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# The PwC Cost of Capital Report

March 2019



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We are pleased to present the re-launched PwC Cost of Capital Report, covering 105 NZX-listed companies.

NZ listed equities have performed strongly in recent months, with the headline NZX-50 index currently trading at an all-time high. Key recent market trends have included:

- A continued downward trend in long-term government bond rates, with the 10-year government bond yield at 1.8% as at 31 March 2019, and
- An increase in observed market EBITDA multiples, currently at an average of 12.9x (compared to 11.4x as at 31 March 2017).

Key assumptions underlying our analysis include the following:

- Based on government bond rate trends, we have revised our view on the long-term risk free rate downwards to 2.75%, reflecting implied forward yields on longer-term bonds. Government bond yields are currently at historical lows, and we will continue to monitor rates closely given the potential for further OCR rate cuts by the Reserve Bank.
- We have retained our estimate of the post-tax market risk premium of 7.5%. This is based on historical data from 1928 onwards and has proven resilient to economic cycles in the past; however we anticipate providing an update on the market risk premium in the next cost of capital report.
- Based on analysis from our market-leading Corporate Treasury team, we have refreshed our approach to cost of debt. Cost of debt has been estimated using the spread implied by the company's current credit rating (if one is available) or the implied credit rating based on a high-level shadow credit rating analysis.

- Beta is calculated using a 5-year monthly approach, and is measured at multiple points through the month to reduce the potential for spurious variations. In addition, we have applied a 'floor' asset beta of 0.4. We emphasise that the calculated betas reflect a formulaic approach based on observed share prices, and the application of professional judgment may result in a different estimate of beta.

The Cost of Capital and Market Multiples report is intended as an overview of WACC and Market Multiples as at 31 March 2019.

Advisors may form a different view on key assumptions, particularly beta, based on the perceived systematic risk of a company and its comparables. As many of the calculations here are mechanical, readers are advised that they should consult the PwC Deals team if require a formal WACC estimate.

We also note that the market multiples presented are based on observed historical earnings, as normalised earnings forecasts are not available for all companies.

PwC is the leading corporate finance practice in the New Zealand market, and has completed over 200 valuations in the last 3 years, spanning large listed companies to minority interests in small, private businesses, across all industry sectors.



**Gareth Galloway**  
Partner - Head of Corporate Finance  
+64 21 983 519  
[gareth.a.galloway@pwc.com](mailto:gareth.a.galloway@pwc.com)



**Chris Hedley**  
Executive Director  
+64 21 479 860  
[chris.m.hedley@pwc.com](mailto:chris.m.hedley@pwc.com)



**Mark Paterson**  
Director  
+64 21 879 610  
[mark.n.paterson@pwc.com](mailto:mark.n.paterson@pwc.com)

## Cost of capital and market multiples

Company	NZSE Code	EBITDA Multiple	EBIT Multiple	NPAT Multiple	Equity Beta	D / (D+E) Ratio	WACC
<b>Agriculture &amp; Fishing</b>							
The a2 Milk Company Limited	ATM	29.4	29.5	42.1	1.4	0%	12.2%
Synlait Milk Limited	SML	16.8	20.8	26.9	1.5	14%	12.1%
Delegat Group Limited	DGL	12.8	15.1	18.7	0.5	23%	5.1%
Sanford Limited	SAN	9.3	12.0	15.6	0.4	19%	4.8%
Fonterra Shareholders' Fund	FSF	NM	NM	NM	0.4	0%	4.6%
PGG Wrightson Limited	PGW	16.6	24.3	NM	1.1	36%	8.0%
New Zealand King Salmon Investments Limited	NZK	13.2	16.3	23.2	0.8	5%	7.4%
T&G Global Limited	TGG	10.9	21.6	NM	0.5	31%	5.0%
Seeka Kiwifruit Industries Limited	SEK	8.9	14.7	18.5	0.6	37%	5.4%
Foley Wines Limited	FWL	16.1	23.8	35.6	0.4	15%	4.9%
Marlborough Wine Estates Group Limited	MWE	NM	NM	NM	0.4	8%	4.8%
						<b>16%</b>	<b>10.4%</b>
<b>Health &amp; Aged Care</b>							
Fisher & Paykel Healthcare Corporation Limited	FPH	27.7	31.4	43.7	1.2	1%	10.9%
Ryman Healthcare Limited	RYM	18.6	19.7	17.2	1.2	17%	9.8%
Ebos Group Limited	EBO	15.2	17.4	22.7	1.0	18%	8.4%
Summerset Group Holdings Limited	SUM	8.4	8.6	6.9	1.4	24%	10.1%
Metlifecare Limited	MET	11.6	12.0	11.4	1.2	19%	9.2%
Oceania Healthcare Limited	OCA	20.6	26.6	17.3	1.1	25%	8.4%
Arvida Group Limited	ARV	8.1	8.5	7.3	0.8	22%	6.7%
AFT Pharmaceuticals Limited	AFT	NM	NM	NM	0.4	18%	5.0%
TruScreen Limited	TRU	NM	NM	NM	0.4	0%	4.6%
Pacific Edge Limited	PEB	NM	NM	NM	0.6	0%	6.2%
Green Cross Health Limited	GXH	5.6	6.7	8.7	0.5	27%	4.9%
Abano Healthcare Group Limited	ABA	7.1	10.3	8.1	0.8	58%	5.3%
						<b>13%</b>	<b>9.7%</b>
<b>Transport</b>							
Mainfreight Limited	MFT	18.0	21.9	29.7	0.6	7%	5.9%
Air New Zealand Limited	AIR	5.9	12.6	9.2	1.0	50%	6.1%
Freightways Limited	FRE	13.0	14.9	20.0	0.8	12%	7.4%
TIL Logistics Group Limited	TLL	7.8	14.4	17.0	0.6	41%	4.9%
Qex Logistics Limited	QEX	17.8	18.3	27.0	0.4	10%	4.7%
						<b>30%</b>	<b>6.2%</b>
<b>Investment</b>							
AMP Limited	AMP	NM	NM	NM	1.6	78%	5.1%
Infratil Limited	IFT	10.9	16.7	29.4	0.8	45%	6.3%
Kingfish Limited	KFL	5.5	5.5	5.5	0.5	0%	5.6%
Marlin Global Limited	MLN	NM	NM	NM	0.4	0%	5.3%
Barramundi Limited	BRM	NM	NM	NM	0.4	0%	4.8%
Rubicon Limited	RBC	10.7	NM	17.0	1.1	36%	7.3%
Mercantile Investment Company Limited	MVT	45.5	46.8	NM	0.7	46%	5.9%
						<b>71%</b>	<b>5.3%</b>

Company	NZSE Code	EBITDA Multiple	EBIT Multiple	NPAT Multiple	Equity Beta	D / (D+E) Ratio	WACC
<b>Property</b>							
Goodman Property Trust	GMT	12.1	12.1	10.5	0.6	24%	5.9%
Kiwi Property Group Limited	KPG	16.3	16.3	17.7	0.7	30%	5.7%
Precinct Properties New Zealand Limited	PCT	9.9	9.9	7.8	0.6	27%	5.4%
Argosy Property Limited	ARG	9.3	9.3	7.5	0.6	38%	5.0%
Property for Industry Limited	PFI	9.8	9.8	8.8	0.5	30%	5.0%
Vital Healthcare Property Trust	VHP	19.9	11.4	10.3	0.6	44%	5.1%
Investore Property Limited	IPL	11.3	11.3	9.4	0.6	43%	5.0%
CDL Investments New Zealand Limited	CDI	5.0	5.0	6.7	0.4	0%	4.6%
Augusta Capital Limited	AUG	13.1	13.4	25.3	0.4	6%	4.7%
Asset Plus Limited	APL	18.0	18.9	24.8	0.4	9%	4.7%
						<b>31%</b>	<b>5.4%</b>
<b>Financial</b>							
Westpac Banking Corporation Limited	WBC	25.9	26.8	10.1	1.3	74%	4.9%
Australia and New Zealand Banking Group Limited	ANZ	26.9	28.0	10.5	1.3	74%	4.9%
Heartland Group Holdings Limited	HGH	18.6	19.6	12.3	1.1	55%	6.1%
NZX Limited	NZX	15.5	16.9	23.6	0.5	12%	5.3%
Tower Limited	TWR	NM	NM	NM	0.9	0%	8.8%
						<b>74%</b>	<b>4.9%</b>
<b>Services</b>							
AWF Madison Group Limited	AWF	9.2	13.2	15.0	0.6	37%	5.4%
Evolve Education Group Limited	EVO	NM	NM	NM	0.9	60%	5.1%
						<b>49%</b>	<b>5.3%</b>
<b>Ports</b>							
Auckland International Airport Limited	AIA	12.5	13.9	15.6	1.1	18%	8.6%
Port of Tauranga Limited	POT	24.1	28.3	38.4	0.5	11%	5.7%
Marsden Maritime Holdings Limited	MMH	24.4	25.4	25.4	0.4	3%	4.6%
South Port New Zealand Limited	SPN	11.3	14.1	19.3	0.4	6%	4.6%
						<b>16%</b>	<b>7.8%</b>
<b>Building Materials &amp; Construction</b>							
Fletcher Building Limited	FBU	10.3	16.1	24.5	1.3	30%	9.3%
Steel & Tube Holdings Limited	STU	NM	NM	NM	0.4	11%	4.9%
Metro Performance Glass Limited	MPG	4.7	7.3	6.0	1.0	55%	5.9%
						<b>30%</b>	<b>9.1%</b>
<b>Industrial Products</b>							
Skellerup Holdings Limited	SKL	9.3	10.9	14.2	0.5	9%	5.3%
Scott Technology Limited	SCT	10.7	13.7	18.4	0.6	4%	6.3%
EROAD Limited	ERD	19.3	NM	NM	1.7	16%	12.5%
Methven Limited	MVN	11.6	14.7	19.7	0.7	21%	6.1%
Wellington Drive Technologies Limited	WDT	NM	NM	NM	0.6	9%	6.0%
ikeGPS Group Limited	IKE	NM	NM	NM	0.4	0%	4.6%
						<b>10%</b>	<b>7.0%</b>
<b>Leisure &amp; Tourism</b>							
SKYCITY Entertainment Group Limited	SKC	10.1	13.9	16.5	1.2	20%	9.6%
Tourism Holdings Limited	THL	6.3	10.1	10.3	0.8	28%	6.7%
Millennium & Copthorne Hotels New Zealand Limited	MCK	6.9	7.6	9.8	0.4	10%	4.7%
						<b>20%</b>	<b>8.4%</b>

Company	NZSE Code	EBITDA Multiple	EBIT Multiple	NPAT Multiple	Equity Beta	D / (D+E) Ratio	WACC
<b>Retail</b>							
Restaurant Brands New Zealand Limited	RBD	13.2	21.0	29.7	0.8	13%	7.5%
The Warehouse Group Limited	WHS	8.4	16.4	28.0	0.4	20%	4.9%
Briscoe Group Limited	BGP	7.9	8.4	11.4	0.6	0%	6.2%
Kathmandu Holdings Limited	KMD	6.5	7.7	9.7	1.0	14%	8.4%
Hallenstein Glasson Holdings Limited	HLG	6.0	7.1	9.8	0.6	0%	6.3%
Michael Hill International Limited	MHJ	6.8	11.3	16.1	1.5	10%	12.2%
The Colonial Motor Company Limited	CMO	8.3	9.1	11.1	0.7	29%	5.7%
Turners Automotive Group Limited	TRA	11.2	12.3	7.5	0.9	63%	5.9%
						<b>18%</b>	<b>6.8%</b>
<b>Consumer</b>							
Scales Corporation Limited	SCL	11.1	13.2	15.5	1.2	9%	10.0%
Moa Group Limited	MOA	NM	NM	NM	1.0	0%	9.5%
Comvita Limited	CVT	29.4	NM	NM	0.6	37%	5.4%
Cavalier Corporation Limited	CAV	NM	NM	NM	0.7	37%	6.1%
Just Life Group Limited	JLG	8.6	14.8	18.8	0.5	23%	4.8%
						<b>18%</b>	<b>8.5%</b>
<b>Media &amp; Telecommunications</b>							
Telstra Corporation Limited	TLS	6.9	11.4	12.2	0.6	33%	5.2%
Spark New Zealand Limited	SPK	10.0	15.4	18.6	0.7	22%	6.5%
Chorus Limited	CNU	8.5	22.4	37.8	1.1	54%	6.3%
Sky Network Television Limited	SKT	NM	NM	NM	0.5	30%	5.2%
NZME Limited	NZM	6.1	11.2	9.2	1.5	53%	7.8%
Vital Limited	VTL	4.2	6.8	8.4	0.6	28%	5.9%
						<b>33%</b>	<b>5.4%</b>
<b>Utilities</b>							
Meridian Energy Limited	MEL	17.5	27.1	44.0	1.1	13%	9.2%
Mercury NZ Limited	MCY	12.1	18.2	25.7	0.8	21%	7.1%
Contact Energy Limited	CEN	8.7	12.5	14.2	0.9	19%	7.4%
Vector Limited	VCT	11.4	18.7	23.5	0.6	41%	5.2%
Genesis Energy Limited	GNE	14.7	37.2	NM	1.1	27%	8.0%
Z Energy Limited	ZEL	5.6	6.9	7.8	1.1	27%	8.2%
TrustPower Limited	TPW	12.0	14.4	18.6	0.7	19%	6.6%
Tilt Renewables Limited	TLT	11.8	NM	NM	0.7	49%	5.2%
The New Zealand Refining Company Limited	NZR	6.1	16.7	22.1	0.5	29%	5.0%
NZ Windfarms Limited	NWF	12.8	38.3	NM	0.6	23%	5.5%
						<b>23%</b>	<b>7.5%</b>
<b>Information Technology</b>							
Trade Me Group Limited	TME	19.5	20.0	26.9	0.9	8%	8.3%
Pushpay Holdings Limited	PPH	NM	NM	NM	1.5	0%	13.4%
Vista Group International Limited	VGL	34.1	38.4	NM	1.3	1%	11.3%
Gentrack Group Limited	GTK	19.5	22.0	34.9	1.0	0%	9.9%
Rakon Limited	RAK	3.6	4.1	4.1	0.9	8%	8.6%
Plexure Group Limited	PLX	NM	NM	NM	1.1	4%	9.8%
Smartpay Limited	SPY	9.2	23.6	17.9	1.3	49%	7.4%
						<b>5%</b>	<b>9.8%</b>
<b>Mining</b>							
New Zealand Oil and Gas Limited	NZO	5.7	NM	NM	0.4	0%	5.2%
						<b>0%</b>	<b>5.2%</b>

## Contact us

### Auckland

**Gareth Galloway**

Partner

[gareth.a.galloway@pwc.com](mailto:gareth.a.galloway@pwc.com)

**Justin Liddell**

Partner

[justin.g.liddell@pwc.com](mailto:justin.g.liddell@pwc.com)

**David Bridgman**

Partner

[david.bridgman@pwc.com](mailto:david.bridgman@pwc.com)

**Regan Hault**

Partner

[regan.b.hault@pwc.com](mailto:regan.b.hault@pwc.com)

**Chris Hedley**

Executive Director

[chris.m.hedley@pwc.com](mailto:chris.m.hedley@pwc.com)

**Brendon Jones**

Executive Director

[brendon.v.jones@pwc.com](mailto:brendon.v.jones@pwc.com)

**Mark Paterson**

Director

[mark.n.paterson@pwc.com](mailto:mark.n.paterson@pwc.com)

### Hamilton

**Nick McVerry**

Director

[nick.m.mcverry@pwc.com](mailto:nick.m.mcverry@pwc.com)

**Andrew Ricketts**

Director

[andrew.c.ricketts@pwc.com](mailto:andrew.c.ricketts@pwc.com)

### Wellington

**Richard Longman**

Partner

[richard.longman@pwc.com](mailto:richard.longman@pwc.com)

### Christchurch

**Craig Armitage**

Managing Partner

[craig.armitage@pwc.com](mailto:craig.armitage@pwc.com)

**Wayne Munn**

Partner

[wayne.r.munn@pwc.com](mailto:wayne.r.munn@pwc.com)

**Michael O'Connor**

Executive Director

[michael.j.oconnor@pwc.com](mailto:michael.j.oconnor@pwc.com)

Full details of PwC's Cost of Capital methodology are available at: <https://www.pwc.co.nz/services/mergers-acquisitions-valuations/wacc.html>