.

The Australian All Ordinaries index fell by 0.68% to 8,153.41. This decline reflects mixed investor sentiment as concerns about China's economic slowdown continue to weigh on the market. However, some sectors, such as mining, showed resilience due to stable commodity prices.

The Shanghai Composite dropped by 3.07% to 2,890.90. The decline was primarily driven by investor concerns over China's economic recovery and potential regulatory actions affecting tech companies.

The FTSE 100 increased by 1.59% to 8,285.71, due to improved sentiment following positive economic data from the UK. The UK has been in the central banks inflationary target of 2% for the last two months, and hopes have been raised that rates can start to be reduced.

In the US, the Dow Jones rose by 0.75% to 40,589.34, supported by strong earnings from 3M, Bristol-Myers Squibb, and Charter Communications. Conversely, the NASDAQ fell by 2.08% to 17,357.88, with tech stocks underperforming due to profit-taking and sector rotation. U.S. economic activity was considerably stronger than expected during the second quarter, with GDP growth at 2.8%.

The NZD showed marginal movements against major currencies, reflecting stability amidst global volatility. The NZD/AUD was slightly up by 0.03%, while the NZD/USD decreased by 2.01% to 0.5888.

## Weekly Market Movers

The biggest movers of the Week ending 26 <sup>th</sup> July 2024			
Up		Down	
Arvida Group Limited	57.28%	Serko	-7.47%
Oceania Healthcare	30.00%	Mainfreight	-6.47%
The Warehouse Group	22.41%	Meridian Energy	-5.23%
KMD Brands	12.66%	Gentrack Group	-4.19%
Investore Property	8.26%	Port of Tauranga	-3.83%

### Top Gainers:

- Arvida Group Limited (57.28%):** As covered in the previous week, Arvida Group's share price soared after US company Stonepeak Limited announced a takeover bid valued at \$1.24 billion (USD 745.74 million). The proposed acquisition price is NZD 1.70 per share, marking the highest share price since June 3, 2022. The board and key shareholders of Arvida support the offer. For the takeover to proceed, it requires approval from 75% of voting shareholders and 50% of all company shares.
- Oceania Healthcare (30.00%):** Oceania Healthcare rocketed 30% in the last week, recovering from prior weakness. This is due to the residential healthcare sector benefiting from the recent announcements from the RBNZ that OCR rate cuts may be sooner than expected. The news from Arvida also has benefited the Healthcare sector.
- The Warehouse Group (22.41%):** An Australian private equity firm, supported by the group's founder Sir Stephen Tindall, has proposed acquiring The Warehouse Group for up to \$590 million. This would imply a takeover price of between \$1.50 and \$1.70 per share. However, the proposal remains incomplete and conditional, so the timing of the transaction is still uncertain.
- KMD Brands (12.66%):** KMD's share price rose 12.66% to \$0.45, reaching a five-week high. This increase may reflect positive expectations for a recovery in the retail sector, fueled by predictions that the CPI inflation rate will drop below 3% in the second half of 2024. Additionally, falling interest rates are likely to boost discretionary spending, benefiting the retail industry.
- Investore Property (8.26%):** Investore Property saw its share price rise 8.26%. IPL's investment strategy is focused on large format retail property assets, which with the dovish tones from the RBNZ and expectation of rates decreasing, will impact revenue due to lower interest rates.

### Top Losers:

- Serko (-7.47%):** Serko's shares declined by 7.47% for the week, nearly erasing the gains made in the previous week. This drop is attributed to typical market fluctuations. Since early July, Serko's stock has been on a steady upward trend, so this decrease is likely a natural market correction.
- Mainfreight (-6.47%):** Mainfreight's Financial Year 2024 results revealed weaker-than-expected demand in logistics, with revenue falling 17% to \$4.72 billion from \$5.68 billion. While the performance in New Zealand and Australia met expectations, results in Asia, the Americas, and Europe were below forecasts. Declining freight volumes led to reduced utilisation across all product lines and increased overhead costs.
- Meridian Energy (-5.23%):** Meridian Energy's share price fell by 5.23%. A significant development last week was Meridian invoking a provision in its supply contract, which requires the Tiwai Point smelter to reduce its power consumption. This move comes as Meridian contends with historically low hydro lake levels.
- Gentrack Group (-4.19%):** Gentrack's share price fell 4.19% for the week, which was due to normal market activity. The decline reflects typical market fluctuations rather than any specific company-related news or events.
- Port of Tauranga (-3.83%):** Port of Tauranga saw a decline in stock value as trade volumes decreased, impacted by global supply chain disruptions.


## Spotlight on BlueScope Steel Limited. Technical and Fundamental Analysis

### Company Profile:

BlueScope Steel Limited is a prominent global leader in metal coating and painting products for the building and industries, and a leading steel producer in the Asia-Pacific region. Spun off from BHP in 2002, BlueScope has grown to a market capitalization of AUD 9.48 billion.

In 2004, BlueScope strategically partnered with American firm Butler Manufacturing, significantly expanding its presence in the USA. It now operates five businesses in North America, employing approximately 4,000 people. This region is its second-largest market after Australia, where it has around 100 sites, including manufacturing plants, roll-forming facilities, and distribution centres, employing 7,000 people. BlueScope also maintains a substantial presence in over 10 other countries worldwide, underscoring its global reach and influence.

<b>Security Code</b>	BSL			
<b>Description</b>	BlueScope Steel Limited			
<b>Exchange</b>	ASX			
<b>Industry</b>	Steel			
<b>Market Capitalisation (AUD)</b>	\$9.505 Billion			
<b>Index</b>	ASX 200			
<b>Weighting in Index</b>	0.37%			
<b>Current Price (AUD)</b>	\$	21.58		
<b>Target Price (AUD)</b>	\$	23.03		
<b>Discount to Target Price</b>	6.30%			
<b>5 Year Hist Return</b>	17.25%			
<b>5 Year Hist Risk (SD)</b>	35.58%			



Forecasts	6/2023A	6/2024F	6/2025F	6/2026F
<b>PE Ratio</b>	9.11	10.39	11.81	9.91
<b>Dividend Yield (%)</b>	2.32	2.34	2.38	2.33
<b>Revenue (AUD)</b>	\$18.243 Billion	\$17.426 Billion	\$17,093 Billion	\$17.500 Billion
<b>EBITDA (AUD)</b>	\$2.266 Billion	\$2.070 Billion	\$1.897 Billion	\$2.095 Billion
<b>Net Debt (AUD)</b>	\$-703 Million	\$-481 Million	\$-593 Million	\$-747 Million
<b>\$</b>	17.27	\$ 20.15	\$ 23.03	\$ 25.91
<b>Buy</b>	Outperform	Hold	Underperform	Sell
		↑		

### Fundamental Analysis:

BlueScope Steel currently exhibits a relatively low P/E ratio, generally considered undervalued at less than 15. The company has no debt and anticipates holding significant net cash, projected to reach \$747 million by 2026. It has demonstrated a strong historical annualised 5-year return of 17.25%. With a current share price of \$21.58, it is trading at a 6.30% discount to the consensus target price of \$23.03.

According to our methodology, BlueScope Steel is assigned a 'hold' rating, despite its trading discount to the target price.

### Economic Growth:

The steel industry is experiencing a revival, fuelled by increased global demand for infrastructure and construction projects. BlueScope, alongside competitors like ArcelorMittal and Nippon Steel, is well-positioned to capitalise on these trends due to its advanced manufacturing capabilities and sustainable practices. The shift towards green steel production and technological innovation enhances the sector's appeal, and BlueScope's eco-friendly initiatives align with global sustainability goals, providing a competitive edge.



Source: Iress

**Moving Averages:**

- Weekly Chart: Conversely, the 50-week moving average is above the 200-week moving average since March 2021, indicating a bullish trend. This "golden cross" suggests sustained upward momentum over the long term, which is often a positive sign for long-term investors. It implies that despite recent volatility, the stock has generally been trending upward over a longer period.

**MACD (Moving Average Convergence Divergence)**

- Signal: The MACD line (white) appears to be converging with the signal line (red). Given the long term upward trend based on weekly chart this indicates a potential bullish crossover in near term.

**RSI (Relative Strength Index)**

- Current Level: RSI is around 62.5, which is above the neutral 50 line but below the overbought threshold of 70, indicating bullish momentum without being overbought.

**Conclusion:**

The steel industry is set for continued growth, and BlueScope Steel is strategically positioned to capitalise on emerging opportunities. The company's emphasis on sustainable practices and technological advancements enhances its market appeal. Strategic acquisitions and a global presence, combined with economic recovery, position BlueScope well for future success.

Currently, BlueScope Steel is trading at a 6.30% discount to the consensus target price, based on data from 12 analysts, suggesting it may be a worthwhile consideration for investors. BlueScope Steel Limited is on our preferred list to get global exposure to the steel sector.

**Upcoming Dividends: 30<sup>th</sup> of July to 30<sup>th</sup> of August**

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	PayDate
Livestock	LIC	01-Aug-24	02-Aug-24	8.11 cps	16-Aug-24
Third Age	TAH	01-Aug-24	02-Aug-24	4.56 cps	16-Aug-24

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