



Back to basics

The Deloitte South Island Index

A review of the performance of South Island listed companies during the quarter ending 31 March 2017

May 2017

37th Edition

Introduction

Welcome to the 37th 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 March 2017.

Following the record decline in the last quarter of 2016, the Deloitte South Island Index returned to business as usual as it achieved growth of \$1,036.2 million (5.6%) in the first quarter of the 2017 calendar year. It appears that the participants on the Index returned back to basics over the summer period with the larger companies leading the way to growth for the quarter.

Movements in March 2017

There was little movement in the month of March for the Deloitte South Island Index as it grew by 0.4%. The Index's result was only bettered by the ASX All Ords which gained 2.5%, its best month of the quarter. The other two indices tracked both declined in March, as the Dow Jones' dropped by 0.7% and the S&P/NZX 50 Capital Index fell by 0.8%.

Quarterly movements – Q1 2017

The Deloitte South Island Index increased by \$1,036.2 million (5.6%) of market capitalisation for the first quarter of 2017. This result was driven by growth in the Energy & Mining and Manufacturing & Distribution sectors by \$510.7 million (7.7%) and \$275.2 million (9.2%) respectively.

Annual movements – March 2016 to March 2017

The Deloitte South Island Index grew by \$1,751.4 million (9.9%) during the twelve months to 31 March 2017. Comparatively, it was outperformed by the Dow Jones' and ASX All Ords' growth of 16.8% and 14.6% respectively. In the local market the Index outperformed the S&P/NZX 50 Capital Index which gained only 2.4% over the period.



Executive Summary

The Deloitte South Island Index began the 2017 calendar year with a solid quarterly performance, recovering from its dismal end to the 2016 year.

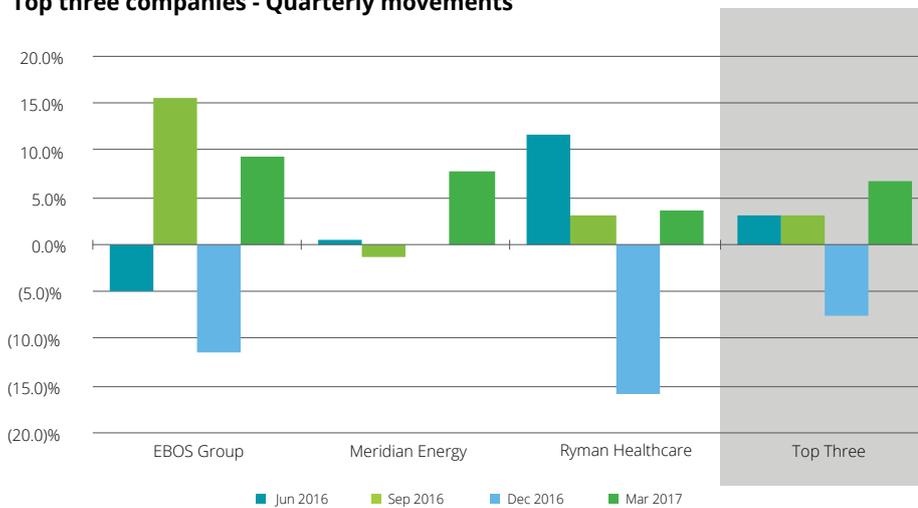
Key points for the first quarter of 2017 include:

- The Deloitte South Island Index increased by \$1,036.2 million (5.6%) during the quarter to 31 March 2017. In comparison, over the same period, the Dow Jones grew by 4.6%, the ASX All Ords increased its market capitalisation by 3.2%, and the S&P/NZX 50 Capital Index managed to increase by 3.1% over the quarter.
- The top performers in the quarter were Meridian Energy (up \$512.6 million), EBOS Group (up \$235.4 million), Ryman Healthcare (up \$150.0 million), Heartland Bank (up \$92.5 million), and Synlait Milk (up \$64.8 million).
- The two most significant declines for the quarter came from Silver Fern Farms and Skyline Enterprises. Silver Fern Farms decreased by \$37.1 million (down 41.5%), while Skyline Enterprises underwent its second consecutive quarterly fall as it decreased by \$34.1 million (4.6%).
- All seven sectors posted positive movement in the quarter to 31 March 2017 – with the Manufacturing & Distribution sector leading the way with a gain of 9.2%, followed by the Energy & Mining sector increasing up 7.7%. Excluding the positive results of the Top Three companies (Meridian Energy, Ryman Healthcare and EBOS Group) the Energy & Mining sector suffered the only decline in the quarter.
- Nine of the ten largest companies achieved gains in the 31 March 2017 quarter, with the Top Three companies setting the tone, collectively growing by \$898.0 million (6.8%). The smallest 15 companies on the Index underwent a decline as they fell collectively by 13.9%, with nine of the companies decreasing and the other six returning to the same level as the beginning of the quarter.
- This quarter's result of 5.6% growth is slightly below the typical March quarter results achieved by the Deloitte South Island Index. For four of the previous five years the March quarter results range from 6.4% to 7.1% growth.
- Over the twelve months to 31 March 2017 the top performers, in dollar terms, were Meridian Energy (up \$461.3 million), Heartland Bank (up \$267.8 million), and EBOS Group (up \$169.8 million). In percentage terms the list looks completely different with Scott Technology topping the table with growth of 167.2% for the past twelve months, followed by Chatham Rock Phosphate (up 115.4%) and Pharmazen (up 70.0%).
- The number of market participants on the Index remained at 30. However, during the quarter Chatham Rock Phosphate was subject to a takeover by Antipodes Gold Limited, which subsequently changed its name to Chatham Rock Phosphate Limited upon completion of the merger.

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Quarter to 31 March 2017

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



Meridian Energy grew the most, gaining \$512.6 million (7.7%) in the quarter, an improvement on the flat performance in the preceding quarter.

The Top Three

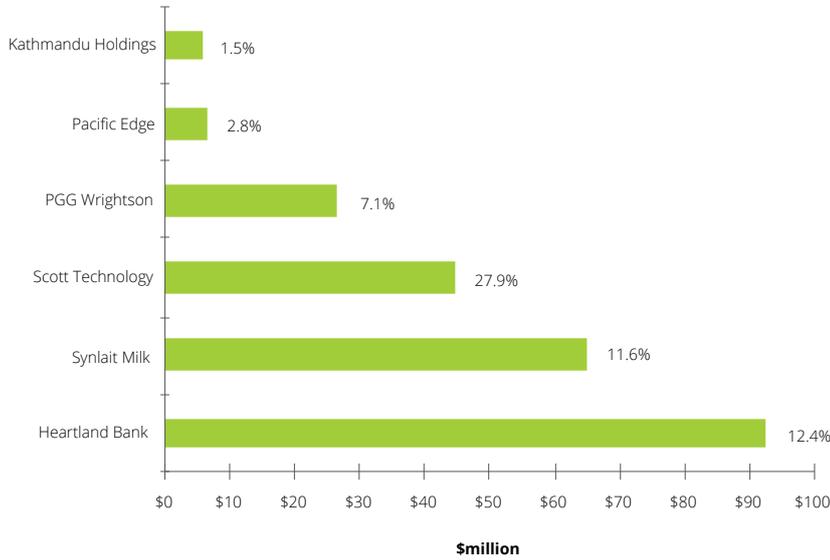
The Top Three companies on the Index were also the companies that had the greatest gains in market capitalisation for the 31 March 2017 quarter. Meridian Energy grew the most, gaining \$512.6 million (7.7%) in the quarter, an improvement on the flat performance in the preceding quarter. During the quarter, Meridian Energy released its interim financial result for the six months to 31 December 2016. The company reported a third successive year of growth in interim earnings (EBITDAF) being 6% higher than the corresponding period in the previous year. Meridian Energy reported that the results “reflected increased earnings in New Zealand, but more particularly in Australia, off the back of both strong wholesale prices and retail growth”.

EBOS Group had a positive start to the 2017 year as it increased by \$235.4 million (9.3%) in the quarter as its share price rose by \$1.55 to \$18.25 per share. EBOS Group also announced its unaudited interim

financial results to 31 December 2016 with a headline result of delivering double-digit revenue and profit growth with significant growth across its Healthcare and Animal care divisions in Australia and New Zealand. The company’s group revenue and underlying net profit after tax increased 17.2% and 9.5% respectively on the corresponding prior year’s period.

Ryman Healthcare’s market capitalisation also increased over the quarter as it grew \$150.0 million (3.7%) as its share price grew by \$0.30 to \$8.41 per share as at 31 March 2017. In late March, the company announced that it had received approval for its plan to build a new retirement village at Brandon Park in Melbourne. The village would be Ryman Healthcare’s second village in Melbourne, with the first residents in the new village expected to move into their new apartments in 2018.

Growth in Market Capitalisation



Balance of the Index Growth in Market Capitalisation

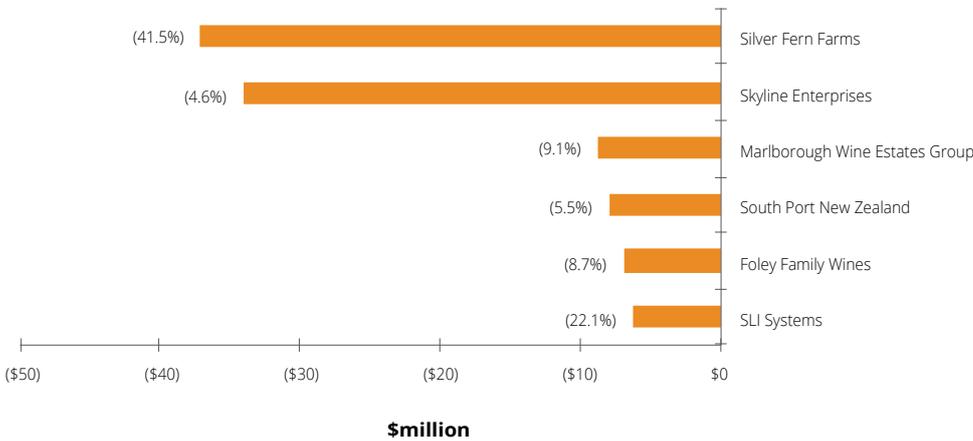
Outside of the Top Three, the company with the greatest increase in market capitalisation was Heartland Bank, as it grew \$92.5 million (12.4%) in the quarter. Heartland Bank announced its half-year financial results to 31 December 2016, with the company achieving net profit after tax of \$29.1 million - an increase of 14% from the previous corresponding reporting period. The company also announced during the quarter that it had taken a 25% shareholding in Fuelled Limited, a New Zealand-based online small-to-medium business (SME) lender.

Synlait Milk had a strong quarter as its market capitalisation grew by \$64.8 million (11.6%). The dairy manufacturer announced in early February an increase to their forecasted milk price for the 2016/2017 season from \$6.00 kgMS to \$6.25 kgMS. Chairman Graeme Milne said, "International dairy commodity prices have improved further since our last announcement in November and although prices have eased slightly in early 2017, we believe \$6.25 kgMS is now a realistic estimate for the current season." Synlait Milk also released during the quarter its interim report for the six months to 31 January 2017, reporting a 35.2% increase in revenue compared to the same period the prior year.

In percentage terms, Dunedin based Scott Technology was the best performer of the Deloitte South Island Index for the quarter as it grew 27.9% (up \$44.8 million). The result is the company's seventh consecutive quarterly gain in market capitalisation, with the last three quarterly gains having all been a result of pure share price increases.



Declines in Market Capitalisation



Silver Fern Farms experienced the largest fall in market capitalisation in the quarter as it declined \$37.1 million (41.5%). The company's share price fell by a third in early March and is yet to recover to its previous level.

Declines in Market Capitalisation

Silver Fern Farms experienced the largest fall in market capitalisation in the quarter as it declined \$37.1 million (41.5%). The company's share price fell by a third in early March and is yet to recover to its previous level. During the quarter, the company released its annual results to 30 September 2016, announcing total income of \$2.2 billion down 11.2% on the previous year, and a net loss after tax of \$30.6 million (compared to a \$24.9 million profit the previous year). Silver Fern Farms Co-operative Chairman Rob Hewett said, "while the result was in line with previous guidance of a small operating loss, it was nonetheless particularly disappointing and reflected a very challenging year across the industry."

Skyline Enterprises underwent its second consecutive quarterly decline as it fell \$34.1 million (4.6%) in the 31 March 2017 quarter as its share price dropped by \$1.00 to \$21.0 per share. The company announced in February the opening of its \$20 million luge development in Tongyeong City, South Korea. The project is believed to be the largest direct capital investment in South Korea by a New Zealand company.

NXT listed Marlborough Wine Estates Group experienced a drop in market capitalisation by \$8.8 million (9.1%) as its share price fell \$0.03 to \$0.30 per share.

During the quarter, the company released its interim results for the six months to 31 December 2016, reporting revenue of \$0.9 million, down \$1.9 million (67.4%) on the corresponding period the previous year. However, the previous year included \$2.7 million of bulk wine sales whereas in the current period there were none as Marlborough Wine Estates Group focused on developing its bottled wine business.



Sector Movements

Quarter to 31 March 2017

In a rare occurrence, all seven industry sectors achieved positive results over the quarter, the first time since the 31 December 2015 quarter.

The result was led by the Energy & Mining sector which grew \$510.7 million (7.7%) during the quarter. Meridian Energy pulled the sector into positive territory as none of the other three companies in the sector achieved positive results. Without Meridian Energy, the sector declined by 17.1% after related companies Aorere Resources and Chatham Rock Phosphate declined 47.8% and 9.6% respectively.

The Other sector was also hauled up by one company to achieve a positive result, growing 2.4%, with Heartland Bank growing 12.4%. Four of the six companies in the sector underwent declines for the period and one remained unchanged. SLI Systems dropped the greatest in percentage terms, falling 22.1% during the quarter.

The Manufacturing & Distribution sector was the top performer in percentage terms as it grew by 9.2% on the back of strong results from EBOS Group and Scott Technology. The other two companies in the sector, Energy Mad and Skellerup Holdings, both fell declining by 40.7% and 1.3% respectively.

Both companies in the Property sector increased their respective market capitalisation to collectively grow the sector by 3.4% for the quarter.

The Primary sector grew by 3.4%, however the sector was a mixed bag as four companies increased their market capitalisation, three declined and two remained unchanged. The overall result was led by Synlait milk (up 11.6%) and PGG Wrightson (up 7.1%), but dragged down by Silver Ferns Farms' decline in the quarter. The remaining sectors, Retail and Biotechnology, achieved marginal increases gaining 1.4% and 1.1% respectively.

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Movement in Sector Indices - Quarter to March 2017



Industry	Number of Companies	31 Mar 2017 \$ million	31 Dec 2016 \$ million	Mvmt in Quarter \$ million	% change in Mkt Cap during quarter	% of Index
Biotechnology	3	\$286.2	\$283.1	\$3.1	1.1%	1.5%
Energy & Mining	4	\$7,185.5	\$6,674.8	\$510.7	7.7%	36.8%
Manufacturing & Distribution	4	\$3,268.6	\$2,993.4	\$275.2	9.2%	16.8%
Primary	9	\$1,951.6	\$1,904.7	\$46.9	2.5%	10.0%
Property	2	\$4,629.5	\$4,476.2	\$153.5	3.4%	23.7%
Retail	2	\$435.3	\$429.3	\$6.0	1.4%	2.2%
Other	6	\$1,754.6	\$1,713.6	\$41.0	2.4%	9.0%
TOTAL	30	\$19,511.3	\$18,475.1	\$1,036.2	5.6%	100.0%



Benchmarking

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

After a dismal performance to end the 2016 calendar year, the Deloitte South Island Index has gone back to basics to achieve a solid result for the 31 March 2017 quarter, gaining \$1,036.2 million (5.6%).

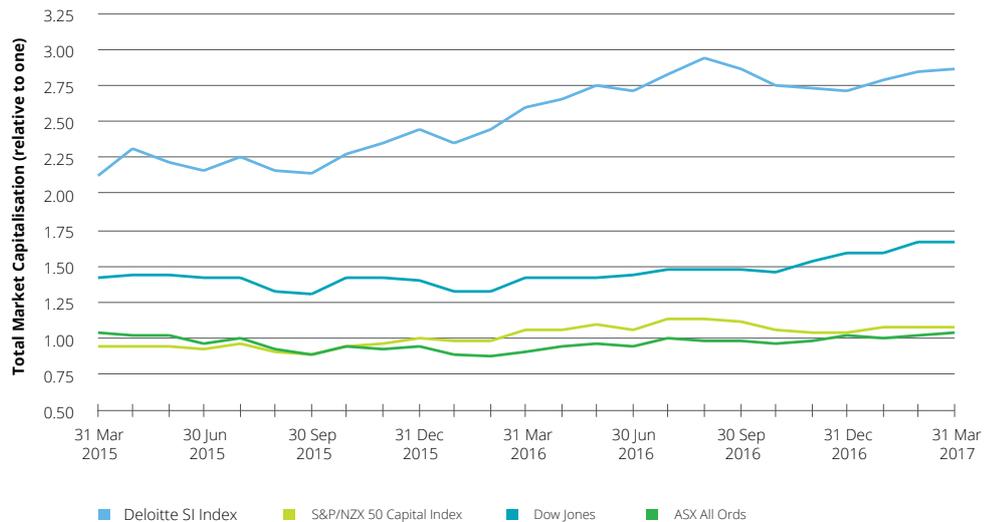
Over the quarter, the Index grew in all three months, with a strong start in January and February growing 2.5% and 2.7% respectively, and then slowing down in March to increase by 0.4%. The result was led by the Top Three companies who collectively gained 6.8% in the quarter.

The S&P/NZX 50 Capital Index also grew over the quarter as it increased by 3.1%, crawling its way back towards its peak achieved in the September 2016 quarter. The current quarterly result was hindered by the poor performance of the larger companies on the S&P/NZX 10 Capital Index as they collectively grew 0.5%.

The overseas indices tracked for comparative purposes fared better than the S&P/NZX 50 Capital Index, but were still outperformed by the Deloitte South Island Index. The Dow Jones increased by 4.6% over the quarter, after a strong February as it grew 4.8% in that month alone, however it subsequently declined by 0.7% in March.

In Australia, the ASX All Ords Index achieved a gain of 3.2% over the quarter, slightly down on the 3.5% gain in the 31 December 2016 quarter. The ASX All Ords ended the quarter at its highest peak since the impact of the Global Financial Crisis took effect in 2007, currently sitting at 10.3% below its 30 September 2007 level.

Performance of Deloitte South Island Index vs Major Indices



Base period - December 2006 = 1.00



Deloitte South Island Index – March 2017

Of the 30 companies currently listed on the Deloitte South Island Index, 12 (40%) experienced a rise in market capitalisation during the quarter to 31 March 2017, 12 declined and 6 remained unchanged.

The full Deloitte South Island Index for the quarter ended 31 March 2017, ranked by market capitalisation, is set out in the table below.

	Mar 2017 Rank	Dec 2016 Rank	Ticker	Company	Sector	Mcap Mar 2017 (\$m)	Mcap Dec 2016 (\$m)	Change in Mcap (%) in Quarter	Change in Mcap (%) in Quarter	Share Price 31 Mar 2017
→	1	1	MEL	Meridian Energy	Energy & Mining	\$7,176.4	\$6,663.8	\$512.6	7.7%	\$2.800
→	2	2	RYM	Ryman Healthcare	Property	\$4,205.0	\$4,055.0	\$150.0	3.7%	\$8.410
→	3	3	EBO	EBOS Group	Manufacturing & Distribution	\$2,772.4	\$2,537.0	\$235.4	9.3%	\$18.250
↑	4	5	HBL	Heartland Bank	Other	\$841.2	\$748.7	\$92.5	12.4%	\$1.640
↓	5	4	SKYLINE	Skyline Enterprises	Other	\$715.0	\$749.1	\$(34.1)	(4.6)%	\$21.000
→	6	6	SML	Synlait Milk	Primary	\$621.8	\$557.0	\$64.8	11.6%	\$3.470
→	7	7	SCL	Scales Corporation	Primary	\$485.0	\$482.2	\$2.8	0.6%	\$3.470
→	8	8	ARV	Arvida Group	Property	\$424.5	\$421.2	\$3.3	0.8%	\$1.270
↑	9	10	PGW	PGG Wrightson	Primary	\$400.1	\$373.7	\$26.4	7.1%	\$0.530
↓	10	9	KMD	Kathmandu Holdings	Retail	\$398.9	\$392.9	\$6.0	1.5%	\$1.980
→	11	11	SKL	Skellerup Holdings	Manufacturing & Distribution	\$289.2	\$293.1	\$(3.9)	(1.3)%	\$1.500
→	12	12	PEB	Pacific Edge	Biotechnology	\$231.6	\$225.2	\$6.4	2.8%	\$0.580
↑	13	14	SCT	Scott Technology	Manufacturing & Distribution	\$205.4	\$160.6	\$44.8	27.9%	\$2.750
↓	14	13	NZK	New Zealand King Salmon Investments	Primary	\$182.4	\$176.8	\$5.6	3.2%	\$1.320
→	15	15	SPN	South Port New Zealand	Other	\$136.4	\$144.3	\$(7.9)	(5.5)%	\$5.200
→	16	16	MWE	Marlborough Wine Estates Group	Primary	\$88.0	\$96.8	\$(8.8)	(9.1)%	\$0.300
↑	17	18	FFW	Foley Family Wines	Primary	\$71.0	\$77.8	\$(6.8)	(8.7)%	\$1.360
↓	18	17	SFF	Silver Fern Farms	Primary	\$52.2	\$89.3	\$(37.1)	(41.5)%	\$0.520
→	19	19	BLT	BLIS Technologies	Biotechnology	\$41.0	\$44.3	\$(3.3)	(7.4)%	\$0.037
→	20	20	MOA	Moa Group	Other	\$37.5	\$40.8	\$(3.3)	(8.1)%	\$0.700
→	21	21	SCY	Smiths City Group	Retail	\$36.4	\$36.4	\$0.0	0.0%	\$0.690
→	22	22	SEA	SeaDragon	Primary	\$36.1	\$36.1	\$0.0	0.0%	\$0.008
→	23	23	SLI	SLI Systems	Other	\$21.8	\$28.0	\$(6.2)	(22.1)%	\$0.350
→	24	24	BLUESKY	Blue Sky Meats	Primary	\$15.0	\$15.0	\$0.0	0.0%	\$1.300
→	25	25	PAZ	Pharmazen	Biotechnology	\$13.6	\$13.6	\$0.0	0.0%	\$0.085
→	26	26	CRP	Chatham Rock Phosphate	Energy & Mining	\$7.5	\$8.3	\$(0.8)	(9.6)%	\$0.550
↑	27	28	CNX	Connexionz	Other	\$2.7	\$2.7	\$0.0	0.0%	\$0.050
↓	28	27	MAD	Energy Mad	Manufacturing & Distribution	\$1.6	\$2.7	\$(1.1)	(40.7)%	\$0.020
→	29	29	AOR	Aorere Resources	Energy & Mining	\$1.2	\$2.3	\$(1.1)	(47.8)%	\$0.001
→	30	30	WTL	Windflow Technology	Energy & Mining	\$0.4	\$0.4	\$0.0	0.0%	\$0.010
	30	30		TOTAL		\$19,511.3	\$18,475.1	\$1,036.2	5.6%	

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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