

# Yovich & Co. Weekly Market Update

9<sup>th</sup> September 2024

## Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 30 <sup>th</sup> August	12,447.68	8,316.67	2,842.21	8,376.63	41,563.08	17,713.63	0.9238	0.6249	5.25%
Week Close 6 <sup>th</sup> September	12,615.51	8,214.85	2,765.81	8,181.47	40,345.41	16,690.83	0.9257	0.6175	5.25%
Change	1.35%	-1.22%	-2.69%	-2.33%	-2.93%	-5.77%	0.21%	-1.18%	0.00%

This past week saw a mix of movements across global markets driven by a range of economic factors. The NZX 50 rose by 1.35% to close at 12,615.51, supported by gains in the industrial and healthcare sectors. Strong business confidence, reflected in ANZ's latest Business Outlook report, which reached its highest level in a decade, contributed to positive market sentiment. Investors seem optimistic about the economic outlook, with expectations of improved business activity driving the rally. Meanwhile, the All Ordinaries in Australia slipped by 1.22%, largely due to concerns over slowing demand in key sectors like mining and energy. The market sentiment was further impacted by weaker-than-expected economic data and declining consumer spending.

In the U.S., the Dow Jones fell by 2.93% as investors reacted to disappointing nonfarm payroll data and increasing recession fears. Tech stocks took a significant hit, with the Nasdaq dropping 5.77% due to weaker performance from major companies like NVIDIA and Tesla.

Lastly, the NZD gained against the USD but lost ground against the AUD as markets responded to inflationary pressures and interest rate speculation.

## Weekly Market Movers

The biggest movers of the Week ending 6 <sup>th</sup> September 2024			
Up		Down	
The Warehouse Group	8.77%	Fletcher Building	-7.82%
Infratil	7.79%	Vital Healthcare Property Trust	-5.15%
Scales Corporation	7.06%	Ryman Healthcare	-4.74%
Fisher & Paykel Healthcare	5.06%	Precinct Properties NZ	-4.48%
ANZ Bank	4.59%	SKYCITY Entertainment Group	-4.03%

## Investment News

**The Warehouse Group:** The Warehouse Group's recent strategic restructuring and leadership changes have helped boost investor confidence. The company announced plans to focus on its core brands—The Warehouse, Warehouse Stationery, and Noel Leeming—and streamline its operations to enhance performance. The optimism around this decisive action contributed to the stock's positive movement, with investors responding favourably to the cost-cutting measures and improved business focus.

**Current Share Price:** \$1.23, **Consensus Target Price:** \$1.15, **Consensus Forecast Dividend Yield:** 5.6%, **Total Return:** -0.9%

**Infratil:** Infratil's continued focus on renewable energy projects and data infrastructure investments has strengthened its appeal to investors. The company's diversified portfolio, including stakes in wind energy and healthcare infrastructure, has positioned it as a resilient player amid market volatility. This strategic focus, combined with favourable earnings projections, has driven Infratil's stock upward.

**Current Share Price:** \$11.80, **Consensus Target Price:** \$11.88, **Consensus Forecast Dividend Yield:** 2%, **Total Return:** 2.7%

**Vital Healthcare Property Trust:** Vital Healthcare faced pressure as rising interest rates began to impact property trusts, especially those focused on healthcare real estate. The broader economic environment, particularly increasing borrowing costs, has weighed on the property sector, leading to a decline in the trust's share price despite stable long-term fundamentals.

**Current Share Price:** \$1.94, **Consensus Target Price:** \$2.02, **Consensus Forecast Dividend Yield:** 6.09%, **Total Return:** 10.2%

**Precinct Properties:** Similar to Vital Healthcare, Precinct Properties has been negatively affected by rising interest rates, which increase borrowing costs for property companies. With concerns over the property market's resilience in the current economic climate, investor caution has led to a decline in Precinct's stock price.

**Current Share Price:** \$1.28, **Consensus Target Price:** \$1.34, **Consensus Forecast Dividend Yield:** 5.4%, **Total Return:** 10.1%

**SKYCITY Entertainment Group:** SKYCITY's share price fell after regulatory scrutiny intensified around its gambling operations, particularly in relation to compliance concerns. This has led to uncertainty about future earnings and possible fines, which caused investor sentiment to weaken.

**Current Share Price:** \$1.41, **Consensus Target Price:** \$1.83, **Consensus Forecast Dividend Yield:** 0%, **Total Return:** 29.8%

## Spotlight on the Utility Powerhouses Going Green: Your Guide to New Zealand's Leading Energy Players

The utilities sector in New Zealand has always been a critical part of the country's economy and infrastructure, with major players like Contact Energy, Genesis Energy, Meridian Energy, Mercury Energy, Manawa Energy, and Vector dominating the market. These companies provide essential services to businesses and households, primarily focusing on energy generation, distribution, and infrastructure. What sets them apart are their energy sources and strategies as they transition toward renewable energy. Let's take a detailed look at how these companies compare in terms of their energy sources and market performance.

Company	Current Price	Consensus Target Price (1 Year)	Discount/ Upside Potential	Consensus Forecast Dividend Yield	Weightage in NZX50	New Zealand Govt ownership
Contact Energy	\$8.31	\$10.16	22.26%	6.30%	4.60%	No direct ownership
Genesis Energy	\$2.27	\$2.54	11.89%	8.40%	1.72%	51%
Manawa Energy	\$4.00	\$5.60	40.00%	6.10%	0.88%	No direct ownership
Mercury Energy	\$6.40	\$6.47	1.09%	5.20%	6.30%	51%
Meridian Energy	\$6.09	\$6.56	7.81%	5.20%	11.00%	51%
Vector	\$3.80	\$4.16	9.47%	6.00%	2.67%	No direct ownership

### GICS Sector: Industrials; NZX 50 Companies; Sources: IRESS, Yovich & Co. Wealth Management

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## 1. Contact Energy

Contact Energy is one of New Zealand's largest energy generators and retailers, and it is at the forefront of the renewable energy shift. The company operates a diverse range of energy assets, including geothermal, hydroelectric, and natural gas-fired plants. Geothermal energy forms a significant part of Contact's portfolio, positioning it as one of the largest geothermal energy generators in the world. The company's commitment to sustainability is evident in its projects, such as its plans to build a 168 MW solar farm and a 100 MW grid-scale battery to ensure energy reliability. The shift towards renewable energy is evident in its investments, while its remaining gas assets serve as a transitional measure as it moves towards a carbon-neutral future.

## 2. Genesis Energy

Genesis Energy is New Zealand's largest thermal electricity generator, and while the company has traditionally relied heavily on coal and natural gas, it has committed to moving away from coal by 2025. Genesis generates electricity from hydro and wind as well and has made significant investments in these areas. Despite its dependence on thermal generation, the company is working on several renewable energy initiatives, including partnerships to develop wind and solar projects. Genesis's Huntly Power Station—the largest in New Zealand—has long been the backbone of the country's thermal energy generation, but the company has made it clear that its future lies in renewables. The shift to a greener energy mix is crucial for Genesis, given the global move towards sustainability.

## 3. Meridian Energy

Meridian Energy is New Zealand's largest 100% renewable energy generator. It operates hydroelectric and wind farms across New Zealand and is a major player in the renewable energy sector. Meridian's hydroelectric power stations on the Waitaki River are some of the most significant sources of electricity in the country. The company is also heavily invested in wind generation, operating several wind farms across New Zealand. Meridian's all-renewable portfolio is a key differentiator, making it highly attractive to environmentally conscious investors. Given its strategic focus on sustainability, Meridian is poised to benefit from New Zealand's commitment to a low-carbon economy.

## 4. Mercury Energy

Mercury Energy is another major player in the renewable energy space, with a portfolio dominated by hydroelectric and geothermal energy. The company operates the Mighty River Power hydroelectric stations on the Waikato River, one of New Zealand's most critical sources of renewable electricity. In addition to hydro, Mercury has significant geothermal assets, further bolstering its renewable energy credentials. The company has recently expanded its operations into wind energy, with new projects aimed at diversifying its renewable portfolio. Mercury's focus on expanding its renewable energy sources, particularly wind, demonstrates its commitment to staying competitive in a transitioning energy market.

## 5. Manawa Energy

Formerly known as Trustpower, Manawa Energy focuses almost entirely on renewable energy, primarily through hydroelectric power. The company's rebranding is part of a broader strategy to emphasize its commitment to sustainability. Manawa operates numerous small to medium-sized hydroelectric power stations across New Zealand. Unlike some of its peers, Manawa's energy generation is entirely from renewable sources, positioning it well in the face of global and local regulatory pressures to reduce carbon emissions. The 40% discount on its target price highlights analysts' optimism about its growth potential in the renewable energy sector.

## 6. Vector

Vector is New Zealand's largest energy infrastructure provider, with significant assets in electricity distribution and gas transmission. While Vector is not an energy generator, it plays a crucial role in delivering electricity and gas to homes and businesses. Vector has been investing heavily in smart grid technology and battery storage, which are essential for integrating more renewable energy into the grid. Its focus on infrastructure, rather than generation, sets it apart from the other companies in this list. Vector's investments in smart energy systems and partnerships in the electric vehicle space make it a critical player in New Zealand's evolving energy landscape.

### Comparison by Energy Source

**100% Renewable Companies:** Meridian Energy and Manawa Energy lead the way with 100% renewable portfolios, primarily relying on hydroelectric and wind energy.

**Geothermal Leaders:** Contact Energy and Mercury Energy both have significant geothermal assets, providing reliable base-load renewable energy.

**Transitioning Away from Thermal:** Genesis Energy is the only company with substantial reliance on thermal (coal and gas) generation, though it is actively transitioning away from coal to meet sustainability targets by 2025.

### Wrap Up

The utilities sector in New Zealand offers a diverse range of investment opportunities, with companies at various stages of transitioning to renewable energy. While some companies like Meridian and Manawa are fully renewable, others like Genesis and Contact are in transition, balancing traditional energy sources with investments in wind, solar, and geothermal projects. As the global energy market continues to shift towards sustainability, the sector offers both stability and growth potential for investors.

Our current preferred investment is Contact Energy. Contact stands out with a compelling blend of renewable and transitional energy assets, including geothermal and hydroelectric plants, making it one of the largest renewable energy generators in New Zealand. Moreover, recent developments add to its attractiveness:

**Solar Farm Investment:** Contact Energy has announced its first solar farm, the 168 MWp Kōwhai Park Solar Farm at Christchurch Airport, which will be one of the largest solar projects in New Zealand. This project underscores its commitment to expanding renewable energy capacity.

**Grid-Scale Battery Investment:** Contact is also investing in a 100 MW grid-scale battery in partnership with Tesla, set to stabilize energy supply during peak demand, demonstrating its forward-looking approach to energy storage and reliability.

**Stable Dividend Yield:** Contact Energy offers a 6.30% forecast dividend yield, providing a reliable income stream for investors, coupled with an attractive 22.26% upside potential based on its target price. Total return 28.56%.

These factors, alongside Contact’s strategic focus on balancing its renewable and transitional energy sources, make it a compelling investment in New Zealand’s energy sector.

Read more about Contact Energy from our recent article following below link.

<https://www.yovich.co.nz/articles/Weekly-Market-Update-and-Spotlight-on-Contact-Energy-Limited>

Upcoming Dividends: 9<sup>th</sup> September to 9<sup>th</sup> October.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
ARGOSY	ARG	10-Sep-24	11-Sep-24	1.9765 cps	25-Sep-24
SOLUTION	SDL	10-Sep-24	11-Sep-24	3.4722 cps	27-Sep-24
MERCURY	MCY	11-Sep-24	12-Sep-24	19.4444 cps	30-Sep-24
AIRNZ	AIR	12-Sep-24	13-Sep-24	1.5 cps	26-Sep-24
FREIGHTWAY	FRW	12-Sep-24	13-Sep-24	26.3889 cps	1-Oct-24
NZME	NZM	12-Sep-24	13-Sep-24	4.1667 cps	25-Sep-24
Spark	SPK	12-Sep-24	13-Sep-24	19.4444 cps	4-Oct-24
DOWNEREDI	DOW	13-Sep-24	16-Sep-24	11.9064 cps	15-Oct-24
CHORUS	CNU	16-Sep-24	17-Sep-24	28.5 cps	8-Oct-24
AUCKAIR	AIA	18-Sep-24	19-Sep-24	9.0278 cps	4-Oct-24
NZX	NZX	18-Sep-24	19-Sep-24	4.1667 cps	3-Oct-24
NZ Land	NZL	19-Sep-24	20-Sep-24	1.46 cps	18-Oct-24
PORTTAUR	POT	19-Sep-24	20-Sep-24	12.0833 cps	4-Oct-24
TOURHOLD	THL	19-Sep-24	20-Sep-24	6.9444 cps	4-Oct-24
Marsden	MMH	20-Sep-24	23-Sep-24	7.9861 cps	30-Sep-24
GENESISENRGY	GNE	25-Sep-24	26-Sep-24	9.7222 cps	11-Oct-24
COLMOTOR	CMO	26-Sep-24	27-Sep-24	27.7778 cps	7-Oct-24
Vulcan Steel	VSL	26-Sep-24	27-Sep-24	13.4 cps	10-Oct-24
DELEGATS	DGL	3-Oct-24	4-Oct-24	27.7778 cps	18-Oct-24
SKELLERUP	SKL	3-Oct-24	4-Oct-24	18.5139 cps	18-Oct-24

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