

# Yovich & Co. Weekly Market Update

26<sup>th</sup> August 2024

## Investment News

|                                       | NZX 50G   | All Ords | Shanghai | FTSE     | Dow       | NASDAQ    | NZDAUD | NZDUSD | OCR   |
|---------------------------------------|-----------|----------|----------|----------|-----------|-----------|--------|--------|-------|
| Previous Week 16 <sup>th</sup> August | 12,727.75 | 8,189.87 | 2,879.43 | 8,311.41 | 40,659.76 | 17,631.72 | 0.91   | 0.61   | 5.25% |
| Week Close 23 <sup>rd</sup> August    | 12,529.99 | 8,249.13 | 2,854.37 | 8,327.78 | 41,175.08 | 17,877.79 | 0.92   | 0.62   | 5.25% |
| Change                                | -1.55%    | 0.72%    | -0.87%   | 0.20%    | 1.27%     | 1.40%     | 1.06%  | 3.01%  | 0.00% |

The NZX 50 dropped by 1.55% this week, closing at 12,529.99. This decline was mainly due to investors being cautious because of global economic worries and some big New Zealand companies reporting lower-than-expected earnings. According to ANZ's economists, there's a lot of uncertainty about how the economy will react to lower interest rates, especially since the recent recession was intentionally caused by the Reserve Bank to control the economy. However, most forecasters are predicting a gradual economic recovery.

The All Ordinaries in Australia saw a modest increase of 0.72% to 8,249.13, supported by strong performances in the materials and financial sectors. Investor optimism was fuelled by positive economic data and strong corporate earnings reports, which helped lift the market.

The Shanghai Composite dropped by 0.87%, closing at 2,854.37. This decline was primarily due to investor concerns over China's economic slowdown and ongoing regulatory crackdowns on key sectors, which continue to weigh on market sentiment.

In contrast, the FTSE 100 in the UK rose by 0.20% to 8,327.78, driven by gains in consumer staples and healthcare stocks. The Dow Jones Industrial Average in the US climbed by 1.27% to 41,175.08, bolstered by strong economic data and positive earnings from major companies.

The NASDAQ also increased by 1.40%, reflecting continued strength in the technology sector. The NZD appreciated against both the AUD and USD, supported by expectations of stable interest rates following the recent OCR.

## Weekly Market Movers

| The biggest movers of the Week ending 26th August 2024 |        |                           |         |
|--|--------|---------------------------|---------|
| Up   |        | Down                      |         |
| KMD Brands   | 14.29% | Fletcher Building         | -14.77% |
| Fisher & Paykel Healthcare                             | 7.60%  | Spark                     | -9.01%  |
| Vulcan Steel   | 4.17%  | Meridian Energy           | -6.20%  |
| Fonterra Shareholders' Fund                            | 3.44%  | Vista Group International | -5.21%  |
| Port of Tauranga                                       | 2.60%  | Ebos Group                | -4.71%  |

## Investment News:

**Spark New Zealand (SPK.NZ):** Spark New Zealand, a leading telecommunications provider, currently trades at \$3.85 per share, with a consensus target price of \$4.84. This suggests a potential upside of 25.7%, and when combined with a forecast dividend yield of 10%, the total expected return is an attractive 35.7%.

The company recently reported weaker-than-expected FY24 results, primarily due to underperformance in its core telecommunications division. Spark included some one-off gains to meet the lower end of its EBITDAI guidance, but overall earnings quality was viewed as low. Despite these challenges, Spark's ongoing cost-cutting initiatives are expected to mitigate the impact on FY25. However, the company faces significant challenges in stabilising its IT services business and achieving the projected 3% growth in mobile service revenue amid a tough macroeconomic environment.

Financially, Spark's focus on maintaining strong cash flow and disciplined capital management supports its ability to deliver a high dividend yield, which is well-covered by earnings. The company's strategy remains centered on optimising its core business operations while navigating the pressures of a competitive and evolving telecom market. Spark's combination of a substantial dividend yield and potential capital appreciation makes it a compelling option for income-focused investors seeking stability in the New Zealand market.

**Current Share Price:** \$3.85, **Consensus Target Price:** \$4.84, **Consensus Forecast Dividend Yield:** 10%.

**Total Return:** 35.7%

**Tourism Holdings (THL.NZ):** Tourism Holdings Limited (THL), a major player in the tourism industry operating in Australia, New Zealand, and the United States, currently trades at \$2.10 per share, with a consensus target price of \$3.30. This represents a potential upside of 57.1%, and when combined with a forecast dividend yield of 6.30%, the total expected return is an impressive 63.4%.

THL is forecasted to grow its earnings and revenue by 13.7% and 7.1% per annum, respectively. The company's earnings per share (EPS) are expected to increase by 13.3% per annum, indicating strong profitability growth. In the next three years, return on equity (ROE) is projected to be 12.7%, reflecting the company's efficient use of shareholder funds.

Financially, THL has a total shareholder equity of NZ\$618.4M and a debt-to-equity ratio of 73.4%, with total debt standing at NZ\$454.0M. The company's total assets are NZ\$1.4B, with total liabilities amounting to NZ\$791.9M. THL's earnings before interest and taxes (EBIT) is NZ\$120.6M, giving it an interest coverage ratio of 3.6, which indicates a comfortable ability to meet interest obligations. The company also holds cash and short-term investments of NZ\$50.3M, providing financial flexibility. The company's strong financials and growth prospects, coupled with a solid dividend yield, make it an attractive option for investors looking for exposure to the tourism sector as it continues to recover and grow in key markets.

**Current Share Price:** \$2.10, **Consensus Target Price:** \$3.30, **Consensus Forecast Dividend Yield:** 6.30%, **Total Return:** 63.4%

**Inghams Group (ING.AU):** Inghams Group, a leading poultry producer in Australia, is currently trading at \$3.10 per share, with a consensus target price of \$3.95. This suggests a potential upside of 27%, which is an attractive prospect for investors.

The company delivered a robust FY24 performance, with EBITDA growing by approximately 31% year-over-year, meeting market expectations. However, growth flattened in the second half of the year due to weaker volumes and lighter bird weights. A key contract renegotiation with Woolworths is expected to reduce volumes in FY25 and FY26, yet Inghams remains optimistic about achieving a modest EBITDA increase in FY25.

Inghams' strategic focus on operational efficiencies, customer diversification, and risk management underpins its long-term goal of achieving a 10% EBITDA margin in Australia. Successfully reaching this target could significantly enhance the company's future earnings, making it a compelling investment opportunity in the food production sector.

**Current Share Price: \$3.10, Consensus Target Price: \$3.95, Total Return: 27%**

**Chorus (CNU.NZ):** Chorus, New Zealand's telecommunications infrastructure provider, is currently trading at \$8.71 per share, which is above the consensus target price of \$7.50. This indicates that the stock may be trading at a premium, presenting a potential sell opportunity for investors. The company has shown resilience in the face of competitive pressures and regulatory challenges, largely due to its commitment to expanding its fiber network and improving service delivery.

While Chorus remains a key player in New Zealand's digital economy with a strategic focus on enhancing network capabilities, the current market environment is challenging. The company's ongoing investments in infrastructure are expected to support long-term earnings growth. However, with a forecasted total return of -8.4%, the stock's current price premium suggests that investors may want to consider realising gains, especially if the market adjusts to reflect the consensus target price. Additionally, the forecasted dividend yield of 5.50% provides income but may not fully offset the potential downside if the stock price corrects.

**Current Share Price: \$8.71, Consensus Target Price: \$7.50, Consensus Forecast Dividend Yield: 5.50%, Total Return: -8.4%**

## Spotlight on Contact Energy's Plan to Share the Wealth! From Power to Payout.

### Company Profile:

Contact Energy Limited (CEN.NZ) is one of New Zealand's largest energy generators and retailers (Gentailers). Established in 1996, Contact Energy plays a crucial role in the country's energy market, providing electricity, natural gas, and LPG services to residential and business customers across New Zealand. The company is headquartered in Wellington and operates a diverse portfolio of power stations, including hydro, geothermal, and natural gas-fired plants.


Contact Energy is committed to sustainability and has a strong focus on renewable energy. The company's geothermal energy generation capabilities are among the largest in the world, contributing significantly to New Zealand's renewable energy supply. Contact Energy's hydroelectric assets are also pivotal, ensuring a stable and environmentally friendly energy source. Continuing this strategic strategy, Contact Energy has recently confirmed that it will build its first solar farm. The 168MWp Kōwhai Park Solar Farm at Christchurch Airport will have around 300,000 solar panels, spanning around 230 hectares of land behind the airport's runways, and will generate over 275GWh per year – enough to power more than 30,000 homes. Along with the solar farm Contact Energy is

answering the call for more energy storage by partnering with Tesla to build a 100MW 2-hour storage battery, which will provide enough electricity to meet peak demand over winter for 44,000 homes. The new \$163 million grid-scale battery is located at the Glenbrook site, southwest of Auckland, and is expected to be online in March 2026.

In addition to its generation operations, Contact Energy is deeply involved in the retail energy market, offering a range of services and products tailored to meet the needs of different customer segments. The company is also focused on innovation and digital transformation, aiming to enhance customer experience through technology-driven solutions.

With its strategic focus on sustainable energy and customer-centric services, Contact Energy continues to be a key player in New Zealand's energy sector, driving both economic growth and environmental stewardship.

|                                    |                        |       |  |  |
|------------------------------------|------------------------|-------|--|--|
| <b>Security Code</b>               | CEN                    |       |  |  |
| <b>Description</b>                 | Contact Energy Limited |       |  |  |
| <b>Exchange</b>                    | NZX                    |       |  |  |
| <b>Industry</b>                    | Utilities              |       |  |  |
| <b>Market Capitalisation (NZD)</b> | \$6,857 million        |       |  |  |
| <b>Index</b>                       | NZX 50                 |       |  |  |
| <b>Weighting in Index</b>          | 4.80%                  |       |  |  |
| <b>Current Price (NZD)</b>         | \$                     | 8.69  |  |  |
| <b>Target Price (NZD)</b>          | \$                     | 10.16 |  |  |
| <b>Discount to Target Price</b>    | 14.47%                 |       |  |  |
| <b>5 Year Hist Return</b>          | 4.20%                  |       |  |  |
| <b>5 Year Hist Risk (SD)</b>       | 25.50%                 |       |  |  |



| Forecasts                 | 6/2024A         | 6/2025F         | 6/2026F         | 6/2027F            |
|---------------------------|-----------------|-----------------|-----------------|--------------------|
| <b>PE Ratio</b>           | 29.86           | 23.51           | 21.43           | 19.51              |
| <b>Dividend Yield (%)</b> | 4.26            | 4.49            | 4.53            | 4.69               |
| <b>Revenue (NZD)</b>      | \$2,863 Millio  | \$3,499 Million | \$2,973 Million | \$2,793 Million    |
| <b>EBITDA (NZD)</b>       | \$663 Million   | \$778 Million   | \$845 Million   | \$856 Million      |
| <b>Net Debt (NZD)</b>     | \$1,652 Million | \$1,937 Million | \$2,122 Million | \$2,263 Million    |
| <b>\$</b>                 | 7.57            | 8.86            | 10.16           | 11.46              |
| <b>Strong Buy</b>         | <b>Buy</b>      | <b>Hold</b>     | <b>Sell</b>     | <b>Strong Sell</b> |
|                           | ↑               |                 |                 |                    |

### Fundamental Analysis:

Contact Energy Limited's projected P/E ratio decline from 29.86 in 2024 to 19.51 by the end of 2026 suggests that the company is becoming more attractive from a valuation perspective. This reduction in P/E, coupled with anticipated revenue and EBITDA growth, highlights the company's robust business fundamentals and operational strength. The forecasted increase in revenue from NZD 2,863 million in 2024 to NZD 2,973 million by 2026 and the corresponding EBITDA growth from NZD 663 million to NZD 845 million further solidify this outlook. CEN.nz is forecasting increasing debt, reflecting the continued investment in energy security. The forecasted rise in dividend yield is from 4.26% to 4.53% (2026), providing confidence to investors.

CEN.nz is currently trading at \$8.69 which is a 14.47% discount to the consensus target price of \$10.16. According to our methodology, CEN.nz is assigned a 'Buy' rating.

**Upcoming Dividends: 27<sup>th</sup> of August to 27<sup>th</sup> of September.**

| Description               | Security | ExDivDate | BooksClose | Gross Dividend Amount | PayDate   |
|---------------------------|----------|-----------|------------|-----------------------|-----------|
| Contact Energy            | CEN      | 27-Aug-24 | 28-Aug-24  | 31.17 cps             | 27-Sep-24 |
| Investore Property        | IPL      | 27-Aug-24 | 28-Aug-24  | 2.12 cps              | 5-Sep-24  |
| EBOS                      | EBO      | 29-Aug-24 | 30-Aug-24  | 67.48 cps             | 18-Sep-24 |
| Ventia                    | VNT      | 29-Aug-24 | 30-Aug-24  | 10.21 cps             | 7-Oct-24  |
| Ampol                     | ALD      | 30-Aug-24 | 2-Sep-24   | 65.51 cps             | 26-Sep-24 |
| BARRAMUNDI                | BRM      | 4-Sep-24  | 5-Sep-24   | 1.73 cps              | 27-Sep-24 |
| Kingfisher                | KFL      | 4-Sep-24  | 5-Sep-24   | 2.84 cps              | 27-Sep-24 |
| Marlin                    | MLN      | 4-Sep-24  | 5-Sep-24   | 2.53 cps              | 27-Sep-24 |
| Vital Healthcare Property | VHP      | 4-Sep-24  | 5-Sep-24   | 2.44 cps              | 19-Sep-24 |
| Channel Infrastructure    | CHI      | 5-Sep-24  | 6-Sep-24   | 4.4 cps               | 20-Sep-24 |
| Kiwi Property             | KPG      | 5-Sep-24  | 6-Sep-24   | 1.64 cps              | 20-Sep-24 |
| SKT TV                    | SKT      | 5-Sep-24  | 6-Sep-24   | 16.67 cps             | 20-Sep-24 |
| Argosy Property           | ARG      | 10-Sep-24 | 11-Sep-24  | 1.98 cps              | 25-Sep-24 |
| Solution Dynamics         | SDL      | 10-Sep-24 | 11-Sep-24  | 3.47 cps              | 27-Sep-24 |
| Mercury                   | MCY      | 11-Sep-24 | 12-Sep-24  | 19.44 cps             | 30-Sep-24 |
| Freightways Group         | FRW      | 12-Sep-24 | 13-Sep-24  | 26.39 cps             | 1-Oct-24  |
| Spark                     | SPK      | 12-Sep-24 | 13-Sep-24  | 19.44 cps             | 4-Oct-24  |
| Auckland Airport          | AIA      | 18-Sep-24 | 19-Sep-24  | 9.03 cps              | 4-Oct-24  |
| NZX                       | NZX      | 18-Sep-24 | 19-Sep-24  | 4.17 cps              | 3-Oct-24  |
| Port of Tauranga          | POT      | 19-Sep-24 | 20-Sep-24  | 12.08 cps             | 4-Oct-24  |
| Marsden Maritime Holdings | MMH      | 20-Sep-24 | 23-Sep-24  | 7.99 cps              | 30-Sep-24 |
| Genesis Energy            | GNE      | 25-Sep-24 | 26-Sep-24  | 9.72 cps              | 11-Oct-24 |
| Colonial Motor Company    | CMO      | 26-Sep-24 | 27-Sep-24  | 27.78 cps             | 7-Oct-24  |

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