

PwC New Zealand

Cost of Capital Report 2022

We are pleased to present the latest edition of the PwC Cost of Capital Report for June 2022, covering 113 companies listed on the NZX.

Increases in interest rates have affected asset prices in New Zealand. The Official Cash Rate has increased from a low of 0.25% in March 2020 to 2.00% as at 30 June 2022 (and has since increased to 3.5% in early October).

We have revised our view on the long-term risk-free rate as at 30 June 2022 to 3.9%, reflecting the 10-year government bond yields as at 30 June 2022.

In relation to our beta calculation:

- We have calculated betas using 5-year monthly data. Beta is measured at multiple points through the month to reduce the potential for spurious variations.
- We have used the beta estimates for the business itself unless the beta was not statistically reliable. In cases where the company beta could not be used, we have instead used the relevant sector average asset beta.
- The calculated betas reflect a formulaic approach based on the observed share price for each company.
- In some instances, the beta estimates have been affected by COVID-19 lockdowns. In keeping with the mechanical approach, we have not made any adjustments.

Growth rates in the cash flows and in the period beyond the last forecast period, are also critical inputs to any discounted cash flow model. They should be considered alongside the weighted average cost of capital (WACC). In particular, the terminal growth rate should consider realistic estimates of long-term nominal growth for the sector and the business.

There have been general upward movements in the WACC. This largely reflects an increase in the risk-free rate. At the same time, observed EBITDA multiples have decreased on average from 15.1x to 11.6x.

Note for readers of this report

The calculated cost of capital and market multiples have not been adjusted for factors that may be specific to a company or a sector, where a degree of commercial judgement is required. Accordingly the estimates in this report should be used with caution.

Readers could reasonably take a different view on key assumptions based on the perceived systematic risk of a company and its comparable companies.

As many of the calculations are mechanical, readers are advised to consult the PwC Deals team if they require a formal estimate for the WACC or an appropriate multiple (contact details at the end of this report).

Impact of NZ IFRS 16

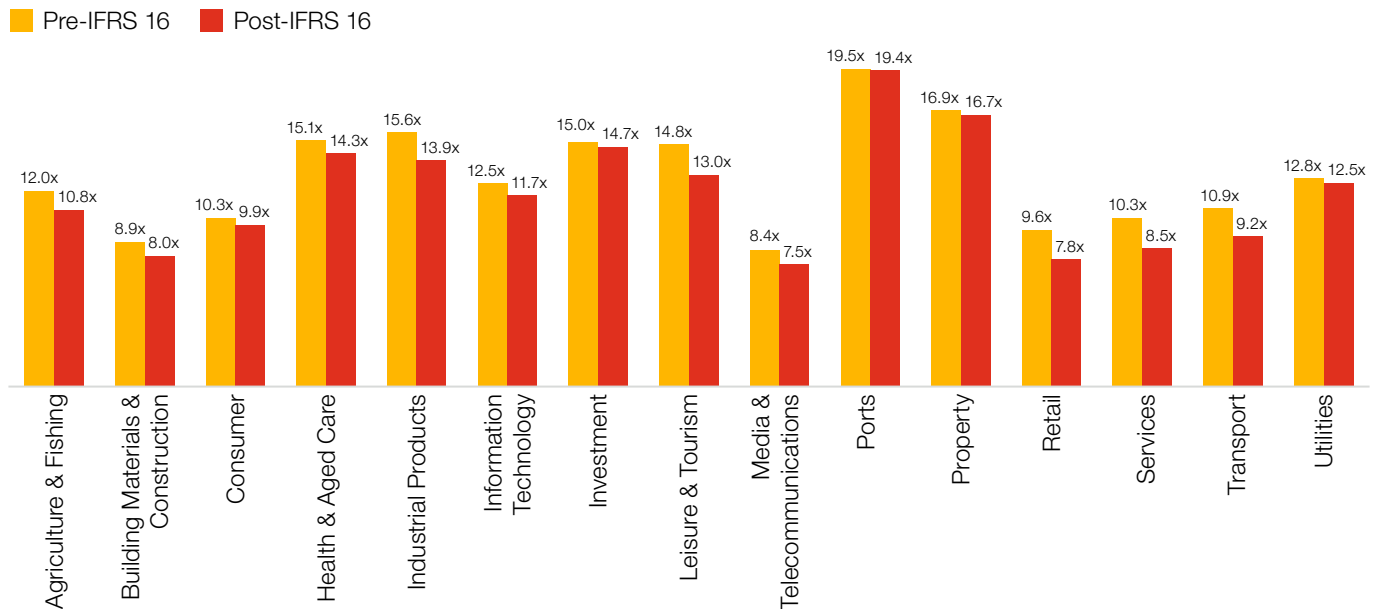
The new leasing standard NZ IFRS 16 was implemented in the New Zealand market for periods starting on or after 1 January 2019. While most annual reports available as at 31 December 2019 would have reported under the previous leasing standard, by 30 June 2022 all NZX companies should be reporting under NZ IFRS 16 (or its Australian equivalent). As part of the new leasing standard, instead of presenting operating lease costs as an operating expense, most operating leases are capitalised and treated as assets (with a corresponding lease liability). This has an impact on both earnings (with depreciation and interest replacing lease expense) and debt (with debt now including the lease liability).

We present below our comparison of the EBITDA multiples on a post-IFRS 16 basis and on an equivalent pre-IFRS 16 basis, using the last twelve months data sourced from S&P Capital IQ.

We observe that calculated EBITDA multiples have declined for nearly all industries as a result of implementing NZ IFRS 16. Industries where companies tend to own rather than lease assets are relatively unaffected (for example, ports, property and utility companies).

For the full sample the observed average EBITDA multiple is 11.6x on a post-IFRS 16 basis versus 12.6x on a pre-IFRS 16 basis.

EBITDA multiples using post-IFRS 16 values (reported) vs equivalent pre-IFRS 16 values



Cost of capital and market multiples

Company	NZSE Code	EBITDA Multiple	EBIT Multiple	NPAT Multiple	Equity Beta	D / (D+E) Ratio	WACC	Range Min	Range Max
Agriculture & Fishing									
The a2 Milk Company Limited	ATM	n/m	n/m	n/m	1.0	0%	10.1%	5.9%	10.1%
Delegat Group Limited	DGL	12.1	15.1	20.5	1.0	20%	9.8%		
Fonterra Shareholders Fund	FSF	n/m	n/m	n/m	0.4	0%	5.9%		
Foley Wines Limited	FWL	10.0	16.5	22.3	0.7	25%	7.7%		
Livestock Improvement Corporation Limited	LIC	5.1	5.9	9.2	0.7	12%	8.1%		
Marlborough Wine Estates Group Limited	MWE	n/m	n/m	n/m	0.6	8%	7.5%		
New Zealand King Salmon Investments Limited	NZK	n/m	n/m	n/m	1.0	11%	9.8%		
PGG Wrightson Limited	PGW	7.7	13.0	17.7	0.8	21%	8.7%		
Sanford Limited	SAN	10.3	25.6	n/m	0.7	23%	8.1%		
Seeka Limited	SEK	7.0	13.0	11.3	1.1	45%	9.6%		
Synlait Milk Limited	SML	28.9	n/m	n/m	1.0	24%	9.5%		
T&G Global Limited	TGG	5.5	12.4	n/m	0.9	29%	8.9%		
						18%	8.6%		
Building Materials & Construction									
Fletcher Building Limited	FBU	5.7	8.8	11.5	1.0	16%	9.7%	8.2%	11.0%
MHM Automation Limited	MHM	9.4	13.3	21.4	1.2	12%	11.0%		
Metro Performance Glass Limited	MPG	8.2	n/m	n/m	0.8	48%	8.2%		
Steel & Tube Holdings Limited	STU	6.1	9.3	12.1	0.8	15%	8.5%		
Ventia Services Group Limited	VNT	10.6	24.8	n/m	1.0	22%	8.7%		
Vulcan Steel Limited	VSL	8.1	9.7	13.4	0.8	12%	8.9%		
						21%	9.2%		
Consumer									
Bremworth Limited	BRW	n/m	n/m	n/m	0.9	36%	8.9%	8.3%	10.5%
Comvita Limited	CVT	10.1	16.8	23.3	0.9	21%	9.3%		
Just Life Group Limited	JLG	8.4	11.7	13.8	0.8	18%	8.3%		
Scales Corporation Limited	SCL	8.9	12.4	34.4	0.8	4%	8.8%		
Savor Limited	SVR	12.3	n/m	n/m	1.1	16%	10.5%		
						19%	9.2%		
Financial									
							cost of equity		
Australia and New Zealand Banking Group Limited	ANZ	n/a	n/a	n/a	0.9		9.6%	8.1%	11.0%
Geneva Finance Limited	GFL	n/a	n/a	n/a	0.9		9.5%		
Heartland Group Holdings Limited	HGH	n/a	n/a	n/a	1.1		11.0%		
Harmony Corp Limited	HMY	n/a	n/a	n/a	0.9		9.5%		
NZX Limited	NZX	n/a	n/a	n/a	1.0		10.0%		
Tower Limited	TWR	n/a	n/a	n/a	0.7		8.1%		
Westpac Banking Corporation	WBC	n/a	n/a	n/a	0.8		8.7%		
							9.5%		
Health & Aged Care									
AFT Pharmaceuticals Limited	AFT	19.2	20.0	32.4	0.7	10%	7.7%	7.7%	15.3%
Arvida Group Limited	ARV	n/m	n/m	n/m	1.1	25%	9.9%		
BLIS Technologies Limited	BLT	n/m	n/m	n/m	1.1	0%	11.4%		
Cannasouth Limited	CBD	n/m	n/m	n/m	0.9	0%	9.6%		
EBOS Group Limited	EBO	17.1	21.1	n/m	0.8	9%	8.6%		
Fisher & Paykel Healthcare Corporation Limited	FPH	19.5	22.8	36.6	0.9	0%	9.6%		
Green Cross Health Limited	GXH	3.5	5.1	9.0	1.0	12%	10.2%		
Oceania Healthcare Limited	OCA	n/m	n/m	n/m	1.4	25%	11.3%		
Pacific Edge Limited	PEB	n/m	n/m	n/m	1.7	0%	15.3%		
Radius Residential Care Limited	RAD	13.2	28.4	n/m	1.1	14%	10.3%		
Rua Bioscience Limited	RUA	n/m	n/m	n/m	0.9	0%	9.6%		
Ryman Healthcare Limited	RYM	n/m	n/m	n/m	1.3	22%	11.6%		
Summerset Group Holdings Limited	SUM	n/m	n/m	n/m	1.3	23%	11.3%		
Third Age Health Services Limited	TAH	13.1	14.2	26.3	0.9	0%	9.6%		
						10%	10.4%		

Company	NZSE Code	EBITDA Multiple	EBIT Multiple	NPAT Multiple	Equity Beta	D / (D+E) Ratio	WACC	Range Min	Range Max
Industrial Products									
EROAD Limited	ERD	15.4	n/m	n/m	1.5	6%	13.7%	8.7%	13.7%
ikeGPS Group Limited	IKE	n/m	n/m	n/m	0.9	0%	9.7%		
Scott Technology Limited	SCT	11.0	17.6	30.3	1.0	4%	9.9%		
Skellerup Holdings Limited	SKL	15.2	18.4	28.5	0.8	6%	8.7%		
Wellington Drive Technologies Limited	AOF	n/m	n/m	n/m	1.1	1%	10.6%		
						3%	10.5%		
Information Technology									
Gentrack Group Limited	GTK	n/m	n/m	n/m	1.0	1%	10.5%	10.5%	15.1%
Pushpay Holdings Limited	PPH	18.7	20.8	n/m	1.3	1%	12.6%		
Plexure Group Limited	PX1	n/m	n/m	n/m	1.6	0%	15.1%		
PaySauce Limited	PYS	n/m	n/m	n/m	1.4	0%	13.2%		
Rakon Limited	RAK	5.4	6.2	10.7	1.1	4%	10.7%		
Solution Dynamics Limited	SDL	4.3	5.0	15.1	1.4	0%	13.2%		
Smartpay Holdings Limited	SPY	18.5	n/m	n/m	1.9	28%	14.5%		
Trade Window Holdings Limited	TWL	n/m	n/m	n/m	1.4	0%	13.2%		
Vista Group International Limited	VGL	n/m	n/m	n/m	1.3	0%	12.8%		
						4%	12.9%		
Investment									
Australian Foundation Investment Company Limited	AFI	n/m	29.7	n/m	0.7	0%	8.4%	6.9%	8.4%
Allied Farmers Limited	ALF	6.6	8.2	14.8	0.8	25%	8.0%		
ArborGen Holdings Limited	ARB	9.2	n/m	n/m	0.7	19%	8.1%		
Infratil Limited	IFT	28.2	n/m	n/m	1.0	56%	6.9%		
						25%	7.9%		
Leisure & Tourism									
Millennium & Copthorne Hotels New Zealand Limited	MCK	6.1	7.1	17.5	0.6	2%	7.6%	7.6%	11.9%
SkyCity Entertainment Group Limited	SKC	18.6	n/m	n/m	1.2	18%	10.3%		
Tourism Holdings Limited	THL	14.2	n/m	n/m	1.4	21%	11.9%		
						14%	9.9%		
Media & Telecommunications									
Chorus Limited	CNU	10.6	27.5	n/m	0.8	51%	6.7%	6.7%	9.2%
NZME Limited	NZM	5.4	8.5	12.3	1.0	37%	9.2%		
SKY Network Television Limited	SKT	3.4	7.1	13.1	0.9	16%	8.8%		
Spark New Zealand Limited	SPK	10.6	16.9	23.8	0.9	15%	8.7%		
						30%	8.3%		
Mining									
Chatham Rock Phosphate Limited	CRP	n/m	n/m	n/m	0.7	0%	8.3%	8.3%	8.3%
New Zealand Oil & Gas Limited	NZO	4.3	7.7	n/m	0.7	0%	8.3%		
						0%	8.3%		
Ports									
Auckland International Airport Limited	AIA	n/m	n/m	n/m	1.0	16%	9.1%	7.7%	9.1%
Marsden Maritime Holdings Limited	MMH	23.6	24.8	37.1	0.8	6%	8.5%		
Napier Port Holdings Limited	NPH	17.4	25.8	34.0	0.8	6%	8.3%		
Port of Tauranga Limited	POT	23.3	28.3	n/m	0.7	10%	7.7%		
South Port New Zealand Limited	SPN	13.2	17.1	24.5	0.8	5%	8.3%		
						9%	8.4%		
Property									
Asset Plus Limited	APL	n/m	23.9	34.5	0.7	27%	7.4%	6.9%	9.0%
Argosy Property Limited	ARG	n/m	18.9	20.9	1.0	40%	8.2%		
CDL Investments New Zealand Limited	CDI	5.6	5.6	8.8	0.8	0%	8.8%		
Goodman Property Trust	GMT	n/m	31.8	n/m	0.7	23%	7.4%		
Investore Property Limited	IPL	19.6	19.6	27.4	0.7	37%	6.9%		
Kiwi Property Group Limited	KPG	n/m	16.3	17.1	1.0	35%	8.2%		
New Zealand Rural Land Company Limited	NZL	n/m	n/m	n/m	0.8	28%	7.6%		
Precinct Properties New Zealand Limited	PCT	29.5	31.4	27.4	0.7	31%	6.9%		
Property For Industry Limited	PFI	21.7	21.8	25.8	0.8	30%	7.8%		
Stride Property Group	SPG	9.8	9.8	12.7	1.1	30%	9.0%		
Vital Healthcare Property Trust	VHP	n/m	21.7	29.3	0.8	38%	6.9%		
						29%	7.7%		

Company	NZSE Code	EBITDA Multiple	EBIT Multiple	NPAT Multiple	Equity Beta	D / (D+E) Ratio	WACC	Range Min	Range Max
Retail									
Briscoe Group Limited	BGP	8.2	10.2	15.6	0.8	0%	9.2%	8.1%	13.0%
Cooks Coffee Company Limited	CCC	n/m	n/m	n/m	0.8	17%	8.1%		
The Colonial Motor Company Limited	CMO	7.2	8.2	10.8	1.2	27%	10.9%		
Hallenstein Glasson Holdings Limited	HLG	5.0	9.6	14.6	1.4	0%	13.0%		
KMD Brands Limited	KMD	7.3	26.6	n/m	1.4	7%	12.7%		
My Food Bag Group Limited	MFB	6.5	7.2	11.6	0.9	1%	9.7%		
Michael Hill International Limited	MHJ	4.3	6.1	11.3	1.2	3%	11.8%		
NZ Automotive Investments Limited	NZA	8.8	13.2	17.8	1.0	10%	10.1%		
Restaurant Brands New Zealand Limited	RBD	13.2	26.4	n/m	1.0	11%	9.7%		
Turners Automotive Group Limited	TRA	12.0	14.3	12.0	1.1	51%	9.1%		
The Warehouse Group Limited	WHS	5.5	9.5	11.4	0.7	10%	8.1%		
						12%	10.2%		
Services									
Accordant Group Limited	AGL	8.6	18.4	29.8	0.8	26%	8.2%	8.2%	10.5%
Evolve Education Group Limited	EVO	8.3	13.7	n/m	1.1	17%	10.5%		
						30%	6.2%		
Transport									
Air New Zealand Limited	AIR	n/m	n/m	n/m	1.5	31%	12.1%	8.3%	12.1%
Freightways Limited	FRE	10.6	15.5	23.1	1.0	11%	9.8%		
Mainfreight Limited	MFT	11.0	15.0	23.0	1.0	4%	10.1%		
MOVE Logistics Group Limited	MOV	6.0	n/m	n/m	0.8	39%	8.3%		
						21%	10.1%		
Utilities									
Ampol Limited	ALD	8.0	11.3	19.7	0.9	14%	8.9%	7.2%	9.4%
Contact Energy Limited	CEN	10.8	17.8	26.9	1.0	19%	9.4%		
Channel Infrastructure NZ Limited	CHI	8.4	n/m	n/m	0.8	39%	8.4%		
Genesis Energy Limited	GNE	10.8	20.5	n/m	0.9	29%	8.0%		
Mercury NZ Limited	MCY	23.9	n/m	n/m	0.9	17%	9.0%		
Meridian Energy Limited	MEL	18.9	30.9	n/m	0.8	12%	8.4%		
Manawa Energy Limited	MNW	15.6	18.8	19.9	0.8	24%	7.5%		
NZ Windfarms Limited	NWF	4.0	5.2	25.9	0.7	14%	7.6%		
Vector Limited	VCT	12.0	19.9	25.0	0.8	43%	7.2%		
						23%	8.3%		

How PwC can help

PwC is the leading corporate finance practice in the New Zealand market, and has completed numerous valuations, cost of capital and other related assignments spanning large listed companies to minority interests in small, private businesses.

Our Corporate Finance team has a proven track record across a diverse range of sectors.

We offer seamless delivery across transaction services, tax and other professional services. Our expertise offers additional credibility for our clients in the eyes of prospective counter-parties.

Our links to the global network of PwC firms provides relationships with key global market participants. Our close relationship with our Australian colleagues ensures a comprehensive understanding of the Australasian marketplace.

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

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