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Volume 30

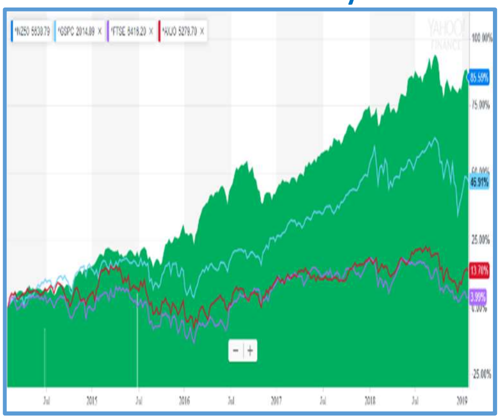
Investment Strategies

FEBRUARY 2019

The key message for 2019 is "***don't invest in any company that you don't understand***".

2019 is likely to be a tumultuous year by year's end. Brexit will come and go. Trump will become more introverted and protectionist. China and Russia will fill the vacuum, and prosper from Trump's protectionist stance. But 2019 will remain a tough investment climate. Stay invested, but remain cautious. Speculation will probably be a failed strategy for 2019. Stick to value stocks.

NZX50 Index – last 5 years



The NZX50 has outperformed global markets over the past 5 years. Australian (red) & British shares (purple) have both performed poorly over this period. Even the US S&P500 is 40% lower than the NZX50 over this period.

With falling confidence that our Left-wing Government can grow our economy effectively, the need for caution has increased merit.

STOP PRESS: Stats NZ estimates that 7,800 New Zealanders left the country in 2018. This is a huge reversal from a net New Zealanders returning to NZ under National.

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STATISTICS NZ DATA

Estimated population at 31 Dec 2018:	4,934,000
Births June 2018 year:	60,393
Deaths June 2018 year:	33,567
Net migration Prov Nov 2018 year (↓29.7%):	43,400
(Migration In 144,000 Migration Out 100,60)	
Net migration Oct 2018 year (↓12.6%):	61,751
(Migration In 128,123 Migration Out 66,372)	
Employment	
Total employed June 2018 quarter:	2,631,000
Unemployment rate Sept 2018 quarter:	3.9%
Net Wealth (NZ Median) (↑5.6% pa over 3 years)	$340,000
Net Wealth (Top 20%) (↑9.7% pa over last 3 years)	$1.75m
Ave weekly earnings June 2018 quarter:	$1,124
⇒ Full time men (↑ $32 / 2.7%)	$1,208
⇒ Full time women (↑ $18 / 1.8%)	$1,106
Average ordinary time hourly earnings:	$31.34
The employment rate Sept 2018 quarter	68.3%
Annual inflation December 2018 year:	1.9%
The size of the NZ Economy 31 March 2018:	**$286 bn**
GDP per capita year ended June 2018:	**$57,218**
GDP Growth (volume) Sept 2018 year:	**2.9%**
Tauranga City GDP Growth Sept 2018 year:	**3.6%**
Visitor arrivals Annual August 2018 (↑ 3.6%)	**3,803,196**

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WHAT IS IN STORE ME FOR 2019?

2018 was a pretty good year for me, and the key for 2019 will be to get re-elected to the BOP Regional Council in October.

BOP REGIONAL COUNCIL

As a current Regional Councillor, I am up for re-election in October. There are no certainties in local government, but I am very keen to retain my position. The past two years has been pretty frustrating – having previously chaired both the Regional Transport Committee (2005 to 2008) and Public Transport (2005 to 2010), it has been hard sitting as 'just a backbencher' in our current council. The problem is that when I left BOPRC in 2010, the regional council was tracking very well – by no means perfect, but well. Coming back at the end of 2016, I believe that it was tracking backwards fast – and 'as a member of the 'B' team, I could do little about it.

In the latter part of 2018, BOPRC had a change of CEO, and a new management structure (team). I see positive signs from this change, but there is lots to do if we are to move forward positively. 2019 will challenge us, but I am more optimistic now than I was one year ago.

I will strongly advocate for an 'action orientated council'. We need to throw out a lot of the PC b***shit (especially in relation to climate change and iwi) – but that won't be easy with the left dominating our ideology (and supported by the current government).

I am not a climate change denier; nor an iwi basher – but I do expect decisions made based on 'good science'.

CONGESTION HASN'T BEEN ADDRESSED

Our Regional Council has made a real hash of our Regional Transport strategy. We have been blindsided by all three government coalition partners, and have lacked any form of leadership – which is impacting badly in increased roading congestion.

BUS SERVICES JUST DON'T CUT IT

The increased funding in Public Transport seems doomed to failure. When you don't collect the data to know where passengers want to travel to, combined with a key performance indicator for our buses delivering trips that are no more than twice as slow as a car, then there is little hope of providing a customer focus public transport system.

SMARTGROWTH IS FAILING TOO

Smartgrowth was an outstanding success in the early 2000's, but the Western Bay Councils (BOPRC, TCC & WBOPDC) have allowed a socialist agenda to ensure that it has now lost all focus, and the result is that Tauranga City now has the 12th most unaffordable housing city in the globe. We can get it back on track, but it will take a massive focus on spatial planning, and much less emphasis on social agendas. We need a GENUINE review of Smartgrowth – not a 'lightly once over'.

PORT OF TAURANGA

The Port of Tauranga remains 'the jewel in BOPRC's crown', BOPRC's 54.14% shareholding is now worth $1.88bn, and underpins the Regional Council's finances. The problem is that having such wealth has led to a 'lazy' operating environment. Our new CEO (Fiona McTavish) worked hard since her appointment, saving over $1m in staff efficiency restructuring – only for our Regional Councillors to agree to spend an extra $1.5m on nebulous things like climate change mitigation. I feel so sorry for our CEO, who put her all into that restructuring – only to be followed with increased unfocused spending.

THE OCTOBER LOCAL BODY ELECTIONS

These elections should send a real message to the incoming Councillors, but I fear that we will just drift on with more of the same. In my opinion, we need a real shakeup, but I just can't see it happening.

PLANT & FOOD RESEARCH

I continue as a Director of the Crown Research Institute – Plant & Food Research. I have really enjoyed the last 4 years on this Board, which has seen stellar growth in revenues, while controlling expenditure.

Late last year we completed a $50m redevelopment of our Mt Albert headquarters. Costed at $49.2m in 2012, and commencing in 2014, this project kept to budget (despite asbestos issues) and came in at around $49.6m. Recognition needs to go to our former Director, Professor Juliet Gerrard (who is now the Prime Minister's Chief Scientist), as she chaired the Redevelopment Building Committee, for ensuring that the project was kept to budget.

COMMUNITY ENGAGEMENT

A current member of Tauranga Te Papa Rotary, I chair the Tauranga Rotary Centennial Trust for the Kopurererua Valley Reserve Development. This is the biggest wetland restoration project in the Southern Hemisphere, and already Rotary has raised more than $1m for this very worthwhile project.

I am also Treasurer for Te Aranui Youth Trust. This Trust works very closely with the police (our offices are currently within the Greerton Police Station) to support youth at risk. These young children are directly referred to us by the police, and we work actively with them. What is so great is that research shows that for every one of these children that we 'save', the savings for NZ taxpayers will be around $1m over that child's lifetime. This is a great charity.

NATIONAL PARTY

I currently Chair the Central North Island Region for the National Party. This entails looking after the 11 electorates (around 25% of the Party's membership), from New Plymouth to Gisborne, and Tuakau to Taupo.

OUR POLITICAL CLIMATE

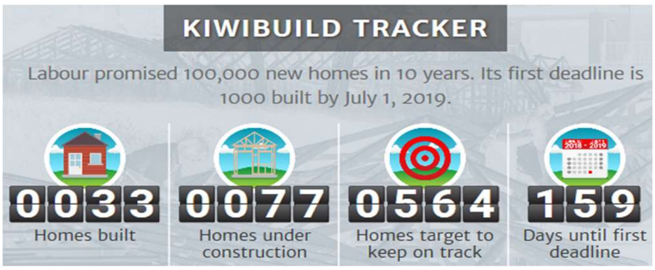
Three big political themes for New Zealand in 2019 are likely to be whether the Government's major policy reforms will get traction this year; whether the economy will wobble as expected; and whether the Reserve Bank's dramatic tightening of capital requirements will be a land-mine for the economy and housing market. From an economic standpoint the other big questions relate to whether New Zealand's relations with China deteriorate, whether Labour will adopt a capital gains tax policy and whether National can agree to the Green's Zero Carbon Act.

KIWIBUILD A TOTAL FLOP

The numbers on Kiwibuild are a total disaster. 33 houses built to date. A target of 1,000 for the first year (actually 18 months) have being revised down to more like 300. And somehow, it's meant to reach 100,000 in ten years. For Phil Twyford, the minister overseeing the Labour's ambitious $2bn programme, it spells total incompetence - and it's crushing for the Housing Minister. Furthermore, there's more bad news as the few houses that are available aren't even selling.

In 2017, Twyford told the Herald: "We're going to be as ambitious as possible. There is a $2bn cash injection for KiwiBuild over 10 years and we will recycle that money over and over," he said of the state buying the properties, then on-selling to first-home buyers. "It's not going to happen in the first week. We've always said we'll step it up over three years to hit the 10,000-a-year target."

KiwiBuild is not helping the poorest Kiwis into a home. It's been called middle-class welfare or socialism for the rich. The income caps of $180,000 for a couple and $120,000 for singles have been widely derided as being far too high, allowing the wealthy to monopolise the scheme.

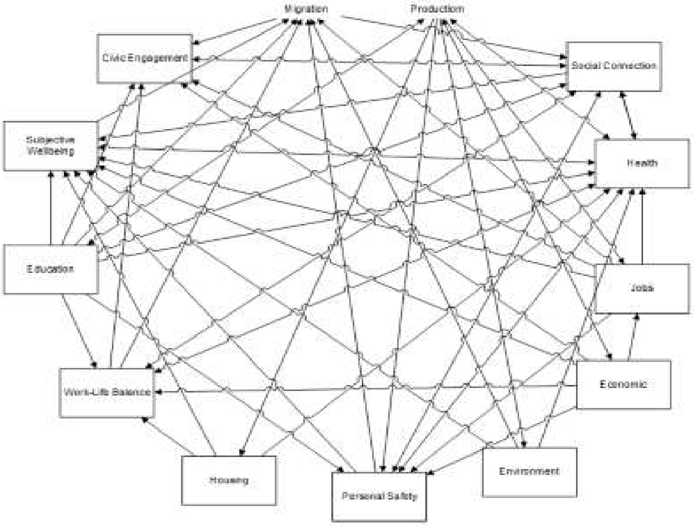


This key Labour strategy has proven to be 'all hot air', and is just another example of why you shouldn't announce policies without robust research. Yes – research – and not talkfests by unqualified working groups.

JACINDA & GRANT'S WELLBEING MADNESS

Treasury has just released a 137-page working paper that explains Jacinda Ardern's "Wellbeing" calculator for the May Budget. Treasury, in their paper, acknowledge that this calculator is extremely theoretical, and far from a proven case. Basing NZ's financial performance on such left-wing ideology is plainly balmy, and typical of a lot of this current Left Government's "work-in-progress" 217 working group undertakings.

LINKS BETWEEN DIFFERENT ASPECTS OF WELLBEING IN THIS PROTOTYPE MODEL



The abstract from the paper states: *"How do we understand the synergies and trade-offs of a given policy on area beyond that policy, such as the effect of housing on health and on income? How do we choose between policies in completely different areas, such as an education policy and a health policy? Treasury's Living Standards Framework provides one possible starting point, but it provides little assistance tracing the many dependencies between policy areas. A model that includes those dependencies could help.*

"The Living Standards Analysis Model (LSAM) is designed to do this. A first prototype of the model has just been developed. This model includes all eleven aspects of wellbeing as described by the OECD's How's Life? framework and linkages between the different aspects for a small open economy. Most models for studying wellbeing only include one or two aspects, missing the rich set of interactions that can occur with greater coverage. As an early prototype, this version of the model does have many flaws and requires significant further development, but it forms a basis for creating an improved model as well as providing some qualitatively useful results. The model is loosely based on a stocks-and-flows type of model, with a small general equilibrium model covering the market economy part of the model."

THE 11 ASPECTS OF THIS MODEL:

(An example of the maths that make up the model)

1. Civil Engagement

ICG,h,t =ĘCG,ESF,h (KESF,h,t -KESF,h,t-1) + ĘCG,y,h (yh,t yh,t-1)+ ĘCG,WL,h (~TWL,h,h,t - ~TWL,h,t-1)+ ĘCG,SC,h (KSC,h,t – KSC,h,t-1) ĘCG,J,h (JST,h,t + JLT,h,t - JST,h,t-1 - JLT,h,t-1) - ĘCG,NM,h (NM,h,t NM,h,t1) ∀h,t

2. Income & Wealth

Wiw,h,s,t) =1/3(^yh,s,t ^Chs,t +^Kiw,h,s,t) ∀hs,t

Yh,t = (1-_Y,h) Yh,t + J(JST,h,t + JLT,h,t) + NW,hNW JNW,h,t + _,h_,tKN,S,t^{-1}

3. Education etc, etc
4. Environment
5. Health
6. Housing
7. Jobs
8. Personal Safety
9. Social Connection (Community)
10. Subjective Wellbeing
11. Work-Life Balance

Confused – you haven't even got started. This is such gobble-de-gook that no human will understand it, and I think that is just what this 'transparent' government wants. Again, quoting the paper: "*It is clear that this model, perhaps more than most, has many flaws and unrealistic assumptions. However, it is the first attempt at such a model, and its existence has several uses.*"

Let's elect a government that relies on decision making based on good science. And, do not be fooled by mumbo jumbo that is not understandable, and which can't be qualified by its own authors.

JACINDA'S HEADACHES

CAPITAL GAINS TAX: Michael Cullen's final report is due to be delivered to the Government this week and promises to be the best weapon National will have at next year's election.

KIWIBUILD: The flagship housing policy of 100,000 houses in 10 years is heading for the rocks. A perfect lesson in why political parties should resist over-promising.

FAIR PAY AGREEMENTS: The Bolger report revisiting national awards has not yet been published but the campaign against it by employers has already begun.

MENTAL HEALTH REPORT: Done and delivered to the Government but the next Budget in May seems a long time to have to wait until this area is properly addressed, having had years of delay under National as well.

TOMORROW'S SCHOOLS: The Government has yet to respond to the Bali Haque report restructuring school administration.

SOCIAL WELFARE REVIEW: Due to be delivered next month, this report on the treatment of beneficiaries including penalties and incentives has the potential to create tension between Labour and New Zealand First.

PRISON REFORMS: The 2018 conference may have had some great ideas from which to construct a reform package to cut the prison population but getting the public onside is the challenge.

KAREL SROUBEK: National chipped away for months on the decision to grant and rescind citizenship for this convicted offender and they are not going to let up. Dumping documents on the Friday afternoon before Christmas was a very cynical move, but it was

predictable from dodgy Immigration Minister Lees-Galloway in the on-going and poorly handled Karel Sroubek saga. Lees-Galloway dumped 1000 pages of what's understood to be heavily redacted documents relating to the Karel Sroubek deportation saga.

LET'S FIX BAD PARENTING

We don't have a poverty issue in this country – we have an issue with bad parenting. With the wonderful 'safety net' with our social welfare system, and this means that no children need to go hungry. So, we have to teach our socially and economically deprived to budget, and to prioritise their children over smokes and booze. That might sound simplistic – but poor parenting is the crux of our deprived families.

And while I am at it, child abuse is also endemic in many of our homes, especially in many of our lower socio-economic households. Maoridom encourages their warrior heritage, and this aggravates unacceptable behaviour. Again, this is all about parenting. We won't effectively address either abuse or our terrible suicide statistics unless we address it. We need to forget the PC brigade, and open the conversation in a 'no blame' but inclusive and open manner.

GENTER SHOWS TOTAL INCOMPETENCE

In early January the NZ Herald reported that the Associate Transport Minister Julie Anne Genter said "*It will be many decades before New Zealand sees a substantial change in the road toll*".

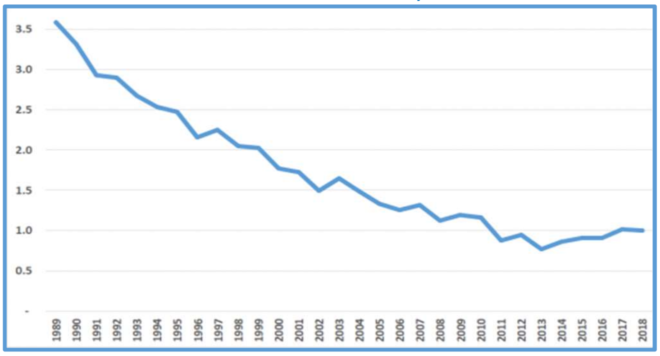
This is an unbelievable level of ministerial incompetence. To claim that nothing the Government does will have an impact for at least 30 years is ridiculous, and plainly wrong. Her comments come after New Zealand experienced its highest road toll since 2009, with almost 400 deaths last year.

Just 9 months ago Genter stated that "*No loss of life is acceptable - this is the message behind the development of the Government's new road safety strategy. As part of the development of a new road safety strategy the Government will investigate setting a target of zero road deaths. I accept that a target of zero death would be audacious, but ambitious targets are needed to focus the resources of both central and local government to save lives on our roads*".

So, nine months ago our Left-wing Government was saying that we can get the road toll down to zero and that should be out target. Now, they're saying it is all too hard and will take decades to make any significant change.

This following graph shows the Minister is absolutely off the reservation when she says it takes many decades to make a significant difference. From 1989 to 2013 the road toll declined massively.

RATE OF ROAD DEATHS PER 10,000 VEHICLES



If this Government honestly believes that they can't make any difference to the road toll, then they should resign to allow in Ministers who don't accept defeat after just twelve months.

Incidentally if your sole focus is to reduce the road toll, this is quite easy to achieve. You merely set a maximum speed limit of say 30 km/hr. You could even require all vehicles to be fitted with technology to limit their speed. At zero kph there would be no road deaths – is this where the left is heading!

Of course, this would massively reduce the value of road transport and have huge personal and economic costs. This is why road safety policy is a balancing act. How do you decrease accidents without unduly reducing the benefits of road travel?

You could pass a law requiring no car more than five years old to be certified for use. This would reduce the road toll massively but means that poorer families couldn't afford cars.

You could upgrade every open road to modern standards with median barriers etc. That would cost billions but would definitely reduce the road toll.

You could increase the penalty for drink driving to mandatory jail time. That would reduce drink driving considerably and reduce deaths. None of these changes would take decades to work. Some would have an impact within months. The issue is policy - Do the benefits outweigh the cost?

GENESIS IMPORTING DIRTY INDONESIAN COAL

Coal-fired generation from Genesis Energy's Huntly operations was the highest in more than five years in the December quarter, as a combination of low hydro storage and plant outages were compounded by tight natural gas supplies.

The company, which also runs three hydro schemes and a wind farm, delivered 601 gigawatt-hours of electricity (85% fuelled with imported coal). That was the company's biggest coal-burn since mid-2013.

Low lake inflows for that time of the year and reduced production from the Pohokura natural gas field raised the necessity to import (dirty) coal from Indonesia. This is in contrast to Japan (next story), which is building new high efficiency thermal coal plants. Genesis ordered 120,000 tonnes of Indonesian coal for delivery in December and January to maintain supplies. Energy Minister Dr Woods doesn't have a feasible plan to ensure new technology and energy sources will arrive soon enough, and with enough scale, to make up for the loss of gas. Burning (dirty) Indonesian coal makes a nonsense of Jacinda Ardern's reckless decision to stop future exploration for oil and gas in New Zealand waters.

JAPANESE GOVERNMENT IS PLANNING TO BUILD 45 THERMAL COAL POWER STATIONS

Japan is building 45 new high-efficiency thermal coal plants that burn the coal at very high temperatures and scrub almost all the emissions from the exhaust. The main by-product is the demonized gas, carbon dioxide (CO_2). The power plants will utilise high energy, low emissions (HELE) technology that use high-quality black coal. Japan is the largest overseas market for Australian coal producers, taking more than a third of all exports. The move to more coal fired power was because coal was cheaper than LNG, and the energy security was priority for the government. Japan needs to import 95% of all its energy sources. Japan has ratified the Paris Climate Agreement and committed to a 26% reduction in carbon dioxide emissions by 2030. Japan also spent $US36 billion dollars on commercial solar power last year, and is planning much more.

In the wake of the Fukushima nuclear disaster in 2011, Japan is trying to diversify its fuel sources and it doesn't want to be too reliant on any one market. It is called being "pragmatic" – something Jacinda would have been wise to have considered before she banned oil and gas exploration for New Zealand.

Here's a small sample of how many coal plants there are in the world today:

Country	Existing coal plants	Building new coal plants	Total
EU	468	27	495
Turkey	56	93	149
South Africa	79	24	103
India	589	446	1,036
Philippines	19	60	79
South Korea	58	26	84
Japan	90	45	135
China	2,363	1,171	3,534

CLIMATE CHANGE – FACTS v MYTHS

The following is taken from the NZ Herald on 3rd January: "Coastal houses will be washed away, the dairy industry's viability will be threatened, and glacier tourism will be finished - these are among a climate scientist's dire predictions for New Zealand if the world doesn't deal with global warming. Professor James Renwick, of Victoria University of Wellington, said he was not surprised by Dr Jim Salinger's finding that 2018 was New Zealand's hottest year on record. "*It's consistent with the trend we are seeing all around the world*." He said sea-level rise from warmer water and the loss of ice would inundate heavily populated areas around New Zealand's coast."

This is just plain alarmist, and 'fake news'.

I am not a climate change denier – the oceans have been warming, and this is creating a massive increase in storms – but sea level rise is still largely a myth. NIWA scientists have been measuring our coastal water levels for years, and at Tauranga the average seas level rise since 1978 has been just 1.9mm per year. NIWA explain this as just 'noise'. Yes, we will need to combat sea surge (a result of storm effect), but not seas level rise per say. NZ is part of the Pacific 'ring of fire' – we live in a region where the volcanic plates move up and down. Our islands move up and down as a result. This has nothing to do with climate change.

EMISSIONS

The truth is that whatever we do, we can't control the natural environment. One major volcanic eruption sends more CO_2 emissions into the air than years of man-made emissions.

I am all for reducing our emissions – but let's not destroy our economy to achieve it.

RATEPAYERS BAIL OUT LOW-LYING PROPERTIES?

If you live on (for example) the likes of Harbour Drive in Tauranga – should it be the responsibility of all ratepayers to compensate landowners should they become inundated by sea surge. I am adamant that this is not a ratepayer responsibility. I say – "Let the buyer beware". And for those who have owned property there for many years, then they have had years to sell out, so that also is no reason for any ratepayer support. Local Government needs to make this clear, once and for all, so that there is no confusion on this matter.

SEA LEVEL RISE

I spent a week on Great Barrier Island in mid-January. If you talk to the locals (fishermen who have lived at the waters-edge for more than 40 years), they will tell you that there has been no sea-level rise in the last 40 years. Yes, they acknowledge sea-surge, due to storm effects, but not sea-level rise.

If we think about our Pacific Island neighbours, then yes – sea-level rise is a possibility. But we (and they) live within the Pacific 'ring of fire', where volcanic activity causes the plates under our land and sea to constantly move up and down. That is the reality of where we live, and is not a 'man-made' phenomenon.

NEW ZEALAND'S POOR PRODUCTIVITY

New Zealand's poor record builds on decades or underperformance, dating back to the 1950s. In all the time since then, there has never more than a year or two at a time when New Zealand has outperformed other advanced countries, and mostly we've achieved less productivity growth than they have. As a result, we've moved from being among the very richest and most productive economies in the world to one where the top-tier of OECD countries have rates of labour productivity about two-thirds higher than those in New Zealand (and countries like Turkey and various former eastern-bloc countries - where market economies were unknown for decades - are nipping at New Zealander's heels).

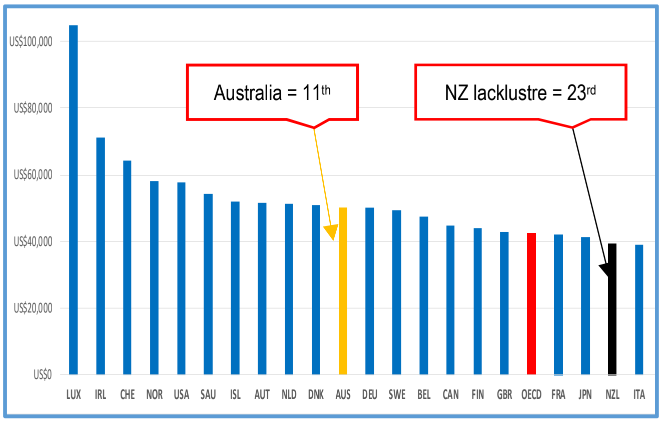
GDP PER HOUR WORKED

USD, constant prices, 2010 PPPs Source: OECD

	1970	1990	2017
New Zealand	21.4	28.6	37.2
Netherlands	27.4	47.5	62.3
Belgium	25.0	46.7	64.6
France	21.7	43.3	59.5
Denmark	25.1	44.8	64.1
Germany	22.3	40.7	60.4
United States	31.1	42.1	63.3
Median of six	25.1	44.1	62.8
NZ as per cent of median	85.4	64.9	59.2

When comparing GDP growth to population change, GDP per capita was flat in the September 2018 quarter. This follows a 0.5% rise in the June 2018 quarter. For the year ended September 2018, GDP per capita was up 1.0% (below that annual inflation rate).

GDP PER HOUR WORKED



SOURCE: OECD data, 2016

Productivity is the only secure foundation for material prosperity, and material prosperity allows societies to make all sorts of other choices (including improving environmental and social outcomes) with fewer constraints than otherwise.

THE BULLS VERSUS BEARS GUIDE TO THE WORLD ECONOMY IN 2019

SOURCE: Blomberg

2019 is shaping up to be a testing year for the world economy. Bears say bubbly credit markets, protracted trade wars and uncertain politics will put the brakes on growth. Optimists argue that global demand remains solid, inflation is under control and that any slowdown will be shallow. Here's a whistle stop look at some of what could go wrong or right.

#1 Trade War

The Bears - While the U.S. and China have agreed a temporary truce to their trade war, bears say the peace won't hold. That means risks of new tariffs and other barriers between the world's two biggest economies remains heightened.

The Bulls - Optimists argue there's a deal to be done. Trump and Xi will agree terms that allows greater access to China's markets without China surrendering its grand ambitions to create a world leading high tech economy.

#2 Oil

The Bears - Oil prices enjoyed a wild ride in 2018, ending the year around $50 a barrel, after hitting more than $75 in October. Bears argue lower prices reflect weak demand and still-booming supplies from U.S. shale formations that will hurt energy-reliant economies.

The Bulls say cheaper energy will cushion consumers, countries with current account deficits and will keep a lid on inflation, giving central banks less of a reason to raise interest rates. Oil production cuts of 1.2 million barrels a day by OPEC and its allies won't hurt either.

#3 Central Banks

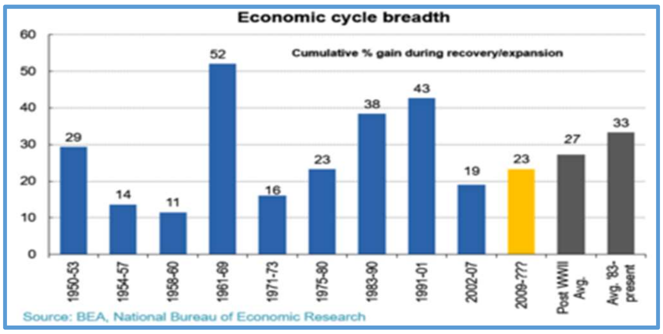
The Bears argue liquidity will become more expensive as central banks raise interest rates led by the Federal Reserve. That means more emerging market turmoil right as populism is pressuring central banks.

The Bulls argue there's no inflation so there's no need for higher interest rates. Moderating U.S. growth means the Fed can pause.

#4 U.S. Economy

The Bears - Instead of the U.S. economy breaking the record for its longest expansion, bears see 2019 as the year growth goes in reverse. A fading fiscal stimulus, Congress paralysis, trade wars and Fed hikes will hurt.

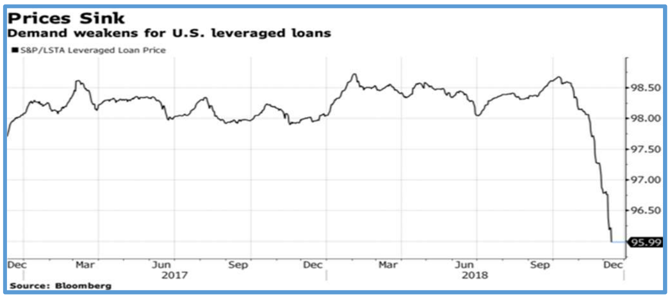
The Bulls - Or maybe not. There's no sign of overheating or rampant inflation that could derail the economy, and employment remains solid. And the Fed could decide to pause earlier than markets currently expect, easing pressure on borrowers and markets.



#5 Credit

The Bears - In the U.S., a boom in issuance of structured products such as collateralized loan **obligations have spurred warnings from regulators.** Bears worry that a weakening economy and Fed liquidity withdrawal could wallop credit fundamentals, flipping many BBB credits into junk territory.

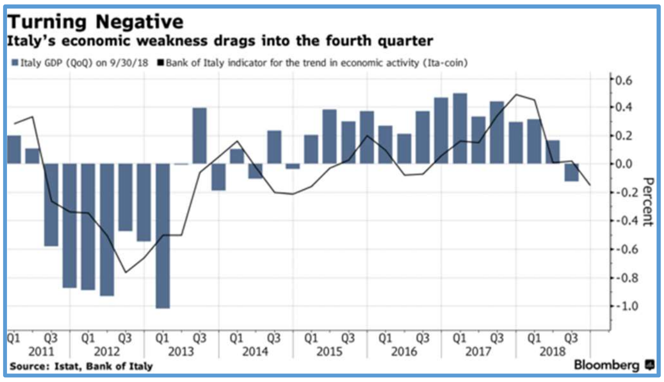
The Bulls say with the Fed's rate-hike campaign coming to an end, and a recession avoided, returns will return to positive in 2019. Bank of America Merrill Lynch sees U.S. leveraged loans posting total returns of between 4 and 5 percent.



#6 Euro Crisis

The Bears say the Italian government's open defiance of European budget rules will spark the euro's next crisis. The European Central Bank could be forced to intervene with untested tools, pressuring the fragile political consensus holding the euro together.

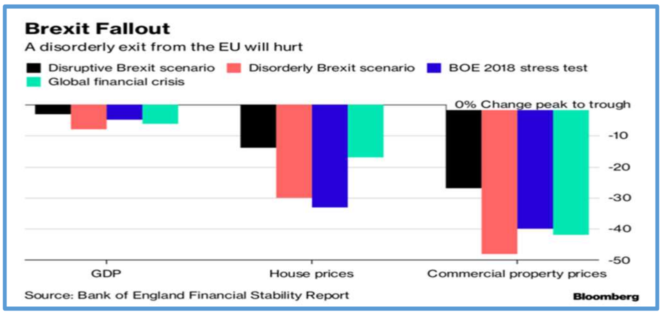
The Bulls - Optimists argue support for the euro is at a record high in Italy and the rest of the euro area. The populist government has signalled it wants to find a compromise with European partners. Street protests in France calm down without leaving permanent damage.



#7 Brexit

The Bears - the U.K. could crash out of the European Union this year. The Bank of England warned that such a scenario would see the economy shrink as much as 8 percent and the pound lose a quarter of its value. In a no-deal Brexit, financial markets enter panic mode.

The Bulls - Optimists argue Brexit can happen orderly and both sides can make quick progress in defining their new economic relationship.



#8 Debt

The Bears - Citigroup notes that global debt is now more than three times the level it was 20 years ago, raising concerns the world is headed for a debt crisis. They note that rising interest rates pose significant risk to households and nonfinancial firms in 36 percent of sizable economies. They warn that most advanced economy governments and several large emerging markets are highly vulnerable to sovereign debt risks.

The Bulls - Optimists say interest rates will only crawl higher and as long as economic growth holds up, borrowers can service their debt.

FACT CHECK – WHAT IS A NO-DEAL BREXIT

Source: The Week, UK, 4 January 2019

Theresa May's bid to rally the Conservative Party behind her Brexit deal looks set to fail as a new poll shows that party members would rather crash out of the EU with no deal than leave on her terms.

The survey of more than 1,200 rank-and-file Tory members found that in a three-way referendum - with the options of staying in the European Union or quitting with or without an agreement - 57% would opt for a no-deal exit, with just 23% backing May's deal.

And if the option of staying were removed, 64% would back no deal while 29% would vote for the prime minister's proposed plan, according to the YouGov poll, funded by the Economic and Social Research Council.

The news will come as a fresh disappointment to May, who had believed opposition to her deal might soften after the Christmas break. The PM also failed to win the support of her government partners the Democratic Unionist Party (DUP). Sammy Wilson, Brexit spokesperson for the Northern Irish party, has entirely ruled out backing May's Brexit deal when it was put before Parliament in mid-January, amid anger over the Irish border issue.

"*It's not just because of the regulations which Northern Ireland would be subject to with the backstop, but also the fact we would have to treat the rest of the United Kingdom as a third country*," he told BBC Radio 4's Today programme. "*We would not participate in any trade deals which the United Kingdom may enter into in the future and we would find that there would be a border down the Irish Sea which would impede trade with our biggest trading partner, namely GB*."

What do the Brexiteers say?

There are many senior Leave supporters who think that no deal would be perfectly acceptable as long as sufficient preparations have been made. Backbench Brexiteers have sought to present a so-called "cliff edge" Brexit as an opportunity rather than a threat and dismissed criticism as Remainer scaremongering.

"*It's Project Fear mark two*," one MP told The Guardian. "*Do they think we can't see that they're trying to alarm people?*"

Liz Bilney, CEO of Leave.EU, argues that a no-deal Brexit should be seen as a positive. "*It is at worst, benign, at best, a fabulous opportunity for a fairer, more prosperous Britain,*" she claims.

Many even claim there could be advantages if the pound were to fall sharply in value following a no-deal Brexit. "*The Pound falling is not a bad thing. The pound's always been too high from the point of view of industry because of the effect of the City. So, our competitive position with vis-a-vis Europe would be dramatically better even if there are tariffs,*" David Davis, the former Brexit secretary told parliamentary magazine The House in a recent interview.

What about critics of a no-deal scenario?

Critics argue that leaving without an agreement would have disastrous consequences for businesses, create chaos at the borders, drive up food prices and lead to a shortage of essential goods.

Health Secretary Matt Hancock has warned medical drug companies to expect six months of "significantly reduced access" to the main trade routes between Britain and Continental Europe if there is a no-deal Brexit.

In a damning report, Kent County Council also warned about the potential effect on key services. "*Bodies may remain uncollected and children might miss exams due to gridlocked roads in the event of a no-deal Brexit*", the report said.

Businesses leaders have also voiced their fears, with Amazon UK chief Doug Gurr predicting that Britain will descend into "civil unrest" within weeks if it leaves the EU with no trade deal in place.

"*Despite Brexiter claims, this is not a rerun of 'Project Fear'*," says an editorial in the Financial Times. "*Leaving the EU without formal agreements would result in instant, harsh consequences.*"

What do we know for sure?

The UK is scheduled to leave the EU at 11pm GMT on 29 March 2019. If a formal withdrawal treaty has not been signed by this point, all EU rules and regulations will instantly cease to apply to the UK. This means there will be no remaining agreements between Britain and the EU on how to manage customs, trade, travel or citizen's rights.

A no-deal Brexit also means that the transition period from March 2019 to December 2020 - designed to give businesses and organisations additional time to respond to the changes - would be off the table.

There is, however, the possibility that the EU could extend the two-year negotiation period. This would require the approval of all 27-member states and is only likely if negotiations are continuing and an agreement is in sight, according to lawyer and Brexit commentator David Allen Green. Experts also note that smaller, more basic arrangements could be struck between the UK and the EU to mitigate some of the worst effects of a no-deal scenario.

What does this mean for trade?

Without a bilateral trade deal with the EU, Britain would be subject to World Trade Organization (WTO) rules. UK exports would face the same customs checks and tariffs as other countries outside of the EU. Experts agree that the overnight end of frictionless zero-tariff trade would be likely to increase the price of some goods, lead to shortages, and cause significant delays on both sides of the Channel.

Leaked research carried out by the UK's own Brexit department suggests that without deals on customs and trade, parts of Britain would run out of food and even medicines within a fortnight of the present agreements lapsing, according to a recent editorial in The Guardian. "*And that is not the worst possible scenario: it is one that lies in the middle of the range of possibilities,*" the newspaper adds.

However, the Government says that contingency planning for this is already under way. The provisions would include stockpiling food and medicines and turning parts of the A20 in Dover into a permanent lorry park.

Citizenship rights

The rights of three million EU citizens residing in the UK and more than one million Britons living in the EU would not be protected in a no-deal scenario. EU citizens in the UK would be in a form of legal and political limbo – not illegal, but with their status at best anomalous. Meanwhile, UK nationals elsewhere in the EU would find themselves at the mercy of individual nation states.

Again, the Government insists it is making plans to prevent this from happening, The Independent reports. "*But it is unclear what these would be*," the newspaper adds.

Northern Ireland

The UK and Ireland maintain that a hard border will not return to Northern Ireland, even in the event of a no-deal Brexit. But if the UK were to leave without an agreement in place, the Republic would come under huge pressure from Brussels to exert customs and immigration controls.

However, the free movement of people – the most psychologically significant aspect of the Irish border – should be unaffected, according to the iNews site.

Who is right?

Even with the Government's contingency planning, leaving the bloc without any agreement in place would result in major disruption to trade, no protection of citizenship rights, and the likelihood of a customs frontier in Northern Ireland.

STOP PRESS

The UK Parliament has handed the ball to the EU. Northern Island remains the stumbling block. The question is: Will the EU buckle to a re-negotiated deal? There is a glimmer of hope – but uncertainty remains.

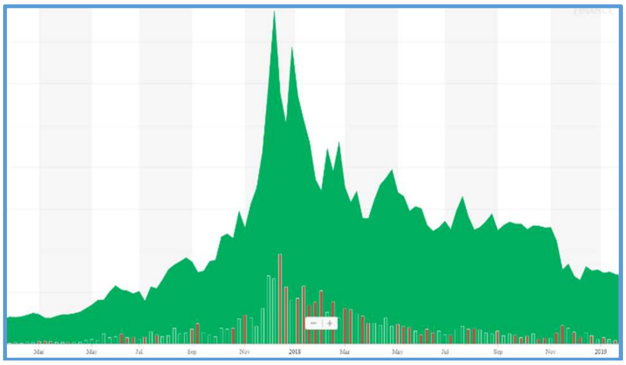
"In gambling – the many must lose in order that the few may win"

George Bernard Shaw

BITCOIN PRICE PREDICTIONS

Bitcoin prices currently sit at US$3,476 per coin. Bitcoin investors have seen billions of dollars wiped off this crypto-currency's total value over the past year. Its rise since 1st January 2017 (then US$836) was spectacular, and reaching an all-time high of US$19,127 in December 2017. Bitcoin began 2018 with a value of around US$17,500 per coin. However, by December the cryptocurrency has plummeted to around $3,200.

BITCOIN 2-YEAR GRAPH, US$



Several factors have been blamed for last year's slump, which saw the total value of all bitcoins sinking from US$327bn to US$66bn - taking bitcoin from the size from the size of Exxon Mobil to about the size of FedEx. These factors include the announcement in September that investment giant Goldman Sachs was axing plans to launch a cryptocurrency trading desk. A hard fork in the bitcoin network - where the digital token splits to form two new currencies - then triggered mass sell-offs in November, says Forbes.

However, while the cryptocurrency market is currently in a "bearish" state, meaning more declines are predicted, some experts believe the cryptocurrency is set to claw back some of the value lost in 2018.

Sonny Singh, commercial head of bitcoin payment service BitPay, predicts that the digital currency may bounce back to around $20,000 by the end of the year. But Calvin Ayre, founder of bitcoin spin-off bitcoin cash, suggests the cryptocurrency may "plummet to zero in 2019". That isn't to say that the cryptocurrency market will collapse in 2019, but that bitcoin will be superseded by a superior alternative, adds David Thomas, a director at London-based cryptocurrency broker GlobalBlock.

There is very little clarity for the future of Bitcoin. However, given the current global uncertainty, it would be a high-risk strategy to invest more into Bitcoin than you can afford to lose.

ENVIRONMENTALISTS WANT TO USE PRETEXT OF ADDRESSING CARBON EMISSIONS TO ACHIEVE MORE BRUTAL SOCIAL AGENDA

Source: DAMIEN GRANT, NZ HERALD

The worst type of tyranny is that done for our benefit. If the beatings are "for our own good" rather than for the pleasure of those administering the cane, there is no respite. Bend over please, this will hurt me more than you.

December's climate summit in Poland ended with a commitment for ongoing monitoring and reporting on national carbon emissions; with a focus on reducing those emissions. Which, if climate change was only about climate change, I'd be more inclined to get on board.

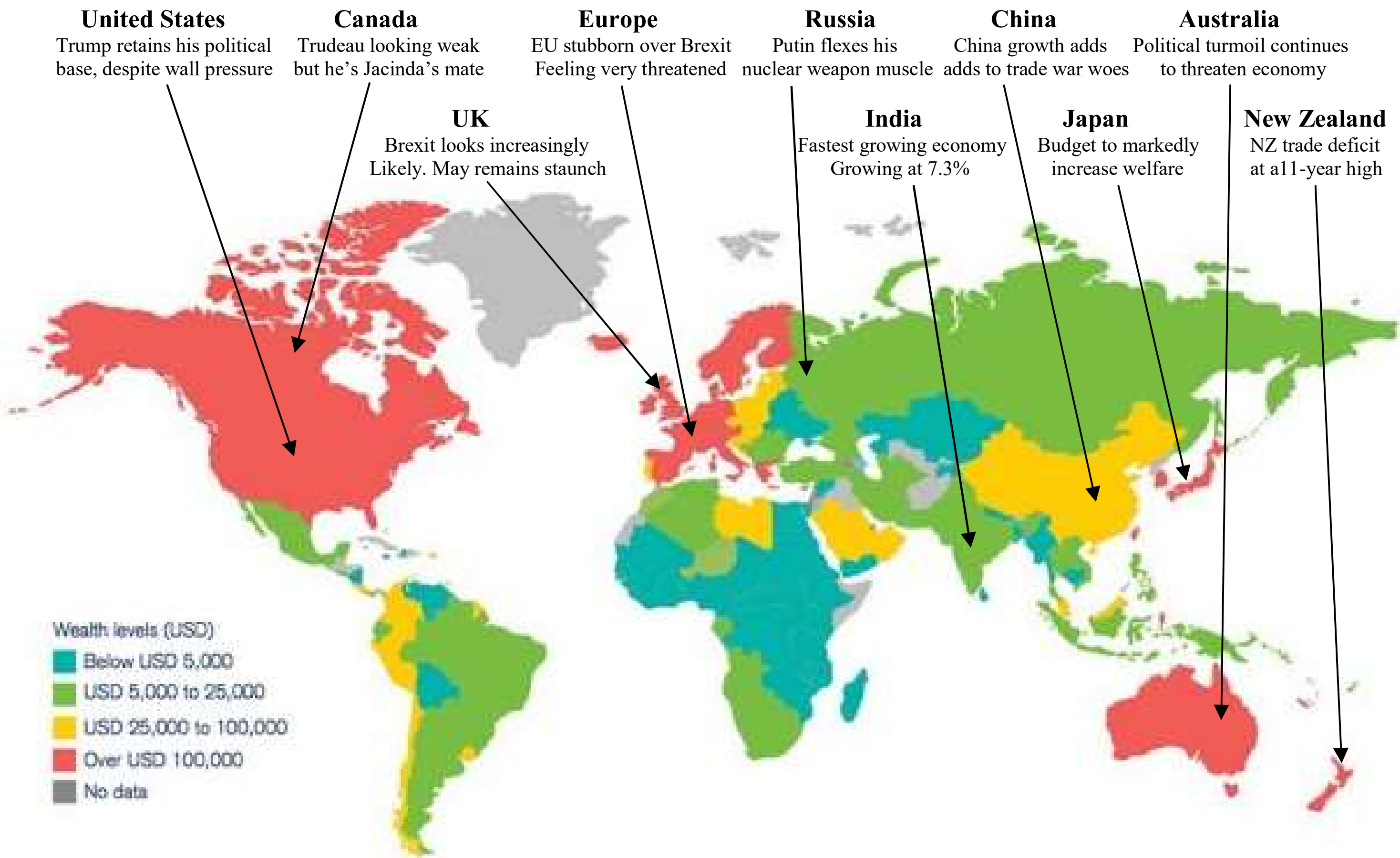
Unfortunately, there has been a merging of environmental and other political agendas. In his submission to cabinet in July, Climate Change minister James Shaw states openly that, "*we are committed to a transition to a net-zero emissions economy that is just and inclusive*", rather than just being "*committed to a net-zero emissions economy*".

He continues, "*The transition will require significant economic transformation*". It requires direct or indirect state control of the means of production, intrusive regulation and ultimately a vastly reduced living standard. Giving up air conditioning to achieve gender and racial equality is a tough sell. Thankfully the threat of mass extinctions and the disappearance of the Maldives is a more compelling argument.

The production of carbon, from the methane produced from cows through to the human by-product of a good curry, is endemic. Changing the economy to reduce this will require a brutal re-alignment of industry, not merely a bit of tinkering with grass types for the dairy industry. The production of carbon, from the methane produced from cows through to the human by-product of a good curry, is endemic. Changing the economy to reduce this will require a brutal re-alignment of industry, not merely a bit of tinkering with grass types for the dairy industry. Now. There are some sacrifices I may be willing to make to reduce the risk of a 3% rise in global temperature but I am not going to sacrifice a can of baked beans to advance a political agenda I find repugnant. It seems to me that Shaw and his ilk wants to use the economic and social engineering required to reduce carbon emissions to also achieve their other political aspirations. This is a mistake.

It leaves people like me, who believe in climate change (rather than anthropomorphic global warming), unwilling to support the changes necessary to reduce carbon emissions. If the Greens want us to support their environmental agenda, they need to de-link it from their socialist one.

THE WORLD AT A GLANCE – including World wealth levels 2017



THE GLOBAL ECONOMIC OUTLOOK

From China to Brexit, to the shutdown, the pending votes in Australia, the mayoral stabbings in Poland, the migrant crises in various parts of the globe, there is much to suggest the planet has fiscal trouble.

The economic outlook is far less rosy than it appeared at the start of last year. The IMF's latest quarterly report highlighted that world economic growth is still solid, but "appears to have plateaued". Significantly, growth forecasts have been revised downwards for all the major regions, with the exception of the US which has been buoyed by tax cuts. The problem is that US growth is expected to weaken as fiscal stimulus begins to unwind in 2020, at a time when the monetary tightening cycle is expected to be at its peak. Commentators are divided on whether this might tip the US into recession, or whether the cycle has further to run. Growth is also slowing in China, although policymakers appear willing to use fiscal and monetary stimulus to prevent a hard landing.

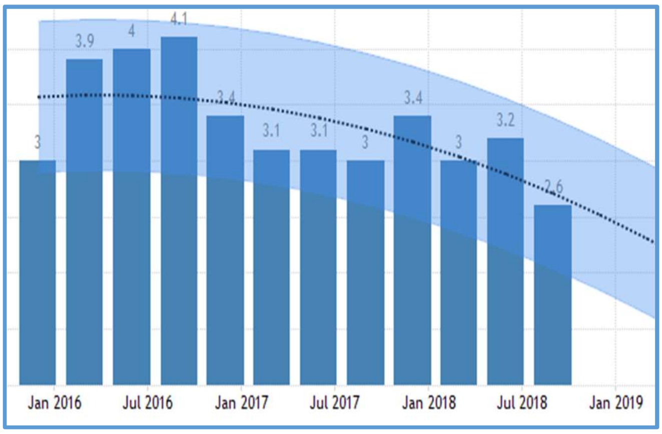
The World Bank is predicting global growth will slow this year due to headwinds that include tightening financing conditions, moderating industrial production and intensifying trade tensions. In its semi-annual report on the outlook for the global economy entitled "Darkening Skies," the World Bank says global growth may slow to 2.9% in 2019 from an estimated 3% last year and slow further, to 2.8% in 2020.

It is forecasting that growth in the US economy will slow from 2.9% in 2018 to 2.5% this year, and 1.7% in 2020. Growth in Europe will slide from 1.9% to 1.6%. It is forecasting China's economic growth will slow from 6.5% in 2018 to 6.2% this year.

NEW ZEALAND'S ECONOMIC OUTLOOK

December retail sales using electronic cards were relatively flat, rising 1.2% by value compared with the 5% growth shown in the preceding 11 months. The 120.7m transactions (up 2%), were worth more than $6bn, but that value was held down by no growth at all in Auckland and Northland, according to Paymark, which accounts for more than 75% of the country's electronic transactions.

NEW ZEALAND - ANNUAL GDP GROWTH RATE



CPI data out in late-January showed prices rose just 0.1% in the December quarter and the Reserve Bank's main measure of core annual inflation remained stalled at 1.7% for the 2018 year.

NZ started the current financial year with 1st quarter GDP at 0.5%, followed by an outstanding 2nd quarter at 1%. Unfortunately, that growth hasn't been repeated and the 3rd quarter number was 0.3% - which was a shocking figure. It was the figure sadly many had predicted, many had seen the 3rd quarter as slow, and many are suggesting the fourth quarter won't be a lot better. The reason that this is a big deal, add all those numbers up for the 2018 calendar year, and what have we got? That's 1.8% growth for the year. What we need, and what we have had, is something well into the threes. And to get well into the threes, we need the fourth quarter number to be at least 1.7%. That just isn't going to happen – not even close. If we get another 0.3%, it's 2.1% for the year. These are worrying, anaemic numbers, and not nearly robust enough to be able to handle any sort of global downturn, and certainly not with the level of government spending the incumbents are currently indulging in.

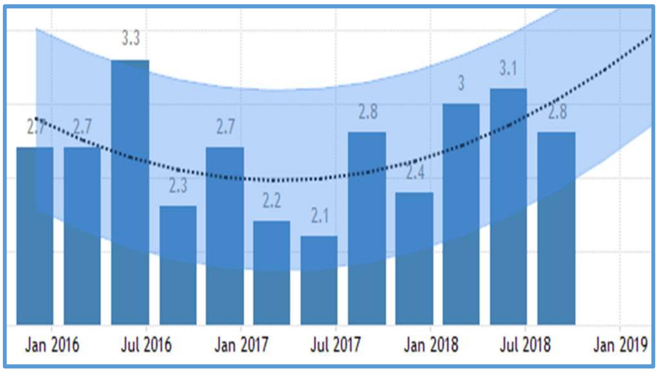
And it's at this point this government will have its first real trouble. Why? Growth is everything. It's your tax take, it's your surplus or deficit, it's your ability to spend in an election year, it's your credit rating, it's your economic credibility. Without growth, a government has nothing, except the ability to sink into debt and try and hoodwink the punter that it's not as bad as they think.

AUSTRALIAN ECONOMIC OUTLOOK

The world economy has entered a "dangerous" new phase of growth. It is unlikely the US will soften its stance, calling for China to sign up to stringent standards on intellectual property, foreign investment and state subsidies. The problem is what the US is asking for is so far-reaching. I find it very hard to believe that they're going to reach agreement on all those things. What the US is asking for really goes to the heart of the Chinese government's control of its economy. An escalation of trade tensions, including further tariffs that will inevitably slow global growth further, with inevitable flow on effects for Australia.

This is shaping up as a synchronised global downturn and Australia (like New Zealand) will be on the receiving end of it. The get-out-of-jail card is the exchange rate - it is likely to fall dramatically, and that helps. Australia has largely escaped any fallout from the Chinese slowdown to date. The main thing Australia is watching is commodity prices. China's economy has already been slowing down but iron ore and coal have held up quite well so far. Chinese environmental measures, which have forced the shutdown of domestic dirty coal and iron ore mines, has, in fact, boosted demand for Australia's relatively high-grade ores and deposits.

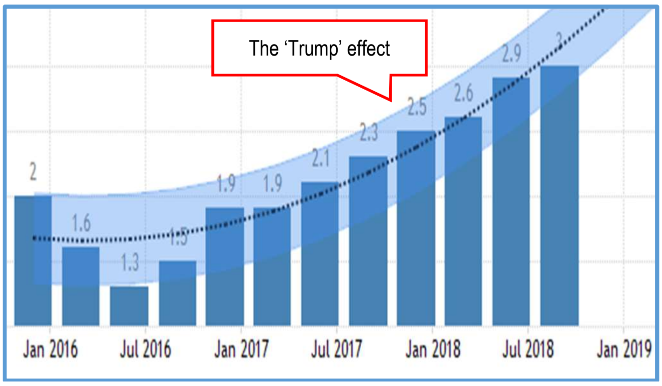
AUSTRALIA - ANNUAL GDP GROWTH RATE



UNITED STATES ECONOMIC OUTLOOK

Both Goldman Sachs and J.P. Morgan see growth slowing in the US to below 2% in the second half of 2019. However, new jobs grew by 312,000 in December, and 304,000 in January – auguring well for GDP growth.

UNITED STATES - ANNUAL GDP GROWTH RATE



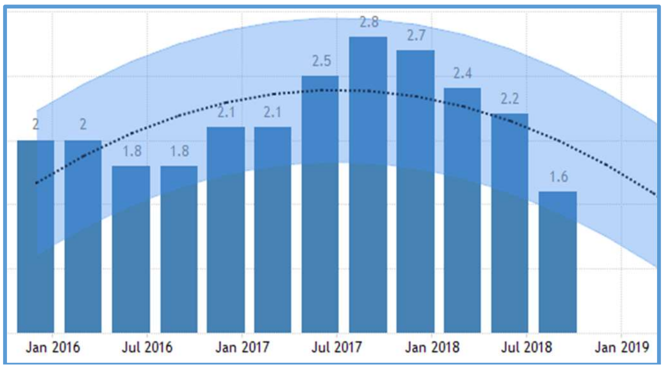
EUROPEAN ECONOMIC OUTLOOK

In many EU countries, the twice-a-decade European Parliament elections have evolved into a protest, a reaction to who's in charge at home rather than a referendum on how the bloc is managed. But 2019 will be different - "because in many countries the role of the EU now dominates domestic politics too. Whether because of the bloc's role in managing the refugee crisis, controlling government spending, or demanding more respect for democracy.

All eyes in 2019 will be on Matteo Salvini. Having risen to dominance domestically, the Italian far-right leader is taking his brand of fiery populism to the continental battlefield, with every intention of overturning the European order. With Brussels in his sights, Salvini is seeking to unite the continent's nationalists into a Eurosceptic bloc capable of reshaping the union. "*I'd like to have a presence in all countries*," he said in an interview. "*We'll be one of the strongest groups*," he predicted.

It's clear the elections will reveal previously unseen levels of support for anti-EU parties and the EU will face tough questions about how best to protect its interests against President Trump's trade protectionist impulses, Russia's rising assertiveness in Eastern Europe and the escalating budget dispute with Italy.

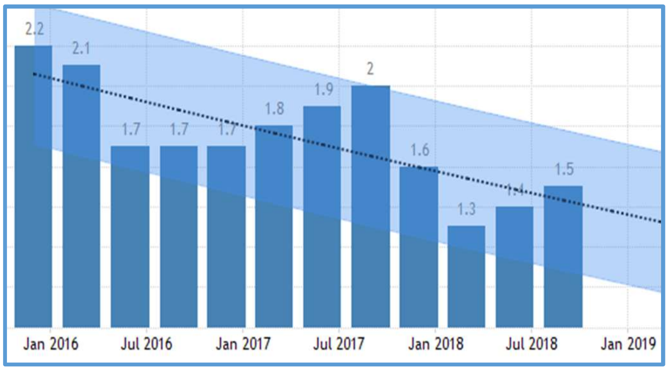
EURO AREA - ANNUAL GDP GROWTH RATE



UNITED KINGDOM ECONOMIC OUTLOOK

UK economics is totally aligned to the Brexit negotiations. Prominent Tory rebels are shifting their support behind Theresa May's Brexit deal on the proviso that she demands the removal of the Irish backstop or adds a so-called freedom clause.

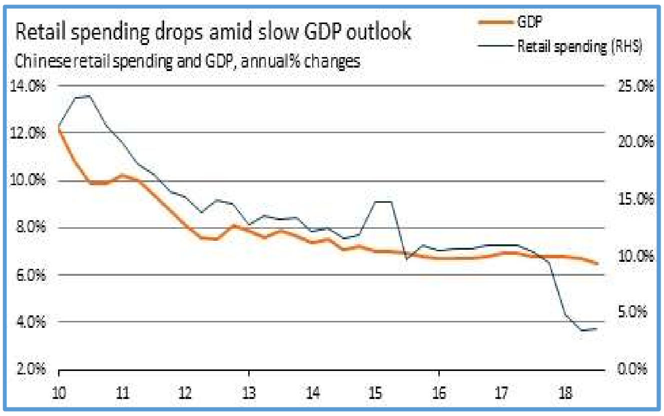
UNITED KINGDOM - ANNUAL GDP GROWTH RATE



Brexiteer Boris Johnson claims the prime minister is now committed to getting rid of the backstop.

"*I have heard it from the lips of very senior sources in government – speaking with the authority, it is claimed, of the prime minister herself – that this country is about to seek proper binding legal change to the current lamentable withdrawal agreement*," says Boris Johnson, the former foreign secretary. "If we mean it, if we really try, I have no doubt that the EU will give us the freedom clause we need. And if the PM secures that change – a proper UK-sized perforation in the fabric of the backstop itself - I have no doubt that she will have the whole country full-throatily behind her." Johnson's intervention suggests that he is prepared to back a Commons amendment calling for the scrapping of the Irish backstop. This amendment requires the Northern Ireland backstop to be replaced with alternative arrangements to avoid a hard border - wording that is considered sufficiently precise yet vague to win the support of the Democratic Unionist Party (DUP) and many Eurosceptic Tory MPs.

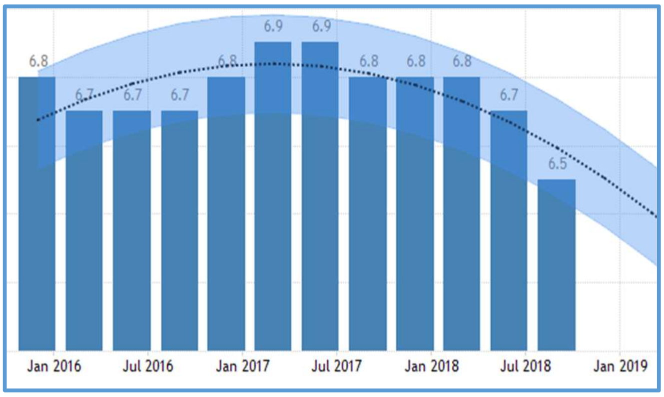
CHINESE ECONOMIC OUTLOOK



China's 2018 economic growth fell to a three-decade low as activity cooled amid a tariff war with Washington. The world's second-largest economy expanded by 6.6% over a year earlier, down from 2017's 6.9%, official data shows. Growth in the three months ending in December cooled to 6.4% from the previous quarter's 6.5%. Growth is predicted to remain under pressure in the coming months.

Regardless of which indicators you watch, it appears that Chinese growth is drifting lower. China has contributed 30% of the global economy's growth since 2013, compared to 11-13% from each of India, the European Union, and the United States. In other words, the effects of any Chinese slowdown on the global economy are unavoidable.

CHINA - ANNUAL GDP GROWTH RATE



Communist leaders are trying to steer China to slower, more self-sustaining growth based on consumer spending instead of trade and investment. But the slowdown has been sharper than expected, prompting Beijing to ease lending controls and step up government spending to shore up growth and avoid politically dangerous job losses.

This is a real concern for New Zealand, as we rely heavily on China, as our predominant trading partner.

China's trade surplus with the US grew 17% from one year ago to hit US$323.3bn in 2018. According to Reuters, that's the highest on record dating back to 2006. At the same time exports to the US grew 11.3%, while imports from the US to China rose just 0.7% in 2018.

China's overall trade surplus for 2018 was $351.76bn, the government said. Exports in the whole of 2018 rose 9.9% from 2017 while imports grew 15.8% over the same period. While official data indicated that the Chinese economy held up for much of last year, it now appears to be slowing as production metrics and export orders fall as the country's trade dispute with the US, its largest trading partner, drags on.

Expect the economic slowdown in China to lead to more modest demand for NZ commodities. China accounts for around a fifth of NZ's overall goods exports and larger amounts for the log, dairy and sheep meat sectors. Moreover, NZ's agricultural production is booming, with the extra supply also weighing on commodity prices. The 50% increase in NZ lamb sales to China last year can not be expected to persist this year. Westpac's economist Boniface thinks record log prices will come under pressure because construction activity in China is slowing down.

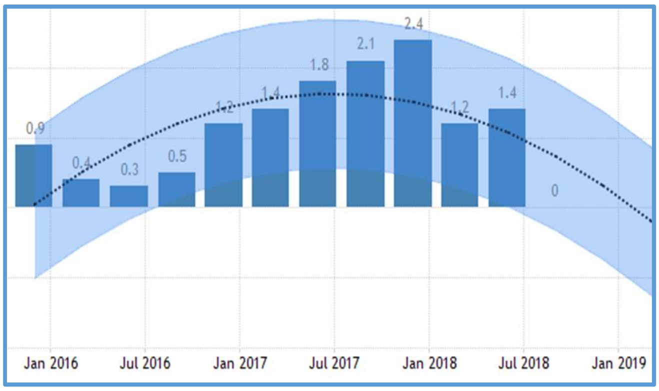
JAPANESE ECONOMIC OUTLOOK

It's been the most radical cash injection in history - a staggering $3.5 trillion, pumped into Japan's economy over more than five years, to slay deflation and kick growth into higher gear. But it still hasn't been enough to effectively stimulate the world's third-largest economy. The BOJ's massive monetary experiment just hasn't been the game-changer Governor Haruhiko Kuroda was tasked to deliver.

True, some people are breathing a bit easier. Since Kuroda launched the BOJ's radical stimulus, the economy has grown around 1.2% annually, moderately better than its potential rate. The yen's steep fall versus the dollar, which exceeded 60% from its strongest level, has helped the Toyotas of the world, pushing corporate profits to record levels and, earlier in 2018, stocks to 27-year highs. Worker pay adjusted for inflation has fallen 0.7% a year -- which is actually progress after years of declining nominal pay.

But the Japanese people's "deflationary mindset," partly a result of the dark cloud cast on their economic future by an aging and shrinking population, has proved too tough to overcome. As the focus turns to its end game even though inflation remains only halfway to its 2 percent target, the BOJ's ultimate job -- selling a growth story to the Japanese people -- remains unfinished.

JAPAN – ANNUAL GDP GROWTH RATE



Immigration in Japan

Japanese Prime Minister Shinzo Abe's cabinet approved a policy document, seeking to deflect criticism of a law that will open the door to foreign guest workers from April. Under the new framework, the number of workers coming from abroad will be limited to 345,150 over five years. The government will seek ways to support local regions by preventing foreign workers from concentrating in large cities, where pay can be higher than in rural areas. Abe's government passed the law as it struggles with an aging and shrinking population that has contributed to a labour shortage in the country of about 126 million people.

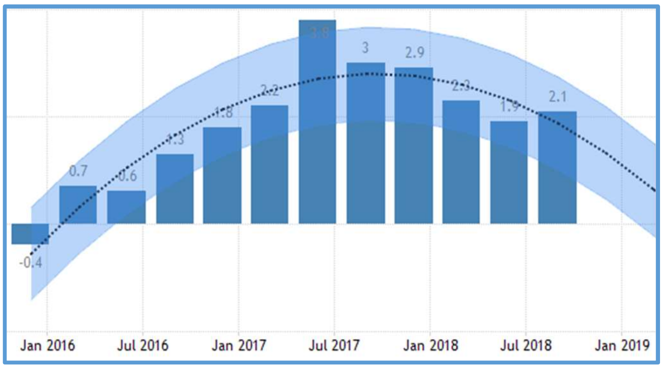
Canadian Economic Outlook

The Canadian prime minister, heading into an election year, is doubling down on championing free trade. His argument is that better, modern trade deals are an antidote to the forces driving protectionism globally -- including Donald Trump, the self-declared "Tariff Man" next door. The outlook for Canada, however, is murky. The nation still relies on the U.S. for most of its trade, and gains from an agreement with the European Union have been slow to materialize. Hurdles remain for a revised North American trade deal, and American steel and aluminium tariffs still in place.

Trudeau's trade minister acknowledged some of the challenges but stuck to Canada's belief that trade deals will help drive growth, even in the current era. "*We're the only G-7 nation that has a free trade agreement with the other six, and that is a big deal*," Jim Carr said. "*We have built the bridges, as trade agreements do, that small and medium sized enterprises can now cross*."

Canada struck a deal in early 2018 to save the Trans Pacific Partnership, after the U.S. backed out. Along with Japan, Australia, Mexico, Singapore and New Zealand, Canada was among the first six nations to ratify the 11-country deal, which ensured it will partially kick in and gives them a head-start on reduced tariffs. Canada also reached an agreement with the U.S. and Mexico to update the North American Free Trade Agreement, and hosted talks to overhaul the World Trade Organization. Still, there may be trouble on the horizon for the Canada-U.S. relationship.

Canada - Annual GDP Growth Rate



Commodities

New Zealand commodity prices fell for a seventh straight month in December, with gains in log, beef and lamb prices not enough to offset weaker dairy returns, ANZ Bank's monthly commodity price index shows. Forestry returns have continued to push higher, despite increased harvest volumes, which is "pretty positive for the industry". Dairy prices, which have previously shown signs of recovery, fell 2.5% in December, ending the 2018 year down 6.2% (their lowest level since mid-2016).

The world commodity price index fell 0.2% last month, the smallest of the recent declines, and ended 2018 3.4% lower than a year earlier. In local currency terms, the index fell 0.9% in December and was down 2.2% for the year.

Oil

Global oil prices may remain under pressure this year given the weaker demand outlook and stronger than expected production from Iran and the US, the International Energy Agency says. Attempts by OPEC states and other aligned producers to "rebalance" the market by slowing the rise in global stockpiles may deliver only gradual results, the Paris-based agency said.

Oil: Brent Crude (1Year chart)

Interest Rates

ASB, BNZ and Westpac all see the OCR on hold this year. ANZ still sees the chance of a cut in November, followed by more cuts in 2020.

Currency

NZD/AUD & NZD/USD cross rate (1 Year)

Source: Westpac

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

PRIMARY INDUSTRY EXPORT REVENUE 2004-2020F

NZ$m year to 30 June	2004	2008	2012	2016	2017	2018	2019F	2020F
Dairy	6,092	10,359	13,379	13,289	14,638	16,655	17,200	16,890
Meat & Wool	6,848	6,939	7,781	9,201	8,355	9,542	9,620	9,520
Forestry	3,294	3,295	4,332	5,140	5,482	6,382	6,660	6,590
Horticulture	2,212	2,896	3,560	5,002	5,165	5,376	6,020	6,030
Seafood	1,257	1,272	1,545	1,768	1,744	1,777	1,890	1,960
Arable	94	142	182	210	197	243	230	245
Other primary exports	1,114	1,525	1,773	2,612	2,638	2,706	2,680	2,800
Primary Industries Total	20,911	26,428	32,552	37,222	38,219	42,681	44,300	44,035
Per annum % Change		6.6%	5.8%	3.6%	2.7%	11.7%		

SOURCE: Ministry of Primary Industries

Note: [3] Other primary sector exports & foods include: live animals, honey, and processed foods such as chocolate and tomato sauce

FONTERRA

Fonterra posted a historic net annual loss of $196m and has debt of $6.2bn.

The share price has slumped by more than 27% in 2018 and $1.5b was wiped off the balance sheets of its dairy farmer owners. What Monaghan's saying is under Fonterra's new leadership the big co-operative's reputation for spin and gloss is on the way out.

Monaghan recently stated: "*I am very respectful of the past but I use words like breathing fresh air into the co-op, so we will be subtly different. But that will be really demonstrated by actions and I think you will see that culture right across the business and you'll see it in our key management and how they engage*." Is this the signal that we have been waiting for – to see real cultural change at Fonterra.

Fonterra's track record

The farmer-owned co-operative was created in 2001 from a huge industry merger via special enabling legislation which allowed it to bypass Commerce Commission approval. Its dairy leader architects pitched it to be a national champion in global markets, achieving annual revenue of $30b in 10 years.

Eighteen years on it is still the gorilla of the raw milk market, collecting 80% of all milk, but annual revenue is barely nudging $20b, much-hyped and costly value-add business strategies have largely failed to fire and wealth destruction from overseas investments has plunged its 10,000 farmer-shareholders into a crisis of confidence.

2018 was the 6th consecutive year the listed Fonterra Shareholder Fund had underperformed in the NZX market. The share price started the year at $6.08 and finished it at $5.12 (currently $4.76). Since late 2012 when dividend-carrying, non-voting units in Fonterra farmer shares were listed, the co-operative's market value has declined from $10.3bn to $7.5bn – an absolute disgrace in terms of governance and senior management. Added to this were big management salaries (former CEO Theo Spierings took home $8m in 2017), including 24 staff earning more than $1m annually. In fact, 5 of these had salaries ranging from $2m to the CEO at over $8m (as per the 2018 Annual Report). The Chair of the Board was paid $423, 685 and directors had a base of $172,474 annually (with 4 directors receiving a chairs top-up to average over $200k).

Spierings exited in August 2018, followed closely by chairman John Wilson, for health reasons (John has since passed away). Eketahuna dairy farmer John took over as Chair Monaghan (Fonterra's chairman must be a farmer-shareholder), but he has already spent 10 years as a director, and by inference, is heavily tainted by previous poor governance at the Board table.

Fonterra is feeling very unloved at present, but it only has itself to blame. It needs to look at its director selection process, to ensure that it has the right experience at the Board table.

OVERSEER NOT DESIGNED FOR COMPLIANCE

Three reports released last year, and another commissioned by Overseer Ltd, confirm the technology was a decision support tool for farmers but was increasingly being used by regional councils as a tactical tool used especially for setting and measuring nitrogen leaching limits. This will be extremely problematic for Regional Councils that use Overseer for regulating Nitrogen loss.

Overseer CEO Caroline Read said there were too many variables to accurately measure any nutrient losses from a farm and she wants councils to move away from having "hard numbers" on which farmers are judged to have either passed or failed to one where Overseer was used to determine trends and compare system and management changes.

Reports last year by the Biological Emissions Reference Group, Productivity Commission and the Parliamentary Commissioner for the Environment all raised doubts about the accuracy of Overseer in establishing absolute numbers on the level of nitrogen emissions. Read said Overseer was more accurate at measuring trends and proportionate changes over time.

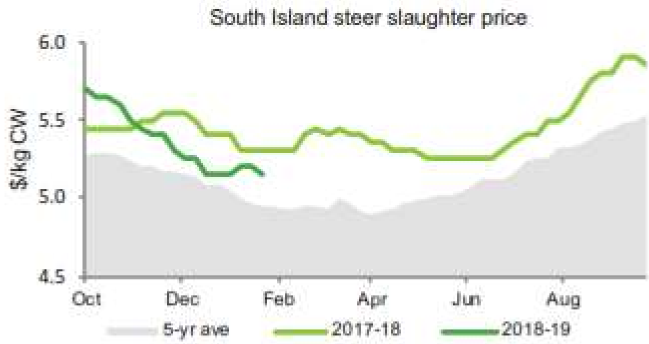
Actual N-loss from a farm can never be known because it cannot be reliably measured for a whole farm and Willis said as with any modelling, Overseer simplified complex processes and standardised localised variability.

AGRIBUSINESS – AS AT 25 JANUARY 2019

SOURCE: FARMERS WEEKLY

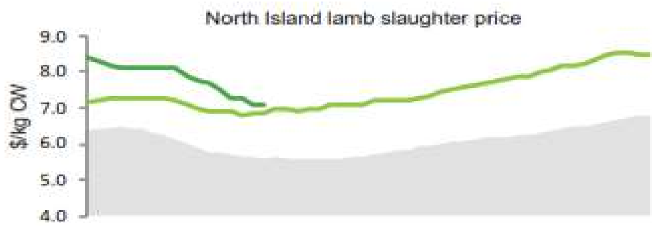
BEEF

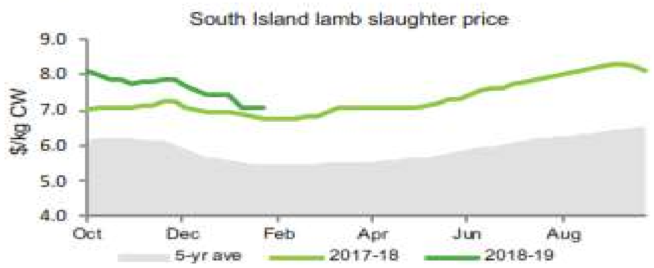
Slaughter price (NZ$/kg)	Last week	Prior week	Last year
NI Steer (300kg)	5.50	5.50	5.45
NI Bull (300kg)	5.00	5.00	5.25
NI Cow (200kg)	4.00	4.00	4.00
SI Steer (300kg)	5.15	5.20	5.30
SI Bull (300kg)	5.00	5.00	5.10
SI Cow (200kg)	3.90	3.90	4.15
Export markets (NZ$/kg)			
US imported 95CL bull	6.53	6.79	6.56
US domestic 90CL cow	6.58	6.52	6.52



SHEEP MEAT

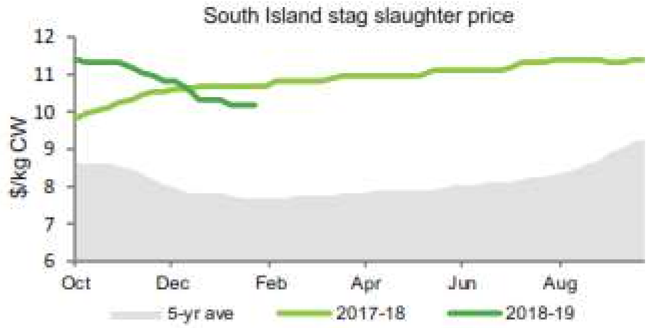
Slaughter price (NZ$/kg)	Last week	Prior week	Last year
NI lamb (17kg)	7.10	7.10	6.85
NI mutton (20kg)	5.00	5.00	4.50
SI lamb (17kg)	7.10	7.10	6.75
SI mutton (20kg)	4.95	4.95	4.45
Export markets (NZ$/kg)			
UK CKT lamb leg	8.81	8.69	8.82





VENISON

Slaughter price (NZ$/kg)	Last week	Prior week	Last year
NI Stag (60kg)	10.20	10.20	10.70
SI Stag (60kg)	10.20	10.20	10.70



WOOL

(NZ$/kg)	Last week	Prior week	Last year
Coarse xbred ind.	2.86	2.89	2.86
37 micron ewe	2.70	2.30	2.90
30 micron lamb	-	-	5.50

FERTILISER

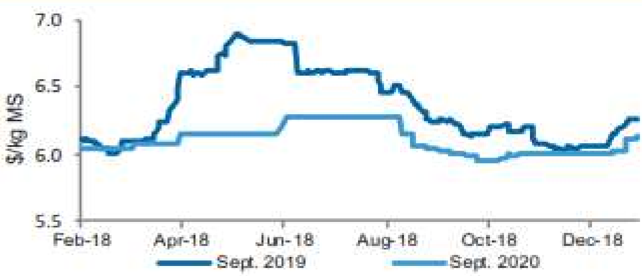
NZ average (NZ$/t)	Last week	Prior week	Last year
Urea	650	650	520
Super	321	319	303
DAP	843	835	752

DAIRY FUTURES (US$/T)

Nearby contract	Last price*	Prior week	vs 4 weeks ago
WMP	2860	2755	2790
SMP	2250	2190	2095
AMF	5210	5100	4900
Butter	4250	4180	3810
Milk Price	6.19	6.07	6.05

* price as at close of business on Thursday

MILK PRICE FUTURES



RESIDENTIAL PROPERTY VERSUS THE NZX

SOURCE: Brian Gaynor

Houses or shares, which is the best investment? This is a recurring question in New Zealand, although the two asset classes are difficult to compare because they have totally different characteristics, particularly in terms of leverage, maintenance costs and income flows.

Nevertheless, the figures in the table show that New Zealand house prices appreciated 1.8% in 2018 while Auckland prices rose by just 0.1%. These figures are compiled by the Real Estate Institute of New Zealand (REINZ). In the same twelve-month period, the NZX50 Capital Index, which doesn't include dividends, appreciated by 1.4% while the NZX50 Gross Index, which includes dividends, was up 4.9%.

There have been remarkably similar movements in house and share prices over the past decade. Residential property and share prices declined in 2010 but between 2012 and 2017 the two asset classes experienced strong price growth, even though the Auckland housing market began to moderate in 2017.

Over the past decade New Zealand house prices appreciated 69.7%, Auckland 95.9%, the NZX50 Capital Index 105.1% and the NZX50 Gross (which includes dividends)224.5%.

	Residential property prices		NZ sharemarket indices	
	NZ	Auckland	Capital	Gross
2018	1.8%	0.1%	1.4%	4.9%
2017	5.8%	0.7%	17.3%	22%
2016	12.5%	10%	4.5%	8.8%
2015	1.8%	13%	8.5%	13.6%
2014	6.6%	12.7%	12.6%	17.5%
2013	9.2%	11.9%	11.5%	16.5%
2012	9.9%	11.2%	18%	24.2%
2011	0.9%	7%	(6%)	(1%)
2010	(2.2%)	(3.6%)	(2.7%)	2.4%
2009	9.1%	8%	12.4%	18.9%
10-yr change	69.7%	95.9%	105.1%	224.5%

Based on these figures, the NZX appears to have outperformed residential property but those numbers should be treated with caution as there can be huge variations between individual houses and between NZX index companies. Many houses and shares have either underperformed or outperformed these industry figures, often by wide margins.

It is also important to note that the housing market is far more important to New Zealanders than the NZX, as demonstrated by these figures:

- According to Reserve Bank statistics, New Zealanders now own property and land (including rental properties) worth $1,091bn compared with $568bn at the end of 2008
- By comparison, our direct holdings in NZX and overseas listed companies are only $130bn compared with $66bn in December 2008
- New Zealanders now have $255bn worth of housing loans, including loans on rental property, compared with $162bn at the end of 2008, while banks are reluctant to lend for share purchases

The important message from these figures is that even though the NZX outperformed houses between 2008 and 2018, the latter created far more capital wealth because residential property is the main investment of most New Zealanders.

In other words, a 5% rise in house values creates more absolute wealth for New Zealanders than a 20% increase in the NZX50 Capital Index. However, listed companies have probably generated more income over the period because most NZX index companies pay fully imputed dividends.

Residential property and shares have performed extremely well over the past decade because of low interest rates and the money printing policies of global central banks.

This has allowed individuals to borrow cheap money to purchase houses, and listed companies to raise debt finance to buy back shares and make acquisitions.

New Zealand house prices are highly elevated, as illustrated by the 15th annual Demographia International Housing Affordability Survey recently released, which covers 309 urban markets. Housing affordability is determined by dividing the median house price by the median household income. A multiple of 5.1 and above indicates severe unaffordability.

Hong Kong is the most unaffordable market with a 20.9 multiple, followed by New Zealand with 6.5 and Australia, 5.7. The United States, with a 3.5 multiple, has the most affordable housing market of those included in the Demographia study. Seven of the eight NZ regions are severely unaffordable with multiples of 5.1 & above.

These are: Tauranga (ranked 302 out of the 309 Demographia regions for affordability); Auckland (301); Hamilton (278); Napier-Hastings (274); Wellington (278); Dunedin (264); and Christchurch (240). Palmerston North, which is ranked 224 with a 5.0 multiple, is the only NZ region that isn't in the severely unaffordable group.

Further substantial upside to New Zealand housing prices is probably limited because of the unaffordability of the country's major urban markets.

Another potential negative impact on the housing market is the Reserve Bank's Capital Review, which was initiated at the end of last year.

Under its main Capital Review proposal, the Reserve Bank is planning to raise the minimum Tier 1 capital or equity requirement (as a percentage of risk-weighted assets) of the four major Australian-owned banks from 8.5% at present to 16.0% by 2023.

It is also recommending an increase in Tier 1 capital for the other banks, from 8.5% to 15.0% over the same period. This is a massive change which will require the major Australian-owned banks to raise additional capital of nearly $15bn over the next four years. ANZ is expected to require an extra $4.7bn in equity, Bank of New Zealand $4bn, ASB $3.4bn and Westpac $2.7bn.

UBS believes these capital requirements will have a negative impact on interest rates, with NZ mortgage rates potentially rising by between 0.8% and 1.25%.

The Reserve Bank is calling for submissions by May 3rd and is expected to receive many arguments against its new Tier 1 capital requirements. Former Reserve Bank official Michael Reddell argues that the numbers used to justify the Tier 1 capital increase "*are really just plucked out of the air*". The outcome of the Capital Review will have an important impact on interest rates and the housing market.

The other important influence on residential property is the ageing of the baby boomer generation, born between 1946 and 1964. This topic has been extensively covered in research studies released by Fannie Mae, the US government-sponsored enterprise that is a major supplier of mortgage finance. A recent Fannie Mae paper "The Coming Exodus of Older Homeowners" was written in association with Professor Dowell Myers of the University of Southern California. The paper's main thesis is that individuals born between 1946 and 1964 occupy 32m homes in the US and those born before 1946 own a further 14m. These 46m residential units represent over 50% of all US housing stock. Based on statistics for the 2006 to 2016 period, a quarter of those between 65 and 84 exit the housing market, while 69% of those over 84 sell their homes.

Although there is no sign of mass selling to date, the Fannie Mae study notes: "With the oldest boomers now advancing into their 70s, the beginning of a mass exodus looms on the horizon, spurring fears of a bursting of the 'generational housing bubble' in which home ownership demand from younger generations is insufficient to fill the void left by multitudes of departing older owners".

Although boomers are not selling yet, there is a definite trend for this age group - and those born before 1946 - to move from large metropolitan cities to smaller areas with warmer climates. Consequently, it is not surprising that Tauranga has the country's least affordable residential property according to Demographia, as New Zealand home owners are also ageing.

But it is not all gloom as far as housing markets are concerned, as another Fannie Mae study notes that millennials, individuals between 23 and 38, have a strong desire to enter the home ownership market.

However, this age group is strongly influenced by affordability, which is why the Demographia survey recently released two weeks ago is an important indicator of long-term New Zealand house price movements.

BROKER PICKS FOR 2019

My 2019 Picks	Price 31-Dec-18	12-mth Target	Est. Gain
The a2 Milk Company	$11.15	$12.75	14.3%
AFT Pharmaceuticals	$2.15	$2.80	30.2%
Fletcher Building	$4.88	$5.50	12.7%
Port of Tauranga	$5.00	$5.60	12.0%
PushPay Holdings	$3.15	$4.50	42.9%

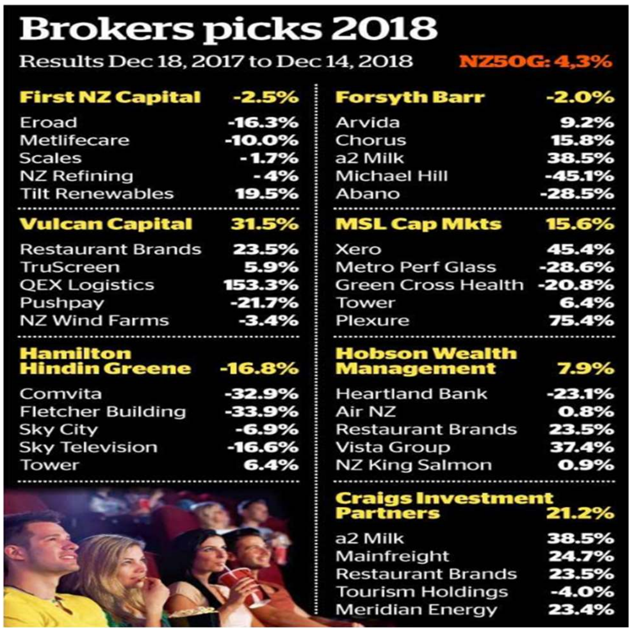
First NZ Capital	Craigs IP	Forsyth Barr
a2 Milk	a2 Milk	a2 Milk
EBOS	EBOS	Arvida
Katmandu	F&P Healthcare	Contact Energy
Sanford	Mainfreight	Infratil
Scales Corporation	Meridian Energy	Tourism Holdings

Hamilton Hindin	Hobson Wealth	MSL Capital Mkts
a2 Milk	a2 Milk	AFT Pharmaceuticals
F&P Healthcare	Fletcher Building	Freightways
Infratil	Mainfreight	Gentrack
Mainfreight	NZ King Salmon	Green Cross Health
Oceania Healthcare	Vista Group	Plexure

Foster (Vulcan Capital)	Shareclarity
Mainfreight	Abano
Moa	Chorus
Truscreen	PGG Wrightson
The Warehouse	Sanford
Veritas	Skellerup

My 2018 Picks	Price 29-Dec-17	Price 31-Dec-18	Div cps	Gain/Loss
Auckland Int.Airport	$6.48	$7.18	0.22	14.2%
Eroad	$3.58	$2.52	0.00	-29.6%
Fletcher Building	$7.60	$4.88	0.00	-35.8%
Port of Tauranga	$4.94	$5.00	0.18	4.9%
Scales Corporation	$4.78	$4.50	0.18	-2.1%
12-month Total				-9.7%

Not a good result in 2018!! Especially following +49.4% in 2017


Brokers picks 2018

Results Dec 18, 2017 to Dec 14, 2018 NZ50G: 4,3%

First NZ Capital	-2.5%	Forsyth Barr	-2.0%
Eroad	-16.3%	Arvida	9.2%
Metlifecare	-10.0%	Chorus	15.8%
Scales	-1.7%	a2 Milk	38.5%
NZ Refining	-4%	Michael Hill	-45.1%
Tilt Renewables	19.5%	Abano	-28.5%

Vulcan Capital	31.5%	MSL Cap Mkts	15.6%
Restaurant Brands	23.5%	Xero	45.4%
TruScreen	5.9%	Metro Perf Glass	-28.6%
QEX Logistics	153.3%	Green Cross Health	-20.8%
Pushpay	-21.7%	Tower	6.4%
NZ Wind Farms	-3.4%	Plexure	75.4%

Hamilton Hindin Greene	-16.8%	Hobson Wealth Management	7.9%
Comvita	-32.9%	Heartland Bank	-23.1%
Fletcher Building	-33.9%	Air NZ	0.8%
Sky City	-6.9%	Restaurant Brands	23.5%
Sky Television	-16.6%	Vista Group	37.4%
Tower	6.4%	NZ King Salmon	0.9%

Craigs Investment Partners	21.2%
a2 Milk	38.5%
Mainfreight	24.7%
Restaurant Brands	23.5%
Tourism Holdings	-4.0%
Meridian Energy	23.4%

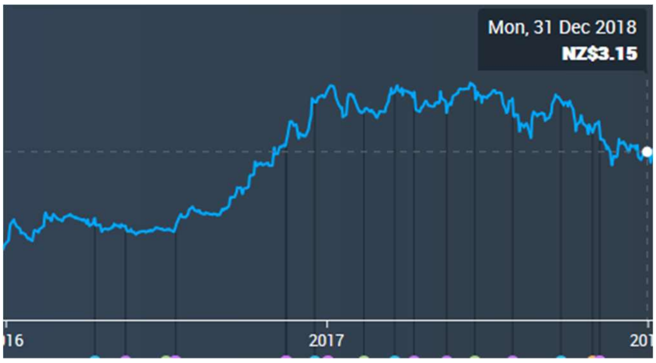
NEW ZEALAND EQUITIES

OVERVIEW

I remain in a cautionary mode when considering investments. My 2018 pick of Fletcher Building was based on the incorrect supposition that we had already had all the bad news. As we now know, this wasn't the case. However, with the sale of Formica under completion, I think that FBU is now oversold, and has once again become a buying opportunity, albeit not without risk.

PUSHPAY HOLDINGS (PPH.NZ)

31st Dec PRICE: $3.15
CURRENT PRICE: $3.55 **MY TARGET PRICE:** $4.50
12-month High/Low: $4.48 – $2.85
MY RECOMMENDATION: BUY



Digital church collection payment operator PPH said it achieved its target of breaking even on a monthly cash flow basis prior to the end of 2018 and is confident it will now have positive cash flows on an ongoing basis.

The NZX-listed, US-headquartered software-as-a-service company said it was cashflow positive for the quarter ended Dec. 31. It also delivered positive earnings before interest, tax, depreciation, amortisation and currency adjustments for the period, it said without providing figures.

Pushpay also said its annualised processing volume - which is the annualised four-week average payment transaction volume through its platform - increased from US$3.2bn as at Sept 30 to more than US$5bn as at Dec. 31. Excluding the seasonal high period, which falls in the last three weeks of December, the annualised processing volume increased to more than US$4bn as at Dec. 10, it said. It remains confident it will achieve its revenue guidance of between US$97.5m and US$100.5m for the year ending March 31; a gross margin percentage exceeding 60% for the six months ending 31st March; and positive EBITDAF for the year to 31st March. Given the strength of the underlying business, PPH is well positioned to capitalise on opportunities to accelerate growth, including potential acquisitions that add significant value to the current business, According to CEO Chris Heaslip.

PPH has zero-debt on its balance sheet, and therefore can maximize capital returns by increasing debt due to its lower cost of capital. However, the trade-off is PPH would have to follow strict debt obligations which would reduce its financial flexibility. PPH's absence of debt on its balance sheet may be due to lack of access to cheaper capital, or it may simply believe low cost is not worth sacrificing financial flexibility. However, choosing flexibility over capital returns is logical only if it's a high-growth company. PPH delivered a strikingly high revenue growth of 63% over the past year. So, it is acceptable that the company is opting for a zero-debt capital structure currently as it may need to raise debt to fuel expansion in the future.

PPH provides a donor management system, including donor tools, finance tools and a custom community app. In November, PPH said it had 55 of the largest 100 US churches on its books, including the largest, which boasts 51,900 weekly church attendees.

Unaudited	*2018 US$000*	*2017 US$000*	*Change**
Six months ended 30 September			
Operating revenue	42,755	28,731	49%
Other income	1,257	1,011	24%
Total revenue	44,012	29,742	48%
Third party direct costs	(18,302)	(12,311)	49%
Percentage of operating revenue	-43%	-43%	NC
Operating expenses	(30,670)	(29,930)	2%
Percentage of operating revenue	-72%	-104%	32pp
Foreign exchange	840	145	479%
Income tax expense	(280)	(165)	70%
Net loss	(4,400)	(12,519)	-65%
Percentage of operating revenue	-10%	-44%	34pp

* pp stands for percentage point

Ticker	Company Name	Core	Core Plus	Diversified	Sector
CEN	Contact Energy	12.5%	15.0%	15.0%	Utilities
EBO	Ebos Group	10.0%	12.5%	10.0%	Health Care
FBU	Fletcher Building	7.5%	7.5%	7.5%	Industrials
FRE	Freightways	15.0%	12.5%	10.0%	Industrials
GMT	Goodman Property Trust	15.0%	15.0%	10.0%	Real Estate
HGH	Heartland Bank		5.0%	5.0%	Financials
IFT	Infratil	15.0%	7.5%	7.5%	Utilities
KPG	Kiwi Property Group			5.0%	Real Estate
OCA	Oceania Healthcare	5.0%	7.5%	7.5%	Health Care
SPK	Spark			5.0%	Communication
VCT	Vector	10.0%	10.0%	10.0%	Utilities
ZEL	Z Energy	10.0%	7.5%	7.5%	Energy
		100.0%	100.0%	100.0%	

COMMENT

In December, the benchmark S&P/NZX50 Index Gross with Imputation fell by a modest 0.1%. The Core, Core Plus and Diversified portfolios all underperformed the benchmark, returning -0.5%, -1.2% and -1.1% respectively. The best performing stock in the Index was A2 milk Company (ATM), which contributed 0.6% to the Index's monthly return. The worst performer was Ryman Healthcare (RYM), which subtracted 0.3% from the Index's return.

The best performing portfolio stocks in December were: **Freightways** (FRE +5.0%) which staged a recovery on no material news having experienced a sharp selloff in late November; **Fletcher Building** (FBU +2.5%) after news emerged that Australian fund manager Perpetual had increased its stake in FBU to 11%, from 10%. More importantly FBU announced the sale of its Formica business for US$840m, which was in line with expectations, and that it would resume paying dividends in FY19; and **Investore Property** (IPL +2.2%) after increasing its dividend guidance by 1.9% to 7.6cps for the year ending 31 March 2019. The upgrade reflects solid operating performance in the first six months of the year and two lease renewals of Countdown supermarkets in Rotorua and Hamilton.

The worst performing stocks in December were: **Heartland Group** (HGH -8.0%) which was negatively impacted by the Reserve Bank of NZ's (RBNZ) surprise proposal to increase the Tier 1 capital requirement to 16% of Risk Weighted Assets (RWA) for the big four systemically important banks and 15% for all other banks (such as HGH). If the proposal proceeds HGH will require an additional $69m of capital (+12%) by 2023, not including any buffer needed to sit comfortably above the RBNZ requirement; and **Ebos Group** (EBO -6.6%) following the takeover announcement by Australian Pharmaceutical Industries to buy Sigma Healthcare which, if it proceeds, would likely result in a stronger competitor for EBO. In addition, AstraZeneca announced it has modified its direct supply strategy and from 1 February 2019, pharmacies will be able to order all of AstraZeneca's products from wholesalers or directly through DHL. Other pharmaceutical companies could adopt a similar model thus bypassing wholesaler distributors such as EBO; and **Oceania Healthcare** (OCA -6.1%), which declined throughout the month on no stock specific news.

	Div Yield % *	PE Ratio (x)	Gross Returns %					Volatility
	Pros	Pros	Dec-18	3 month	1 year	3 year pa	5 year pa	(5 years)
Core	6.7	19.1	-0.5	-3.6	5.9	12.1	17.8	10.2
Core Plus	6.7	18.9	-1.2	-4.9	4.3	11.8	16.1	10.3
Diversified	6.9	18.8	-1.1	-6.0	2.8	11.4	16.3	10.0
Benchmark	5.8	19.5	-0.1	-5.6	6.0	13.0	14.6	8.9

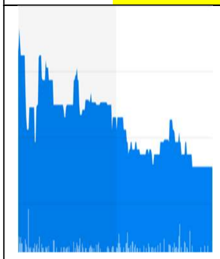
* Dividend yields are 12 months prospective and are gross of tax. Source: FNZC

Company Name	30 Nov Price ($)	31 Dec Price ($)	PE Ratios (x) Pros	PE Ratios (x) Pros +1	Div Yield %* Pros	Div Yield %* Pros +1	Gross Returns % 1 Month	1 Year	3 Year pa	5 Year pa
Contact Energy	5.87	5.90	25.8	25.3	7.9	8.3	0.5	14.1	13.9	10.3
Ebos Group	21.50	20.08	19.5	16.4	3.9	4.7	-6.6	12.3	17.3	19.0
Fletcher Building	4.76	4.88	11.4	11.0	8.5	9.4	2.5	-32.9	-6.0	-3.9
Freightways	7.00	7.35	18.4	16.3	6.2	7.1	5.0	1.2	11.1	14.2
Goodman Property Trust	1.55	1.53	19.6	21.7	6.0	6.0	-1.3	16.7	12.6	14.3
Heartland Bank	1.50	1.38	10.4	10.0	9.6	10.1	-8.0	-27.6	10.1	18.1
Infratil	3.63	3.65	18.4	16.5	5.2	5.2	0.6	16.8	9.5	16.8
Investore Property	1.52	1.53	18.1	17.8	6.8	6.9	1.9	9.1	n/a	n/a
Kiwi Property Group	1.39	1.37	20.0	19.5	7.1	7.1	1.7	3.4	6.5	10.5
Oceania Healthcare	1.14	1.07	13.3	12.8	4.1	4.3	-6.1	6.4	n/a	n/a
Spark	4.23	4.15	17.7	17.1	7.8	7.8	-1.9	23.2	16.1	19.7
Vector	3.31	3.33	25.3	24.0	6.9	7.0	0.6	2.5	8.0	11.5
Z Energy	5.75	5.49	13.8	11.2	11.4	11.5	-4.5	-22.2	0.1	14.9

* Dividend yields are gross. Source: FNZC

STOCKS TO WATCH **NEW ZEALAND** NOTE: THESE ARE ALL ONE YEAR GRAPHS **Prices as at 30th January 2018**

I HAVE GENERALLY ONLY UPDATED STOCKS WHERE FNZC HAS UPDATED INFORMATION



AFT Pharmaceuticals

NO UPDATE: AFT is a NZ pharmaceutical company with a number of proprietary and licensed products that it is seeking to out-license in international markets. While AFT has yet to commercialise all its products FNZC believes it has a good portfolio with material upside if successful. AFT is getting closer to delivering stronger evidence that it can execute on its international strategy, which should deliver a material lift in earnings over the next few years. In addition, FNZC notes there remains the potential for additional growth if it can commercialise key products Pascomer and NasoSURF.

20019 P/E: n/a 2020 P/E: n/a

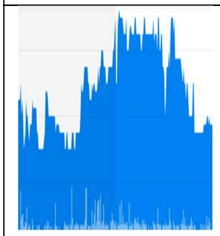
NZX Code:	**AFT**
Share Price:	**$2.15**
12mth Target:	**$2.77**
Projected return (%)	
Capital gain	28.8%
Dividend yield (Net)	0.0%
Total return	**28.8%**
Rating:	OUTPERFORM
52-week price range: 2.15-2.71	

The a2 Milk Company

NO UPDATE: ATM's AGM highlighted a solid start to the year with revenue for the four months to October up 40.5% to $368m and EBITDA up 58.5% to $124m. ATM also reaffirmed FY expectations, including further colour on revenue growth: (1) *"strong revenue growth to continue but at a slightly more moderate rate than in the first four months*"; and (2) EBITDA margin broadly consistent with FY18 (30.7%)

20019 P/E: 28.0 2020 P/E: 22.3

NZX Code:	**ATM**
Share Price:	**$12.14**
12mth Target:	**$12.25**
Projected return (%)	
Capital gain	0.9%
Dividend yield (Net)	0.8%
Total return	**1.6%**
Rating:	OUTPERFORM
52-wk price range: 8.49-14.62	



Augusta Capital

AUG has agreed to unconditionally purchase a further five assets for its Industrial Fund. The assets are being acquired for $174m and will lift the value of the Fund to $294m. The properties include four existing AUG managed syndicates in Auckland, and one property in Christchurch. AUG is seeking $110m of investor equity to fund the purchase, with it set to underwrite a portion of this and external parties underwriting the balance. In-line with its approach to previous deals, AUG will take a 10% stake in the offer, ensuring alignment of interests between itself and investors. The offer will open in early February 2019 (with settlement 28 March). AUG is executing well on its strategy to grow its funds management business.

20019 P/E: 12.7 2020 P/E: 16.6

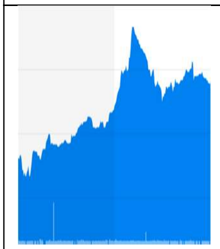
NZX Code:	**AUG**
Share Price:	**$1.08**
12mth Target:	**$1.14**
Projected return (%)	
Capital gain	5.6%
Dividend yield (Net)	5.6%
Total return	**11.2%**
Rating:	OUTPERFORM
52-week price range: 1.03-1.13	

Chorus

Investors are starting to focus on the material free cash flow CNU will generate from FY21 as UFB communal build comes to an end. With CNU's substantial Crown and debt funding structured with long duration and confirmation that CNU will be subject to limited uncertainty on pricing of core copper and fibre products through to 2025, the scene is set for CNU to reset the dividend rewarding patient investors. While these dynamics offer upside, the Board and investors will need to consider their conviction on medium-term risks that could limit the potential.

20019 P/E: 35.9 2020 P/E: 54.1

NZX Code:	**CNU**
Share Price:	**$4.89**
12mth Target:	**$4.63**
Projected return (%)	
Capital gain	-5.3%
Dividend yield (Net)	5.1%
Total return	**-0.2%**
Rating:	NEUTRAL
52-week price range: 3.67-5.04	



Delegat Group

DGL is a NZ success story, having grown from small origins to become a leading NZ wine company. But with ~73% of its growth over the past five years driven by North America, which represented 46% of FY18 case sales, and DGL reliant on this market for future growth, DGL is sensitive to changes in North American market conditions. Legalisation of cannabis for medical and recreational use is occurring in the US. With cannabis described as a "once-a-century disruptive market transition", it piqued FNZC's interest whether a range of new products that promise similar "relaxation and experience' without some of the negatives of alcohol could impact DGL's prospects.

2019 P/E: 19.9 2020 P/E: 17.9

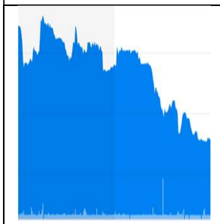
NZX Code:	**DGL**
Share Price:	**$9.66**
12mth Target:	**$9.10**
Projected return (%)	
Capital gain	-9.9%
Dividend yield (Net)	1.7%
Total return	**-8.2%**
Rating:	UNDERPERFORM
52-wk price range: 7.51 - 11.00	

Ebos Group

NO UPDATE: EBO is financially robust, with ample cash on hand and short-term investments to meet upcoming liabilities. This suggests prudent control over cash and cost by management, which is an important determinant of the company's health. EBO appears to have made good use of debt, producing operating cash levels of 0.28x total debt in the prior year. This is a strong indication that debt is reasonably met with cash generated. EBO appears fully valued but not expensive.

2019 P/E: 20.4 2020 P/E: 17.4

NZX Code:	**EBO**
Share Price:	**$21.63**
12mth Target:	**$20.05**
Projected return (%)	
Capital gain	-7.3%
Dividend yield (Net)	3.6%
Total return	**-3.7%**
Rating:	**NEUTRAL**
52-wk price range: 17.01 -23.00	

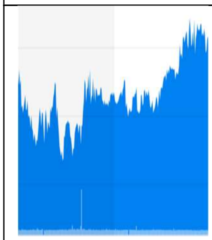
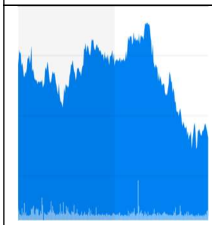


EROAD

With a good NZ operation, the key to ERD's share price performance will be its ability to execute in growing its US business and/or develop a third market in Australia. ERD's ability to execute in the US remains a key forecast risk. ERD will release its FY19 result in May 2019. FNZC estimates a value of $2.30 for ERD's ANZ operation and $0.95 for the US. They do not include any possible upside from Australia's Chain of Responsibility requirements in our forecasts.

20019 P/E: (36.9) 2020 P/E: 58.8

NZX Code:	**ERD**
Share Price:	**$2.35**
12mth Target:	**$3.25**
Projected return (%)	
Capital gain	40.4%
Dividend yield (Net)	0.0%
Total return	**40.4%**
Rating:	OUTPERFORM
52-wk price range: 2.35-3.93	

	**Fisher & Paykel Healthcare** NO UPDATE: FPH is operating at scale and still executes well in attractive markets, illustrated by success in Hospital, yet at the same time challenges with Homecare masks highlight the need for a balanced approach to group valuation. Following the recent weakness, FPH is now trading below fundamental value, opening up another buying opportunity as compensation for the risks (mask launches/rebound, IV consumable growth, flu season, litigation). 2019 P/E: 36.0 2020 P/E: 30.6	**NZX Code:** **FPH** **Share Price:** **$12.55** **12mth Target:** **$12.50** **Projected return (%)** Capital gain -0.4% Dividend yield (Net) 2.1% **Total return** **1.7%** **Rating: NEUTRAL** 52-week price range: 11.85-16.44
	**Fletcher Building** The sale of FBU's Formica business, will add ~5% to its fair value estimate. The sale represents a central component of Fletcher's strategy to refocus on its core markets of New Zealand and Australia. Struck at a price of US$840m, the deal remains subject to regulatory approvals but Fletcher expects completion by year-end fiscal 2019. Fletcher also confirmed it would pay a first-half dividend but that in resuming dividends in fiscal 2019, they would be weighted towards the second half when we believe a sizable return of capital will be announced. The Morning Star fair value estimate has increased by 3% to $6.70 per share. 2019 P/E: 11.8 2020 P/E: 11.3	**NZX Code:** **FBU** **Share Price:** **$4.98** **12mth Target:** **$5.43** **Projected return (%)** Capital gain 8.6% Dividend yield (Net) 6.2% **Total return** **14.8%** **Rating: NEUTRAL** 52-week price range: 4.54-7.62
 Code change from HBL	**Heartland Group Holdings** The RBNZ released a discussion document on bank capital structures with submissions due by 29 March 2019. The RBNZ proposes a Tier 1 capital requirement of 16% of Risk Weighted Assets (RWA) for banks deemed systematically important (the big 4) and 15% for all other banks. HGH was at 13.4% as at September 2018, raising this to 15% would require an additional $69m of capital (+12%). The impact on HGH's earnings and returns will depend on how the big 4 seek to recover this impact on their current returns and what costs get passed onto consumers. 2019 P/E: 11.4 2020 P/E: 11.0	**NZX Code:** **HGH** **Share Price:** **$1.38** **12mth Target:** **$1.61** **Projected return (%)** Capital gain 16.7% Dividend yield (Net) 6.4% **Total return** **23.1 %** **Rating: NEUTRAL** 52-week price range: 1.32-1.59
	**Katmandu** The sell-off has been overdone, upgrade to OUTPERFORM. KMD has sold off 26% since its August highs. While the announcement of disappointing Christmas trading drove 10% of this fall, the current share price overstates the impact from weak trading in a period that typically contributes only 25% to 30% of full-year EBIT. In addition, KMD is trading at 10x forward P/E and a modest discount to the broader retail sector offers attractive value for a company that continues to guide towards earnings growth, has a strong balance sheet and attractive capital light growth options. 2019 P/E: 10.2 2020 P/E: 10.0	**NZX Code:** **KMD** **Share Price:** **$2.36** **12mth Target:** **$2.90** **Projected return (%)** Capital gain 21.8% Dividend yield (Net) 6.9% **Total return** **28.7%** **Rating: OUTPERFORM** 52-week price range: 2.06-3.46
	**Mercury NZ** MCY has agreed to sell its Metrix smart meter business (~460,000 meters) to intelliHUB Group for $270m, with sale completion expected on 1st March 2019. The guided impact of selling Metrix is a $28m EBITDAF decline, and $21m per annum lower depreciation, partly offset by $3m pa lower stay-in-business capex. FNZC understands the new Meter Supply Agreement is priced nearly identically to current internal transfer pricing, and so expect minimal impact on the retail business. 2019 P/E: 26.7 2020 P/E: 24.9	**NZX Code:** **MCY** **Share Price:** **$3.56** **12mth Target:** **$3.49** **Projected return (%)** Capital gain -1.4% Dividend yield (Net) 4.4% **Total return** **3.0%** **Rating: UNDERPERFORM** 52-week price range: 3.08-3.65
	**Metlifecare** NO UPDATE: MET's unit pricing outlook provides limited nearer-term upside; development is still some time from really ramping up against a large asset base. Notwithstanding that MET remains FNZC's sector preference with the most compelling valuation upside on a relatively undemanding assumption set. 2019 P/E: 4.8 2020 P/E: 5.0	**NZX Code:** **MET** **Share Price:** **$5.11** **12mth Target:** **$7.65** **Projected return (%)** Capital gain 48.8% Dividend yield (Net) 2.0% **Total return** **50.8%** **Rating: OUTPERFORM** 52-week price range: 5.05-6.51
	**Michael Hill International** The improving trading momentum is welcome, with Group same store sales of +1.3% during Christmas trading. FNZC expects this momentum will be well received given the mixed Christmas trading reported by Trans-Tasman retailers in the year-to-date. The bounce-back to strength in the Canadian business should be supportive of confidence in MHJ's ongoing store roll-out programme in that market, which remains the key driver of new store growth for the company. 2019 P/E: 4.8 2020 P/E: 5.0	**NZX Code:** **MHJ** **Share Price:** **$0.60** **12mth Target:** **$1.01** **Projected return (%)** Capital gain 125.0% Dividend yield (Net) 2.0% **Total return** **46.3%** **Rating: OUTPERFORM** 52-week price range: 5.20-6.51
	**NZ Refining** The decline in tanking gasoline has attributed to oversupply of light crudes (allowing increased teapot refiner petrol yields) and weak demand. FNZC anticipates some improvement based on forward curves, and expects the supply/demand complex to rationally rebalance, restoring positive margins at Singapore and Korean complex refiners. They still regard NZR as trading (modestly) below a level consistent with medium-term margins and earnings. 2019 P/E: 21.8 2020 P/E: 11.1	**NZX Code:** **NZR** **Share Price:** **$2.31** **12mth Target:** **$2.69** **Projected return (%)** Capital gain 15.5% Dividend yield (Net) 7.2% **Total return** **22.7%** **Rating: OUTPERFORM** 52-week price range: 2.15-2.63

Oceania Healthcare

The 1H19 operating result was weaker than expected, largely reflecting greater than forecast RV spending on marketing / commissions and higher corporate costs. Amongst a subdued operating performance improved care occupancy was welcome (+2.2% to 89.8%) despite this, total group cost growth of +9.0% YoY more than offset +4.7% revenue growth. These elements combined to deliver underlying EBITDA (excl. development margin; FV movements; resale gains) of $11.9m down 18% YoY and 22% below FNZC forecasts. While underlying NPAT exceeded forecasts $20.9m vs. FNZC's $18.3m this entirely reflected the benefit of better development margin.

2019 P/E: 12.0 2020 P/E: 12.8

NZX Code:	**OCA**
Share Price:	**$1.04**
12mth Target:	**$1.11**
Projected return (%)	
Capital gain	5.8%
Dividend yield (Net)	4.4%
Total return	**10.2%**
Rating: NEUTRAL	
52-week price range: 0.95-1.23	

Pacific Edge

NO UPDATE: Cancer diagnostics company, PEB announced an improved half year performance and capital raising to assist the company to progress its commercial objectives. The company has completed a placement of $7m of new shares, and will offer all NZ resident shareholders the opportunity to subscribe for additional shares at no greater than the placement price ($0.35) in due course. PEB's 1H19 result included a 43% increase in test sales, a 15% decrease in operating cash outflow and a 13% reduction in the net loss for the period.

2019 P/E: (10.4) 2020 P/E: (13.0)

NZX Code:	**PEB**
Share Price:	**$0.34**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	47.10%
Dividend yield (Net)	0.0%
Total return	**47.1%**
Rating: OUTPERFORM	
52-week price range: 0.19-0.45	

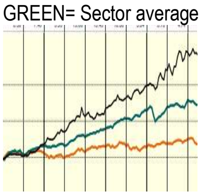
PGG Wrightson

In NZ weak rural services was driven by a delayed recovery from a slow start to spring sales due to heavy rainfall across NZ. In South America weak trading was driven by credit pressures on farmers following challenging climatic conditions in recent seasons, which have impacted crop yields. PGW has agreed to acquire the remaining 50% of the retail joint venture AgroCentre to safeguard the Uruguay business. PGW expects the acquisition to complete in late Jan 2019. This is likely to be immaterial from an investment/earnings perspective.

2019 P/E: 12.4 2020 P/E: 11.3

NZX Code:	**PGW**
Share Price:	**$0.48**
12mth Target:	**RESTRICTED**
Projected return (%)	
Capital gain	%
Dividend yield (Net)	5.8%
Total return	**%**
Rating: FNZC RESTRICTED	
52-week price range: 0.46-0.72	

GRAPH: LAST 8 YEARS
BLACK=POT
RED= NZX50
GREEN= Sector average



Port of Tauranga

NO FNZC UPDATE – While FNZC and most brokers continue to misunderstand this stock (and hence) recommend it as an underperform (with a 12-month target price of just $4.00), I continue to like this stock. POT remains New Zealand's largest export port, and its monopoly in large container ship movements will ensure that POT continues to outperform. This is a straight forward (clip the ticket) business, that has continually executed strongly for nearly two decades. I see Pot as a core portfolio stock for any serious investor.

2019 P/E: 33.3 2020 P/E: 31.3

NZX Code:	**POT**
Share Price:	**$5.15**
My 12mth Target:	**$5.60**
Projected return (%)	
Capital gain	8.9%
Dividend yield (Net)*	3.5%
Total return	**12.4%**
My Rating: OUTPERFORM	
52-week price range: 4.74-5.27	

- **Includes Special Dividend**

SkyCity Entertainment

Ahead of the release of its 1H19 result on 13 February, SKC has guided to 1H19 normalised EBITDA increasing +10% to $189mn and normalised NPAT increasing +11% to $97mn. SKC now expects FY19 normalised EBITDA to be slightly ahead of previous guidance for modest growth (+3-4%), with earnings growth expected to be harder to achieve in 2H19 due to the cycling of a tougher comparative period.

2019 P/E: 14.9 2020 P/E: 15.8

NZX Code:	**SKC**
Share Price:	**$3.78**
12mth Target:	**$4.00**
Projected return (%)	
Capital gain	5.8%
Dividend yield (Net)	5.3%
Total return	**11.1%**
Rating: NEUTRAL	
52-week price range: 3.41-4.36	

Synlait Milk

With significant investment in FY19 (investment of ~$350m largely focused on Pokeno and liquid milk), a lot of focus beyond priority customer, A2, is on the progress SML can make on signing up additional liquid milk customers and attracting a major base infant formula (IF) customer. The lead times for this could be long with no new announcements as SML approaches the end of 1H19. With registrations for additional finished IF customers continuing to prove allusive in China and the US, it is fortunate that A2 continues to progress well, underpinning SML's profitability, with guidance for 41-45k MT finished IF sales in FY19 maintained.

2019 P/E: 19.0 2020 P/E: 16.4

NZX Code:	**SML**
Share Price:	**$9.33**
12mth Target:	**$7.66**
Projected return (%)	
Capital gain	-19.0%
Dividend yield (Net)	0.0%
Total return	**-19.0%**
Rating: UNDERPERFORM	
52-week price range: 6.26-13.53	

Z Energy

As expected, ZEL benefitted from a sharp decline in crude prices during the last quarter of 2018. FY19 EBITDAF guidance range has been upgraded to between $420m and $450m (by $15m-$20m) under the assumption that Brent crude now remains in a US$60-$70/bbl price range. FY19 total dividend guidance was lifted by 6cps, to between 38 and 47cps. ZEL is the best placed competitor in its market, in FNZC's view, but margins may still face erosion.

2019 P/E: 13.6 2020 P/E: 12.8

NZX Code:	**ZEL**
Share Price:	**$5.97**
12mth Target:	**$6.50**
Projected return (%)	
Capital gain	8.7%
Dividend yield (Net)	7.2%
Total return	**15.9%**
Rating: OUTPERFORM	
52-week price range: 5.18-7.75	

FNZC - NZ EQUITIES RESULTS PREVIEW

Code	Company	Price ($)	Tgt ($)	Rating	Est Report Date	Report Period	Norm. EBITDA Forcast ($m)	Norm. EBITDA Growth	Normalised EBIT Forcast ($m)	Normalised EBIT Growth	Normalised NPAT Forcast ($m)	Normalised NPAT Growth	Adjusted EPS Forcast (cps)	Adjusted EPS Growth	DPS Forcast (cps)	DPS Prev	Key Risks v FNZC expectations
CEN	Contact Energy	6.02	6.15	N	11-Feb	1H19	291.5	23.5%	185.5	46.1%	105.3	78.5%	14.7	78.5%	15.0	13.0	We see upside risk to dividend, if no major capex proposals are introduced (unlikely) and Board concludes it can lift to 100% Free Cash Flow payout. Reported earnings will include material accounting and tax impacts from both major asset sales (AGS & LPG).
SKC	Sky City Entertainment	3.78	4.00	N	13-Feb	1H19	189.2	10.0%	141.3	10.0%	97.3	11.0%	14.5	11.0%	10.0	10.0	SKC has guided to 1H19 normalised EBITDA of $189m and NPAT of $97m and therefore any surprise is likely to be compositional. We would judge stronger than forecast IB growth negatively given the positive impact of a low win rate on turnover late in the period. Negative growth for South Australia non-casino EGM spend in 2Q 19 suggests modest downgrade risk for SKC Adelaide.
SKL	Skellerup Holdings	2.03	2.16	N	14-Feb	1H19	23.1	8.9%	19.3	10.1%	13.3	13.4%	6.9	13.4%	5.0	4.0	SKL has acheived strong earnings momentum in recent periods and particularly in its industrial division, with 1Q19 EBIT 10% ahead of pcp. Key risks include global dairy market conditions where commodity prices have recently softened, and a slow down in Australia construction and building activity, offset by activity levels in the US.
NZX	NZX	0.99	1.06	N	15-Feb	FY18	27.6	1.1%	20.7	-0.1%	15.7	0.8%	5.8	0.8%	6.1	6.1	Late 2018 saw a market pull-back and softer capital raising and trading activity. These present key risks for NZX from an issuer services and funds management perspective. Other risks include the capitalisation of overheads, trading and clearing revenue post the introduction of a new pricing structure 1st Oct 2018), and the level of EA activity (an area of low visability).
STU	Steel & Tube	1.17	1.67	O	18-Feb	1H19	13.6	-27.7%	9.5	-35.8%	5.5	-42.7%	3.3	-69.1%	3.0	7.0	Critical that STU delivers on expectations in FY19. The company flagged 2H weighted profitability but we will be looking for a solid uplift in revenue in addition to cost driven improvements in profitability. We see a softer revenue number as a key downside risk although we flag that it will take time to win back customers.
PFI	Property for Industry	1.83	1.64	N	18-Feb	FY18	71.8	9.8%	71.8	9.8%	41.8	12.8%	8.4	3.9%	7.6	7.5	Risk at NPI line on any differences in assumed vs actual leasing progress at Carlaw Park.
POT	Port of Tauranga	5.15	4.00	U	18-Feb	1H19	80.6	4.6%	67	4.50%	49.7	5.4%	7.4	5.4%	6.3	5.7	Preliminary trade data indicates that break bulk volume trends may be slowing, with log export volumes lightly negative in 2Q19 to date following strong 1Q growth and PKE volume down materially in 2Q19 vs pcp. We believe that container growth risk is negatively skewed, with weak underlying growth partly offset by POT gaining from Auckland port congestion issues. China uncertainty could see more cautious outlook commentary.
NZM	NZME	0.51	0.46	U	19-Feb	FY18	53 .3	-19.4%	2 8.9	-29.7%	15.8	-40.6%	8.1	-40.6%	2	9.5	Risks generally mitigated by NZM's late CY18 downgrade but key risks to forecasts revolve a round how the ad market closed out the last part of the year.
HGH	Heartland Group	1.38	1.61	N	19-Feb	1H19	n/a	n/a	n/a	n/a	37.3	19.9%	6.7	14.2%	3.8	3.5	HGH signalled a continuation of strong receivables growth in its 1Q19 trading update. Key risks include reverse mortgage growth (which could surprise on the upside or downside), where strong growth has been delivered in recent periods; Agri (recent growth has been disappointing and farm gate prices have been softening); motor (recent declines in NZ car registration numbers); and growth in SME and personel lending platforms .
PCT	Precinct Properties	1.50	1.38	N	19-Feb	1H19	39.7	-6.7%	39.7	-6.7%	36.2	-5.4%	3.0	-5.4%	3.0	2.9	Room for variation given timing and quantum of LD's , as well as ongoing development-related deductions as PCT progresses through its development pipeline.
SKT	Sky TV	1.90	2.35	U	20-Feb	1H19	130.0	-15.3%	86.5	-15.4%	56.9	-14.7%	14.6	-14.7%	7 .5	7 .5	We see downside risks in our forecasts in revenue and upside risks in costs which is how SKT managed to produce better than expected EBITDA during FY18. Operating leverage in the business remains significant and our focus will be on revenue (and sub) momentum.
SPK	Spark	3.99	3.28	U	20-Feb	1H19	483.0	1.3%	272.0	3.40%	186.0	2.8%	10.1	2.0%	12.5	12.5	Benign performance at EBITDA is driven largely from the expected reduction in SX dividend in FY19. The risks to our forecasts lie in broadband connections/ARPU (see some downside potential) and mobile service revenues where we see some upside.
FBU	Fletcher Building	4.98	5.43	N	20-Feb	1H19	397.0	-5.3%	282.0	-8.7%	156.7	-13.6%	18 .4	-29.6%	10 .0	0 .0	FBU highlighted key risks to forecasts in their recent downgrade with Australia and NZ residential being are as with downside risk momentum. With key projects underpinning the massive B&I provisions coming towards a close during CY19 we expect the market would like to see some greater visibility provided
MEL	Meridian Energy	3.57	2.86	U	20-Feb	1H19	407.0	23.7%	264.4	40.3%	157.0	51.7%	6.1	51.6%	8.0	7.8	Australian EBITDAF contribution margin should lift materially on new generation & high AU spot prices, but visibility is low (we pick $58m vs pcp $36m). Cost pressure may exceed our forecast for small increase for NZ operating and transmission expense ($170m vs pcp $169m).
DGL	Delegat Group	9.66	9.10	U	22-Feb	1H19	55.3	8.6%	47.0	8.2 %	29.2	8 .3%	28.9	8 .3%	0.0	0.0	Key to DGL's performance will be execution on US sales where a new distribution strategy is being bedded down, and competition and promotion costs in the Australian market in the leadup to the festive period.
AIA	Auckland Int Airport	7.27	5.40	U	22-Feb	1H19	275.4	10.3%	226.6	8.4%	137.7	3.4%	11.5	#####	11.0	10.8	Retail PSR uplift post international outbound precinct expansion presents risk to forecasts. We believe that any update on New Domestic Terminal and Northern Runway projects could lead to delays in medium-term capex spend and therefore downgrades to medium-term aeronautical earnings . AIR's recent profit warning suggests downside risk to the outlook for PAX growth in 2H19.
SUM	Summerset	6.20	6.99	N	22-Feb	FY18	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	15.0	11.0	Similar to previous years we expect SUM's underlying profit to be dominated by company defined development margin. We expect development margin gains and resale gains to support YoY profit growth. Further, we remain focused on cashflow; gearing and management of inventory levels given the potential impact of a turn in the housing cycle at some point.
SEK	Seeka	4.23			25-Feb	FY18	25.6	12.6%	16.0	13.8%	8.1	10.0%	46.4	4.1%	24.3	22.0	We see modest downside risk to FNZC forecasts given Australia kiwifruit performance (yields/fruit condition), softness in the Australia pear market and 2H18 avocado volumes down on the biennial pcp. Note that with ~2/3 of earnings coming from its NZ post-harvest business, SEK has limited earnings sensitivity to these factors.

Code	Company	Price ($)	Tgt ($)	Rating	Est Report Date	Report Period	Norm. EBITDA Forcast ($m)	Norm. EBITDA Growth	Normalised EBIT Forcast ($m)	Normalised EBIT Growth	Normalised NPAT Forcast ($m)	Normalised NPAT Growth	Adjusted EPS Forcast (cps)	Adjusted EPS Growth	DPS Forcast (cps)	DPS Prev	Key Risks v FNZC expectations
CNU	Chorus	4.90	4.63	N	25-Feb	1H19	317	-3.6%	122.0	-10.9%	31.0	-34.0%	7.2	-35.1%	9.5	9.0	We see limited risks to expectations in FY19 but continue to flag the risk in outlook on connection momentum that was not helped by a disappointing 2Q connection print. Upside risk potential in earnings on better performance on operating costs.
FRE	Freightways	7.55	7.35	N	25-Feb	1H19	58.7	4.5%	50.0	3.6%	32.3	2.9%	20.8	2.9%	16.0	14.5	Improved efficiency of B2C delivery and a 2-month lag in the fuel surcharge adjusting to a materially lower diesel price could be sufficient to drive better than expected underlying margin in Express Package in 2Q19. A lumpy contract profile has contributed to Information Management being increasingly difficult to forecast in recent periods.
MET	Metlifecare	5.11	7.37	O	25-Feb	1H19	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.3	3.3	We expect growth in key asset metrics (NTA ; embedded value) to continue to remain subdued, similar to FY18. This view reflects the moderation in housing growth seen in MET's key Auckland catchment and the flow on impact to unit pricing.
VCT	Vector	3.39	3.50	N	26-Feb	1H19	256.6	2.6%	178.4	2.2%	83.1	2 .0%	8.3	1 .5%	8 .3	8 .3	The pricing for the next DPP for regulated electricity networks will be set later in 2019. Underlying interest rates and the expenditure allowances accepted by the Com.Com will drive the starting price reset. Technology segment earnings growth driven by smart metering rollouts, predominantly in Australia, and therefore the Australian Energy Market Commission's introduc tion of new rules in relation to smart meter rollouts could impede VCT's ability to win deployment
VGL	Vista Group	3.97	3.60	U	26-Feb	FY18	30 .3	21.4%	26.1	22.3%	16.6	56.4%	10.1	#####	4.8	2.9	Our forecasts include Dec half improvements from Movio and 'Additional Companies'. The latter may be at risk without a more pronounced turnaround at MACCS.
CVT	Comvita	4.61	5.37	U	26-Feb	1H19	11.8	37.8%	8.8	#####	5.9	#####	13	45.2%	5.0	4.0	We believe the balance of risks is to the downside given softness in honey export data, CVT's relative inter-market pricing structure v peers and early signals emerging about mixed honey production across key apiary locations (impact of a diverse weather on the lower North Island, but optimism further north). Risks to the upside include cost-out following a refocus on core sales.
MCY	Mercury NZ	3.56	3.49	U	26-Feb	1H19	309.1	2.7%	210.1	2.5%	126.8	11.3%	9.3	12.6%	6.1	6.0	Uncertain net contract trading given volatile market conditions (we pick $4 6m loss) and phasing for material reduction of interest cost on legacy debt maturity (we pick $34m v pcp $46m). Expect 1H/2 H phasing of costs to be variable , as has often been the case for MCY.
THL	Tourism Holdings	4.80	5.09	U	26-Feb	1H19	59.7	6.7%	35.5	6.4%	16.7	-26.6%	13.6	-28.1%	12.5	13.0	Compositional differences expected with AGM g uidance highlighting strong expected rental revenue growth in NZ but an expected decline in El Monte earnings. We remain cautious about vehicle sales in FY19 (US 1H/NZ 2H) given a softening US RV retail sales cycle, increasing adoption of flexible fleet models in NZ, and recent NZ car registration data (correlated with motorhomes given demand-side factors).
SCL	Scales Corporation	4.47	4.71	N	27-Feb	FY18	68.4	10.3%	54.2	13.2%	36.7	13.4%	26.3	13.4%	19.7	18.0	FNZCe is positioned above guidance ($68.4m v "top end or slightly exceed" $58-65m EBITDA) that implies an undemanding 2H18 ~-40% v pcp. We see a relatively even distribution of risks across 2H apple pricing, Meate or volumes and one-off corporate activity overheads. Our analysis suggests early Europe supply has had a modes t pricing impact, however we expect this to be largely mitigated by pricing tension in Europe and Asia, product differentiation and selling fruit early.
GNE	Genesis Energy	2.61	2.30	U	27-Feb	1H19	189.3	-5.1%	73.3	-28.2%	26.4	-44.9%	2.6	-45.9%	8.5	8.3	Forecast risk for largest low-visibility drivers: Operating cost may have increased to support retail intiatives, volatile electricity market means one-off impact for electricity contract net margins (esp. sw aption exercise and Unit 5 outage cover). We will also watch wholesale gas trading loss margin, given larger-than-expected volumes.
PGW	PGG Wrighton's	0.49		R	27-Feb	1H19	31.5	-7.9%	24.9	-11.3%	14.6	8.4%	1.9	8.4%	1.8	1.8	In our view, FY19 is initially shaping up to be a challenging year in NZ given the late start to spring, delayed recovery due to heavy rainfall and farmgate prices beginning to soften; and South America given credit pressures on farmers in Uruguay following challenging climatic conditions in recent years . However, we believe risks to our forecasts are balanced with FNZC forecasts below company guidance ($66.6m Operating EBITDA v guidance for a similar result to FY18 of ~$70m).
TME	Trade Me	6.34		R	27-Feb	1H19	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
MHJ	Michael Hill International	0.59	0.95	O	27-Feb	1H19	37.9	-21.2%	28.6	-26.3%	19.6	-28.2%	5.0	-28.3%	2.0	2.5	With 1H19 revenue and retail gross margin already disc losed, key area of potential earnings surprise are the level of opex investment (particularly marketing) to support improved trading momentum through the critical Christmas trading period. Also forecasting the corporate/unallocated segment remains difficult given cost base uncertainty and gross profit performance in this division following the exit of Emma & Roe and the United States in FY18.
NZK	NZ King Salmon	2.14	2.60	N	28-Feb	1H19	15.0	-23.4%	12.1	-29.3%	8.7	-29.1%	6.3	-29.3%	2.0	2.0	Given differences in produc tivity/cost at low-flow and high-flow sites, gross margins can be highly volatile over short intervals and difficult to forecast given a multi-year growing cycle. We currently observe rising water temperatures, an unwind of 2H18 price increases in domestic retail channel due to increased imports, but solid export pricing. However, we view these risk factors as more relevant to 2H19.
NZR	NZ Refining	2.31	2.69	O	28-Feb	FY18	160.1	-27.3%	62.6	-49.6%	31.7	-59.6%	10.1	-59.6%	8.0	18.0	Historically difficult to relate formal dividend policy with ex-post dividend - we would expect upside risk to our payout forecast. Operating costs and process cost at risk of miss, due to 2H18 impact of major refinery shut extensi on. Also the la rge net debt increase (~$110m at 1H1 8) to finance shut capex translates into 2H18 interest cost uncertainty.
AIR	Air New Zealand	2.83	2.75	N	28-Feb	1H19	494.4	-15.5%	212.9	-34.9%	-153.6	-33.8%	-13.7	-33.8%	11.0	11.0	AIR's recent trading update highlighted a weak end to 1H19, with downgraded FY19 guidance reflecting softening domestic leisure and international inbound tourism. As a consequence, earning s risk essentially shifts to 2H19 and beyond, where we see momentum to be negatively biased.
VHP	Vital Healthcare	2.12	2.00	U	28-Feb	1H19	36.7	20.8%	36.7	20.8%	22.5	-1.3%	5.1	-2.3%	4.4	4.3	Risk at the NPI line due to currency movements (NZD/AUD) and timing of development completions.

FNZC - NZ EQUITIES RECOMMENDATIONS

COMPANY	UNDERPERFORM	NEUTRAL	OUTPERFORM
COMMUNICATION SERVICES			
	Spark NZ (SPK)		
	NZME (NZM)		
	Sky Network TV (SKT)		
CONSUMER DISCRETIONARY			
	Tourism Holdings (THL)	Restaurant Brands (RBD)	Katmandu (KMD)
		SkyCity Entertainment (SKC)	Michael Hill International (MHJ)
		The Warehouse Group (WHS)	Turners Automotive (TRA)
CONSUMER STAPLES			
	Comvita Limited (CVT)	NZ King Salmon (NZK)	Green Cross Health (GXH)
	Delegat Group (DGL)	Sanford (SAN)	The a2 Milk Company (ATM)
	Synlait Milk Limited (SML)	Scales Corporation (SCL)	
ENERGY			
			NZ Refining (NZR)
			Z Energy (ZEL)
FINANCIALS			
		Heartland Group Holdings (HGH)	
		NZX (NZX)	
HEALTH CARE			
Health Care Equipment & Supplies	Fisher & Paykel Healthcare (FPH)		
Pharmaceuticals			AFT Pharmaceuticals (AFT)
Health Care Providers & Services	Ryman Healthcare (RYM)	Arvida (ARV)	Metlifecare (MET)
		Ebos Group (EBO)	
		Oceania Healthcare (OCA)	
		Summerset Group (SUM)	
INDUSTRIALS			
Air Freight & Logistics	Mainfreight (MFT)	Freightways (FRE)	
Airlines	Air New Zealand (AIR)		
Building Products		Metro Performance Glass (MPG)	Methven (MVN)
Machinery		Skellerup Holdings (SKL)	
Transportation Infrastructure	Auckland Airport (AIA)		
	Port of Tauranga (POT)		
INFORMATION TECHNOLOGY			
	Gentrack Group (GTK)		EROAD (ERD)
	Vista Group International (VGL)		
MATERIALS			
		Fletcher Building (FBU)	Steel & Tube (STU)
REAL ESTATE			
		Argosy Property Ltd (ARG)	Asset Plus (APL)
		Goodman Property Trust (GMT)	Augusta Capital (AUG)
		Investore Property (IPL)	Kiwi Property Group (KPG)
		Precinct Properties NZ (PCT)	
		Property for Industry (PFI)	
	Vital Healthcare Prop Trust (VHP)	Stride Property Group (SPG)	
UTILITIES			
	Genesis Energy (GNE)	Contact Energy (CEN)	
	Mercury NZ (MCY)	Infratil (IFT)	
	Meridian Energy (MEL)	TILT Renewables (TLT)	
	TrustPower (TPW)	Vector (VCT)	

FNZC - AUSTRALIAN EQUITIES RECOMMENDATIONS

COMPANY	UNDERPERFORM	NEUTRAL	OUTPERFORM
COMMUNICATION SERVICES			
		REA Group (REA)	carsales.com.au (CAR)
			Nine Entertainment (NEC)
CONSUMER DISCRETIONARY			
Hotels, Restaurants, Leisure & Tourism		Flight Centre (FLT)	Aristocrat Leisure (ALL)
		Crown (CWN)	Tabcorp Holdings (TAH)
		Star Entertainment Group (SGR)	
Multiline Retail	Domino's Pizza Enterprises (DMP)		Wesfarmers (WES)
	JB Hi-Fi (JBH)		
CONSUMER STAPLES			
	Coles Group (COL)	Coca-Cola Amatil (CCL)	The a2 Milk Company (A2M)
		Treasury Wine (TWE)	
		Woolworths (WOW)	
ENERGY			
Energy Equipment & Services			WorleyParsons (WOR)
Oil, Gas & Consumable Fuels		Santos(STO)	Caltex Australia (CTX)
		Oil Search (OSH)	Woodside Petroleum (WPL)
		Origin Energy (ORG)	Whitehaven Coal (WHC)
FINANCIALS			
Capital Markets & Insurance	ASX (ASX)	AMP (AMP)	Insurance Australia Group (IAG)
	Janus Henderson Group (JHG)	Challenger (CGF)	Macquarie Group (MQG)
	Pendal Group Limited (PDL)	IOOF Holdings (IFL)	Magellan Financial Group (MFG)
		Medibank Private (MPL)	QBE Insurance Group (QBE)
		Suncorp Group (SUN)	
Commercial Banks		Bendigo and Adelaide Bank (BEN)	ANZ Banking Group (ANZ)
		National Australia Bank (NAB)	Bank of Queensland (BOQ)
		Westpac (WBC)	Commonwealth Bank Australia (CBA)
HEALTH CARE			
Biotechnology		Ansell (ANN)	CSL (CSL)
		Cochlear (COH)	ResMed (RMD)
Health Care Providers & Services	Ramsay Health Care (RHC)	Healthscope (HSO)	
		Sonic Healthcare (SHL)	
INDUSTRIALS			
Airlines		Qantas (QAN)	
Road & Rail			Aurizon (AZJ)
Building Products			Reliance Worldwide (RWC)
Commercial Services & Supplies			Brambles (BXB)
			Downer EDI (DOW)
			Cleanaway Waste Management (CWY)
Construction, Engineering & Prof Services		ALS (ALQ)	
		CIMIC Group (CIM)	
		Seek (SEK)	

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