



# QUARTERLY NEWSLETTER

1 October 2023 – 31 December 2023

Share Price

\$1.22

Warrant Price

\$0.02

KFL NAV

\$1.31

DISCOUNT<sup>1</sup>

6.4%

as at 31 December 2023

In the December quarter, Kingfish delivered a gross performance return of +3.6% and an adjusted NAV return of +3.2%, versus the +4.2% return of the S&P/NZX50 gross index. The adjusted NAV return for the 2023 calendar year was +3.6% versus the index of +2.6%.

## Highlights included Vista, F&P Healthcare, Mainfreight, and Auckland Airport

A positive contributor was cinema software company **Vista** (+15% total return in the quarter). We had previously said it will take 'runs on the board' to lift investor confidence and that it is gaining traction in its strategy to transition cinema exhibitor customers to its Digital and Cloud products. Within a number of weeks, the company announced several existing customers have signed up to its new product suite, including Vue (Europe), Pathé (France), Major Cineplex (South East Asia), and Cinépolis (Spain). It is clear traction is building and these wins will act as proof points for undecided customers and should deliver further momentum to its sales pipeline. The company remains confident of achieving its medium-term ambitions, which suggests its shares remain undervalued.

As we discussed last month, **Fisher & Paykel Healthcare** (+11%) delivered a first half result which is supportive of the longer-term earnings trajectory of the business. Across both the Hospital and Homecare divisions the revenue growth was underpinned by strong contributions from new products, with obstructive sleep apnea masks and anaesthesia products the standout growth contributors.

**Mainfreight** (+8%) saw its share price recover after releasing its first half result in November. A year ago we noted that Mainfreight had made underlying progress during 2022, but this had not translated to share price returns. 2023 was much of the same as its share price was relatively flat despite the business further growing and intensifying its network. During the year, the business has suffered from weaker freight volumes than we anticipated in its local transport business, plus inventory levels being destocked globally, which weighed on demand for international freight. Mainfreight's devotion to improving its business with a long-term focus and the weaker freight environment now improving makes us optimistic that 2024 will see a return to growth.

**Auckland International Airport** (+11%) had a key win during December as the Commerce Commission released its finalised 'Input Methodologies' paper. This is a 7-yearly reassessment of the framework that guides how New Zealand airports should set aeronautical charges. This clears the way for Auckland Airport to set these charges in the medium term at a higher level than was contemplated in the draft paper.

## Detractors from performance in the quarter included Delegat and Port of Tauranga

One disappointing performer, where sentiment is at a low ebb, was Oyster Bay wine maker **Delegat** (-21% return in the quarter). A combination of cost pressures and customers destocking inventories have seen earnings expectations reduced, although the business remains strongly profitable. Net profit of \$57-61 million is expected in the current financial year, similar to last year. The share price decline in 2023 has

been disproportionate to the reduction in earnings power of the business. Underlying growth remains solid, with sales growth in retail outlets in the key US market still running strong at 9% despite the tough retail environment. Management has a credible strategy to reprioritise its most profitable sales channels, increase pricing, and substitute out third-party grapes as more of its vineyards come online over time. This will allow profit margins to improve over time.

During the quarter **Port of Tauranga** (-5%) provided earnings guidance for its current year below expectations. It unveiled September quarter container volumes that were 21% lower than last year, partly due to lower transshipment volumes as shipping companies changed their routes. There were some offsets, with September quarter log volumes up 33% on last year as Cyclone Gabrielle caused some logs to be harvested early.

## 2023 was a relatively tough year for New Zealand, both in share market returns and economically

New Zealand equity returns lagged key markets in 2023, with the benchmark index return of +2.6% well below the US S&P 500 up +26.3%, and Australia's ASX 200 up +12.4%.

As a generalisation, many Kiwi companies struggled during the year with around 70% of companies in the NZX 50 benchmark index seeing 2023 earnings expectations fall. Cost pressures and higher interest costs meant even many so-called defensive companies were also impacted. It was a particularly tough time for any company exposed to discretionary spend. Kingfish's companies that are exposed to the New Zealand economy like Mainfreight, Freightways, and Vulcan Steel struggled to take enough market share to offset lower same-customer volumes.

Economic growth in New Zealand is running lower than the US and Australia and there is a similar degree of weakness in retail sales, house prices, and construction.

For much of the year rising interest rates were a handbrake on Kiwi consumers and companies. However, this has changed abruptly in the December quarter, with key interest rates such as 10-year government bond yields dropping very sharply. It increasingly appears that the restrictive monetary policy (high interest rates) has done its job of reducing inflation towards target levels.

While currently the immediate outlook remains somewhat subdued, looking forward 12 months it is increasingly likely that the majority of the 'belt tightening' will be in the rear-view mirror and headwinds will abate or even become tailwinds.

Regardless of what surprises the next year holds, we remain confident that Kingfish holds a balanced portfolio of New Zealand's highest quality companies that have wide economic moats and strong medium to long term growth prospects. So, we are optimistic for a prosperous 2024.

**Matt Peek**  
Portfolio Manager  
Fisher Funds Management Limited  
19 January 2024



<sup>1</sup> Share price discount to NAV (including warrant price on a pro-rated basis and using the net asset value per share, after expense, fees and tax, to four decimal places).

# SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

VISTA GROUP	AUCKLAND INTERNATIONAL AIRPORT	FISHER & PAYKEL HEALTHCARE	MAINFREIGHT	DELEGAT GROUP
+15%	+11%	+11%	+8%	-21%

## PERFORMANCE

as at 31 December 2023

	3 Months	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>			
Total Shareholder Return	(1.2%)	(8.4%)	+8.4%
Adjusted NAV Return	+3.2%	(3.3%)	+8.4%
<b>Portfolio Performance</b>			
Gross Performance Return	+3.6%	(2.2%)	+10.6%
S&P/NZX50G Index	+4.2%	(3.5%)	+6.0%

### Non-GAAP Financial Information

Kingfish uses non-GAAP measures, including adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return. The rationale for using such non-GAAP measures is as follows:

- » adjusted net asset value – the underlying value of the investment portfolio adjusted for capital allocation decisions after expenses, fees and tax,
- » adjusted NAV return – the percentage change in the adjusted NAV value,
- » gross performance return – the Manager’s portfolio performance in terms of stock selection, before expenses, fees and tax, and
- » total shareholder return – the return combines the share price performance, the warrant price performance, the net value of converting any warrants into shares, and the dividends paid to shareholders. It assumes all dividends are reinvested in the company’s dividend reinvestment plan, and that shareholders exercise their warrants, (if they were in the money), at warrant expiry date.

All references to adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return in this newsletter are to such non-GAAP measures. The calculations applied to non-GAAP measures are described in the Kingfish Non-GAAP Financial Information Policy. A copy of the policy is available [kingfish.co.nz/aboutkingfish/kingfish-policies](http://kingfish.co.nz/aboutkingfish/kingfish-policies).

## COMPANY NEWS

Dividend Paid 15 December 2023

A dividend of 2.64 cents per share was paid to Kingfish shareholders on 15 December 2023 under the quarterly distribution policy. Interest in Kingfish’s dividend reinvestment plan (DRP) remains high with 40% of shareholders participating in the plan. Shares issued to DRP participants are at a 3% discount to market price. If you would like to participate in the DRP, please contact our share registrar, Computershare on (09) 488 8777.

## FOREIGN TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARD (CRS)

As a result of the New Zealand Government agreeing to participate in the exchange of information with other jurisdictions under the Foreign Tax Compliance Act (FATCA) and Common Reporting Standard (CRS), Financial Institutions are required to undertake due diligence to determine the account holders’ jurisdiction of tax residence. If shareholders have not previously self-certified, they will receive a Tax Residency Self-Certification form from Computershare depending on when they first purchased their securities. Please ensure you complete and return this important document if you have not already done so. For more information please visit the IRD website: [ird.govt.nz/international-tax/exchange-of-information/crs/registration-and-reporting](http://ird.govt.nz/international-tax/exchange-of-information/crs/registration-and-reporting) or contact Computershare if you are unsure of whether you have completed your form.

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Kingfish Limited  
Private Bag 93502, Takapuna, Auckland 0740, New Zealand  
Phone: +64 9 489 7094  
Email: [enquire@kingfish.co.nz](mailto:enquire@kingfish.co.nz) | [www.kingfish.co.nz](http://www.kingfish.co.nz)

If you would like to receive future newsletters electronically please email us at [enquire@kingfish.co.nz](mailto:enquire@kingfish.co.nz)

## PORTFOLIO HOLDINGS SUMMARY

as at 31 December 2023

LISTED COMPANIES	% Holding
Auckland Intl Airport	9.2%
Contact Energy	7.0%
Delegat Group	1.8%
EBOS Group	5.1%
Fisher & Paykel Healthcare	15.0%
Freightways	3.3%
Infratil	17.0%
Mainfreight	15.5%
Meridian Energy	2.1%
Port of Tauranga	2.8%
Ryman Healthcare	4.1%
Summerset	7.8%
The a2 Milk Company	2.5%
Vista Group International	3.8%
Vulcan Steel	1.1%
<b>Equity Total</b>	<b>98.1%</b>
New Zealand dollar cash	1.9%
<b>TOTAL</b>	<b>100.0%</b>