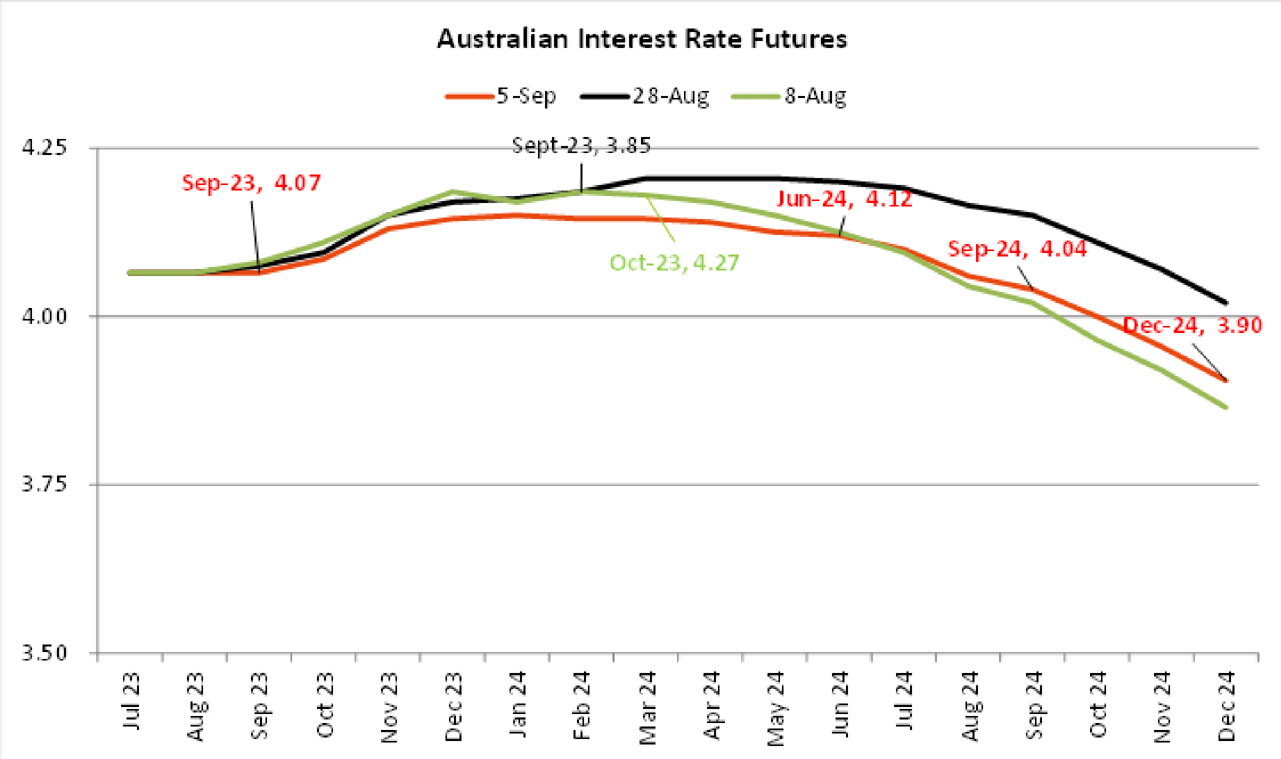
8th September 2023

ShawandPartners
Morrissey Group

Go the Wallabies

The Reserve Bank of Australia kept the cash rate at 4.10%, in line with our expectations and market expectations.

Interest rate futures are now pricing rates to peak at 4.14% in CY23 (16% chance of one more rate hike), with one rate cut priced in by December 2024.



Key Highlights:

- The RBA removed the mention of the 3.25% inflation target by 2024, and also removed the central forecast for GDP in 2024 and 2025.
- However, it maintained that it expected unemployment to rise to 4.5% next year.
- It also added a specific mention on the uncertainty around the Chinese economy (as discussed in our Asset Allocation note, linked here).
- RBA maintained that “Services price inflation has been surprisingly persistent overseas and the same could occur in Australia”.
- The RBA did not remove the phrase in the last paragraph stating, “Some further tightening of monetary policy may be required”.

Analysis of September statement versus August statement:

At its meeting today, the Board decided to leave the cash rate target unchanged at 4.10 per cent and the interest rate paid on Exchange Settlement balances unchanged at 4.00 per cent.

Interest rates have been increased by 4 percentage points since May last year. The higher interest rates are working to establish a more sustainable balance between supply and demand in the economy and will continue to do so. In light of this and the uncertainty surrounding the economic outlook, the Board again decided to hold interest rates steady this month. This will provide further time to assess the impact of the increase in interest rates to date and the economic outlook.

Inflation in Australia ~~is declining but~~ has passed its peak and the monthly CPI indicator for July showed a further decline. But inflation is still too high ~~at 6 per cent. Goods~~and will remain so for some time yet. While goods price inflation has eased, ~~but~~ the prices of many services are rising briskly. Rent inflation is also elevated. The central forecast is for CPI inflation to continue to decline~~, to be around 3¼ per cent by the end of 2024~~ and to be back within the 2–3 per cent~~-~~ target range in late 2025.

The Australian economy is experiencing a period of below-trend growth and this is expected to continue for a while. ~~Household~~High inflation is weighing on people's real incomes and household consumption growth is weak, as is dwelling investment. ~~The central forecast is for GDP growth of around 1¾ per cent over 2024 and a little above 2 per cent over the following year.~~

~~Conditions~~Notwithstanding this, conditions in the labour market remain ~~very~~ tight, although they have eased a little. ~~Job vacancies and advertisements are still at very high levels, although firms report~~Given that ~~labour shortages have lessened. With~~ the economy and employment are forecast to grow below trend, the unemployment rate is expected to rise gradually ~~from its current rate of 3½ per cent~~ to around 4½ per cent late next year. Wages growth has picked up ~~in response to the tight labour market and high inflation. At the aggregate level, wages growth~~over the past year but is still consistent with the inflation target, provided that productivity growth picks up.

Returning inflation to target within a reasonable timeframe remains the Board's priority. High inflation makes life difficult for everyone and damages the functioning of the economy. It erodes the value of savings, hurts household budgets, makes it harder for businesses to plan and invest, and worsens income inequality. And if high inflation were to become entrenched in people's expectations, it would be very costly to reduce later, involving even higher interest rates and a larger rise in unemployment. To date, medium-term inflation expectations have been consistent with the inflation target and it is important that this remains the case.

The recent data are consistent with inflation returning to the 2–3 per cent target range over the forecast horizon and with output and employment continuing to grow. Inflation is coming down, the labour market remains strong and the economy is operating at a high level of capacity utilisation, although growth has slowed.

There are ~~though~~ significant uncertainties around the outlook. Services price inflation has been surprisingly persistent overseas and the same could occur in Australia. There are also uncertainties regarding the lags in the ~~operation~~effect of monetary policy and how firms' pricing decisions and wages ~~will~~ respond to the ~~slowing~~slower growth in the economy at a time when the labour market remains tight. The outlook for household consumption ~~is~~ also ~~an ongoing source of uncertainty. Many~~remains uncertain, with many households ~~are~~ experiencing a painful squeeze on their finances, while some are benefiting from rising housing prices, substantial savings buffers and higher interest income. ~~In aggregate, consumption growth has slowed substantially due to the combination of cost-of-living pressures and higher interest rates~~And globally, there is increased uncertainty around the outlook for the Chinese economy due to ongoing stresses in the property market.

Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will continue to depend upon the data and the evolving assessment of risks. In making its decisions, the Board will continue to pay close attention to developments in the global economy, trends in household spending, and the outlook for inflation and the labour market. The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that.

To summarise, what did thy keep and change:

Keep:

1. Expects unemployment to rise to 4.5% next year.

2. Highlighted service inflation has been "surprisingly persistent" overseas, although goods inflation has come down.

3. Maintained that "Some further tightening" may be required.

Change:

1. Removed mention of 2024 inflation target, and removed GDP forecast in 2024 and 2025.

2. Added specific mention of the uncertainty around the Chinese economy.

Coventry Group (CYG)

FY23 results

- Trading performance improved during FY23 with the Group delivering EBITDA year on year growth.
- Final fully franked dividend of 3.5 cents per share declared (3.5 cents per share FY22).
- Sixth consecutive year of sales and EBITDA growth.
- Group sales for FY23 up 11.2% to $358.5m ($322.3m FY22).
- Group EBITDA up 9.7% to $17.0m ($15.5m FY22).
- Group EBIT before Significant Items up 10.0% to $15.6m ($14.2m FY22).
- Statutory net profit for the year of $2.5m ($4.8m FY22).
- The Group has a solid balance sheet with Net Tangible Assets of $36.8m and Net Assets of $113.0m at 30 June 2023.
- Re-signed $55.0m NAB facility to July 2026.
- Net debt of $33.5m at 30 June 2023.

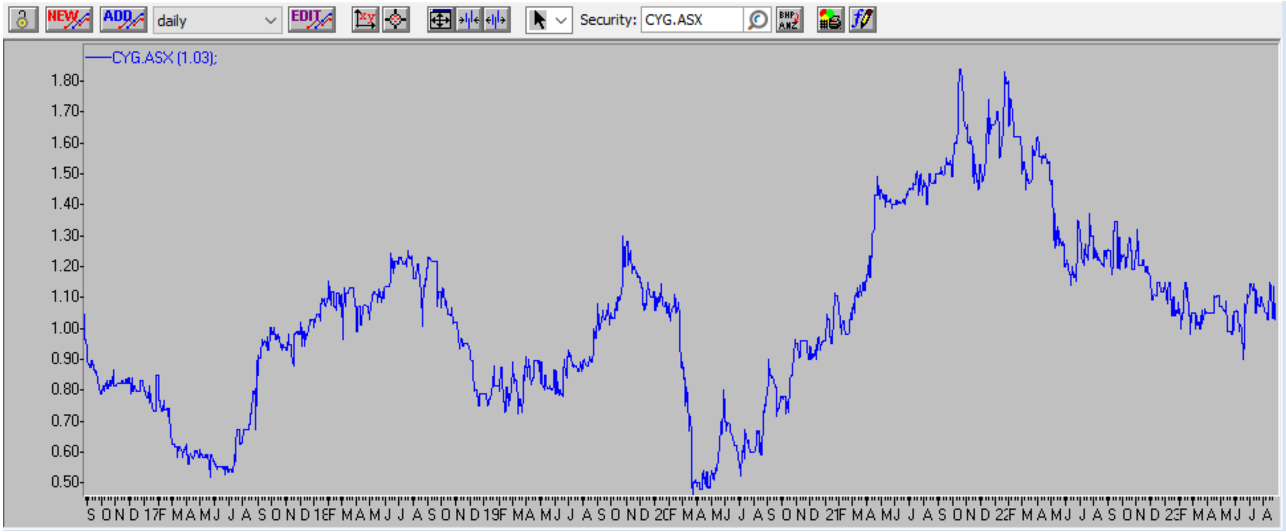
FY23 Overview

Compare the actual financial performance of CYG and the share price; efficient markets, I think not.

CYG has turned its fortunes around from losing $10m in FY17 to $17 EBITDA in FY23. Compare that with the share price movement when you remove the volatility its almost exactly the same.

CYG is a very well-run business with continued growth potential but zero market support. The issue is when and what will be the trigger to generate market interest? Do we persist with a business that continues to outperform but a share price that underperforms?

These guys want to, and deserve to grow. But they'll need funding to achieve that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[EFG Infocus]

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Financial Planning Weekly

Alternative Assets: A Diversified Approach to Investing

Click on link to read

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Have a good weekend,
Ben and the team.

This report has been prepared by Ben Morrissey
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