

global investor by Jean Pierre Verster



# Tackling New Zealand stocks



**T**he thrilling victory of the Springboks over the All Blacks at the weekend was a showcase of the intense rivalry between these two proud rugby nations.

At 60-million people, SA's population is 12 times that of New Zealand's. In terms of the respective sizes of the two countries' economies, however, SA's economy (our annual GDP) is only 50% larger than New Zealand's. When it comes to comparing stock markets, SA dominates, with more than R17-trillion worth of stocks listed on the JSE, versus roughly NZ\$180bn (about R1.9-trillion) worth of stocks listed on New Zealand's Exchange (NZX).

Should you invest in stocks from the country of our rugby archrivals? Let's have a look at a roster of opportunities from the land of the long white cloud.

## Fisher & Paykel Healthcare

This is New Zealand's largest publicly listed company, with a market capitalisation of about NZ\$18bn. Initially, it was simply a product line of a large appliance manufacturing group which developed an innovative respiratory humidifier in the 1960s. The product line became such a hit that it was reorganised into a standalone business and listed separately in 2001.

Fisher & Paykel Healthcare has a long track record of steady profit growth, but Covid gave the company an additional boost. Demand for its nasal high-flow therapy machines rocketed as doctors reported positive treatment outcomes when compared to traditional mechanical ventilators.

The company is also known for products used in the treatment of

obstructive sleep apnoea. In a recent update, it indicated that the spurt of increased product demand is subsiding, so Fisher & Paykel Healthcare might need to wait on the bench for a while before being considered as a pick for your portfolio.

## Meridian Energy

There are five competing companies that generate the bulk of New Zealand's electricity. Meridian is the largest, responsible for producing more than a third of New Zealand's power. It is also the third-largest retailer of electricity in the country. All of Meridian's generated power is from renewable resources, primarily hydroelectric and wind. The New Zealand government holds 51% of Meridian's shares, after partly privatising the company in 2013 by offering shares in Meridian to members of the public.

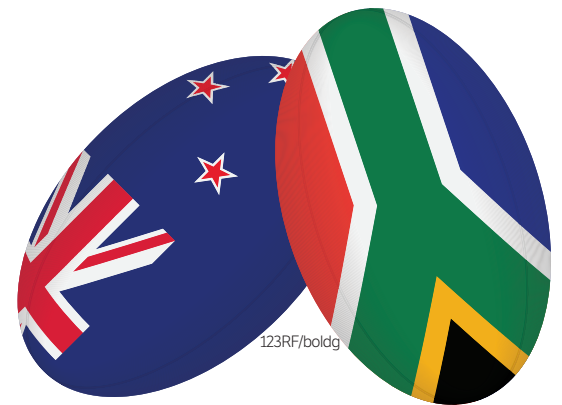
A word of caution, though: the gush of money flowing into ESG-related funds – funds with a focus on good environmental, social and corporate governance – has increased the valuation of many renewable energy companies to unattractive levels for those looking to purchase shares now.

Meridian will also need to revisit its game plan due to the announced closure of New Zealand's only aluminium smelter by 2024, which will cause a significant drop in power demand.

## Ryman Healthcare

As the baby boomer generation moves into retirement age, retirement villages are popping up left and right. Ryman is the leading retirement village developer and operator in New Zealand, with 36 villages, and has expanded into Australia by building four villages in the Melbourne area.

The outlook for new retirement villages is strong, with 16 sites in the development pipeline. The company has a very capital-efficient business model,



since retirees buy occupation rights rather than obtaining ownership of their unit.

This means that Ryman makes an attractive development margin upfront by selling occupation rights, plus it earns annuity income from the resale of such rights in the future. While the pandemic has been disruptive to its construction activities, all its villages have remained Covid-free. Ryman is a strong contender for a position in any global portfolio.

## The A2 Milk Company

This was the star player on the NZX for many years, with its infant milk formula based on the A2 protein being perceived as gentler on lactose-sensitive baby tummies.

Sadly, A2 Milk has lost some form since mid-2020, due to strict travel restrictions imposed by the New Zealand and Australian governments. Thousands of *daigou* – proxy shoppers who travel overseas to buy goods on behalf of customers in mainland China – could no longer fly to Australia to buy sought-after English-label tins of infant milk formula. In response, Chinese mothers switched to ultra-premium domestic brands. In another blow to A2 Milk, birth rates have plummeted over the past year, notwithstanding China's new relaxed three-child policy. It seems that A2 Milk will have to dig deep to retake the lead in the Chinese infant milk formula market. ✕

Verster is CEO of Protea Capital Management

**Should you invest in stocks from the country of our rugby archrivals?**