BUSINESS

PREMIUM

Brokers' Picks: The hot stocks to watch in 2023

By Liam Dann

26 Dec, 2022 05:00 AM 11 mins to read

Brokers Picks 2023 - The hot stocks to watch. Video / NZ Herald

After a pandemic fuelled rollercoaster over the past two years there is hope we'll see company values lining up with performance and some kind of return to normality in 2023.

It's no secret that economic conditions are going to be tougher next year as central banks put the squeeze on consumers. That might have some negative impact on earnings, but if investors can see a light at the end of the inflationary tunnel and a peak in interest rate hikes then there may also be some cause for optimism.

"The inflation peak will very soon be behind us and the end of OCR hikes is within sight," said Craigs Investment Partners head of research Mark Lister.

"This will please financial markets, although I suspect the focus will very quickly shift to the impact all this monetary tightening will have on economic activity, as well as corporate earnings."

That backdrop pointed Craigs towards companies that would be resilient through a downbeat economy or even recession.

"We've chosen companies that are well-capitalised with strong cash flows, which won't get into trouble because of high debt levels in the face of high borrowing costs," Lister said.

"Although inflation will come down in 2023, it will remain high. This means it is important to favour companies with strong pricing power, as they can raise prices to keep up with increasing costs."

Grant Davies at Hamilton Hindin Greene says he'd describe his outlook as cautiously optimistic.

"There are some attractively priced companies in the market at the moment, but obvious headwinds as we head into an engineered recession," he said.

"On the positive side, some indicators are beginning to show inflation is coming under control, although this week will be a big week for data around that point. If inflation does start to come down, then the market can return to looking at company performance, which on the whole has been quite good over 2022."

Overall the solid blue-chip nature of the stocks picked by brokers this year follows those lines. A number of high-profile companies were chosen by multiple brokers and a range of solid power and infrastructure companies feature.

Jarden

Infratil
Contact Energy
Tourism Holdings
Pacific Edge
Delegat Group

MSL Capital Markets*

AFT Pharmaceuticals
Air New Zealand
Arvida Group
Mercury
NZ Rural Land

Forsyth Barr

Oceania Healthcare
Tourism Holdings
Infratil

Hamilton Hindin Greene

Infratil
NZX Group
Investore Property Limited

Vulcan Steel	Genesis Energy
Spark	Auckland International Airport

Hobson Wealth Partners	Craigs Investment Partners
Auckland International Airport	Chorus
Contact Energy	Ebos Group
Ebos Group	Meridian
Fletcher Building	Spark
Vector	Tourism Holdings

*MSL is a holding company that operates on the FSP licence of its sole director, who provides financial services to Wholesale Investors and Corporates only

Herald Network graphic

Investment firm Infratil gets three picks for 2023, with a nod from Jarden, Hamilton Hindin Green and Forsyth Barr.

“Infratil has built an enviable suite of companies, with a great mixture of cash generation and growth potential,” Davies said.

“Their business operates in four areas, including Renewable Energy (Manawa Energy, Longroad Energy, Galileo & Gurīn Energy), Digital Infrastructure (CDC Data Centres, Vodafone New Zealand, Kao Data & Clearvision Ventures), Healthcare (Qscan, Pacific Radiology & RetireAustralia, & Airports (Wellington Airport).

Jarden’s Adrian Allbon agreed.

“We continue to like the underlying Infratil portfolio and their investment track record,” he said.

“The likely pivot for 2023 will be investor returns from solid growth in existing investments, for example, Canberra Data Centres (CDC) compared to the valuation discovery of the individual growth platforms over the past two years.”

The other stock to get three picks this year was Tourism Holdings, picked by Jarden, Craigs and Forsyth Barr.

In theory, it should be well placed to ride the back of a solid recovery for tourism in 2023.

“While it operates in an industry tied to the fortunes of the economic cycle, we see positive signs ahead,” said Lister.

“It offers excellent exposure to the recovering travel sector, and should tourism keep improving as we expect, the company is well placed to capitalise on this. We also believe the Apollo merger is a positive for the business.”

Jarden’s Allbon said the merger between THL and Apollo Tourism & Leisure had created the world’s largest recreational vehicles (RV) rentals business.

“THL is our preferred Covid recovery play, with a strong earnings outlook underpinned by pent-up tourism demand, merger synergies and a more manageable cost base (vs airlines) to underpin delivery,” he said.

Also likely to benefit from a tourist sector recovery is Auckland International Airport which is picked twice this year.

“Auckland International Airport is the gateway to New Zealand underpinned by trends in long-term international passenger growth and a large undeveloped land bank,” said Hobson Wealth’s Mark Fowler.

“We expect news flow momentum around passenger recovery and pricing milestones to remain positive. We like its defensive position, expected reinstatement of dividends next year, strategic property portfolio and, in our view, the stock is a proxy on global reopening in a post-Covid world.

"The airport has substantial development opportunities that could bring its capacity up to nearly 26 million passenger movements per year by 2026, as well as adding capacity in the ancillary services offered. It also has a minority stake in the small but fast-growing Queenstown airport on New Zealand's South Island."

Air New Zealand also gets a nod from Andrew McDouall at MSL Capital Markets.

"Nobody could think that with ticket prices at the current levels, and capacity constraints, that Air New Zealand won't have a good year (or possibly two). Recent falls in fuel prices (even below the levels in the latest market update) bode well for a strong result in the year to June 2023," he said.

Energy companies were broadly popular with almost all the brokers having one in the mix.

Both Hobson Wealth and Jarden picked Contact Energy.

"Contact is the standout exposure in an industry subject to the long-term trend of electrification as energy comes on grid and carbon reduction gathers momentum," said Hobson's Fowler.

"With a strong focus on renewables and with Tauhara and Te Huka geothermal projects currently on track to be delivered on budget and on time we favour Contact for 2023."

Hamilton Hindin Green went with Genesis Energy.

"The defensive nature of the energy sector as a whole is attractive given the uncertainties of 2023," said HHG's Davies.

"We have selected Genesis due to its attractive yield. Whilst generating approximately 15 per cent of New Zealand's power, Genesis accounts for approximately 25 per cent of New Zealand's retail customer base.

"Whilst we see regulatory pressure in the industry as a small risk, if we do see increased regulation, it is likely to be focused on the structure of pricing on the generation side of the ledger, meaning Genesis may have less exposure. A gross dividend yield of 9 per cent is very attractive for a relatively defensive stock."

Andrew McDouall at MSL Capital Markets went with Mercury Energy.

"With increasing generation diversity and a very wet North Island, generation output is expected to power Mercury's earnings in the year ahead."

Craigs opted for Meridian.

Meridian Energy, Chorus and Spark all provide essential services, so customer demand would remain solid in the face of a weaker economy, he said.

Rounding out Craigs' selection was Ebos Group (which was also picked by Hobson wealth).

"Healthcare is also a sector that traditionally performs well during difficult periods, and Ebos is a very good exposure to this sector," said Lister.

As the largest and most diversified distributor of healthcare, medical and pharmaceutical products in Australasia, Hobson's Fowler said he liked its defensive characteristics.

Another area of recovery hope in 2023 is the property sector, which may be hitting the bottom of the cycle in the first part of the year.

This year Investore Property makes the list for Hamilton Hindin Greene and NZ Rural Land for MSL Capital.

"Investore, like the broader listed property market, has had a difficult 2022, being down 23 per cent. This under-performance mainly stems from the rapid increase in interest rates we have seen in 2022," says HHG's Davies.

"The company currently trades at a 33 per cent discount to its net tangible assets of $2.21 per share, which means the market expects the value of their properties to drop. We believe the current price is attractive, and fairly reflects the moves we have seen in interest rates over the past 12 months."

"Good purchases over the last two years should start to be reflected in the share price which is trading at a significant discount to NTA, at a time of strength of the rural economy," said MSL's McDouall of NZ Rural Land.

Rounding out Hobson's Wealth's choices were two classic NZX companies, Vector and Fletcher Building.

"We believe FBU has structurally improved itself since the last cycle peak and that sentiment is too negative towards the stock given where we are in the current cycle (interest rates, house prices etc)," said Fowler.

"We expect the stock to re-rate next year as it continues to deliver towards its well-telegraphed earnings targets."

On Vector he said he expected a positive outcome from the strategic review of the company's metering business which will be a catalyst for the stock in 2023.

The 2022 Results

Unsurprisingly returns for the Brokers Pick game are more than a little subdued this year.

In fact, just two brokers made it to positive territory in 2022. MSL Capital Markets topped the table with a 9.8 per cent return.

Its result was boosted quite dramatically by a 100 per cent return for small-cap stock Promisia, which shifted back and forth between just 0.001 and 0.002c throughout the year.

In fact, it traded up the 0.1 cent increment to deliver a 100 per cent return on a $100 trade on the last Friday of the 2022 game.

After some discussion with participants the Brokers Picks game will next year run with minimum liquidity rules.

MSL's next-best pick was NZ Rural Land, which was up just 1.6 per cent.

The big gain on Promisia was offset by Fletcher Building, which has struggled this year - off by 23.6 per cent.

In second place was Forsyth Barr with a 5.8 per cent return. The team did well with Channel Infrastructure, up 57.1 per cent for the game period. Forsyth also benefited from a strong finish for Ebos Group which finished up 16.7 per cent.

On the downside, Forsyth Barr took a hit on Arvida, the retirement village company, which was down 36.5 per cent for the period.

At the bottom of the table, Hobson Wealth had its results compromised by the 68.8 per cent slump for Trade Window Holdings.

Plenty of normally strong performers also did it tough in 2022 dragging down returns - including F&P Healthcare off 29.8 per cent and Fletcher Building building down 23.6 per cent.

Big winners for the past few years Mainfreight and Freightways were off 19.1 per cent and 17.1 per cent respectively.

"We think it's important to remember that financial markets look forward," said Craigs Lister, in his summary.

"For the economy, the worst is almost certainly ahead of us, with next year set to be a more difficult one than 2022. However, it might be a case of: 'weaker economy, better markets'."

He noted that the NZX50 peaked in January 2021, almost two years ago, and it has fallen about 15 per cent since then.

"The economic challenges ahead aren't lost on investors, which is why we've already seen a decent fall and a lengthy period of poor performance.

"It's important to be cautious given all the uncertainties around it, but investors also need to be willing to stay invested and to take opportunities when they present themselves."

Brokers' picks: The results

Craigs Investment Partners	-4.8%
Contact Energy	7.5%
Summerset Group	-29.3%
Pushpay Holdings	4.9%
Ebos Group	16.7%

Fletcher Building	-23.6%

Jarden	-1%
Contact Energy	7.5%
Infratil	12%
Heartland Group	-14.5%
Skellerup Holdings	-3.4%
Comvita	-6.4%

Forsyth Barr	5.8%
Channel Infrastructure	57.1%
Sky City	-14.3%
Arivida Group	-36.5%
Ebos Group	16.7%
Vulcan Steel	6%

Hamilton Hinden Greene	-7.2%
A2 Milk	22.5%
Fletcher Building	-23.6%
Fisher & Paykel Healthcare	-29.8%
Infratil	12%
Freightways	-17.1%

MSL Capital Markets	9.6%
AFT Pharmaceuticals	-15.6%
Fletcher Building	-23.6%
Heartland Group	-14.5%
NZ Rural Land Company	1.6%
Promisia Healthcare	100%

Sharetrader top 5	-15.6%
AoFrio	-34.4%
Ebos Group	16.7%
The Warehouse	-24.3%
Scott Technology	-21.5%
Heartland Group	-14.5%

Hobson Wealth	-26.3%
Heartland Group	-14.5%
Mainfreight	-19.1%
Sky Network Television	-8.7%
Trade Window Holdings	-68.8%
Manawa Energy	-20.7%

Herald Network graphic

Disclaimer - It's a game

Readers should recognise that the results of the Brokers' Picks are skewed by some features of the game. The figures exclude brokers' fees. Percentage changes are total shareholder return (share price performance and dividends) for the game period, sourced from IRESS.

Brokers are asked to choose the securities that will give the best short-term performance. If they had been asked to choose, for example, a five-year term, the results might be different. The survey does not allow brokers to review choices during the year. The survey implies a one-size-fits-all approach. It takes no account of individual circumstances such as an investor's appetite for risk, needs for income or tax circumstances.

This year we also introduced a minimum liquidity rule to ensure stocks chosen in the game are well traded through the year.

The views expressed do not constitute personalised financial advice and are not directed at any person. Some shares picked may include shares held by the company's directors and staff. Finally, past performance is no guarantee of future performance.

Latest from Business

PREMIUM

Real estate agent numbers slow in latest half-year as market turns

17 Jan 12:04 PM

More people unlikely to get decent income in real estate, expert says.

Musk faces court over Tesla Tweets

17 Jan 11:56 AM

Business confidence at record low, but inflation pressures remain

17 Jan 11:11 AM

PREMIUM

Scientists unveil laser beam to deflect lightning strikes

17 Jan 10:51 AM

Record $3.5 million fine for life insurer over dodgy policies

17 Jan 09:47 AM