



Change of conditions

The Deloitte South Island Index

A review of the performance of South Island listed companies during the quarter ending 31 December 2016

February 2017

36th Edition

Introduction

Welcome to the 36th edition of the Deloitte South Island Index.

In this edition we reflect on the performance of South Island listed companies during the most recent quarter to 31 December 2016.

The Deloitte South Island Index underwent its largest quarterly decline in both dollar value and percentage terms since the inception of the Index in December 2007, with the Index tumbling \$1,018.6 million (5.2%) from its record peak achieved in the September 2016 quarter. With this significant fall, minds begin to ponder whether a change of conditions is going to be long-lasting?

Movements in December 2016

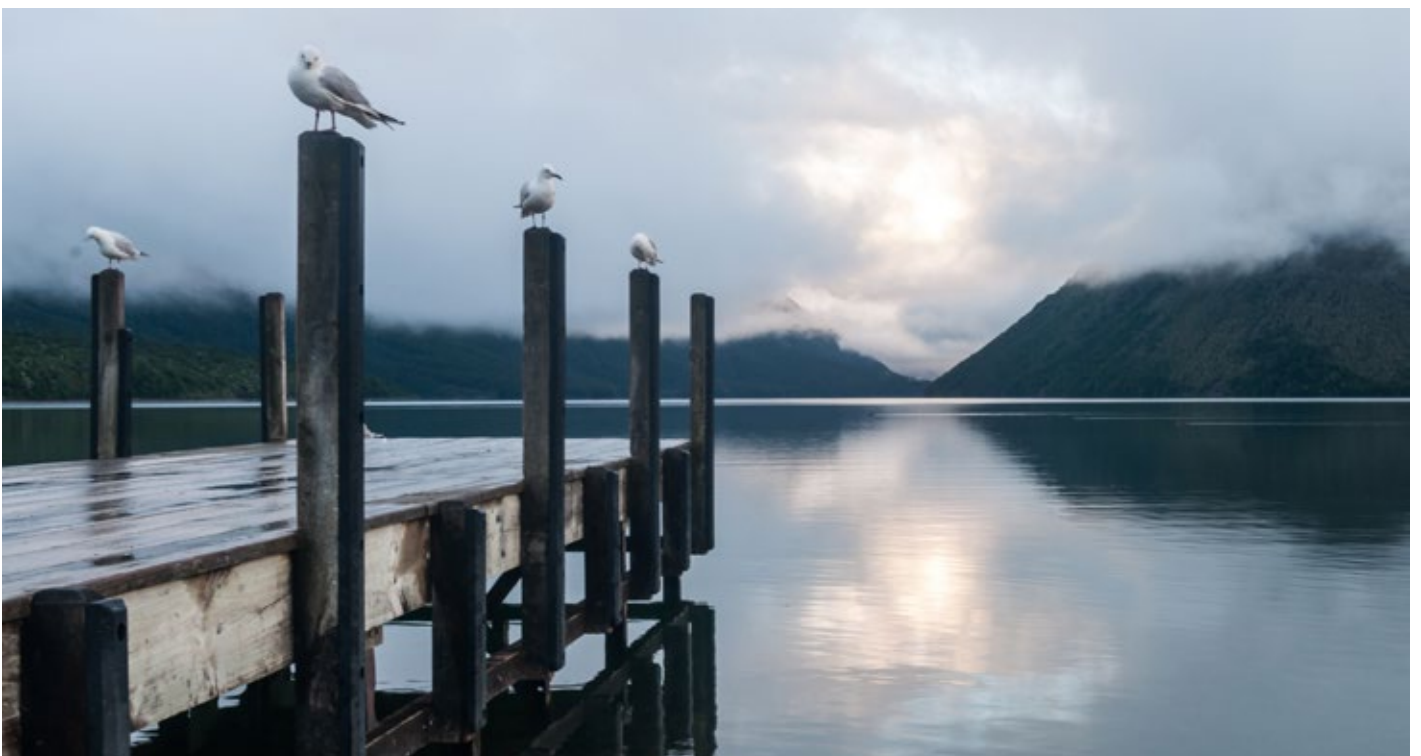
The month of December resulted in the Deloitte South Island Index shrinking by 0.8%. The Index's result was matched by the S&P/NZX 50 Capital Index which declined 0.5%. However, the Index's result was bettered by the Dow Jones' increase of 3.3%, which in turn was outshone by the ASX All Ords gain of 3.9%.

Quarterly movements – Q4 2016

The Deloitte South Island Index declined by \$1,018.6 million (5.2%) in terms of market capitalisation for the fourth quarter of 2016. This result was influenced by the large declines in the Property and Manufacturing & Distribution sectors which decreased by \$670.4 million (13.0%) and \$295.7 million (9.0%) respectively.

Annual movements – December 2015 to December 2016

The Deloitte South Island Index grew by \$1,843.4 (11.1%) during the twelve months to 31 December 2016. Comparatively, it outperformed the S&P/NZX 50 Capital Index's increase of 4.5%, ASX All Ords' growth of 7.0%, however fell second to the Dow Jones gain of 13.4%.



Executive Summary

The Deloitte South Island Index ended the 2016 calendar year with a disappointing performance that contrasted the solid results for the first three quarters of the year, causing the markets to now be wary of a potential long-lasting change of direction.

Key points for the last quarter of 2016 include:

- The Deloitte South Island Index decreased by \$1,018.6 million (5.2%) during the quarter to 31 December 2016. In comparison, over the same period, the S&P/NZX 50 Capital Index declined 7.0%, while the ASX All Ords and the Dow Jones experienced growth of 3.5% and 7.9% respectively.
- The top performers in the quarter were Arvida Group (up \$89.6 million), Pacific Edge (up \$49.6 million), Scales Corporation (up \$30.7 million), Skellerup Holdings (up \$29.0 million) and Synlait Milk (up \$26.6 million).
- The three most significant declines for the quarter came from three of the four largest companies on the Index. Ryman Healthcare dropped \$760.0 million, EBOS Group fell \$326.6 million and Skyline Enterprises decreased by \$102.1 million.
- Only two of the seven sectors posted positive movement in the quarter to 30 September 2016 – with the Biotechnology sector increasing 16.9% and the Primary sector up 1.5%. The other sectors all underwent declines with Property and Manufacturing & Distribution sectors leading the way, decreasing by 13.0% and 9.0% respectively.

- The Top Three companies set the tone collectively declining by \$1,086.6 million (7.6%). The smallest ten companies on the Index also underwent a decline, falling by 4.0%.

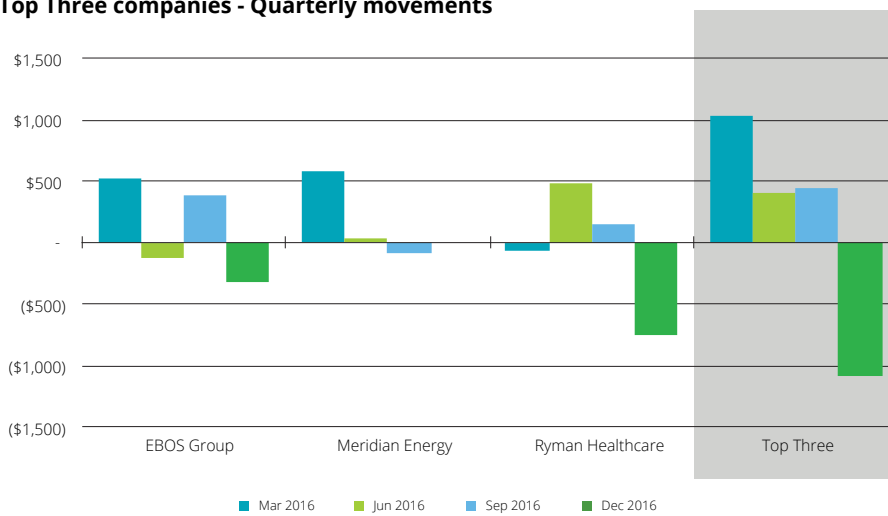
Over the twelve months to 31 December 2016 the top performers, in dollar terms, were Meridian Energy (up \$538.2 million), EBOS Group (up \$456.4 million), and Skyline Enterprises (up \$195.8 million). In percentage terms the list looks completely different with Aorere Resources topping the table with growth of 248.8% for the past twelve months, followed by Chatham Rock Phosphate (up 178.8%) and Scott Technology (up 138.6%).

The number of market participants on the Index increased by one during the quarter to 30 with the addition of Nelson based New Zealand King Salmon Investments which listed on the NZX in October 2016.

The top performers in the quarter were Arvida Group (up \$89.6 million), Pacific Edge (up \$49.6 million), Scales Corporation (up \$30.7 million), Skellerup Holdings (up \$29.0 million) and Synlait Milk (up \$26.6 million).

Quarter to 31 December 2016

**Deloitte South Island Index
Top Three companies - Quarterly movements**



Ryman Healthcare underwent the largest decline on the Deloitte South Island Index as its market capitalisation decreased by \$760.0 million (15.8%) to \$4,055.0 million.

The Top Three

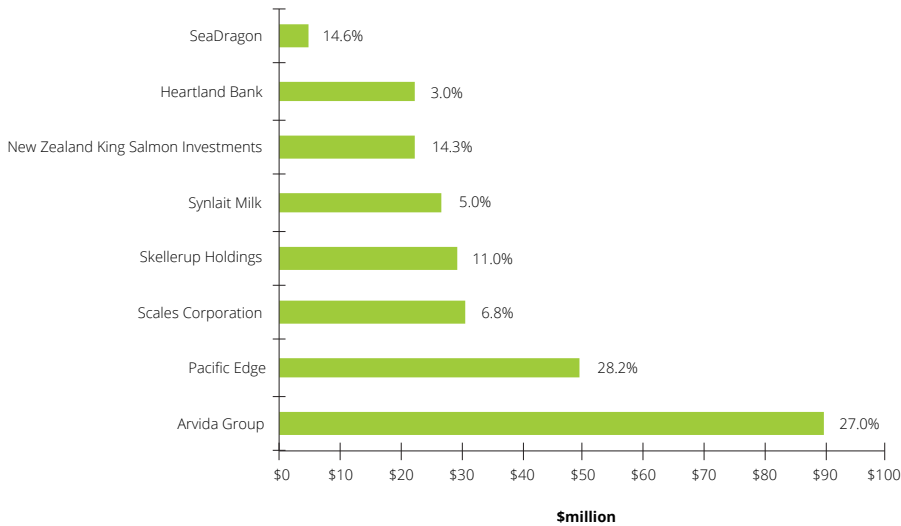
Ryman Healthcare underwent the largest decline on the Deloitte South Island Index as its market capitalisation decreased by \$760.0 million (15.8%) to \$4,055.0 million. Ryman seems to have been caught up in the general New Zealand market downturn since early October 2016. The company's decline is despite Ryman Healthcare reporting its half year results to 30 September 2016 in which it highlighted a \$76.5 million underlying profit, a 9% increase on the corresponding period the previous year.

EBOS Group have also followed the same trend as Ryman Healthcare, recording a decline for the quarter of \$326.6 million (11.4%) as its share price dropped by \$2.15 to \$16.70 per share.

During the quarter the company finalised the merger of its Chemmart business with the Terry White Group. The merger results in the Terry White Group managing one of Australia's largest retail pharmacy networks with approximately 500 pharmacies and AUD\$2 billion in retail turnover.

Meridian Energy's market capitalisation returned to the same level as it began the quarter. The company's share price was up in early October, then it dropped \$0.15 per share below its 30 September value in mid-November, before going on to recover its value by the end of the quarter.

Growth in Market Capitalisation



Balance of the Index

Growth in Market Capitalisation

The company with the largest quarterly gain on the Deloitte South Island Index was Arvida Group. The company grew its market capitalisation by \$89.6 million (27.0%) to end the 31 December 2016 quarter at \$421.2 million. During the quarter Arvida Group released its interim results for the six months ended 30 September 2016. The company announced an increase of revenue by 20% on the corresponding period in the prior year to \$46.9 million, and an underlying profit of

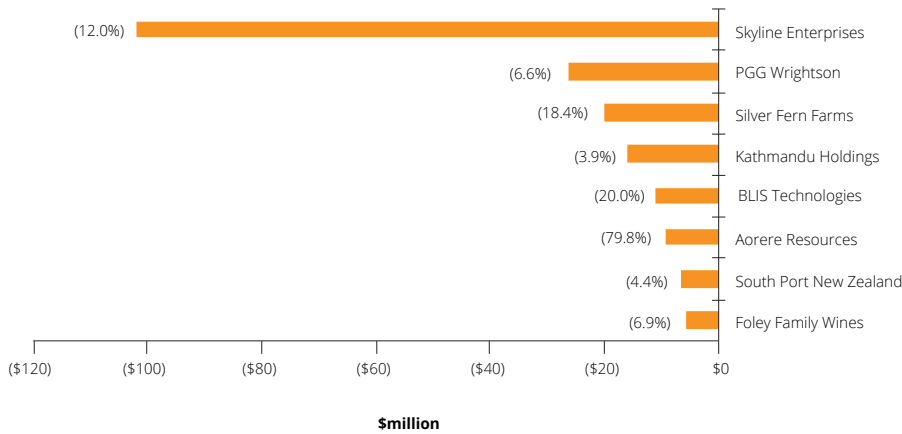
\$9.6 million, a 31% improvement. On 23 November 2016, Arvida Group entered into a conditional agreement, subject to regulatory approvals, to acquire 100% of the shares in Cascades Retirement Resort Limited for \$21.2 million. Cascades is located in Hamilton and comprises a recently constructed aged care facility and integrated retirement village.

Pacific Edge was another outstanding performer of the quarter as the company reversed its previous quarter's decline and finished the December quarter up \$49.6

million (28.2%). Pacific Edge also released during the quarter its six month interim results to 30 September 2016 noting a solid first half performance with operating revenue up 67% to \$3.0 million on the prior comparative first half period. During December Pacific Edge commenced the official USA launch of its third bladder cancer diagnostic test, Cxbladder Monito and the launch of the Cxbladder Resolve, the fourth product in the Cxbladder suite of bladder cancer diagnostic tests.



Declines in Market Capitalisation



Declines in Market Capitalisation

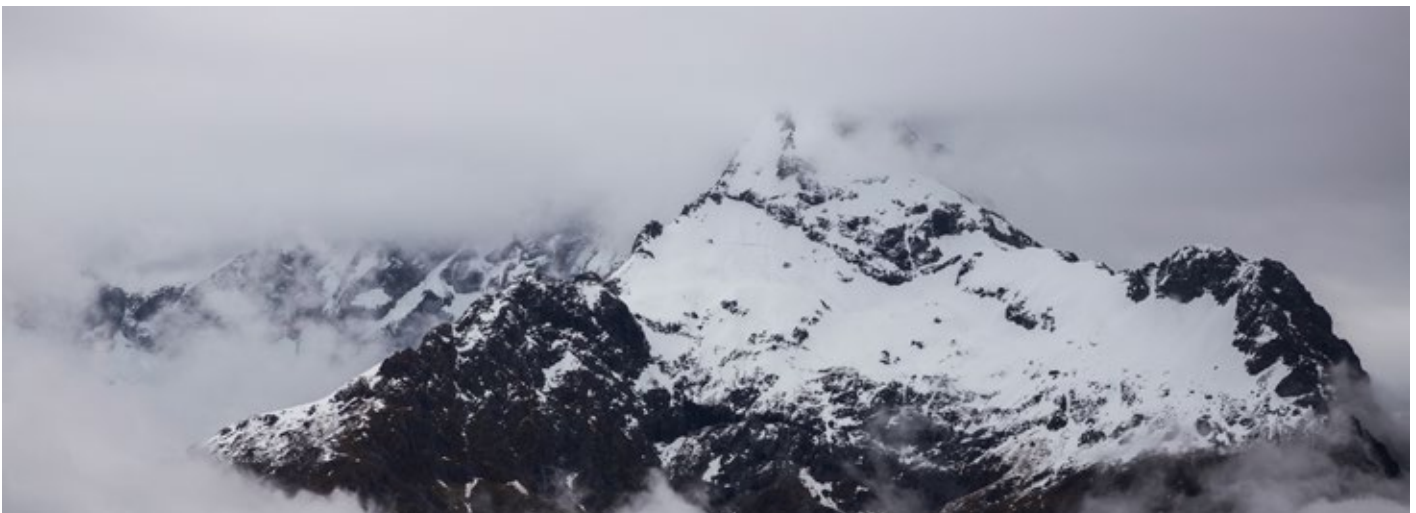
Skyline Enterprises, one of the darlings of the Deloitte South Island Index, suffered its first quarterly decline since the March 2011 quarter, ending its record run of 19 consecutive quarterly gains. Skyline Enterprises' decline in market capitalisation for the quarter was \$102.1 million (12.0%) as its share price dropped by \$3.00 to \$22.00 per share.

PGG Wrightson had a difficult quarter as its market capitalisation decreased by \$26.4 million (6.6%) with its share price falling \$0.035 to \$0.495 per share. During the quarter Chief Executive Mark Dewdney updated shareholders on the

company's first quarter performance and forecasted that its full year Operating EBITDA to 30 June 2017 (including earnings of associates) is expected to be in the \$62 to \$68 million range, compared to \$70.2 million for the 30 June 2016 financial year.

Silver Fern Farms also had a poor quarter as it dropped \$20.1 million (18.4%) in market capitalisation. The company announced in October the closures of two of its small plants located in Mossburn and Wairoa. Silver Fern Farms also announced during the quarter the completion of its partnership with Shanghai Maling.

Skyline Enterprises, one of the darlings of the Deloitte South Island Index, suffered its first quarterly decline since the March 2011 quarter, ending its record run of 19 consecutive quarterly gains.



Sector Movements

Quarter to 31 December 2016

Only two of the seven sectors posted positive market capitalisation movements for the 31 December 2016 quarter, being the Biotechnology and Primary sectors. The Biotechnology growth was led by Pacific Edge increasing their market capitalisation by \$49.6 million (28.2%).

The Primary sector was a mixed bag as four of the nine companies grew, four declined and one remained unchanged. The quarter saw the addition to the Index and the Primary sector of New Zealand King Salmon Investments which listed on the NZX in October 2016. The company ended the quarter 14.3% above its listing price with a market capitalisation of \$176.8 million as at 31 December 2016.

The Property sector dropped the greatest as it fell 13.0% during the quarter on the back of Ryman Healthcare's performance.

The Manufacturing & Distribution sector also suffered during the quarter, declining 9.0% after EBOS Group's share price fell.

The Other sector also slumped, dropping 5.3%, as four of the six companies experienced declines with Skyline Enterprises being a key contributor to the sector's poor performance. The Retail sector fell 4.1% as both companies declined, while the Energy & Mining sector dropped 0.1% however excluding Meridian Energy's result it plummeted 40.5%.

The Primary sector was a mixed bag as four of the nine companies grew, four declined and one remained unchanged.

Movement in Sector Indices - Quarter to December 2016





Industry	Number of Companies	31 Dec 2016 \$ million	30 Sep 2016 \$ million	Mvmt in Quarter \$ million	% change in Mkt Cap during quarter	% of Index
Biotechnology	3	\$283.1	\$242.2	\$40.9	16.9%	1.5%
Energy & Mining	4	\$6,674.8	\$6,682.2	\$(7.4)	(0.1)%	36.1%
Manufacturing & Distribution	4	\$2,993.4	\$3,289.1	\$(295.7)	(9.0)%	16.2%
Primary	9	\$1,904.7	\$1,877.4	\$27.3	1.5%	10.3%
Property	2	\$4,476.2	\$5,146.6	\$(670.4)	(13.0)%	24.2%
Retail	2	\$429.3	\$447.5	\$(18.2)	(4.1)%	2.3%
Other	6	\$1,713.6	\$1,808.7	\$(95.1)	(5.3)%	9.3%
TOTAL	30	\$18,475.1	\$19,493.7	\$(1,018.6)	(5.2)%	100.0%

Benchmarking

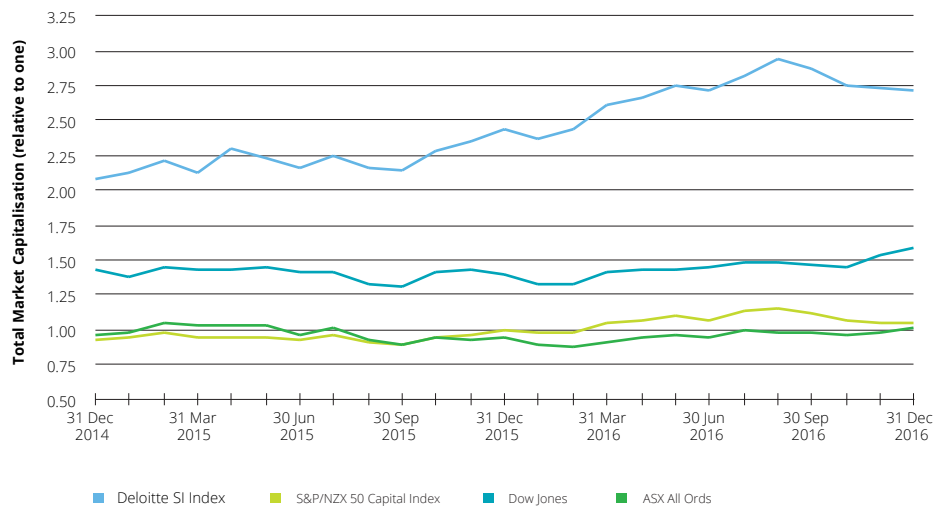
Quarterly Comparison of the Deloitte South Island Index and Other Indices

After a positive start and a solid middle of the 2016 calendar year, the Deloitte South Island Index faltered near the finish line as it ended the year with a decline, with the Index down \$1,018.6 million (5.2%) in the 31 December 2016 quarter.

The S&P/NZX 50 Capital Index mirrored the Deloitte South Island Index's movements as it declined 7.0%. It too had losses for each of the three months during the quarter, with the largest decline occurring in October.

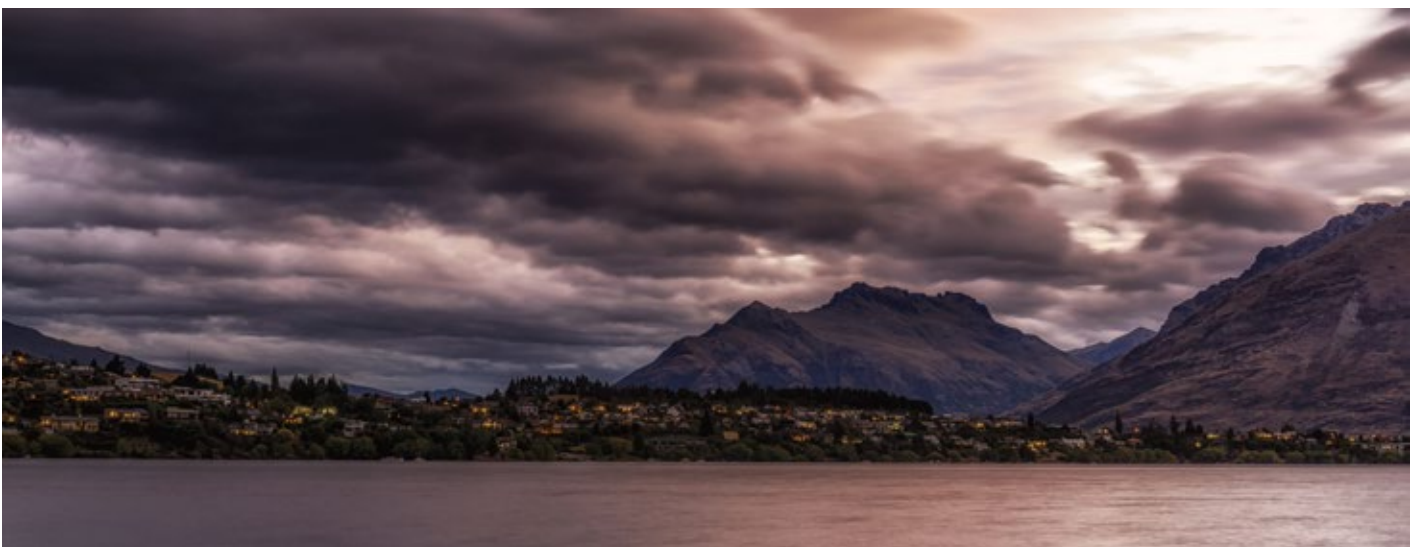
The overseas indices, tracked for comparative purposes, fared better than both the Deloitte South Island Index and the S&P/NZX 50 Capital Index for the quarter to 31 December 2016. The top performer was the Dow Jones as it increased by 7.9% on the back of market reaction to the USA election results. In Australia the ASX All Ords Index achieved a gain of 3.5% over the quarter. This is the first time since the March 2015 quarter that the ASX All Ords has outperformed the Deloitte South Island Index.

Performance of Deloitte South Island Index vs Major Indices



Base period - December 2006

The overseas indices tracked for comparative purposes fared better than both the Deloitte South Island Index and the S&P/NZX 50 Capital Index for the quarter to 31 December 2016. The top performer was the Dow Jones as it increased by 7.9% on the back of market reaction to the USA election results.



Deloitte South Island Index – December 2016

Of the 30 companies currently listed on the Deloitte South Island Index, 11 (37%) experienced a rise in market capitalisation during the quarter to 31 December 2016, 15 declined and 4 remained unchanged.

The full Deloitte South Island Index for the quarter ended 31 December 2016, ranked by market capitalisation, is set out in the table below.

	Dec 2016 Rank	Sep 2016 Rank	Ticker	Company	Sector	Mcap Dec 2016 (\$m)	Mcap Sep 2016 (\$m)	Change in Mcap (%) in Quarter	Change in Mcap (%) in Quarter	Share Price 31 Dec 2016
→	1	1	MEL	Meridian Energy	Energy & Mining	\$6,663.8	\$6,663.8	\$0.0	0.0%	\$2.600
→	2	2	RYM	Ryman Healthcare	Property	\$4,055.0	\$4,815.0	\$(760.0)	(15.8)%	\$8.110
→	3	3	EBO	EBOS Group	Manufacturing & Distribution	\$2,537.0	\$2,863.6	\$(326.6)	(11.4)%	\$16.700
→	4	4	SKYLINE	Skyline Enterprises	Other	\$749.1	\$851.2	\$(102.1)	(12.0)%	\$22.000
→	5	5	HBL	Heartland Bank	Other	\$748.7	\$726.7	\$22.0	3.0%	\$1.500
→	6	6	SML	Synlait Milk	Primary	\$557.0	\$530.4	\$26.6	5.0%	\$3.110
→	7	7	SCL	Scales Corporation	Primary	\$482.2	\$451.5	\$30.7	6.8%	\$3.450
↑	8	10	ARV	Arvida Group	Property	\$421.2	\$331.6	\$89.6	27.0%	\$1.260
↓	9	8	KMD	Kathmandu Holdings	Retail	\$392.9	\$409.0	\$(16.1)	(3.9)%	\$1.950
↓	10	9	PGW	PGG Wrightson	Primary	\$373.7	\$400.1	\$(26.4)	(6.6)%	\$0.495
→	11	11	SKL	Skellerup Holdings	Manufacturing & Distribution	\$293.1	\$264.1	\$29.0	11.0%	\$1.520
→	12	12	PEB	Pacific Edge	Biotechnology	\$225.2	\$175.6	\$49.6	28.2%	\$0.590
↑	13	14	NZK	New Zealand King Salmon Investments	Primary	\$176.8	\$154.7	\$22.1	14.3%	\$1.280
↓	14	13	SCT	Scott Technology	Manufacturing & Distribution	\$160.6	\$158.3	\$2.3	1.5%	\$2.150
→	15	15	SPN	South Port New Zealand	Other	\$144.3	\$150.9	\$(6.6)	(4.4)%	\$5.500
↑	16	17	MWE	Marlborough Wine Estates Group	Primary	\$96.8	\$101.2	\$(4.4)	(4.3)%	\$0.330
↓	17	16	SFF	Silver Fern Farms	Primary	\$89.3	\$109.4	\$(20.1)	(18.4)%	\$0.890
→	18	18	FFW	Foley Family Wines	Primary	\$77.8	\$83.6	\$(5.8)	(6.9)%	\$1.490
→	19	19	BLT	BLIS Technologies	Biotechnology	\$44.3	\$55.4	\$(11.1)	(20.0)%	\$0.040
→	20	20	MOA	Moa Group	Other	\$40.8	\$46.1	\$(5.3)	(11.5)%	\$0.760
→	21	21	SCY	Smiths City Group	Retail	\$36.4	\$38.5	\$(2.1)	(5.5)%	\$0.690
→	22	22	SEA	SeaDragon	Primary	\$36.1	\$31.5	\$4.6	14.6%	\$0.008
→	23	23	SLI	SLI Systems	Other	\$28.0	\$31.1	\$(3.1)	(10.0)%	\$0.450
→	24	24	BLUESKY	Blue Sky Meats	Primary	\$15.0	\$15.0	\$0.0	0.0%	\$1.300
↑	25	26	PAZ	Pharmazen	Biotechnology	\$13.6	\$11.2	\$2.4	21.4%	\$0.085
↑	26	27	CRP	Chatham Rock Phosphate	Energy & Mining	\$8.3	\$6.6	\$1.7	25.8%	\$0.010
↑	27	28	MAD	Energy Mad	Manufacturing & Distribution	\$2.7	\$3.1	\$(0.4)	(12.9)%	\$0.035
↑	28	29	CNX	Connexionz	Other	\$2.7	\$2.7	\$0.0	0.0%	\$0.050
↓	29	25	AOR	Aorere Resources	Energy & Mining	\$2.3	\$11.4	\$(9.1)	(79.8)%	\$0.002
→	30	30	WTL	Windflow Technology	Energy & Mining	\$0.4	\$0.4	\$0.0	0.0%	\$0.010
	30	30		TOTAL		\$18,475.1	\$19,493.7	\$(1,018.6)	(5.2)%	

The Deloitte South Island Index ('the Index') is compiled from information provided by the NZX, and Unlisted on the market capitalisation of each South-Island based listed company. Broadly, a company is included in the Index where its registered office is in the South Island and/or a substantial portion of its operations are focused in the South Island. The information on South Island listed companies is extracted and totalled to provide a cumulative market capitalisation for all South Island listed companies.

The base period of the Deloitte South Island Index is 31 December 2006 and for the purposes of the Index this data is given a notional value of one. All subsequent quarterly cumulative market capitalisation totals are divided by the totals for the December 2006 quarter to obtain a relative movement. Market capitalisation will move as a result of capital injections, payments of dividends and capital returns. If a new South Island based company lists on the NZX or Unlisted they will be reflected in the Index as though they were present in the base period. Accordingly, the Index will only reflect changes in market capitalisation subsequent to listing. If a company is suspended or delisted during a quarter, no data will be included for the company, including any historical data, until the company is re-listed or the suspension lifted.

For the purposes of the sector analysis some sector segments have been grouped to provide a more meaningful analysis.

Information

Deloitte Corporate Finance is the firm's specialist corporate finance practice. For information regarding the Deloitte South Island Index or any of the services that we offer please contact any of our South Island based team below:

Christchurch

Scott McClay

Partner | Corporate Finance
+64 (03) 363 3834
smcclay@deloitte.co.nz

Rob McDonald

Director | Corporate Finance
+64 (0) 3 363 3836
robmcdonald@deloitte.co.nz

Richard Bailey

Director | Corporate Finance
+64 (0) 3 363 3828
richardbailey@deloitte.co.nz

Aaron Thorn

Partner | Tax & Private
+64 (03) 363 3813
athorn@deloitte.co.nz

Shari Carter

Partner | Tax & Private
Direct : +64 (03) 363 3849
sharicarter@deloitte.co.nz

Mike Hoshek

Partner | Audit
Direct : +64 (03) 363 3744
mhoshek@deloitte.co.nz

Steve Law

Partner | Consulting
Direct : +64 (03) 363 3872
stelaw@deloitte.co.nz

Dunedin

Mike Hawken

Partner | Audit
Direct : +64 (03) 474 8684
mhawken@deloitte.co.nz

Kyle Cameron

Partner | Tax & Private
Direct : +64 (03) 474 8674
kycameron@deloitte.co.nz

Queenstown

Daniel Hellyer

Director | Tax & Private
Direct : +64 (03) 901 0573
dhellyer@deloitte.co.nz

Mike Horne

Partner | Tax & Private
Direct : +64 (03) 474 8647
mhorne@deloitte.co.nz

Phil Stevenson

Partner | Tax & Private
Direct : +64 (03) 474 8665
p Stevenson@deloitte.co.nz

Christchurch

151 Cambridge Terrace,
Christchurch 8013
PO Box 248, Christchurch 8140
New Zealand
Tel: +64 (0) 3 379 7010
Fax: +64 (0) 3 366 6539
www.deloitte.co.nz

Dunedin

Otago House, 481 Moray Place,
Dunedin 9016
PO Box 1245, Dunedin 9054
New Zealand
Tel: +64 (0) 3 474 8630
Fax: +64 (0) 3 474 8650
www.deloitte.co.nz

Queenstown

Level 2, 13 Camp Street
PO Box 794,
Queenstown 9348
New Zealand
Tel: +64 (0) 3 901 0570
Fax: +64 (0) 3 901 0571
www.deloitte.co.nz

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 245,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

Deloitte New Zealand brings together more than 1200 specialist professionals providing audit, tax, technology and systems, strategy and performance improvement, risk management, corporate finance, business recovery, forensic and accounting services. Our people are based in Auckland, Hamilton, Rotorua, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand’s largest companies and public sector organisations to smaller businesses with ambition to grow. For more information about Deloitte in New Zealand, look to our website www.deloitte.co.nz.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.