



Stepping up the pace

The Deloitte South Island Index

A review of the performance of South Island listed companies during the quarter ending 30 June 2018

August 2018

42nd Edition

Introduction

Welcome to the 42nd 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 30 June 2018.

The June 2018 quarter stepped the pace up a notch as the Deloitte South Island Index recorded growth of \$2,305.3 million (10.3%), after a subdued start to the 2018 year.

Movements in June 2018

The Deloitte South Island Index lead the way for the month of June, increasing by 3.2%, of the other indices tracked, the S&P/NZX 50 Capital Index increased by 2.9%, the ASX All Ords recorded an increase of 2.7%, the Dow Jones was the only to decrease (down 0.6%).

Quarterly movements – Q2 2018

The Deloitte South Island Index market capitalisation increased by \$2,305.3 million (10.3%) in the second quarter of 2018. The positive result was seen in six out of the seven sectors tracked. The biggest increase was in the Retail sector, which on a

percentage term basis, increased by 20.7%. A close second in percentage growth terms was the Primary sector recording growth of 20.5%. The sole decline was recorded by the Technology sector, falling 22.0%.

Annual movements – June 2017 to June 2018

The Deloitte South Island Index grew by \$4,624.7 million (23.0%) during the twelve months to 30 June 2018. Comparatively, its closest rival in terms of growth in market capitalisation was the Dow Jones which recorded 13.7% growth for the year to 30 June 2018. In the Australasian market, the Deloitte South Island Index outperformed the S&P/NZX 50 Capital Index and ASX All Ords, which gained 13.3% and 9.1% respectively over the year.



Executive summary

The Deloitte South Island Index's strong performance for the second quarter for 2018 was seen across the board with six of the seven sectors building from a quiet start to 2018.

Key points for the second quarter of 2018 include:

- The Deloitte South Island Index increased by \$2,305.3 million (10.3%) during the quarter to 30 June 2018. All other indices tracked also recorded increases over the same period with the ASX ALL Ords recording the next largest increase, increasing by 7.2%. This was followed by the S&P/NZX 50 Capital Index market capitalisation increasing by 6.8% and the Dow Jones increasing by 0.7%.
- Skyline Enterprises was the fifth company on the Deloitte South Island Index to achieve market capitalisation greater than \$1,000 million during the June 2018 quarter. Heartland Bank still remain below the \$1,000 million benchmark this quarter, after exceeding the benchmark during 2017, finishing the quarter with a market capitalisation of \$952.3 million down \$28.3 million (2.9%).
- The collective increase of the five companies whose market capitalisation is greater than \$1,000.0 million (the Top Five companies) was \$2,086.0 million (11.8%) representing 90.5% of the Index's total market capitalisation increase of \$2,305.3 million in the June quarter.
- Ryman Healthcare recorded the largest increase in market capitalisation, increasing by \$690.0 million (13.0%), closely followed by Meridian Energy \$679.2 (9.3%). Synlait Milk built on

growth recorded in the first quarter of 2018, to finish June 2018 up \$546.6 million (36.4%). EBOS Group recorded no change in market capitalisation for the quarter ended 30 June 2018.

- The smallest 10 companies collectively declined, recording a \$12.1 million (11.9%) fall in market capitalisation.
- Outside of the Top Five, the Index's best performers (in percentage terms) were Pharmazen whose market capitalisation increased 44.8% (\$4.3 million) during the June quarter followed by Kathmandu Holdings increasing their market capitalisation by 22.8% (\$121.6 million).
- The most significant declines in the Index this quarter were led by SeaDragon, who dropped 40.3% (\$9.1 million), followed by Syft Technologies who fell by a 29.2% (\$23.5 million) and Pacific Edge who dropped 24.7% (\$44.3 million).

Key points for the 12 months to June 2018 include:

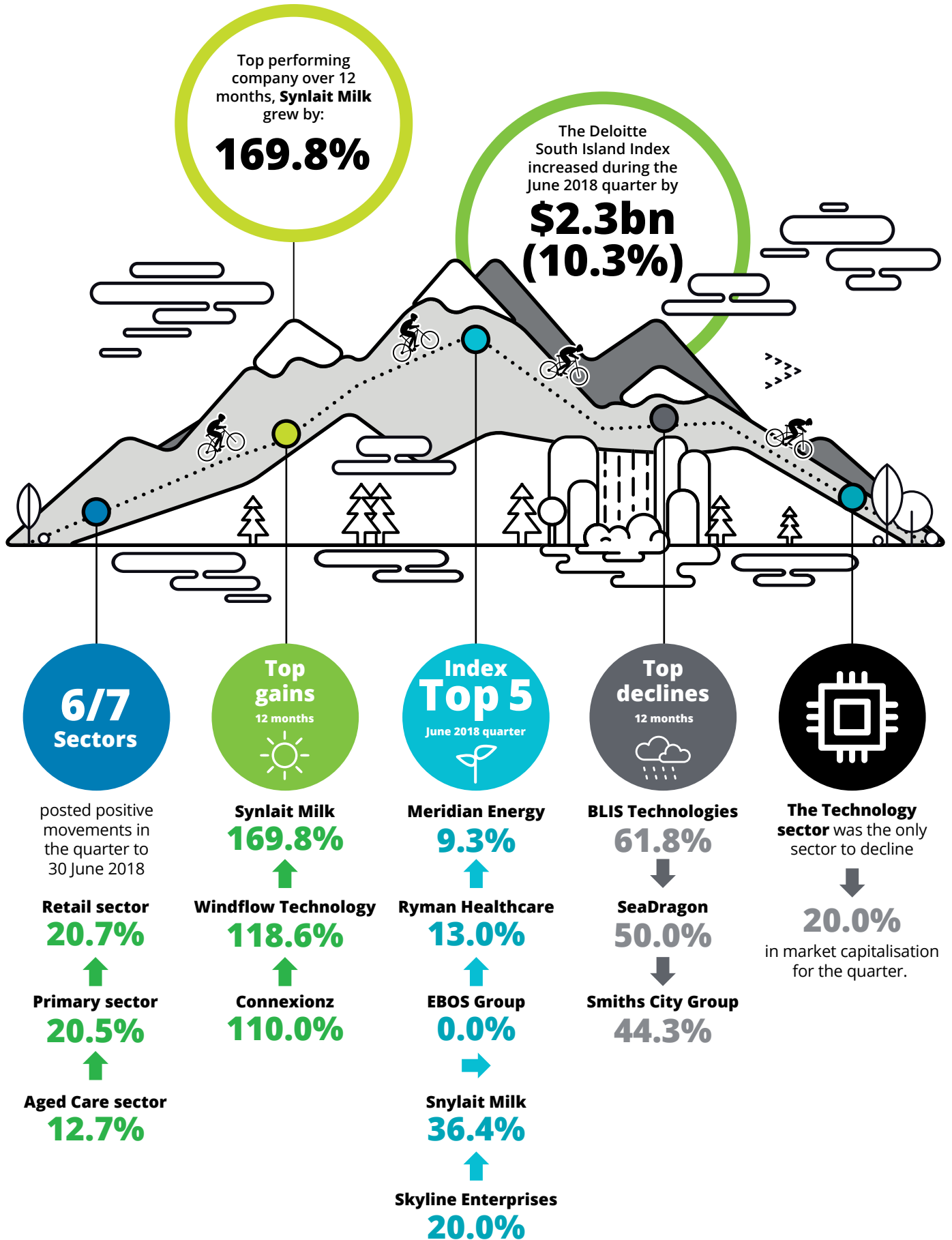
- Over the twelve months to 30 June 2018 the top performers, in percentage terms, were Synlait Milk (up 169.8%), Windflow Technology (up 118.6%) and Connexionz (up 110.0%). In dollar terms the list looks different with Ryman Healthcare topping the table with growth of \$1,840.0 million over the past twelve months, followed by Synlait Milk (up \$1,290.4 million) and Meridian Energy (up \$538.2 million).

- The largest declines over the 12 months in percentage terms were BLIS Technologies (down 61.8%), SeaDragon (down 50.0%) and Smiths City Group (down 44.3%). In dollar terms the largest declines were Pacific Edge (down \$68.6 million), BLIS Technologies (down \$23.3 million) and Syft Technologies (down \$20.5 million).

The Deloitte South Island Index increased by \$2,305.3 million (10.3%) during the quarter to 30 June 2018. All other indices tracked also recorded increases over the same period with the ASX ALL Ords recording the next largest increase, increasing by 7.2%. This was followed by the S&P/NZX 50 Capital Index market capitalisation increasing by 6.8% and the Dow Jones increasing by 0.7%.

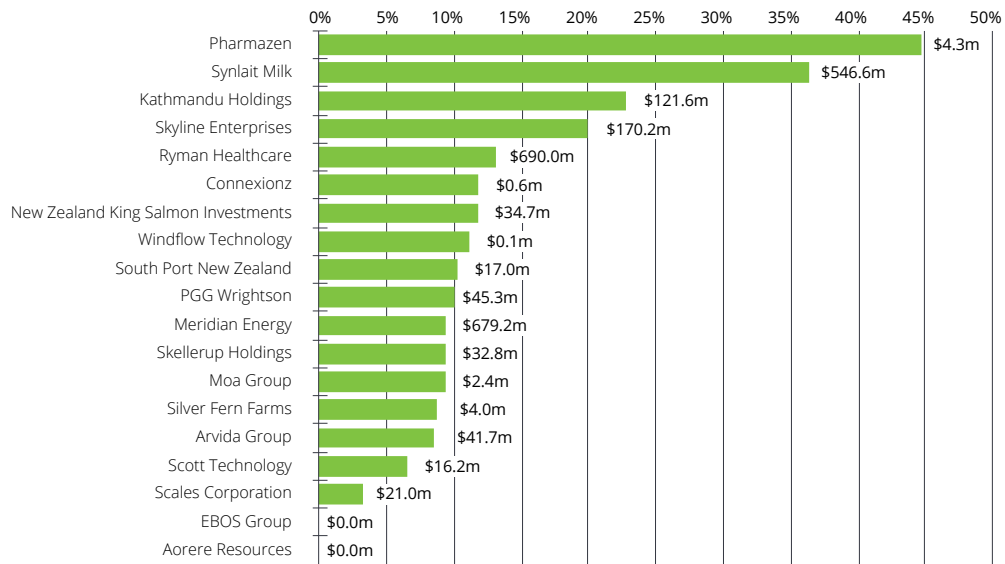
South Island Index – second quarter 2018

At a glance



Quarter to 30 June 2018

Growth in Market Capitalisation (%) in Quarter



Increases in Market Capitalisation

There were seventeen participants that recorded growth in market capitalisation for the June 2018 quarter. Two participants recorded no movement in market capitalisation and the remaining twelve participants recorded a decline.

Pharmazen recorded the largest percentage increase (44.8%) in market capitalisation for the June 2018 quarter. The large growth in market capitalisation was driven by Pharmazen issuing 35,422,324 ordinary shares (7 cents per share) at the end of March to raise \$2.5 million.

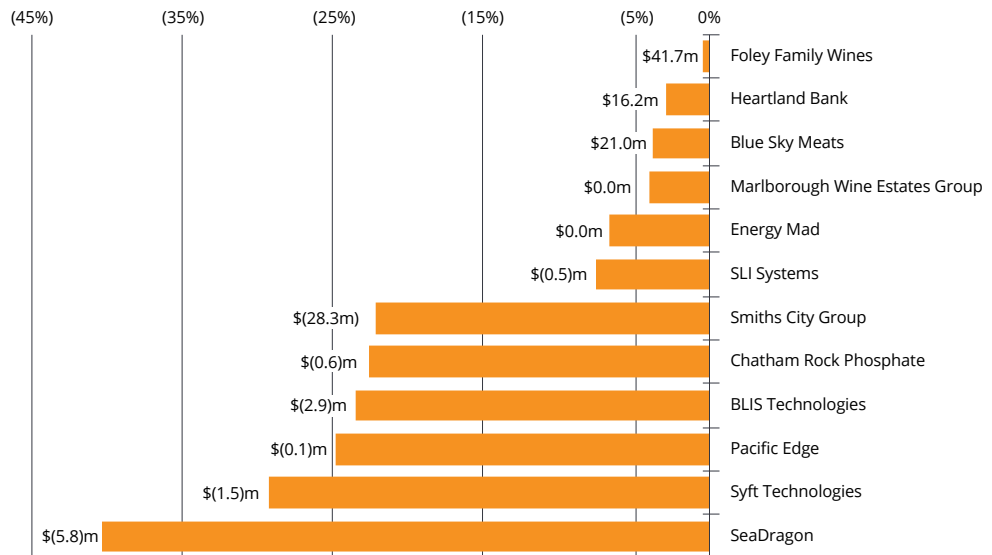
Synlait Milk had a strong June 2018 quarter with a 36.4% increase in market capitalisation. During the quarter Synlait announced their forecast base milk price for 2017/2018 has increased from \$6.50 kgMS to \$6.65 kgMS. Synlait also announced an opening forecast base milk

price for the upcoming 2018/2019 season of \$7.00 kgMS, based on milk fat prices remaining firm throughout the season.

Kathmandu Holdings share price increased \$0.49 cents during the June 2018 quarter, resulting in an increase of 22.8% in market capitalisation. During the quarter Kathmandu Holdings issued 4,629,511 shares at \$2.16 per share to fund the acquisition of Oboz, a US based outdoor shoe producer. Also contributing to the share price increase was improved forecast sales and earnings performance, with EBIT forecast between \$72 million and \$77 million compared with last year's \$57 million result.

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Decline in Market Capitalisation (%) in Quarter



Declines in Market Capitalisation

Sea Dragon recorded the largest decline in market capitalisation on a percentage term basis, falling 40.3%. This was a \$0.002 reduction in share price from the previous quarter. It was announced during the quarter that SeaDragons largest shareholders have agreed to provide a short-term bridging loan of \$1million to allow continued operation while longer-term funding is negotiated.

Syft Technologies recorded the second largest decline in market capitalisation on a percentage basis, falling 29.2%. The share

price dropped \$0.33 to finish the June 2018 quarter at \$0.80 per share, this was off the back of raising capital the previous quarter, issuing 6,521,740 shares at \$1.15 per share.

Pacific Edge finished the quarter down 24.7%. During the quarter it was noted in an address to shareholders that “the FY18 financial year was one of achievement and challenge for Pacific Edge, with growing sales in the USA being the primary focus going forward.”

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Sector movements

Quarter to 30 June 2018

Growth was seen throughout the Index with six of the seven sectors recording growth for the second quarter of 2018.

In percentage terms, the growth of the Index was led by the Retail sector, for the second quarter in a row as it grew by 20.7%. This increase was due to Kathmandu's strong quarterly performance which saw its \$121.6 million (22.8%) increase outperform Smith City Groups \$5.8 million (22.1%) decline.

A very close second place, was the Primary sector which grew \$638.5 million (20.5%) during the June 2018 quarter. Again, Synlait Milk continued to build on their strong first quarter of 2018, leading the sector with a 36.4% (\$546.6 million) increase. New Zealand King Salmon and PGG Wrightson's both finished strong increasing 11.7% and 10.0% respectively. The largest declines in the sector were SeaDragon, falling 40.3%

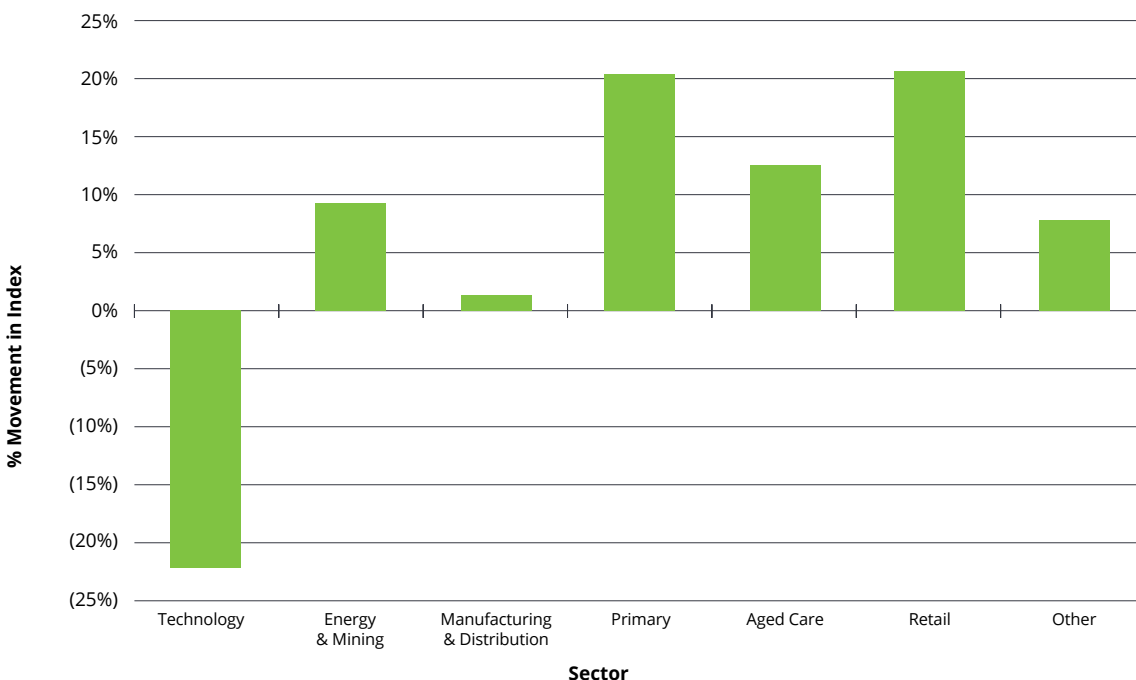
and Marlborough Wine Estate and Blue Sky Meats falling 4.0% and 3.8% respectively.

Both participants in the Aged Care sector recorded growth for the June 2018 quarter, Ryman Healthcare up 13.0% (\$690.0 million) and Arvida Group up 8.5% (\$41.7 million).

The Technology sector was the only sector to decline with a 22.0% decrease in market capitalisation for the quarter. Pharmazen and Connexionz were the only participants in the sector to record an increase in market capitalisation, up 44.8% (\$4.3 million) and 11.8% (\$0.6 million) respectively. However, Syft Technologies and Pacific Edge held back the sector, both recording declines of 29.2% (\$23.5 million) and 24.7% (\$44.3 million) respectively.

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Movement in Sector Indices - Quarter to June 2018



Industry	Number of Companies	30 Jun 2018 \$ million	31 Mar 2018 \$ million	Mvmt in Quarter \$ million	% change in Mkt Cap during quarter	% of Index
Technology	6	\$244.6	\$313.4	\$(68.8)	(22.0)%	1.0%
Energy & Mining	4	\$8,003.9	\$7,326.0	\$677.9	9.3%	32.3%
Manufacturing & Distribution	4	\$3,388.9	\$3,340.0	\$48.9	1.5%	13.7%
Primary	9	\$3,760.6	\$3,122.1	\$638.5	20.5%	15.2%
Aged Care	2	\$6,514.9	\$5,783.2	\$731.7	12.7%	26.3%
Retail	2	\$676.2	\$560.4	\$115.8	20.7%	2.7%
Other	4	\$2,185.4	\$2,024.1	\$161.3	8.0%	8.8%
TOTAL	31	\$24,774.5	\$22,469.2	\$2,305.3	10.3%	100.0%



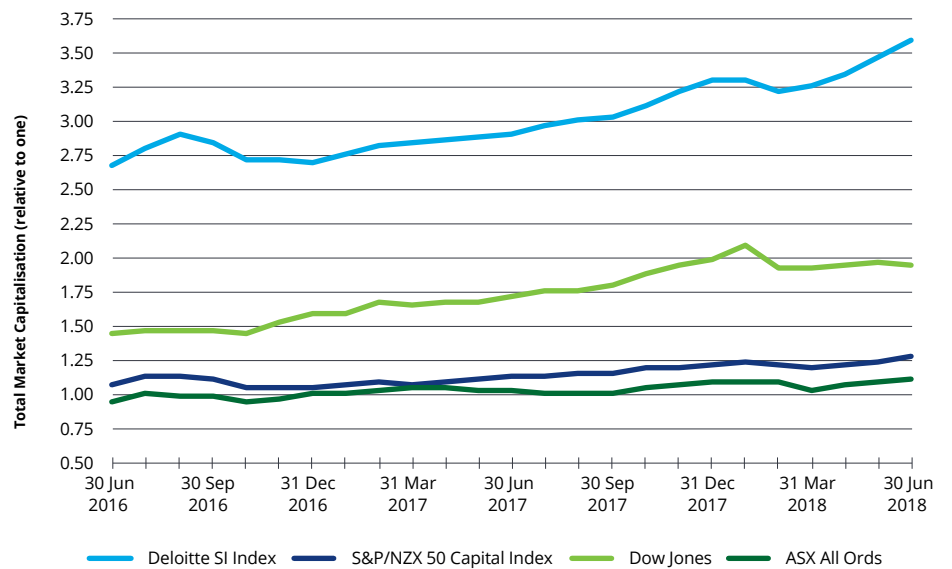
Benchmarking

Quarterly comparison of the Deloitte South Island Index and other indices

The Deloitte South Island Index started the first quarter of 2018 down 1.5%, however the second quarter of 2018 saw a pleasing step up in growth, with the Index up 10.3%.

The other indices tracked also experienced positive second quarters with the ASX All Ords the next best in terms of % growth, increasing 7.2%. The S&P/NZX 50 Capital Index was up 6.8% and the Dow Jones Index up 0.7%.

Performance of Deloitte South Island Index vs Major Indices



Base period - December 2006 = 1.00



The Deloitte South Island Index started the first quarter of 2018 down 1.5%, however the second quarter of 2018 saw a pleasing step up in growth, with the Index up 10.3%.

Deloitte South Island Index – June 2018

Of the 31 companies currently listed on the Deloitte South Island Index, 17 (55%) experienced a rise in market capitalisation during the quarter to 30 June 2018, 12 declined and 2 remained unchanged.

The full Deloitte South Island Index for the quarter ended 30 June 2018, ranked by market capitalisation, is set out in the table below.

	Jun 2018 Rank	Mar 2018 Rank	Ticker	Company	Sector	Mcap Jun 2018 (\$m)	Mcap Mar 2018 (\$m)	Change in Mcap (\$m) in Quarter	Change in Mcap (%) in Quarter	Share Price 30 Jun 2018
→	1	1	MEL	Meridian Energy	Energy & Mining	\$7,996.6	\$7,317.4	\$679.2	9.3%	\$3.120
→	2	2	RYM	Ryman Healthcare	Aged Care	\$5,985.0	\$5,295.0	\$690.0	13.0%	\$11.970
→	3	3	EBO	EBOS Group	Manufacturing & Distribution	\$2,738.1	\$2,738.1	\$0.0	0.0%	\$17.950
→	4	4	SML	Synlait Milk	Primary	\$2,050.3	\$1,503.7	\$546.6	36.4%	\$11.440
↑	5	6	SKYLINE	Skyline Enterprises	Other	\$1,021.4	\$851.2	\$170.2	20.0%	\$30.000
↓	6	5	HBL	Heartland Bank	Other	\$952.3	\$980.6	\$(28.3)	(2.9)%	\$1.700
↑	7	8	KMD	Kathmandu Holdings	Retail	\$655.7	\$534.1	\$121.6	22.8%	\$2.910
↓	8	7	SCL	Scales Corporation	Primary	\$654.7	\$633.7	\$21.0	3.3%	\$4.640
→	9	9	ARV	Arvida Group	Aged Care	\$529.9	\$488.2	\$41.7	8.5%	\$1.280
→	10	10	PGW	PGG Wrightson	Primary	\$498.2	\$452.9	\$45.3	10.0%	\$0.660
→	11	11	SKL	Skellerup Holdings	Manufacturing & Distribution	\$383.7	\$350.9	\$32.8	9.3%	\$1.990
→	12	12	NZK	New Zealand King Salmon Investments	Primary	\$331.0	\$296.3	\$34.7	11.7%	\$2.390
→	13	13	SCT	Scott Technology	Manufacturing & Distribution	\$265.7	\$249.5	\$16.2	6.5%	\$3.500
↑	14	15	SPN	South Port New Zealand	Other	\$183.6	\$166.6	\$17.0	10.2%	\$7.000
↓	15	14	PEB	Pacific Edge	Technology	\$135.2	\$179.5	\$(44.3)	(24.7)%	\$0.290
↑	16	17	FFW	Foley Family Wines	Primary	\$77.3	\$77.8	\$(0.5)	(0.6)%	\$1.480
↑	17	18	MWE	Marlborough Wine Estates Group	Primary	\$70.4	\$73.3	\$(2.9)	(4.0)%	\$0.240
↓	18	16	SYF	Syft Technologies	Technology	\$57.0	\$80.5	\$(23.5)	(29.2)%	\$0.800
→	19	19	SFF	Silver Fern Farms	Primary	\$50.2	\$46.2	\$4.0	8.7%	\$0.500
↑	20	21	MOA	Moa Group	Other	\$28.1	\$25.7	\$2.4	9.3%	\$0.480
↓	21	20	SCY	Smiths City Group	Retail	\$20.5	\$26.3	\$(5.8)	(22.1)%	\$0.390
↑	22	23	SLI	SLI Systems	Technology	\$18.4	\$19.9	\$(1.5)	(7.5)%	\$0.295
↑	23	25	BLUESKY	Blue Sky Meats	Primary	\$15.0	\$15.6	\$(0.6)	(3.8)%	\$1.300
→	24	24	BLT	BLIS Technologies	Technology	\$14.4	\$18.8	\$(4.4)	(23.4)%	\$0.013
↑	25	26	PAZ	Pharmazen	Technology	\$13.9	\$9.6	\$4.3	44.8%	\$0.071
↓	26	22	SEA	SeaDragon	Primary	\$13.5	\$22.6	\$(9.1)	(40.3)%	\$0.003
↑	27	28	CNX	Connexionz	Technology	\$5.7	\$5.1	\$0.6	11.8%	\$0.105
↓	28	27	CRP	Chatham Rock Phosphate	Energy & Mining	\$4.8	\$6.2	\$(1.4)	(22.6)%	\$0.270
→	29	29	AOR	Aorere Resources	Energy & Mining	\$1.5	\$1.5	\$0.0	0.0%	\$0.001
→	30	30	MAD	Energy Mad	Manufacturing & Distribution	\$1.4	\$1.5	\$(0.1)	(6.7)%	\$0.008
→	31	31	WTL	Windflow Technology	Energy & Mining	\$1.0	\$0.9	\$0.1	11.1%	\$0.011
	31	31		TOTAL		\$24,774.5	\$22,469.2	\$2,305.3	10.3%	

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.

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