UNIVERSITY OF AUCKLAND INVESTMENT CLUB

INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

TAKING FLIGHT

BY ZAC BALLANTYNE

+ MORE ON:

THE FUTURE OF OIL

SMOKEFREE 2025

SOCIAL MEDIA & INVESTING

& FROM OUR PARTNERS:

NZ SMEs: A SNAPSHOT 2022

THE WORLD'S WORST INVESTOR

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Prices as at Friday 12th August 2022
unless otherwise stated

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An update from the fund

A RUNDOWN OF THIS WEEKS PITCHES WRITTEN BY OUR INVESTMENT COMMITTEE ANALYSTS

METCASH (ASX: MTS)

Metcash Limited (ASX: MTS) is Australia's leading wholesale distribution and marketing company. They are a conglomerate diversified across grocery, hardware, liquor and other fast-moving consumer goods.

Generally supplying to smaller independent stores, they pride themselves on being the 'Best Store in Town'. Due to Metcash operating in the consumer staples sector, it has low systematic risk and provides a hedge to our portfolio in times of economic downturn. Metcash consistently delivers back to shareholders with large dividend yields and share buybacks.

With all pillars of the company (food, liquor and hardware) possessing an established market position, the company look set to continue its pattern of growth over the coming years. This is aided by the shift in consumer behaviour seen over recent years, such as increased preference for local neighbourhood shopping. Furthermore, Metcash has a wide economic moat due to its established and efficient distribution network in the geographic expanse of Australia.

Metcash was passed by the Committee through to the valuation stage, with Wynton Brick and Michael Smith conducting the valuation.

> *Cash is king. Metcash is better*
>
> *- Wynton Brick*

TRAVEL

Taking flight: The resurgence of air travel

BY ZAC BALLANTYNE

Airlines are back. Travel is back. It went from zero to one hundred, real quick. One month we are confined to our own region, and suddenly half of our Instagram feed is in Europe. The turnaround has been quick and dramatic, but none more so than for the airlines themselves as they are faced with the welcomed problem of over-the-top demand.

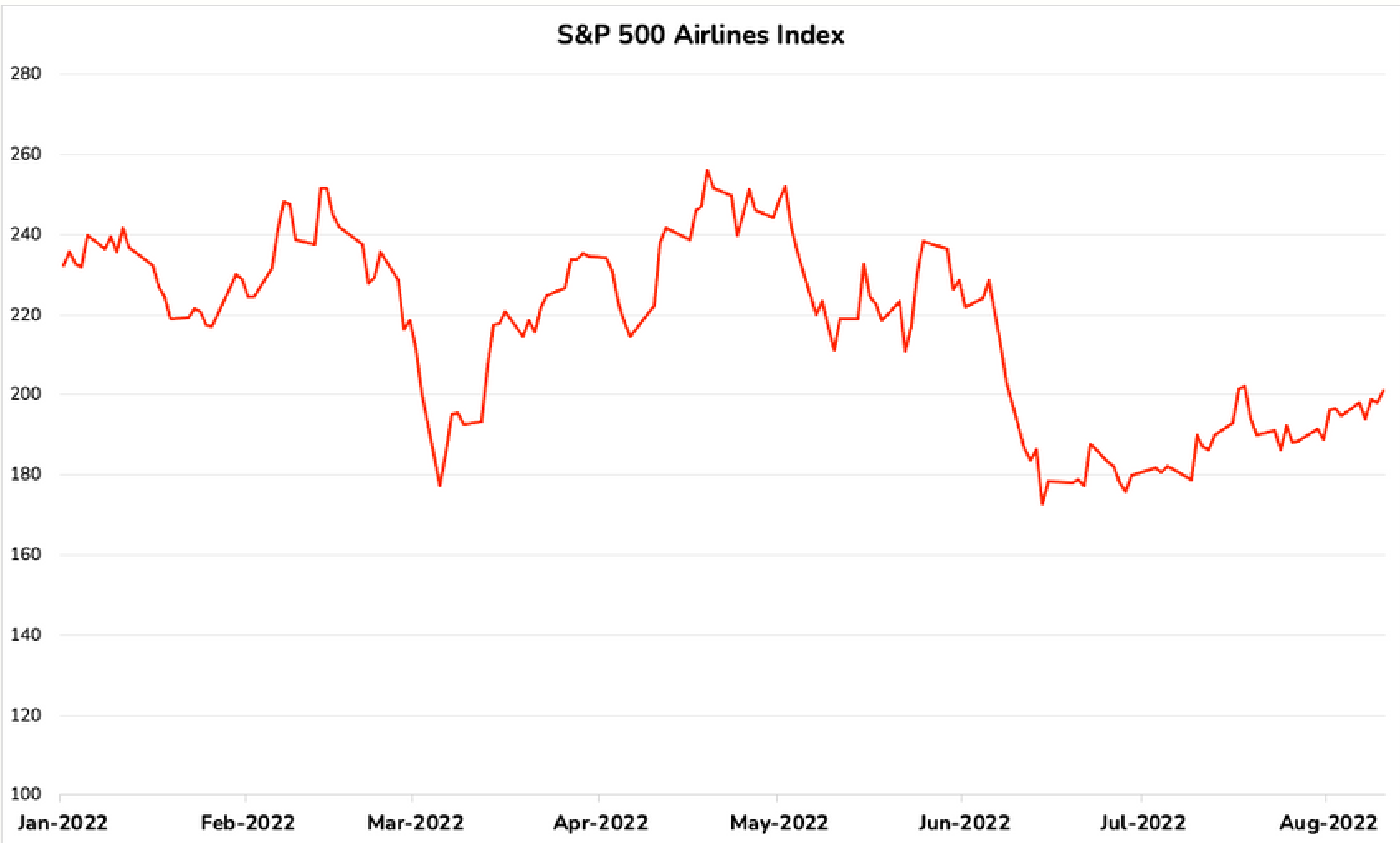
Sleeping flying machines are currently being woken from their slumber in desert parking lots as aviation and tourism come back to life after the Covid-induced hiatus. Airlines are finding themselves short-handed and are bringing these beasts back to life. Among many others, Air New Zealand is picking up one of its 777s and Cathay Pacific is awakening the majority of its fleet to satisfy passenger demand, ultimately signalling a bullish outlook for the airline industry.

Many airlines, including our flagship carrier Air New Zealand, required massive capital injections to survive the last two years. Thankfully for some, operating losses are being turned around with the increase in demand. Take a look at Abu-Dhabi based Etihad Airlines, which flew to an operating profit of $296 million in the first half of 2022. Not bad for an airline that has posted six consecutive annual net losses amounting to $7.8 billion in the last six years. The S&P 500 Airlines index is up around 11.7% since the end of June alongside the industrial sector as a whole which is up roughly 12%.

However, it is not all sunshine and smooth flying. Delta recently missed analyst consensus targets and sunk 4% after admitting the airline was "pushed too hard" with the increased demand. American Airlines fell 7.4% and United lost 10.4% after their second quarter results highlighted their inability to keep up with demand and the increased disruptions that go with it. Qantas has also struggled lately, resorting to pleading with their usually office-tied employees to get their hands dirty on the tarmac as staff shortages plague productivity.

We are also beginning to hear talk of mergers between airlines in the industry, as those with healthy books look to take advantage of some potential bargains. In the US, JetBlue is looking to acquire Spirit after a deal with Frontier Airlines fell through. Time will tell whether further consolidation in the industry is required as the pipeline of capital expenditure may be fiscally insurmountable for some.

Investor beware though – airlines are notoriously volatile and can be rough investments. So much so, Warren Buffett has been outlandishly critical of their history of bankruptcies and destruction of shareholder value. Another key concern for the industry is



Source: S&P 500 Airlines (Industry) (^SP500-203020) $USD whether high-margin business travel will ever return to the pre-pandemic level. With the rise of prominence of work from home and the ease of online meetings, some analysts are worried we will never return to peak aviation capacity and demand. And if Covid wasn't bad enough, the war in Ukraine coupled with rampant inflation has led to a large increase in oil and fuel prices. This is hurting the consumer's back pocket more than anything, and we are seeing a fairly sizeable increase in ticket prices to help negate the increased costs of the airline's operations.

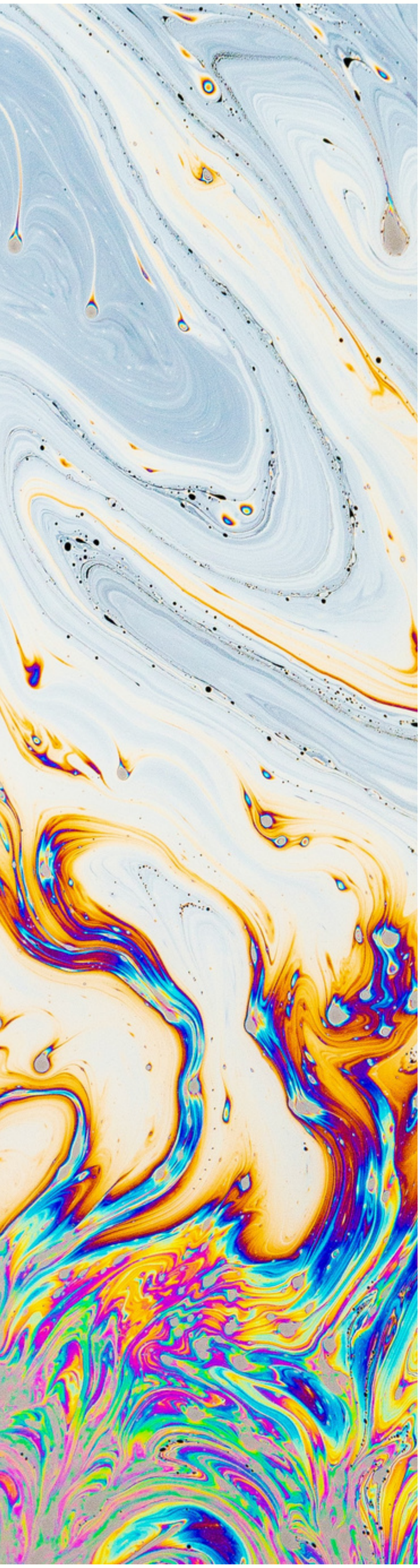
All in all, the return of passengers in their droves has been a welcome reprieve for airlines. The wheels are moving again in an industry that has been largely dormant for the better part of two years, yet the question remains around the outlook for the industry. Profit margins are being pressured by staff shortages and rising commodity prices, creating uncertainty about whether the industry is actually facing tailwinds or headwinds. The flight path ahead for investors may be a bumpy one, so if you're brave enough, you better fasten your seatbelt.

ENERGY

The Future of Oil

BY FAHEEM IBRAHIM

Our world is dominated by the need to control oil, the most important source of energy on the planet. The lifeline of industrialised nations and often the cause of wars, oil has brought several economies down to their knees. It has also helped build extravagant skyscrapers in deserts. How did this black sticky substance come to run our world, and as we move towards renewable sources of energy, what becomes of it?



Our enslavement to oil dates back thousands of years. Some of the world's earliest civilizations exploited it as a resource. The Mesopotamians used it in jewels and mosaics, the Babylonians used it to waterproof their boats, the Egyptians used it to embalm mummies and in ancient Greece, oil was used as fuel for lamps. However, the modern oil industry as we know it took off in the 19th century thanks to Scottish chemist James Young, also known as the father of the petrochemical industry. Young partnered with geologist Edward William Binney to form the world's first commercial oil refinery. News of this spread leading to interest in oil intensifying around the world from the Russian empire to Europe to North America. Drilling sites and modern wells started to pop up in many areas around the world, signifying a rush for the 'black gold'.

The development of automobiles and the aviation boom saw oil consumption rise exponentially. However, the most decisive point in the history of the oil industry came in 1908 when a British company struck oil in Persia, modern day Iran. This was the first big petroleum find in West Asia setting off a wave of exploration and extraction, and changed the history of West Asia and the world. Discoveries of oil reserves were found in Iraq, Bahrain, Qatar, Saudi Arabia and the United Arab Emirates. With each discovery, new companies were formed, backed by investors from the west trying to secure concessions and determine the price. Many of these oil rich Arab nations formed a body known as the Organisation of Petroleum Exporting Countries (OPEC) to end the west's monopoly and secure fair and stable oil prices. Together these countries ended up controlling 80% of the world's crude oil reserves and 44% of the world's crude oil production.

OPEC's strength, unity, and dominance made it a monumental success. During the Arab-Israeli war in 1973, OPEC placed an embargo on America and its allies that supported Israel. Prices quadrupled from $3 per barrel to $12 per barrel globally. This embargo was known as the "first oil shock" and caused many short-term and long-term effects on global politics and the global economy, directly impacting consumers and industry. The skyrocketing inflation of oil prices acutely strained the U.S economy that had grown increasingly dependent on foreign oil.

The coronavirus pandemic along with the Saudi-Russia price war led to the "second oil shock" which came in 2020. With air travel being halted, electricity demand falling by 20%, and people not using their cars to drive to work, oil prices dropped to historical lows. In January 2020 one barrel of crude oil was being sold at $67.5, but by March this price had crashed to $18. In 2020, the world witnessed oil losing its tag of being liquid gold.

Now in 2022, many say that the end of the oil age is near. But is it? It is true that the oil industry is in an existential crisis and it is also true that the world is encouraging and adopting greener alternatives. However, oil will remain a major component of the global energy mix for decades to come. At the moment, the global oil demand is 92.8 million barrels per day. There are an estimated 1.5 billion cars on the road in the world today compared to just 4.8 million electric vehicles in use. Even if 100% of all vehicles sold from this point onwards were electric, it would still take roughly 25 years to replace the entire vehicle fleet.

According to the International Energy Agency, the demand for oil will *plateau*, and not decline, by 2040. Exxon Mobil, one of the world's largest oil companies, says that the demand for oil will increase by 8% each year in the short-term, despite the growing popularity and the government's encouragement of electric vehicles.

There is a common misconception that oil is used solely as fuel, but many fail to realise that oil is central to almost every industry. Most of the things we use in our day to day lives are manufactured from crude oil and with current technology many of these products cannot be made through renewables. Computers, cameras, furniture, packaging, pipes, curtains, and tires are all made using oil. Even electric vehicles, believe it or not, need crude oil. While you may not need an oil change for your Tesla, you will still need crude oil generated fluids, lubricants, and motors to keep it running. The transportation revolution will transform the oil market, but it won't lead to its collapse. Oil is not disappearing from our lives in a hurry.

NEW ZEALAND

A large step towards a smokefree future

BY ANDREW HUANG

A scent... ashy and acrid to some, but aromatic and heavenly to another. In the next generation or so, this scent may cease to exist in Aotearoa New Zealand...

Introduced into Parliament relatively recently this year on the 21st of June, as part of the governments Smokefree Aotearoa 2025 plan, was the Smokefree Environments and Regulated Products (Smoked Tobacco) Amendment Bill.

The three main goals of the Amendment Bill are to:

- Reduce the number of retailers selling smoked tobacco products by tightening restrictions and reducing the amount of stores allowed to sell tobacco products in a certain area
- Make smoked tobacco products less addicting and appealing by imposing a limit on the amount of nicotine allowed in smoked-tobacco products
- Prevent the next generation from ever taking up smoking by banning the sale of smoked tobacco products to anyone born on or after the 1st of January 2009

A month later after the Bill was introduced, it went into its first reading in which MPs in Parliament debated and voted whether the Bill should move onto the next stage. Unsurprisingly, the Bill was successful and referred to the select committee with next-to-full support from all MPs and parties.

The only party that had opposed the Bill was the Act Party, with list MP Brooke van Velden arguing that overall, the Bill was "short-sighted." Velden argued that according to the regulatory impact statement of the Smokefree Aotearoa Action Plan, limiting the amount of nicotine in tobacco products is likely to incentivize the illicit import of tobacco products, thereby creating an illicit organised crime market for high nicotine tobacco products and giving more power to gangs.

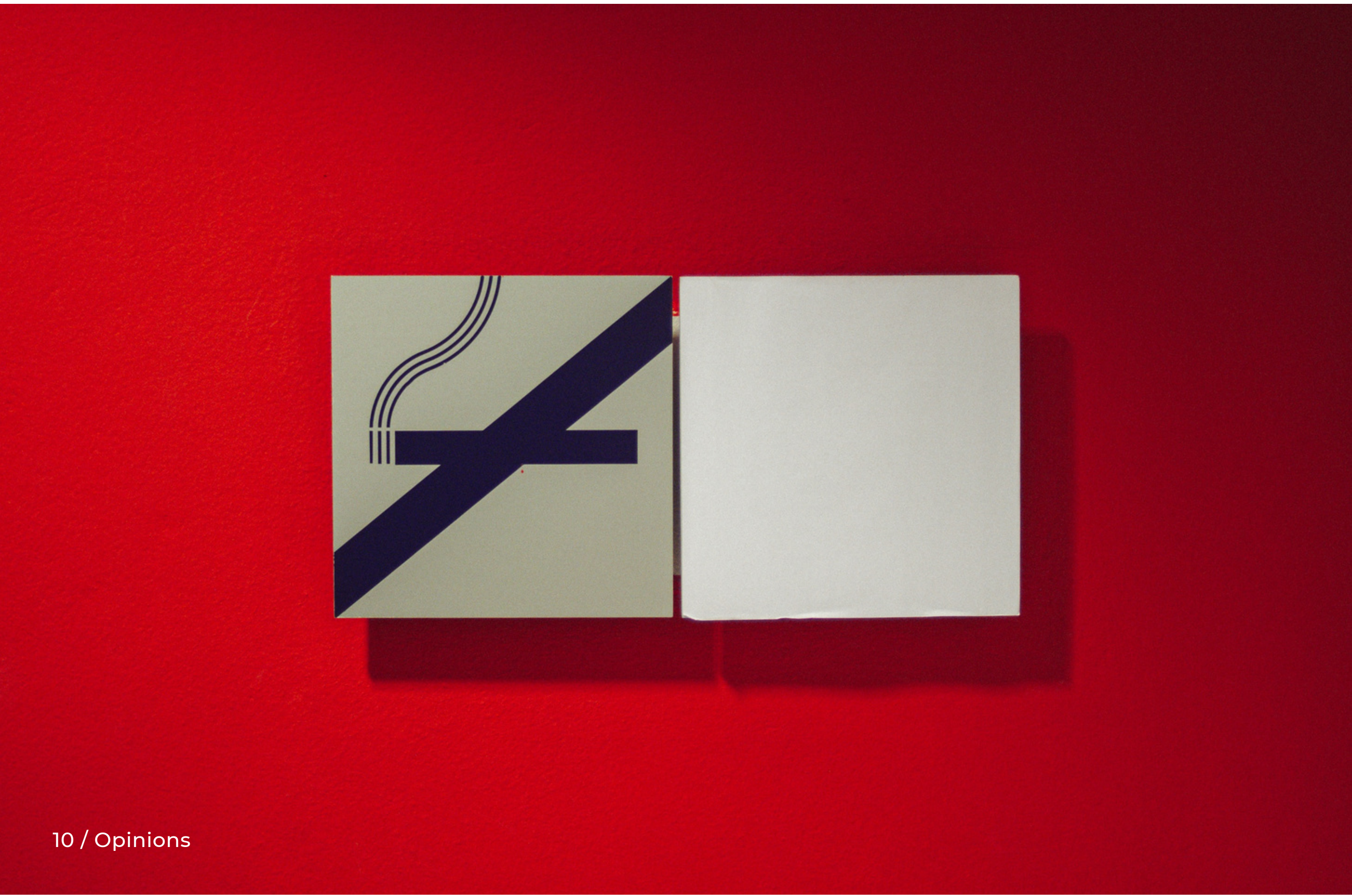
On top of this, Velden remarked that with the reduction of nicotine in tobacco products, New Zealanders who are addicted to nicotine will smoke more to get the same hit as before. This means that those who are addicted to nicotine will now be putting more toxic tar into their bodies which consequently increases their health risks.

Looking into Velden's arguments, two very simple questions that provide us with some food for thought are posed. Exactly how much power will this illicit market for high nicotine tobacco products give to gangs? Would those who are addicted to nicotine actually consume more tobacco products, or would they turn to cheaper and healthier alternatives such as nicotine patches and gum?

The ultimate reason for introducing the Amendment Bill is because the New Zealand government has set out the Smokefree Aotearoa 2025 plan wherein by 2025, fewer than 5% of New Zealanders will be smokers. Additionally to quote the Associate Health Minister Dr Ayesha Verall, the Bill is also for "protecting what is precious: our people, our whānau, our communities."

It is no surprise that the consumption of tobacco products is harmful and deadly to the human body. Despite this, the Ministry of Health found that 387,000 adults in New Zealand smoke daily with approximately 5,000 people dying each year in New Zealand due to smoking or second-hand smoke exposure.

New Zealand, renowned as one of the most progressive countries globally, is the first to even consider implementing the idea of prohibiting the sale of tobacco products to its next generation. This is an unprecedented action that will influence the world whereby, if other countries choose to follow suit then the tobacco industry will be in for a rough ride down.



INVESTING

The good and evil of social media's role in making money

BY ANTHONY KWAN

The rise in young investors alongside the accessibility of information through the internet is both a recipe for disaster and yet also provides massive opportunities. Investing used to be difficult to access and was reserved for the rich. But now, with the rise of the likes of Sharesies, Hatch and cryptocurrencies; anyone can dive into the financial markets.

At the end of the day, ask yourself why are you putting money into the financial markets? For the majority, I would assume it's to make money. Long-term investing will always be the go-to place to grow your wealth, without a doubt. However, if you were given the opportunity to build your wealth through short-term plays and make money too, I would take it - money is money. Obviously, making money in the stock or cryptocurrency market in the short-term isn't easy, but it's doable if you have the right resources to learn.

Whether it's social media influencers, paid groups, or the natural instinct of "it's too good to be true", they all bring negative connotations attached with them. Paid courses promising you $10k-a-day trading, TikTokers promising you the next $DOGE or $SHIBA, or Hustler University's Multi-Level marketing all have red flags. Each one of them can be more carefully scrutinised.

Day trading works otherwise the whole concept of charts and day trading would never have existed. However, day trading isn't easy and requires a lot of practice and ultimately, it is a game of probabilities. Information is readily available anywhere and so a lot of these courses just monetize free information you can find yourself. The TikTokers who promise the next 100x crypto coin will probably end up calling 100 coins before maybe hitting one of them. Everyone will always gloat about their wins and will hardly share their losses, that is just how it is.

Hustler's University is a group that teaches people how to make money depending on your time and money available. It has affiliate marketing where members can get other people to sign up using their code to get a percentage of the member fee they pay. Essentially, it's multi-level marketing. Whether the group actually makes people money is debatable as reviews of it are overwhelmingly negative, yet people still sign up. These are all examples of social media helping you potentially lose money or convincing you to pay for content that is already free. The bad is always more remembered than the good, but on the other end of the spectrum there are genuine places that teach you how to make money. Funnily enough, these are the ones free from the social media influencers.

The beauty of social media is that you have access to some of the smartest people in their fields from wherever you are. Option trading and crypto trading are areas where paid groups thrive once you find the right ones. Both these skills are built off buying and selling stock and cryptocurrencies at specific prices and selling them within a day or a couple of days; maximising on the volatility of the market. This may sound like Hustler University but these groups don't pay you for referring others. Instead they have transparent win rate percentages and records of each of their callers' trades.

If people are good at trading why would they have a paid group?

Social media and the internet has allowed people to monetise their skills. If you were a good day or swing trader, why not offer your skills to others to earn 'passive' income. You are trading regardless, and if you are good at it, why not offer it as a service to build another income stream?

Obviously, paid group's aren't a get-rich card as following other people’s financial advice requires trust and you should only risk the money you are willing to lose. No one who trades has a 100% win rate, but if you consistently follow good people then it’s likely their wins will exceed their losses.

Can this be analogous to putting your money into a KiwiSaver scheme?

Putting money in a KiwiSaver scheme has other people investing for you too and really, you are trusting a stranger as well. They show their percentage returns just like paid groups do. The difference with paid groups though is you get to be much closer to them, talk to them, learn from them, and ask questions. The internet brings people much closer together and allows you to connect with talented individuals much easier and gives you the opportunity to see how you can build your own wealth differently.

Social media without a doubt contains bad actors when you are trying to find people to trust and listen to, especially when it comes to making money. However, the negativity those people create overshadows those groups and people who are genuine and definitely have something to offer. People remember negative experiences more than they do positive and so the genuine people are unlikely to be those with mass followings. The internet can provide you with opportunities to connect with and learn from people that could actually help build your wealth. The challenge lies in identifying the ones you really can trust. Regardless, wherever you source any items of financial advice, always remember to think independently too.

MYOB Column

New Zealand’s SMEs: A Snapshot 2022

Small and medium sized enterprises (SMEs) account for 97% of all NZ businesses and are at the heart of our local economy and communities.

MYOB has been helping businesses across ANZ start, survive and succeed for more than 30 years, and just like we’re not the same business we were three decades ago, neither are the local SMEs we serve.

Taking insights from the MYOB Business Monitor and a range of other data sources, we’ve pulled together an overview of what the typical SME looks like today in New Zealand.

Read the full report here.

You can also read Australia's SMEs Report here.

Forsyth Barr FOCUS

Lessons from the world's worst investor

This is a tale about John Smith, the world's worst (or maybe just unluckiest) investor.

Before you feel too sorry for John, don't worry, we've made him up! In reality it would be hard to be as bad or as unlucky as John even if you really tried.

Read the full article here.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