



Enduring autumn chills

The Deloitte South Island Index

A review of the performance of South Island listed companies during the quarter ending 30 June 2017

July 2017

38th Edition

Introduction

Welcome to the 38th 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 2017.

Following the solid performance in the first quarter of 2017, the Deloitte South Island Index has successfully endured a cooler economic climate to continue to climb and achieved modest growth of \$543.6 million (2.8%) for the second quarter of the 2017 calendar year.

Movements in June 2017

The month of June resulted in a minor increase for the Deloitte South Island Index as it grew 1.3%. The Index's increase was outperformed by all other indices tracked with the exception of ASX All Ords' flat result, as the Australian index increased by 0.05%. The S&P/ NZX 50 Capital Index was the top performer with a 2.2% increase, while the Dow Jones achieved a gain of 1.6%.

Quarterly movements – Q2 2017

The Deloitte South Island Index increased by \$543.6 million (2.8%) in market capitalisation for the second quarter of 2017. This result was driven by growth in the Energy & Mining and Primary sectors as they grew by \$282.8 million (3.9%) and \$197.7 million (10.1%) respectively.

Annual movements – June 2016 to June 2017

The Deloitte South Island Index grew by \$1,628.9 million (8.8%) during the twelve months to 30 June 2017. Comparatively, it was outperformed by the Dow Jones' growth of 19.1%. In the local Australasian markets, the Index outperformed the S&P NZX 50 Capital Index and ASX All Ords, which gained 6.0% and 8.5% respectively over the period.



Executive summary

The Deloitte South Island Index finished the second quarter with modest growth, as the medium sized companies on the Index led the resistance to persevere through the Autumn cool down.

Key points for the second quarter of 2017 include:

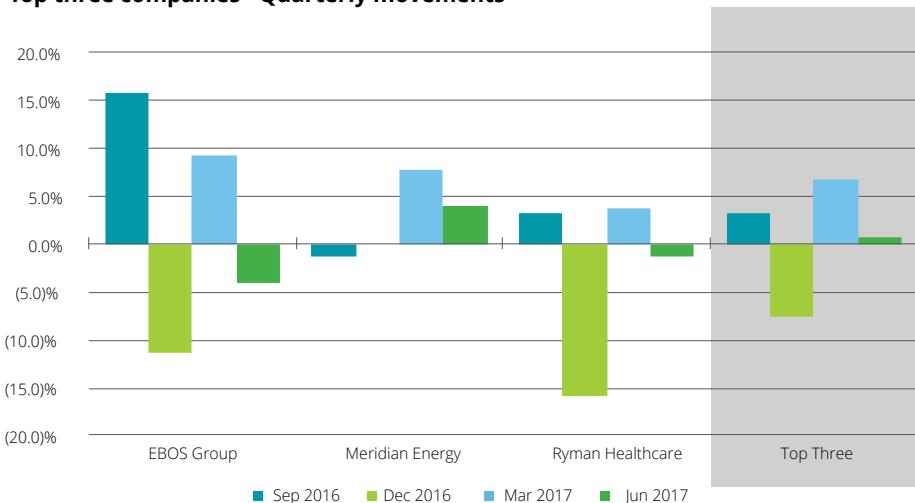
- The Deloitte South Island Index increased by \$543.6 million (2.8%) during the quarter to 30 June 2017. In comparison, over the same period, the S&P/NZX 50 Capital Index increased by 5.1%, the Dow Jones grew by 3.3%, and the ASX All Ords market capitalisation declined by 2.4%.
- The Top Three companies' collective growth for the quarter was \$108.0 million (0.8%) with the positive result achieved due to Meridian Energy's strong quarter. The remaining two Top Three companies suffered declines, with EBOS Group dropping by \$113.9 million (4.1%) and Ryman Healthcare falling \$60.0 million (1.4%). The smallest 10 companies on the Index underwent a decline as they fell collectively by 11.3%.
- Outside of the Top Three, the Index's best performers in the quarter were Synlait Milk (up \$138.1 million), Skyline Enterprises (up \$102.1 million), Heartland Bank (up \$77.7 million), and New Zealand King Salmon Investments (up \$41.4 million).
- After the declines of EBOS Group and Ryman Healthcare, the next largest falls in market capitalisation for the quarter were Pacific Edge (down \$27.8 million), Scales Corporation (down \$19.8 million) and Syft Technologies (down \$16.1 million).

- Four of the seven sectors posted positive movements in the quarter to 30 June 2017. With the Primary sector leading the way with a gain of 10.1%, followed by the Other sector increasing by 9.2%. Excluding the impact of the Top Three companies (Meridian Energy, Ryman Healthcare and EBOS Group), all sectors except the Biotechnology sector achieved growth in the quarter.
- Over the twelve months to 30 June 2017 the top performers, in dollar terms, were Meridian Energy (up \$704.8 million), Heartland Bank (up \$356.7 million), and Synlait Milk (up \$279.9 million). In percentage terms the list looks different with Heartland Bank topping the table with growth of 63.4% for the past twelve months, followed by Scott Technology (up 62.1%) and Synlait Milk (up 58.3%).
- The number of participants on the Deloitte South Island Index increased to 31 with the inclusion of Christchurch based gas analysis company Syft Technologies. Syft Technologies joined the Unlisted share trading platform in April 2017 and adds to the number of technology based companies on the Deloitte South Island Index.

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Quarter to 30 June 2017

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



The Top Three

Of the Top Three Companies on the Index, Meridian Energy was the standout performer over the most recent quarter, gaining \$281.9 million (3.9%), slightly down on last quarter's stellar performance of a 7.7% increase. The Index heavyweight presented to a number of investors in June on its view of the New Zealand and Australian electricity markets and provided an update on the progress of the company's strategy. In its monthly operating report for May, the company noted that its retail sales volume and the average price received for generation had increased by 3.3% and 34.3% respectively compared to May 2016.

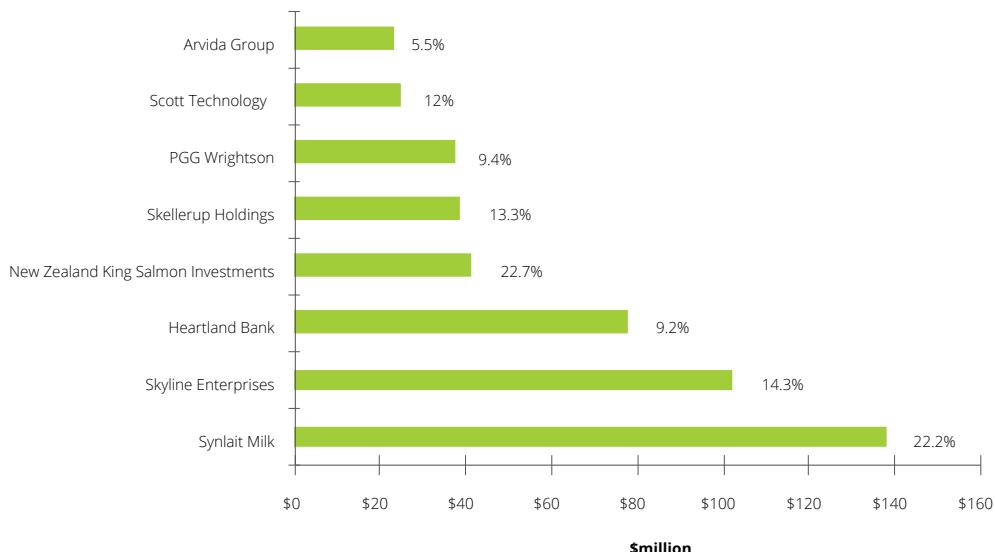
EBOS Group experienced the largest decline in dollar terms of the Index for the quarter, falling \$113.9 million (4.1%) as its share price dropped by \$0.75 to \$17.50 per share. During the

quarter EBOS Group announced to the market it has entered into a binding agreement to acquire HPS, Australia's largest provider of outsourced pharmacy services to hospitals, for a purchase price of AUD\$154 million. EBOS Group Chief Executive Officer, Patrick Davies said, "The acquisition of HPS continues EBOS' history of expansion in both the Australian and New Zealand hospital markets where it is the leading provider of wholesale pharmaceutical services. By virtue of this acquisition, EBOS will be the leading provider of outsourced pharmacy services in the Australian hospital sector."

Ryman Healthcare's market capitalisation also declined over the quarter, decreasing by \$60.0 million (1.4%) as its share price fell by \$0.12 to \$8.29 per share as at 30 June 2017. In late June, the company released its annual report for the year ended 31 March 2017, with Dr David Kerr noting

in his Chairman's report that underlying profit increased by 13% to \$178 million for the year. The company also announced a final dividend of \$0.093 per share, which takes the total dividend for the year to \$0.178 per share, a 13% increase on the previous year in line with Ryman Healthcare's growth in underlying profit.

Growth in Market Capitalisation



Balance of the Index

Growth in Market Capitalisation

Outside of the Top Three, the company with the greatest increase in market capitalisation was Synlait Milk, as it grew \$138.1 million (22.2%) in the quarter. The company released its revised forecast base milk price for the 2016/2017 season of \$6.15 kgMS, revised down from the \$6.25 kgMS announced in February following a significant drop in the dairy market. Synlait Milk also provided its forecast milk price of \$6.50 kgMS for the 2017/2018 season, with Managing Director and CEO, John Penno saying that the company was "feeling positive about the current

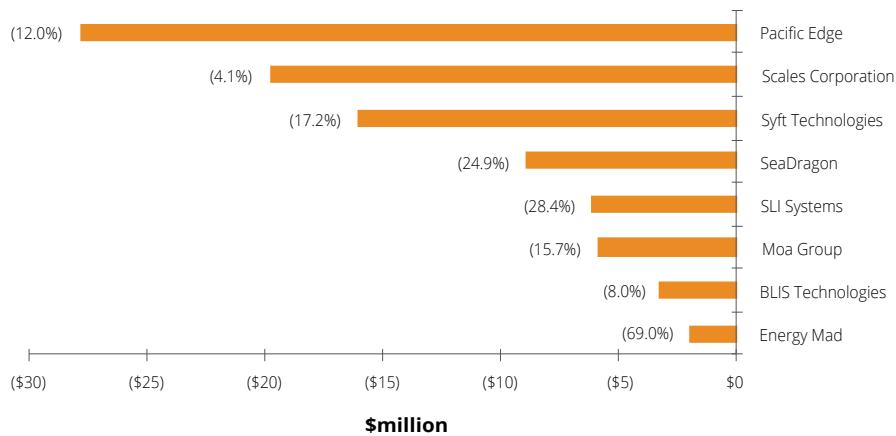
market". Synlait Milk also announced the acquisition of The New Zealand Dairy Company during the quarter.

Skyline Enterprises reversed its previous quarter's decline, gaining \$102.1 million (14.3%) for the quarter ended 30 June 2017. During the quarter Skyline Enterprise announced its plans to develop its second Luge in South Korea. The \$22 million luge development will be built as part of a large scale, US\$333 million, Osiria Theme Park near Busan City. The company stated that site preparation would begin this September, with expectations that the Luge would be completed in 2019.

Heartland Bank achieved its fourth consecutive quarterly gain, increasing by \$77.7 million (9.2%) in the quarter to 30 June 2017. The company announced during the quarter an unaudited net profit after tax of \$44.9 million for the nine months ended 31 March 2017, an increase of 13% from the corresponding period in the prior year. New Zealand King Salmon also achieved a solid result as it increased its market capitalisation by \$41.4 million (22.7%), with the company lifting its FY2017 guidance during the quarter, an increase to the forecast in the company's Product Disclosure Statement registered for its initial public offering in September 2016.



Declines in Market Capitalisation



Excluding the Top Three Companies, Pacific Edge experienced the largest fall in market capitalisation in the quarter as it declined by \$27.8 million (12.0%).

Declines in Market Capitalisation

Excluding the Top Three Companies, Pacific Edge experienced the largest fall in market capitalisation in the quarter as it declined by \$27.8 million (12.0%). During the quarter, the company released their full year results to 31 March 2017, announcing an increase in total revenue of 33% to \$9.5 million, and a total comprehensive loss of \$21.0 million (compared to a loss of \$15.5 million in FY16).

After making gains in the previous three quarters, Scales Corporation finished the 30 June 2017 quarter down \$19.8 million (4.1%) as its share price dropped by \$0.15 to \$3.32 per share. In May the company declared a fully imputed final dividend of \$0.10 per share for the 2016 financial year, which added to the \$0.08 interim dividend paid in January 2017, means total dividends for the 2016 year were \$0.18 per share.

Christchurch based Syft Technologies joined the Deloitte South Island Index this quarter as it began trading on alternative stock exchange Unlisted in April 2017. The company, which makes high-tech chemical testers to "sniff" air quality, released its annual report during the quarter. Syft Technologies announced that it recorded \$8.3 million of operating revenue in the year to 31 March 2017, an increase of 36% from the previous year.



Sector movements

Quarter to 30 June 2017

It was a mixed bag as four of the seven sectors achieved positive results over the quarter. However, without the Top Three companies' results, six out of the seven sectors achieved growth in market capitalisation.

In dollar terms, the growth of the Index was led by the Energy & Mining sector as it grew \$282.8 million (3.9%) during the quarter as all four sector participants achieved growth in the quarter. Meridian Energy's solid quarterly result was supported by Windflow Technology as the company increased its market capitalisation by 25.0%. The remaining two participants in the sector, Aorere Resources and Chatham Rock Phosphate grew by 8.3% and 9.3% respectively.

The Primary sector achieved the greatest increase in percentage terms as it grew 10.1% over the quarter. There were positive results for most participants in the sector as five out of the nine achieved growth,

the two wine companies returned to their value as at the start of the quarter, and two suffered a decline. The sector's result was driven by Blue Sky Meats (up 42.0%), New Zealand King Salmon Investments (up 22.7%), and Synlait Milk (up 22.2%).

It was an assortment of results in the Other sector as it achieved an overall positive result, growing 9.2%. The good outcome was on the back of strong results from Skyline Enterprises (up 14.3%), South Port (up 14.1%), and Heartland Bank (up 9.2%). SLI Systems dropped the greatest in the sector, in percentage terms, falling \$28.4% during the quarter.

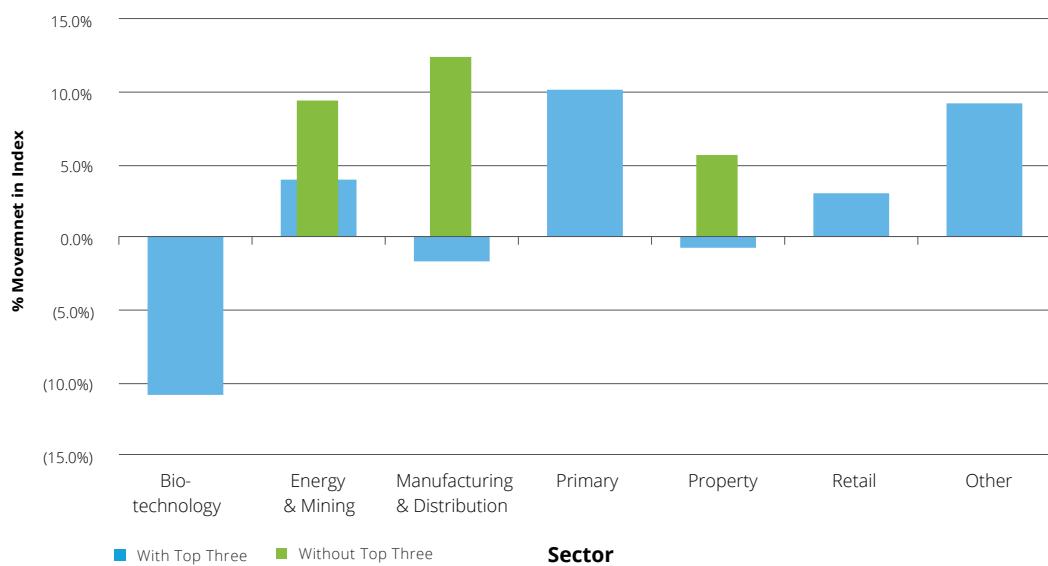
The Manufacturing & Distribution sector's decline by 1.6% was mainly the result of EBOS Group's poor share price performance during the quarter. Energy Mad also recorded a decline for the quarter ended with the largest percentage decline for the sector (and for the Index), falling 69.0%. The other two companies in the sector, Skellerup Holdings and

Scott Technology both experienced growth of 13.3% and 12.0% respectively.

It was contrasting fortunes for the two companies in the Property sector, resulting in an overall decline of 0.8% for the sector. Ryman Healthcare's fall by 1.4% held the sector back from collectively achieving growth in market capitalisation for the quarter. Arvida Group continued their strong start to the 2017 year increasing their market capitalisation by 5.5% after announcing its unaudited result for the year ending 31 March 2017, including a 47% growth in its Underlying Profit on the prior year.

The Retail sector had a good quarter as both companies achieved gains in their respective share prices, with the sector growing 2.9%. The Biotechnology sector had a disappointing quarter, dropping 10.9%, as the two larger companies in the sector, Pacific Edge and BLIS Technologies, decreased by 12.0% and 8.0% respectively.

Movement in Sector Indices - Quarter to June 2017



Industry	Number of Companies	30 Jun 2017 \$ million	31 Mar 2017 \$ million	Mvmt in Quarter \$ million	% change in Mkt Cap during quarter	% of Index
Biotechnology	3	\$255.1	\$286.2	\$(31.1)	(10.9)%	1.3%
Energy & Mining	4	\$7,468.3	\$7,185.5	\$282.8	3.9%	37.1%
Manufacturing & Distribution	4	\$3,217.2	\$3,269.9	\$(52.7)	(1.6)%	16.0%
Primary	9	\$2,149.3	\$1,951.6	\$197.7	10.1%	10.7%
Property	2	\$4,592.9	\$4,629.5	\$(36.6)	(0.8)%	22.8%
Retail	2	\$448.0	\$435.3	\$12.7	2.9%	2.2%
Other	7	\$2,019.0	\$1,848.2	\$170.8	9.2%	10.0%
TOTAL	31	\$20,149.8	\$19,606.2	\$543.6	2.8%	100.0%



Benchmarking

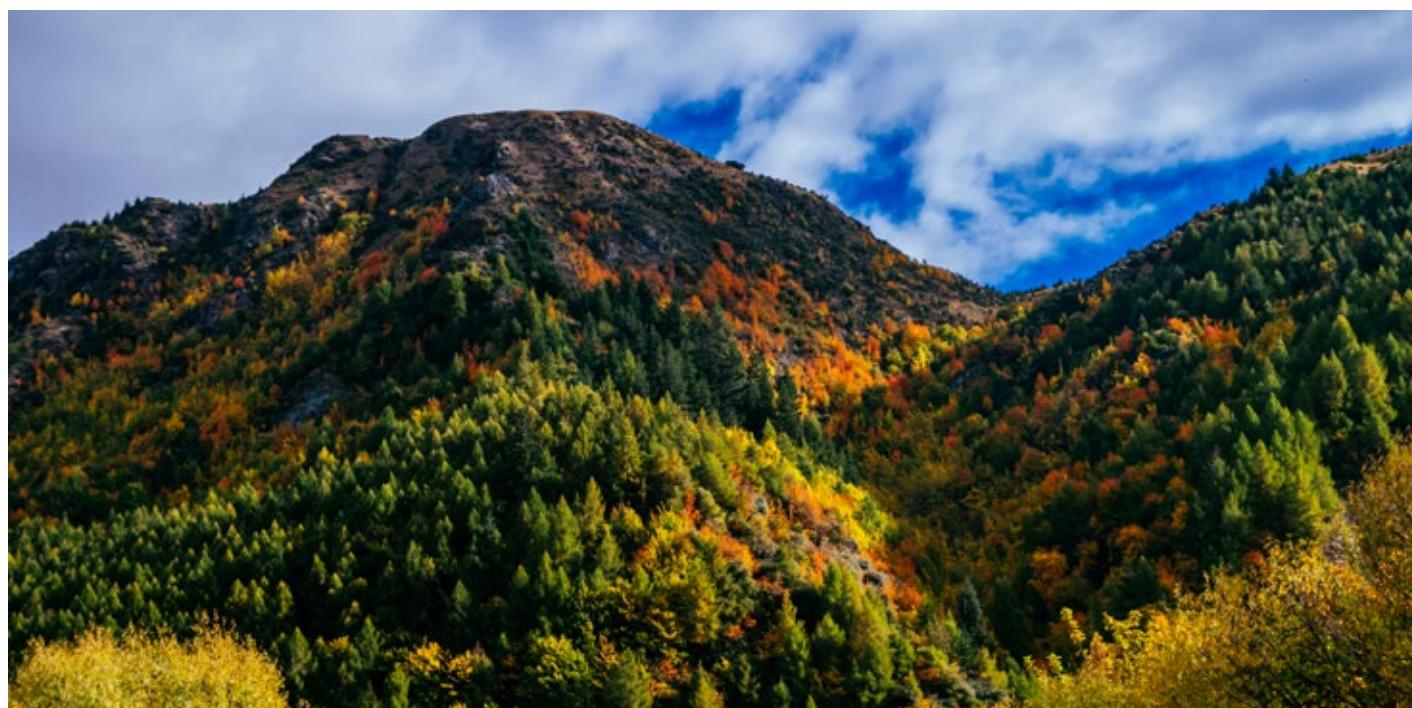
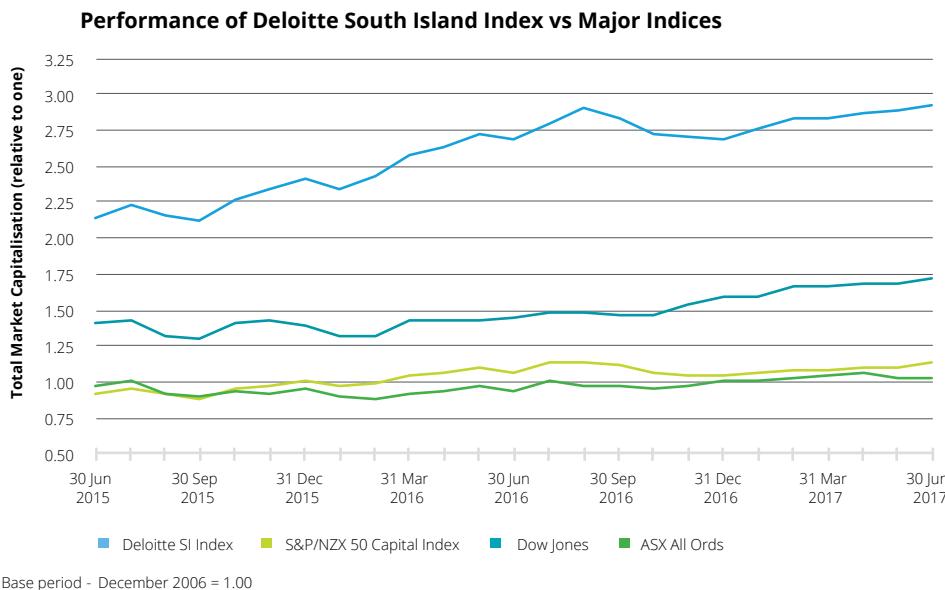
Quarterly Comparison of the Deloitte South Island Index and Other Indices.

After a solid start to the 2017 calendar year, momentum was slowed in the second quarter in a cooling climate. However, the Deloitte South Island Index endured to achieve a modest gain for the 30 June 2017 quarter, gaining \$543.6 million (2.8%).

Over the quarter, the Index grew in all three months, with a moderate start and finish, as April and June grew 1.0% and 1.3% respectively, and weaker growth in May which increased by 0.4%.

The S&P/NZX 50 Capital Index was the top performer of the other indices tracked for comparative purposes as it grew over the quarter by 5.1%. The monthly movements mirrored the Deloitte South Island Index.

The Dow Jones also achieved moderate growth during the quarter, as it gained 3.3%, while the ASX All Ords struggled declining by 2.4%.



Deloitte South Island Index – June 2017

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 2017, 10 declined and 4 remained unchanged.

The full Deloitte South Island Index for the quarter ended 30 June 2017, ranked by market capitalisation, is set out in the table below.

	Jun 2017 Rank	Mar 2016 Rank	Ticker	Company	Sector	Mcap Jun 2017 (\$m)	Mcap Mar 2017 (\$m)	Change in Mcap (%) in Quarter	Change in Mcap (%) in Quarter	Share Price 30 Jun 2017
→	1	1	MEL	Meridian Energy	Energy & Mining	\$7,458.3	\$7,176.4	\$281.9	3.9%	\$2.910
→	2	2	RYM	Ryman Healthcare	Property	\$4,145.0	\$4,205.0	\$(60.0)	(1.4)%	\$8.290
→	3	3	EBO	EBOS Group	Manufacturing & Distribution	\$2,658.5	\$2,772.4	\$(113.9)	(4.1)%	\$17.500
→	4	4	HBL	Heartland Bank	Other	\$918.9	\$841.2	\$77.7	9.2%	\$1.780
→	5	5	SKYLINE	Skyline Enterprises	Other	\$817.1	\$715.0	\$102.1	14.3%	\$24.000
→	6	6	SML	Synlait Milk	Primary	\$759.9	\$621.8	\$138.1	22.2%	\$4.240
→	7	7	SCL	Scales Corporation	Primary	\$465.2	\$485.0	\$(19.8)	(4.1)%	\$3.320
→	8	8	ARV	Arvida Group	Property	\$447.9	\$424.5	\$23.4	5.5%	\$1.340
→	9	9	PGW	PGG Wrightson	Primary	\$437.8	\$400.1	\$37.7	9.4%	\$0.580
→	10	10	KMD	Kathmandu Holdings	Retail	\$411.1	\$398.9	\$12.2	3.1%	\$2.040
→	11	11	SKL	Skellerup Holdings	Manufacturing & Distribution	\$327.8	\$289.2	\$38.6	13.3%	\$1.700
↑	12	13	SCT	Scott Technology	Manufacturing & Distribution	\$230.0	\$205.4	\$24.6	12.0%	\$3.080
↑	13	14	NZK	New Zealand King Salmon Investments	Primary	\$223.8	\$182.4	\$41.4	22.7%	\$1.620
↓	14	12	PEB	Pacific Edge	Biotechnology	\$203.8	\$231.6	\$(27.8)	(12.0)%	\$0.510
→	15	15	SPN	South Port New Zealand	Other	\$155.6	\$136.4	\$19.2	14.1%	\$5.930
↑	16	17	MWE	Marlborough Wine Estates Group	Primary	\$88.0	\$88.0	\$0.0	0.0%	\$0.300
↓	17	16	SYF	Syft Technologies	Other	\$77.5	\$93.6	\$(16.1)	(17.2)%	\$1.200
→	18	18	FFW	Foley Family Wines	Primary	\$71.0	\$71.0	\$0.0	0.0%	\$1.360
→	19	19	SFF	Silver Fern Farms	Primary	\$55.2	\$52.2	\$3.0	5.7%	\$0.550
→	20	20	BLT	BLIS Technologies	Biotechnology	\$37.7	\$41.0	\$(3.3)	(8.0)%	\$0.034
↑	21	22	SCY	Smiths City Group	Retail	\$36.9	\$36.4	\$0.5	1.4%	\$0.700
↓	22	21	MOA	Moa Group	Other	\$31.6	\$37.5	\$(5.9)	(15.7)%	\$0.590
→	23	23	SEA	SeaDragon	Primary	\$27.1	\$36.1	\$(9.0)	(24.9)%	\$0.006
↑	24	25	BLUESKY	Blue Sky Meats	Primary	\$21.3	\$15.0	\$6.3	42.0%	\$1.850
↓	25	24	SLI	SLI Systems	Other	\$15.6	\$21.8	\$(6.2)	(28.4)%	\$0.250
→	26	26	PAZ	Pharmazen	Biotechnology	\$13.6	\$13.6	\$0.0	0.0%	\$0.085
→	27	27	CRP	Chatham Rock Phosphate	Energy & Mining	\$8.2	\$7.5	\$0.7	9.3%	\$0.600
↑	28	29	CNX	Connexionz	Other	\$2.7	\$2.7	\$0.0	0.0%	\$0.050
↑	29	30	AOR	Aorere Resources	Energy & Mining	\$1.3	\$1.2	\$0.1	8.3%	\$0.001
↓	30	28	MAD	Energy Mad	Manufacturing & Distribution	\$0.9	\$2.9	\$(2.0)	(69.0)%	\$0.006
→	31	31	WTL	Windflow Technology	Energy & Mining	\$0.5	\$0.4	\$0.1	25.0%	\$0.012
	31	31		TOTAL		\$20,149.8	\$19,606.2	\$543.6	2.8%	

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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