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The PwC Cost of Capital Report

December 2019

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We are pleased to present the latest edition of the PwC Cost of Capital Report for December 2019, covering 105 NZX-listed companies.

The low interest rate environment continues to be a dominant theme across NZ debt and equity markets. The Official Cash Rate is currently at an all-time low of 1.0%, while 10-year government bond yields are currently at 1.3%, having traded as low as 1.0% in early October.

We have revised our view on the long-term risk free rate downwards to 2.0%, reflecting implied forward yields on longer-term bonds. However, with the back drop of a soft economic outlook, we are currently reassessing our key input parameters including both the risk-free rate and the market risk premium, to ensure that market risk is appropriately priced within our WACC calculation.

In relation to our beta calculation, we note that:

- 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.
- We have applied a 'floor' asset beta of 0.4. Where the observed beta is below this level, we have instead applied the relevant sector average asset beta (excluding those below the floor). This has significantly increased WACCs in some sectors, particularly in Agriculture and Fishing, where a large number of stocks had unusually low betas.
- 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 terminal growth rate is also a critical input to any discounted cash flow model, and should be considered alongside the WACC. In particular, the terminal growth rate should consider realistic estimates of long-term nominal growth for the sector and the business.

There has been general downwards movement in WACC from our previous report as at 31 March 2019. This largely reflects a reduction in the risk-free rate assumption. Concurrently, observed EBITDA multiples have increased on average from 12.9x to 15.1x.

The Cost of Capital and Market Multiples report is intended as an overview of WACC and Market Multiples as at 31 December 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. In particular, we have utilised observed equity beta and actual gearing for each of the companies, rather than an individual assessment of the appropriate measures for each subject company which would generally underpin a company-specific WACC calculation.

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.



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Cost of capital and market multiples

Company	NZSE Code	EBITDA Multiple	EBIT Multiple	NPAT Multiple	Asset Beta	Equity Beta	D / (D+E) Ratio	WACC	Range Min	Range Max
Agriculture & Fishing										
The a2 Milk Company Limited	ATM	26.7	26.9	38.4	1.4	1.4	0%	11.9%	4.7%	11.9%
Synlait Milk Limited	SML	13.1	15.8	19.4	1.2	1.4	18%	10.5%		
Delegat Group Limited	DGL	16.1	19.3	25.7	0.4	0.5	19%	4.7%		
Sanford Limited	SAN	10.0	13.1	17.8	1.0	1.2	16%	9.0%		
Fonterra Shareholders' Fund	FSF	NM	NM	NM	1.0	1.0	0%	8.9%		
New Zealand King Salmon Investments Limited	NZK	13.3	18.3	25.1	1.0	1.1	6%	9.0%		
T&G Global Limited	TGG	15.2	30.2	NM	1.0	1.8	44%	9.9%		
PGG Wrightson Limited	PGW	0.9	1.0	1.0	1.0	1.1	2%	9.3%		
Seeka Kiwifruit Industries Limited	SEK	12.0	18.7	14.5	1.0	2.3	56%	10.2%		
Foley Wines Limited	FWL	17.6	26.5	35.1	1.0	1.4	29%	9.6%		
Livestock Improvement Corporation Limited	LIC	3.1	3.9	5.1	1.0	1.0	4%	8.9%		
Marlborough Wine Estates Group	MWE	NM	NM	NM	1.0	1.1	10%	9.1%		
							17%	10.7%		
Health & Aged Care										
Fisher & Paykel Healthcare Corporation Limited	FPH	36.2	40.9	NM	1.2	1.2	1%	10.2%	5.6%	10.2%
Ryman Healthcare Limited	RYM	24.3	25.8	23.6	1.1	1.3	16%	9.9%		
Ebos Group Limited	EBO	17.1	19.6	27.1	0.8	0.9	13%	7.2%		
Summerset Group Holdings Limited	SUM	11.1	11.5	9.5	0.9	1.2	21%	8.8%		
Metlifecare Limited	MET	29.9	32.5	37.0	1.0	1.2	16%	8.9%		
Arvida Group Limited	ARV	15.4	16.4	14.1	0.6	0.7	21%	6.0%		
Oceania Healthcare Limited	OCA	25.9	33.5	17.8	0.6	0.9	25%	6.6%		
AFT Pharmaceuticals Limited	AFT	20.7	21.4	29.2	0.5	0.6	13%	5.6%		
Green Cross Health Limited	GXH	8.9	10.8	11.7	0.8	1.4	44%	7.9%		
Abano Healthcare Group Limited	ABA	10.2	15.7	17.9	0.8	1.7	52%	8.7%		
Pacific Edge Limited	PEB	NM	NM	NM	0.8	0.8	2%	7.6%		
BLIS Technologies Limited	BLT	36.1	44.5	44.6	0.6	0.6	1%	6.0%		
							11%	9.2%		
Transport										
Mainfreight Limited	MFT	20.4	24.4	30.3	0.5	0.6	17%	5.3%	5.3%	6.7%
Air New Zealand Limited	AIR	6.4	14.6	12.2	0.5	0.9	44%	5.7%		
Freightways Limited	FRE	13.4	15.4	20.9	0.7	0.8	12%	6.7%		
TIL Logistics Group Limited	TLL	7.7	16.6	25.2	0.6	1.0	45%	6.1%		
Qex Logistics Limited	QEX	25.4	27.1	42.9	0.6	0.7	17%	5.8%		
							29%	5.6%		
Investment										
AMP Limited	AMP	NM	NM	NM	0.5	2.2	78%	5.8%	4.7%	6.6%
Infratil Limited	IFT	19.5	30.4	NM	0.5	0.9	46%	5.7%		
Kingfish Limited	KFL	11.5	11.5	11.6	0.4	0.4	0%	4.7%		
Marlin Global Limited	MLN	16.1	16.1	18.2	0.5	0.5	0%	5.0%		
Barramundi Limited	BRM	17.2	17.2	19.9	0.5	0.5	0%	5.1%		
ArborGen Holdings Limited	ARB	17.9	NM	NM	0.6	1.0	43%	6.6%		
							70%	5.8%		

Company	NZSE Code	EBITDA Multiple	EBIT Multiple	NPAT Multiple	Asset Beta	Equity Beta	D / (D+E) Ratio	WACC	Range Min	Range Max
Property										
Goodman Property Trust	GMT	6.9	6.9	6.0	0.6	0.7	19%	6.1%	4.7%	6.1%
Precinct Properties New Zealand Limited	PCT	14.4	14.4	12.7	0.5	0.6	25%	5.2%		
Kiwi Property Group Limited	KPG	17.2	17.2	19.3	0.4	0.7	32%	5.2%		
Vital Healthcare Property Trust	VHP	13.1	13.1	14.5	0.4	0.6	38%	5.0%		
Argosy Property Limited	ARG	10.2	10.2	7.9	0.4	0.6	39%	4.8%		
Property for Industry Limited	PFI	10.5	10.5	9.6	0.4	0.6	27%	4.9%		
Investore Property Limited	IPL	14.7	14.7	14.0	0.4	0.7	36%	5.2%		
CDL Investments New Zealand Limited	CDI	8.4	8.4	11.1	0.4	0.4	0%	4.8%		
Augusta Capital Limited	AUG	33.1	33.8	37.9	0.4	0.5	14%	4.7%		
Asset Plus Limited	APL	NM	39.1	38.8	0.4	0.8	41%	5.2%		
							29%	5.3%		
Financial										
Westpac Banking Corporation Limited	WBC	32.1	33.2	12.0	0.7	2.9	0%	7.1%	5.3%	8.1%
Australia and New Zealand Banking Group Limited	ANZ	36.6	38.2	10.9	0.7	3.6	0%	7.1%		
Heartland Group Holdings	HGH	14.5	15.3	15.6	0.8	1.0	0%	7.6%		
NZX Limited	NZX	18.4	20.5	27.5	0.5	0.6	11%	5.3%		
Tower Limited	TWR	11.6	12.3	18.5	0.9	0.9	5%	8.1%		
							0%	7.1%		
Services										
Evolve Education Group Limited	EVO	NM	NM	NM	0.4	0.7	52%	4.6%	50%	4.7%
AWF Madison Group Limited	AWF	16.5	31.7	NM	0.4	0.6	44%	5.1%		
Ports										
Auckland International Airport Limited	AIA	15.9	18.2	20.3	0.8	1.0	18%	7.5%	6.0%	7.5%
Port of Tauranga Limited	POT	32.6	38.4	NM	0.6	0.7	8%	6.0%		
Marsden Maritime Holdings Limited	MMH	29.4	30.6	29.9	0.7	0.7	4%	6.7%		
South Port New Zealand Limited	SPN	10.3	12.9	18.2	0.7	0.7	4%	6.7%		
							14%	7.0%		
Building Materials & Construction										
Fletcher Building Limited	FBU	10.5	16.3	25.5	0.9	1.2	29%	8.3%	8.1%	8.7%
Steel & Tube Holdings Limited	STU	7.1	9.2	12.5	0.9	1.0	16%	8.1%		
Metro Performance Glass Limited	MPG	7.2	13.2	14.6	0.9	3.2	73%	8.7%		
							30%	8.3%		
Industrial Products										
Skellerup Holdings Limited	SKL	10.7	12.5	16.2	0.4	0.4	9%	4.5%	4.5%	10.6%
EROAD Limited	ERD	NM	NM	NM	1.2	1.4	17%	10.6%		
Scott Technology Limited	SCT	12.7	18.6	19.7	0.7	0.9	16%	7.2%		
ikeGPS Group Limited	IKE	NM	NM	NM	0.7	0.7	0%	6.9%		
Wellington Drive Technologies Limited	WDT	28.6	43.9	NM	0.6	0.7	11%	6.2%		
							12%	6.7%		
Leisure & Tourism										
SKYCITY Entertainment Group Limited	SKC	11.7	15.9	18.2	0.7	0.9	18%	7.3%	5.2%	7.3%
Tourism Holdings Limited	THL	7.0	14.2	17.2	0.4	0.6	30%	5.2%		
Millennium & Copthorne Hotels New Zealand Limited	MCK	8.1	9.0	10.5	0.6	0.7	14%	6.0%		
							19%	6.8%		

Company	NZSE Code	EBITDA Multiple	EBIT Multiple	NPAT Multiple	Asset Beta	Equity Beta	D / (D+E) Ratio	WACC	Range Min	Range Max
Retail										
Restaurant Brands New Zealand Limited	RBD	23.8	35.4	49.3	0.5	0.7	25%	5.7%	4.4%	7.3%
The Warehouse Group Limited	WHS	7.3	10.9	14.8	0.6	0.7	12%	5.9%		
Briscoe Group Limited	BGP	12.1	13.0	13.8	0.4	0.5	22%	4.4%		
Kathmandu Holdings Limited	KMD	10.6	12.2	17.1	0.7	0.8	3%	7.0%		
Hallenstein Glasson Holdings Limited	HLG	7.6	9.2	12.4	0.6	0.6	0%	6.3%		
The Colonial Motor Company Limited	CMO	9.7	10.8	13.1	0.4	0.6	30%	4.7%		
Michael Hill International Limited	MHJ	8.1	15.5	15.5	0.8	0.9	11%	7.3%		
Turners Automotive Group Limited	TRA	16.5	18.8	11.7	0.6	1.4	60%	7.2%		
Cooks Global Foods Limited	CGF	NM	NM	NM	0.6	1.0	45%	6.8%		
							21%	5.9%		
Consumer										
Scales Corporation Limited	SCL	5.4	5.9	5.4	0.8	1.0	17%	7.9%	5.7%	7.9%
Moa Group Ltd	MOA	NM	NM	NM	0.4	0.8	44%	5.7%		
Comvita Limited	CVT	NM	NM	NM	0.6	1.0	38%	7.1%		
Just Life Group Limited	JLG	9.7	16.7	22.4	0.6	0.8	19%	6.4%		
							23%	7.6%		
Media & Telecommunications										
Telstra Corporation Limited	TLS	8.5	15.5	18.7	0.4	0.6	30%	5.0%	5.0%	6.1%
Spark New Zealand Limited	SPK	11.1	16.3	19.4	0.5	0.6	21%	5.3%		
Chorus Limited	CNU	10.5	24.2	NM	0.5	1.2	53%	6.1%		
Sky Network Television Limited	SKT	NM	NM	NM	0.5	0.8	38%	5.9%		
NZME Limited	NZM	8.0	14.1	8.7	0.4	1.4	71%	5.2%		
Vital Limited	VTL	4.4	7.1	8.3	0.5	0.7	28%	5.6%		
							31%	5.1%		
Utilities										
Meridian Energy Limited	MEL	16.5	23.2	37.8	1.1	1.2	10%	9.7%	4.7%	9.7%
Mercury NZ Limited	MCY	12.0	16.3	19.3	0.8	0.9	16%	7.5%		
Contact Energy Limited	CEN	9.4	12.8	14.8	0.8	1.0	18%	7.6%		
Vector Limited	VCT	13.6	24.3	45.0	0.4	0.7	43%	4.7%		
Genesis Energy Limited	GNE	13.3	29.2	NM	0.7	1.0	29%	7.2%		
TrustPower Limited	TPW	19.6	23.7	35.8	0.5	0.6	22%	5.2%		
Z Energy Limited	ZEL	10.8	19.4	19.3	0.5	1.0	45%	6.1%		
Tilt Renewables Limited	TLT	14.3	29.7	NM	0.5	0.7	35%	5.2%		
The New Zealand Refining Company Limited	NZR	5.5	16.0	20.3	0.6	0.9	32%	6.6%		
NZ Windfarms Limited	NWF	13.1	38.7	NM	0.4	0.5	20%	4.7%		
							23%	7.4%		
Information Technology										
Pushpay Holdings Limited	PPH	NM	NM	23.3	1.5	1.5	1%	12.9%	5.9%	17.3%
Vista Group International Limited	VGL	29.8	33.3	NM	1.1	1.1	3%	9.7%		
Gentrack Group Limited	GTK	NM	NM	NM	0.9	0.9	1%	8.1%		
Serko Limited	SKO	NM	NM	NM	2.1	2.1	1%	17.3%		
Plexure Group Limited	PLX	11.6	14.7	19.7	0.5	0.7	21%	5.9%		
Smartpay Limited	SPY	36.0	NM	NM	1.7	2.2	23%	14.4%		
Rakon Limited	RAK	7.7	15.0	23.7	0.7	1.0	25%	7.4%		
PaySauce Limited	PYS	NM	NM	NM	1.0	1.0	2%	8.7%		
							4%	11.7%		
Mining										
New Zealand Oil and Gas Limited	NZO	7.6	NM	NM	0.6	0.6	0%	5.9%	0%	5.9%

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