mint
ASSET MANAGEMENT

Quarterly Fund Report:
Mint Australasian Equity Fund

As of 30 June 2024

SINGLE SECTOR FUND

Mint Australasian Equity Fund

Investment Objective

The fund aims to provide investors with long-term capital growth by investing in Australian and New Zealand listed equities. The objective is to outperform the S&P/NZX50 Gross Index after fees and expenses, over the medium to long term.

The Fund

The fund performed well in the quarter managing to remain in the black while the market fell -3.2%. We managed to avoid most of the bad news and have stock selection wins, despite a few of our technology holdings giving back some of last quarter's gains.

Telix our nuclear medicine investment that uses radiation to specifically highlight cancer in various parts of the body, was the standout performer in the quarter. It delivered on a number of the catalysts that we were expecting in the period and received a material re-rate. But we maintain that the current share price allows for just their prostate cancer diagnostic with other cancer diagnostics and the therapeutic opportunity currently for free.

Utilities were also a source of outperformance. Both Meridian and Contact benefitted from the new terms of the Tiwai aluminium smelter contract. This should support further investment and also give scope for higher capital returns going forward. Infratil's capital raise to fund future investment in its data centres (CDC) and green energy investments (Long Road, Gurin, Galileo) was also well received by the market.

The fund also benefitted from limited positions in Fletcher Building, Kathmandu, Ryman and Spark. We do not believe it is a coincidence that a number of these companies have been missing key personnel during a challenging economic period, limiting their ability to react appropriately in our view.

The only real negative for the fund came from Megaport where there was no official news but concerns that the revenue and margin benefit from increased sales personnel due in 4Q, might be drifting into Q1. We do not share this view and believe that medium term progress should outweigh any short-term concerns and continued to add to our position on weakness.

Markets

US economic resilience has surprised the market and reinforced the 'higher for longer' narrative with respect to interest rates. While the US economy has held up well, here in New Zealand, the higher rates are starting to bite. The domestic consumer has done some belt tightening, and this has translated into a flurry of profit warnings.

But it has not been all bad news. Fisher and Paykel upgraded guidance with revenues stronger than expected and Mainfreight once again demonstrated that high quality business can deliver solid performances even in challenging markets.

NextDC and Infratil both raised capital to fund their future growth plans (NZ$1.15bn and A$1.3bn). But the major positive news for New Zealand in the quarter came from the energy sector. At long last we got an update on the Tiwai aluminium smelter contract run by Rio Tinto (which uses for 13% of New Zealand generated power). We see the outcome as a big positive for the whole industry. As expected, the contract was shared across the industry with Mercury joining the consortium. While no price was disclosed, it is clearly higher than the old contract, and we believe this will enable both Meridian and Contact to invest in future power generation and potentially increase their DPS payouts over the medium term.

Looking at earnings downgrades in recent months, I think it would be fair to say that those from Warehouse (expecting EBIT to be $22-30m compared to $83.4m in FY23) and Kathmandu (forecasting EBITDA of NZ$50m versus NZ$123.8m a year ago) were not a major surprise with higher mortgage costs and falling consumer confidence starting to weigh on retail sales. The magnitude was however, but, this does highlight that all costs are fixed in the short term and that falling sales cut straight to the bottom line.

There are sectors of the population who are benefitting from higher interest rates (e.g. retirees with cash in the bank no mortgage). They do not appear to be the typical frequenters of these stores and we see little evidence of this group spending on travel either, with “revenge travel” ostensibly over as Air New Zealand downgraded its profit before tax guidance to $190-230m versus $574m in FY23. Aviation traffic remains c.10% below pre covid rates and the company continues to face significant scheduling issues driven by the shortage of spare parts for its engine fleet and a slow return to New Zealand from Chinese travellers.

Sky City’s downgrade was a little more interesting . The company now expects Underlying EBITDA of $280-285m compared to $310m a year ago – yes this could reflect the rising pressures in Auckland (again - a lack of permanent management does not help), but given ongoing legal proceedings in New Zealand and Australia, we fear that this earnings pressure could be driven by a change in visitation mix to the casinos which could be more structural.

Falling steel prices have been a theme in New Zealand and Australia and have impacted Steel and Tube and Bluescope. While this implies that building material costs are starting to fall (in New Zealand labour costs are also falling while they remain flat in Australia) we see the weak Chinese economy and rising steel stocks as a risk that prices could have further to fall.

It appears that New Zealand and Australia are decoupling from a rates perspective with Government stimulus packages in Australia coming into effect in June making it less likely that the RBA delivers rate cuts this year. A combination of tax cuts, energy subsidies and other stimulus is expected to increase average household income by 3-4.5% over the months ahead and mean that those lucky enough to live in Queensland are unlikely to have a power bill to pay this winter. This is equivalent to a couple of rate cuts for the average Australian, so we believe this stimulus makes Australia less likely to cut rates in the near term. In contrast, deteriorating economic data in New Zealand and recent RBNZ comments implies that we could have a cut in the next couple of months.

Movements in interest rates make the headlines, but the sequencing of rate moves relative to other countries in particular the US are just as important and can have a material impact on exchange rates. We fear New Zealand will have to cut more aggressively than the US. This is expected to weigh on the NZ$ over the months ahead. While this raises the risk of importing inflation from goods bought abroad, it should benefit those stocks which significant operations overseas.

Looking forward, we still see a risk of minor downgrades at the forthcoming earnings season as analysts reflect the deteriorating macro-economic conditions into forecasts. Thereafter, we expect markets to start to focus on the prospect of rate cuts which is likely to drive a cyclical bounce. We prefer to stay with quality growth plays given ongoing balance sheet risks in the more cyclical names and the ongoing deteriorating domestic macroeconomic environment.

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Portfolio Manager, John Middleton

BA

John has more than two decades of experience and joined Mint from ANZ Investments where he was Head of Australasian Equity Research. During this time, he was also heavily involved in corporate broking.

At Mint, John is Portfolio Manager for the Australasian Equity Fund and the Australasian Property Fund and provides research coverage across a number of sectors.

Signatory of:

PRI Principles for Responsible Investment

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