Bay Brokers Limited

PO Box 880, Tauranga 3140, New Zealand
Ph: 07-578 7453 Mobile: 021-762 440 Email: andrew@vond.co.nz

Investment Strategies

Volume 18

DECEMBER 2016

John Key departs

The world seems is being upturned. First Brexit, then the Trump victory in the US. New Zealand isn't immune with Bill English taking over from John Key as Prime Minister.

Is this all bad – I don't think so. Key was always going to go sometime, and I think he has once again got his timing right. What it now offers is a chance for National to show its depth of talent – and there is plenty.

Donald Trump's election, and the recent UK Brexit vote, demonstrates that there is considerable dissatisfaction with the political and business establishments in a number of countries.

A large percentage of the US and UK middle class, particularly white males outside the major cities, believe the system is rigged and they don't have a voice.

While a Trump administration will likely stimulate the economy, aggregate debt is too high, and is likely to go even higher as the US expands its fiscal deficit.

New Zealand is fortunate because our MMP electoral system gives minorities a voice, and this plays right into Winston Peters fortunes. He loves "half-truths" and will capitalise on any discontent. Beware this wily old wolf.

~ Old Italian proverb...
After the game, the King and the pawn go into the same box.

RRP $5.00

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Statistics NZ Data

NEXT CENSUS DUE: 2018

Population

Estimated population at 31 March 2016:	4,677,400
Births June 2016 year (Dec 14: 57,242)	58,992
Deaths June 2016 year (Dec 14: 31,063)	31,389
Net migration October 2016 year	70,282

Employment

Total employed September 2016 quarter:	2,494,000
Change in employed since June quarter:	+95,000
Unemployment rate Sept 2016 quarter:	4.9%
Ave weekly earnings Sept 2016 quarter:	$1,123.21
Wage inflation Sept 2016 year	1.6%
Cost Price Index Sept 2016 quarter:	0.2%
Intern. Investment Position June quarter:	**-$163.3 Bn**
GDP per capita year ended June 2016	**$54,117**
GDP Growth for 2016 year to June	**3.6%**
Visitor arrivals 2016 year to Sept +11.4%	**3,386,685**

Source: Statistics New Zealand

Is the world turning upside down?

The political environment is moving away from open boarders and the free flow of goods and services, driven by populism. The rise of which is correlated with an increase in anti-immigration, anti-globalisation and anti-austerity sentiment. The change in opinion appears to be associated with citizens suffering from stagnant wage growth and increasing inequality in a period of muted economic growth. This has given rise to the feeling that the 'elite' have served their own interests over the masses. This is evidenced by Donald Trump's victory in the US election, the Brexit vote on June 23rd and the proliferation of Populist parties across Europe including, The National Front in France, The AfD party in Germany, the Five Star Movement party in Italy and the Pirate party in Iceland amongst others.

The political doctrine of populism claims to represent the common people, contrasting their interests against those of the elite. We believe this will lead to an increase in global yields and a reversal of a 30-year trend because populist policies will use debt to increase economic growth and inflation, which are the driving factors behind long term interest rates.

Populism will manifest itself in four key policies which will contribute to a bottoming in interest rates:

• Personal tax cuts will prove to be inflationary, especially when given to low income earners who have a higher marginal propensity to consume. An increase in spending will spur economic growth as companies will earn more encouraging investment, creating a feedback loop of more hiring and higher wages.

• An increase in government spending, especially on infrastructure, will boost economic growth, especially if private investment increases alongside. If fiscal spending is increased as tax receipts decline, the result will be an increase in the government deficit. This weakens a country's financial position and results in higher interest rates to compensate investors for increased risk.

• Anti-immigration policies threaten to push down unemployment rates, increasing wage pressure and fueling inflation.

• More protectionist trade policy and bringing manufacturing home will push up prices and inflation.

In concurrence with the shift in the political landscape, there has also been acknowledgement by central bankers around the world that poor demand cannot be solved with an increase in the money supply alone. Since the Global Financial Crisis central bankers have intervened in financial markets to keep interest rates at all-time lows, but now acknowledge that monetary policy is becoming increasingly ineffective. The gradual withdrawal of these accommodative policies will remove a barrier preventing interest rates moving higher.

In a period of rising interest rates we expect developed equity markets to outperform emerging markets; companies which offer good value to perform better than companies offering growth; and financial and cyclical companies to do better than defensive companies and those companies which are highly sensitive to interest rates (the so called bond proxy stocks).

The End of Globalisation

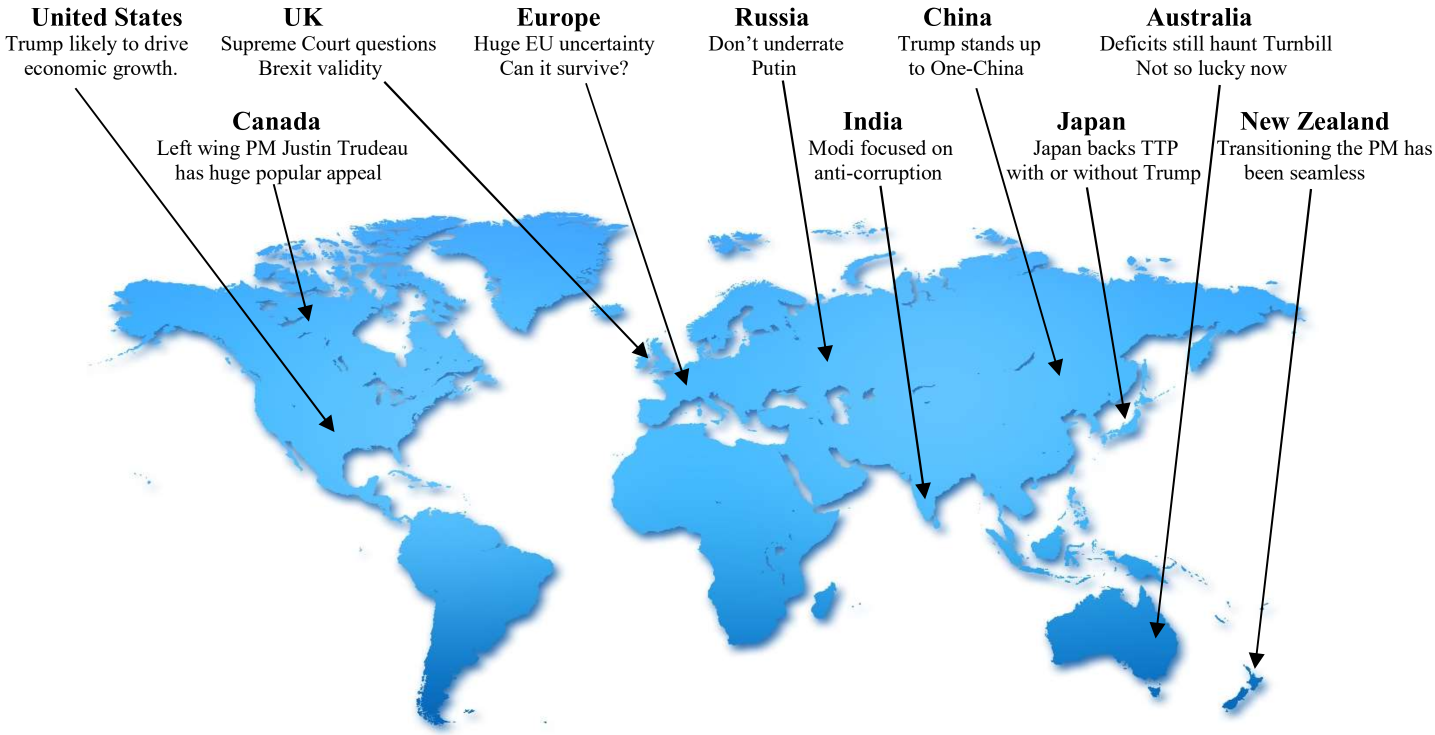
For the first time since the second world war, the great and rising powers of the world, including USA, UK, Germany, Russia and China have embraced a pessimistic view that foreign affairs is a zero-sum game in which global interests compete with national ones. Since Thatcher/ Reagan in the 1980s and the opening up of Russia, China, India and eastern Europe to global markets, there has been a steady march towards the free flow of goods, services and labour. We have now entered a period of revolt born out of the uneven benefits of globalisation.

The West has been beset by stagnant wage growth, tepid economic growth and rising inequality. Multiple-national corporations (MNC) and emerging markets have been the main benefactors of globalisation. MNC have watched their profits grow strongly alongside the reduction of trade barriers as they have been able to outsource manufacturing to lower cost countries, while simultaneously using globalisation to shift income to regions with low tax rates. Emerging markets have benefited from the liberalisation of trade, as cheap labour has fuelled manufacturing and led economic growth, bringing many people out of poverty. With numerous counties becoming more inward focused, we see a reversal in fortunes as developed economies, which are consumption led, outperform emerging markets who are dependent on trade.

Within developed countries our analysts have a preference for small to mid-cap enterprises that earn a higher proportion of their revenue domestically and will likely be less affected by protectionist policies.

"Bad news, its curiosity"

THE WORLD AT A GLANCE



POST-TRUTH POLITICS

Post-truth politics is a *political* culture in which debate is framed largely by appeals to emotion disconnected from the details of policy, and by the repeated assertion of talking points to which factual rebuttals are ignored.

The recent election of Donald Trump and UK's Brexit vote have accentuated the era of post-truth politics, making 2016 an entertaining year, if you are a political junky like me. However, 2017 is also unlikely to disappoint. The European Union is facing a series of major events, from referendums to general elections across its membership.

Rising nationalism fuelled by the migrant crisis, terrorism, and years of austerity measures have left Europeans fed up with the status quo. European leaders are extremely nervous – there is a mood for more change, and this the potential to derail the Eurozone. The risk of further disintegration, or maybe the possible complete breakup of the Eurozone is seen as unlikely any time soon, but is not out of the question.

I see this as a slow creep towards the ultimate breakup of the EU. Germany is going to fight it, but the EU simply is not working. There are issues of wage stagnation, and immigration concerns (the migrant explosion). People are feeling very uneasy with what they have seen happening to their homelands; and even if they aren't overtly political, they are genuinely concerned.

AUSTRIA

On 4th December, Austrians took to the polls in a rerun of their Presidential elections first held in May. Greens-backed Alexander Van der Bellen defeated the Freedom Party's far-right leader Norbert Hofer. This election whipped up divisions and accusations of gun-carrying Mr Hofer being a "wolf in sheep's clothing". He had been spotted wearing a cornflower which is an old Nazi symbol that inspired Hitler's thinking about "greater Germany". Sanity prevailed, but we may not have seen the last of this neo-Nazi.

ITALY

On the same day as Austrians vote, Italians voted in a constitutional reform referendum proposed by Italy's 41 year old Prime Minister, Matteo Renzi. He had wanted to cut the number of people in the upper house from 315 to 100 and limit their powers to allow laws to be pushed through more quickly, and has staked his political future on winning.

The 'no' vote from the Italian people, fuelled in part by a campaign from the ascendant Five Star Movement - a populist party led by an activist and comedian that has promised a referendum on Italian membership of the Euro currency. This no-vote has resulted in Renzi resigning as Prime Minister, increasing the possibility of early elections that could see the Five Star Movement sweep to power and hold a referendum on the Euro.

THE NETHERLANDS

The Dutch will hold their general election on March 15, with Geert Wilders' far-right Freedom Party leading the

polls. He is vehemently anti-immigrant and has been quick to align himself with Nigel Farage and Donald Trump. Wilders wants to ban headscarfs completely, and he blames Angela Merkel for the "stupidity" of opening Germany's doors to Syrian refugees. Wilders, who has been on trial for populist anti-Islam hate-speech, is on track for an election victory in The Netherlands.

BRITAIN

British Prime Minister Theresa May is due to trigger Article 50 (the Brexit trigger) by the end of March 2017,

provided the Supreme Court doesn't block plans next week. This would see Britain leave by the end of March 2019, ahead of its own election in 2020.

If all goes according to the government plan, that would see UK politics for the next two years dominated by negotiation over the exit deal. European nations are determined to detract others from leaving.

FRANCE

France is probably the most likely country to trigger a break up of Europe, if Front Nationale leader Marine Le

Pen wins the Presidential elections to be held on April 23 - with a run off in May if no winner is found.

Le Pen wants France to quit Europe. She has called for a "Frexit" and wants complete control over legislation, economy, money and borders. But to win, she first has to get through the first round of elections and then take on the Republican's Francois Fillion. The far-right leader was the surprise winner of the Republican primary, and has promised to change France's socialism culture - including scrapping its famed 35 hour working week.

If Marine le Pen wins in France next year, then the very fabric of the EU will be called into question.

GERMANY

Can Angela Merkel survive September's election to see her lead a fourth term government for Europe's most

powerful economy? Right-wing Alternative für Deutschland, led by Frauke Petry, is gaining ground and the far-right is on the rise. This all looks like Europe is setting up for a "perfect storm" of uncertainty.

NEW ZEALAND'S VERSION OF "POST TRUTH POLITICS"

Winston Peters has long been the master of the "half-truths"; with "half" being generous. However this global

phenomena plays right into Winston's style of politics, so expect a strong performance from New Zealand First in the run up to our 2017 General Election. Peters loves "fear politics" and is really in his element. Why let the truth get in the way of a good story!

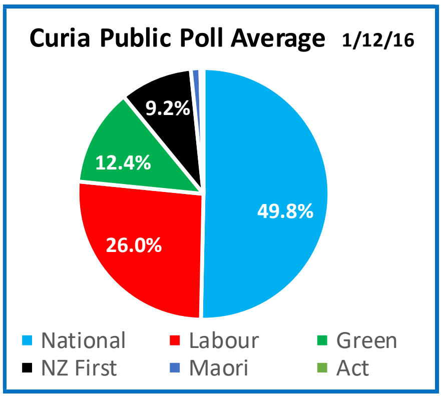
JOHN KEY GONE

As I write this, I got the shock news that Prime Minister John Key is to step down within the week… This adds to the intrigue within New Zealand political circles. On reflection, I think that this is a brave, pragmatic decision by John Key, and it is synonymous with his leadership style.

Key's timing has been made to ensure that National has time to build a continued strong brand; albeit around a new Prime Minister. Let's see how this plays out….

LATEST POLLS

The latest Roy Morgan Poll has Labour at just 23%. While the Roy Morgan is not a poll that many pollsters give much credence, it is interesting to note that at 23% Labour would only get just 28 MPs into our Parliament (of 120 MPs). Currently they hold 27 electorates so that would mean the Andrew Little would be their only List MP. Go below that and even Angry Andrew would miss out. This tells me that they can't afford to pick up any more electorate seats!



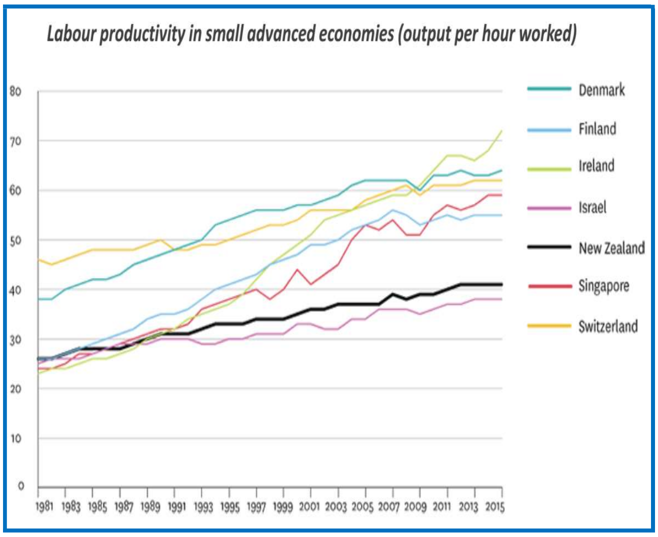
Facts about NZ's Social Housing

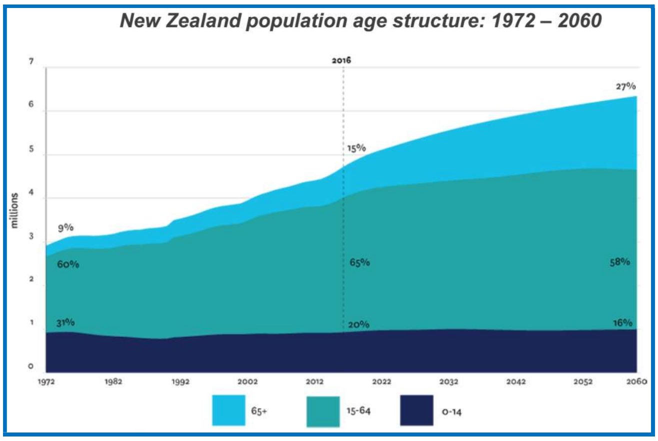
1. In 2008, when National came to Government, there were 67,000 state houses within the Housing NZ portfolio. Only 5,000 of these state houses had been retrofitted (brought up to a modern standard, including insulating) within the term (9 years) of the previous Labour Government. Today Housing NZ owns 65,000 state houses, and has spent $400m on retrofitting most of these houses.
2. National has sold 2,500 state houses to either community groups (who National contends are better landlord than the state), or to state house tenants entering home ownership by buying these homes.
3. The current National Government is spending $280m annually on rent subsidisation (top-ups).
4. Across New Zealand National (in the last 8 years) has retrofitted 300,000 home for insulation and warmth.

Don't let anyone tell you that National doesn't care about New Zealand's housing situation. Labour can bleat on, but the truth is that talk is cheap, and ACTION talks a lot louder than words.

Labour Productivity

New Zealand's biggest issue is our low productivity of our workforce. We remain uncompetitive versus much of the Western World (see graph below), and this has to be addressed.





Facts about Tauranga City

Priority One Quarterly Economic Monitor, September 2016

- GDP increased by 4.4% over the September year versus the national average of 3.2%.
- Job advertisements across the region were up by nearly 50% in October.
- Residential building consents continued to climb, with consent numbers sitting 46% higher over the year.
- The surge in construction work and expectation of future growth for businesses contributed to an increase in commercial vehicle registrations (up 39%).
- Retail trade in Tauranga increased by 7.4% in the year to September versus 3.2% nationally.
- Tauranga's population grew by 3.2% in the June year, with a net 1,188 international migrants arriving over the year to September.
- Tauranga's commercial property market is basking in Auckland's halo and confidence to invest remains elevated. Higher average yields than in Auckland are driving investors' willingness to buy commercial property in Tauranga, which in turn is stretching capacity and driving prices higher. Colliers showed in September a net 61% of investors were feeling confident about investing in commercial property in Tauranga, compared to a net 42% of investors a year earlier.
- Although the value of non-residential consents fell by 17% over the last year, consents were still sitting 29% above their 10-year average.
- Residential building consents continued to climb, with consent numbers sitting 46% higher over the 12 months to September than a year ago.

Indicator		Tauranga City		NZ
Annual % Change				
Gross Domestic Product	↑	4.4%	↑	3.2%
Traffic Flow	↑	9.7%	↑	4.8%
Residential consents	↑	46%	↑	14%
Non-residential consents	↓	-17.0%	↑	6.8%
House prices	↑	24%	↑	11%
House sales	↑	9.4%	↑	5%
Guest nights	↑	10%	↑	6.2%
Retail trade	↑	7.4%	↑	2.7%
Car registrations	↑	5.3%	↑	3.2%
Commercial vehicle registrations	↑	39%	↑	10%
Unemployment rate	↑	4.3%	↑	5.0%

The Table above shows that Tauranga has created a problem around Traffic Flow, albeit at a much lower level than experienced in Auckland. This must be addressed before it constrains our growth.

United States Economic Outlook

The Republican Party has swept into the U.S. Congress and the White House with Donald Trump's election win, in yet another blow to pollsters and pundits, following failures to predict the Brexit outcome and the peace agreement in Colombia. Both the House of Representatives and the Senate, as well as the Oval Office, will be controlled by the Grand Old Party (GOP) for the first time since 2005–2007 under the administration of President George W. Bush. Analysts and market participants are still digesting the aftermath of the election and while the U.S. economy continues to expand at a moderate pace, supported mainly by solid private consumption, economic policy developments from the new administration will be of chief importance in the near term and through the first 100 days in office.

If the U.S. dollar continues its gains post-Trump victory, the world's two largest economies are likely to be on a collision course. President-elect Donald Trump has claimed via Twitter recently that China has unfairly devalued its currency, so it can get an upper hand with its exports — though it's the opposite of what China is doing.

The U.S. economic outlook is healthy but not robust according to experts. That's because the GDP growth is likely to be slightly below the 2-3% ideal range. There isn't too much inflation or deflation.

The biggest shift in 2016 has been the impact of U.S. shale oil production**.** That reduced oil prices 25% in 2014 and 2015. The good news for the economy is that it also lowered the cost of transportation, food, and raw materials for business. That raised profit margins. It also gave consumers more disposable income to spend. The slight slowdown is because both businesses and families are saving instead of spending.

United Kingdom Economic Outlook

Growth in the UK decelerated slightly in the 3rd Quarter, but the slowdown was less than markets had expected. Economic activity was supported by an acceleration in the service sector, which makes up more than 70% of the economy. This acceleration offset contractions in smaller sectors of the economy such as construction and industry.

Unemployment inched down in September and the manufacturing PMI remained in expansionary territory in October. That said, the pound has had a rollercoaster ride this past month. The currency surged at the beginning of November after the High Court decided that the government needs parliamentary approval to start negotiating with the European Union. The 7 to 4 decision in favour of the "remainers", could delay Brexit or force the government towards a softer exit.

Uncertainty is never a government's best friend, and he Supreme Court ruling is little help in the current climate of uncertainty.

Chinese Economy

For the 2016 year, economists expect China's economy to grow at 6.7%, down from 6.9% in 2015, another slowest annual economic growth rate in a quarter of a century. And the worst is yet to come, with many now expecting economic momentum to weaken further in 2017 with the growth rate moderating to about 6.5%, perhaps the lowest level the Chinese authorities could tolerate. President Xi Jinping has said China must keep annual average growth of at least 6.5% over the next five years to hit a goal of doubling gross domestic product and per capita income by 2020 from 2010 levels.

Guarding against financial risks will become a higher priority for the Chinese Government for next year. Donald Trump's presidential election win and expectations that the Federal Reserve will raise the interest rate have combined to make the US dollar stronger and exert further depreciation pressure on the yuan. This has led to massive capital outflows from China, prompting the country's central bank to intervene heavily in the past few weeks.

Chinese leaders have always maintained that the country's strong economic fundamentals don't allow for a sharp fall in yuan, but they are under rising pressure to allow the yuan to depreciate further in smaller doses.

It is also strongly in both New Zealand and Australia's interests that GDP growth is maintained in China. Both countries are increasingly linked to the Chinese economy, relying on strong trade to grow our important export industries.

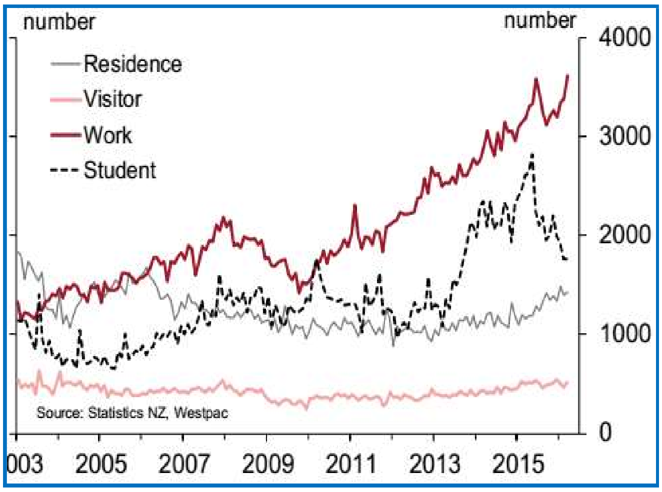
Australian Economic Outlook

In contrast to the New Zealand economy, the Australian economy is not looking anywhere near as rosy. The October Trade Deficit has blown out to A$1.54bn (versus a previously predicted A$800m), with exports up 1%, but imports increasing by 2% for October.

New Zealand's Economic Outlook

The stars may be in alignment for the NZ economy for now, but don't expect this situation to persist indefinitely. The pace of population growth will eventually slow. Additional household debt taken on in recent years will need to be repaid; the wind-down of the Canterbury rebuild will reduce construction activity; and house prices won't keep heading north at their current eye-watering pace forever. What's more, with credit conditions getting tighter, retail interest rates are likely to head higher from here, even if the RBNZ leaves the OCR unchanged for an extended period. All this means we continue to expect the economy to slow in the latter part of this decade. GDP growth is forecast to slow from 3.4% this year, to below 2% by the end of 2019. [Westpac – Economic Overview, November 2016]

NZ'S PERMANENT & LONG TERM ARRIVALS



Half Yearly Treasury Update

New Zealand's Debt is sitting at $62.5bn (or 24.8% of GDP), and is expected to lower to 18.8% of GDP by the 2020-21 financial year. Treasury is also forecasting a surplus of $8.5bn for the 2020-21 year.

Looking Forward

Inflation has been very low for the past two years but is set to rise gradually from here, boosted by technical factors in the near term, and a strong economy over the medium term. Expect the Official Cash Rate to remain on hold for a substantial length of time, but market interest rates are likely to be pressured higher by other forces.

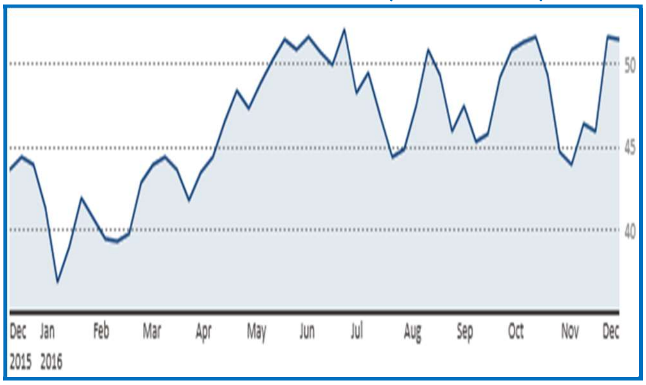
Commodities

The Organization of Petroleum Exporting Countries (OPEC) is poised to meet non-OPEC nations in with the hope that they will also agree to follow the cartel and cut supply for the first time since 2008.

At their meeting last month, OPEC pledged to cut oil production by 1.2 million barrels per day (b/d) from January 2017, and the 14-member cartel hopes non-OPEC nations can also agree to limit supply to further prop up oil prices.

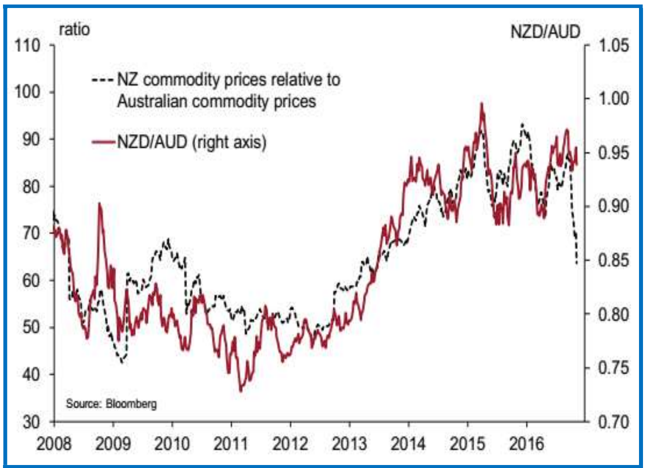
Russia has said it is prepared to commit to a 300,000 b/d production cut which should, in theory, mean all of the other non-OPEC countries combined would only have to match Russia's pledge in order for OPEC to hit its target. However, only five of the 14 non-OPEC oil producing countries have agreed to attend the upcoming meeting.

OIL: WEST TEXAS CRUDE (1 YEAR CHART)



Currency

NZD V AUD & RELATIVE COMMODITY PRICES

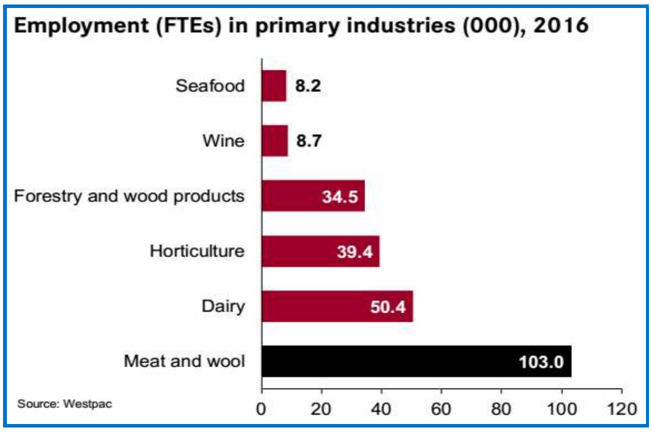


Agribusiness – Looking from the outside in

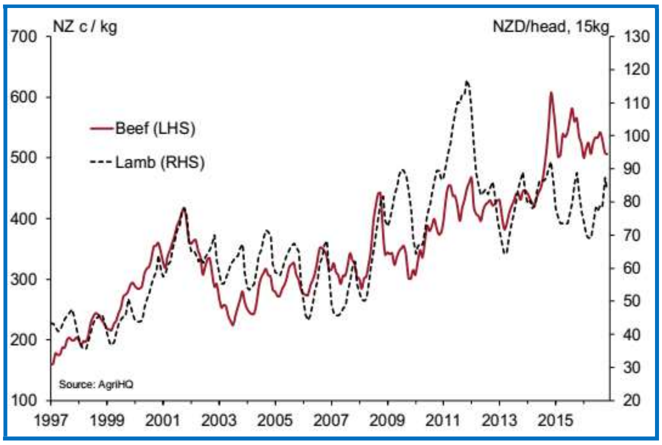
Meat & Wool Sector

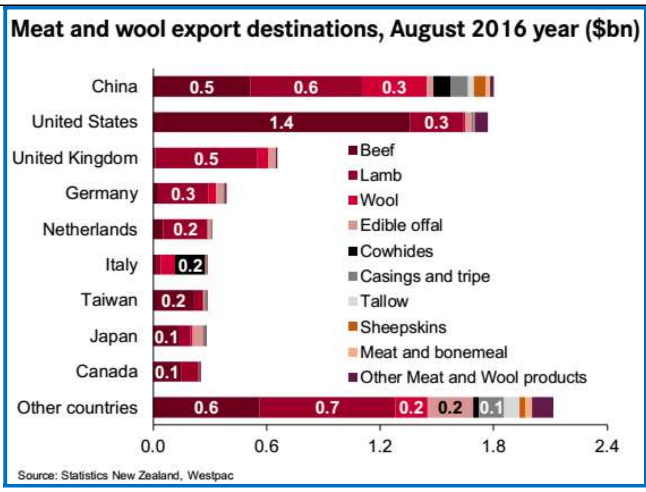
Meat and wool is New Zealand's second largest merchandise export group. Meat and wool exports totaled $8.15 billion in the year to August 2016, which compares to around $11.9 billion in exports of dairy and casein product exports. Meat and wool accounted for one-sixth of all merchandise export values.

The meat and wool sector is the largest primary sector employer in New Zealand, with more than 100,000 full-time equivalent workers (FTEs). It employs double the number of workers in the dairy sector.

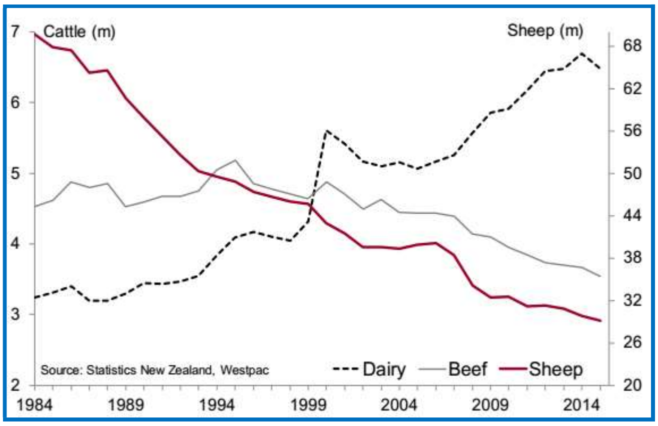


Beef & Lamb Prices

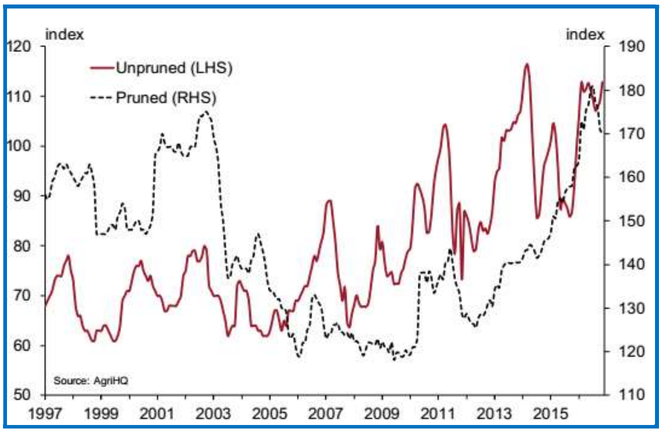




Changes in Livestock by Category



Forestry Prices



Commodity price monitor

Sector	Trend	Current level[1]	Next 6 months
Forestry	Prices have held up surprisingly well, but we don't expect this to persist as international supply responds and Chinese demand moderates.	High	↘
Wool	Synthetic substitutes to remain attractive while oil prices remain low.	Average	↘
Dairy	Modest retracement expected in coming months after big lift in prices since mid-year.	Average	↘
Lamb	Uncertainty over demand in key markets to continue to weigh on prices.	Below average	→
Beef	Prices to be underpinned by relatively tight supply in the near term, but downside risk further out.	Above average	→
Horticulture	Benefitting from strong demand and productivity improvements. Further improvement expected heading into next year.	Above average	↗

1 NZD prices adjusted for inflation, deviation from 10 year average.

SOURCE: Westpac Bank

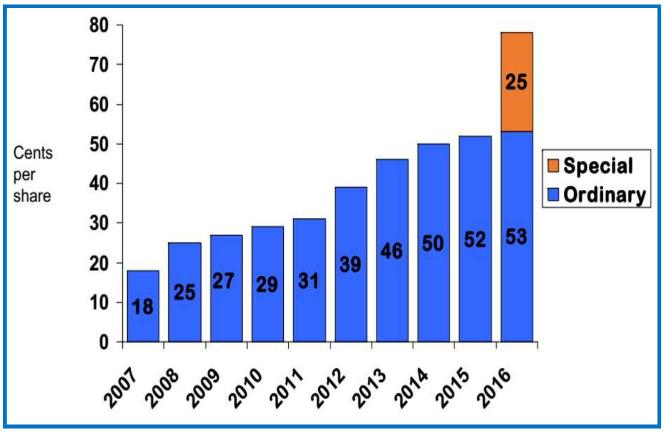
PORT OF TAURANGA (POT.NZ)

My View - Accumulate on weakness **Price:** $3.72
FNZC View - Underperform **Target:** $3.51

The big ships are finally here, and boy – are they big. In fact they are more than twice the size of any previous container ship visiting a New Zealand port. These 9,600 TEU equivalent ships are 347m long and 43m wide. They are huge, and they are coming into Tauranga at least weekly (Tauranga is the only port in Australasia that they visit). This is huge for the Port, and has been 15 years in the planning. It has revolutionised our port structure and systems, and will ensure that POT is the only major port in New Zealand.

I still believe that POT remains a BUY at current prices. The company split the shares (5 for 1) in October, and also paid a special dividend of 25 cents per share (pre-split), and said that they intend to continue this special dividend for a further 3 years. Of course, dividends aren't guaranteed, but this is a very stable company with an exceptional track record. If nothing else – buy for yield.

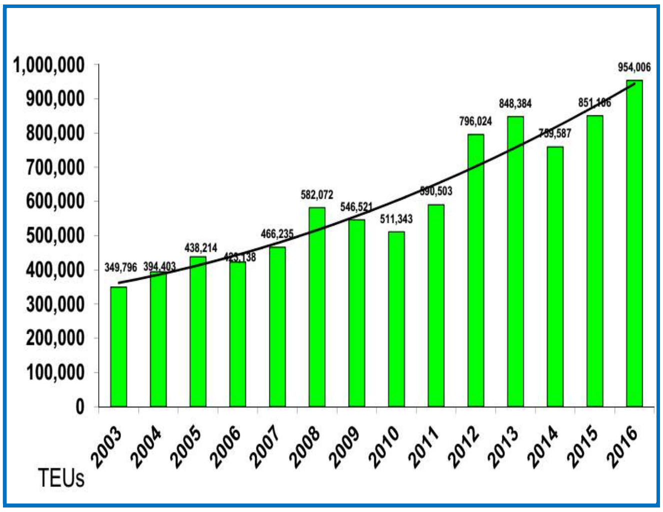
TOTAL DIVIDENDS



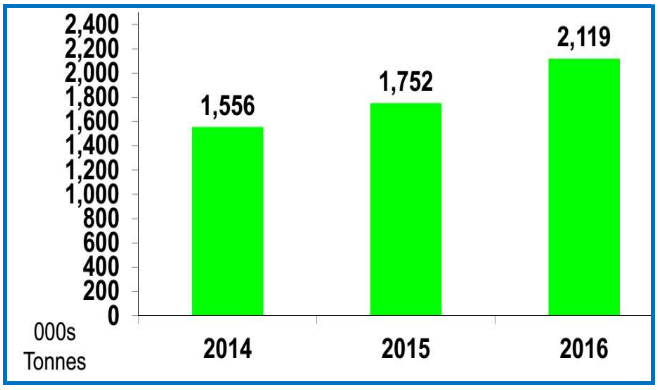
FIRST QUARTER 2017 RESULTS

Port of Tauranga		1Q16	1Q17	Variance
Trade	Tonnes	5,032,243	5,297,491	5.3%
Logs	Tonnes	1,229,553	1,423,277	15.8%
Dairy	Tonnes	394,068	442,453	12.3%
Containers	TEU's	225,230	232,165	3.1%
Parent NPAT	$m	$14.588	$16.090	10.3%
Gross Surplus After Tax	$m	$18.116	$19.235	6.2%

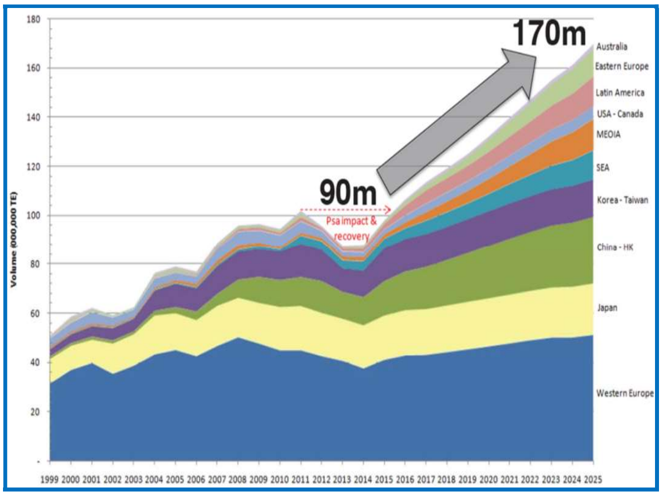
CONTAINER VOLUMES UP 12%



DAIRY EXPORTS THROUGH POT



KIWIFRUIT EXPORT FORECASTS



POT Year to 30 June		2016A	2017F	2018F	2019F
Adjusted Earnings	NZ$m	77.3	83.5	92.0	104.0
Earnings /share (Adjust)	NZc	11.4	12.3	13.5	15.2
EPS Growth	%	-2.1	8.0	10.1	12.6
Price / Earnings Ratio	x	33.3	30.8	28.0	24.4
Cash Per Share	NZc	14.8	15.8	17.4	19.4
Net Div / Share	NZc	15.6	16.3	17.5	18.3
Gross Div Yield *	%	8.0	8.4	8.9	9.2

* Includes Special dividend (5 cents per share for another 3 years)

Xero (XRO.NZ)

OUTPERFORM $17.45 **TARGET:** $21.00

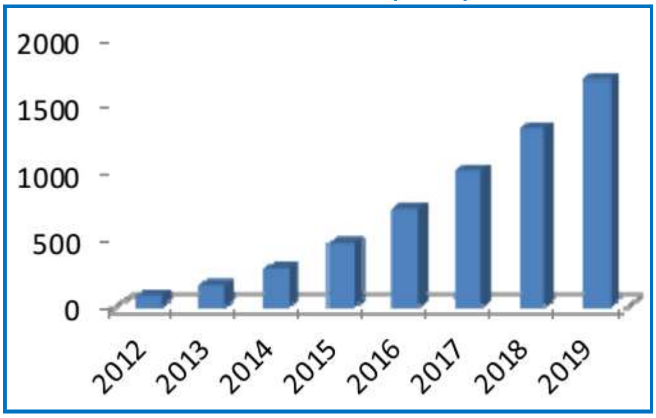
FNZC remains positive for XRO, with the recent result contained few surprises in the context of FNZC's earnings forecast or their view of XRO's prospects longer term. At the top of this, the 1st Half once again underlines momentum in Australasia, and the region's role as a stabilising influence (/funding source) for international markets. Evidence that the UK may be accelerating is a welcome addition, as is the continued easing of cost growth which provides further confidence that cash flow targets will be met.

In contrast, uncertainty remains in North America, and is somewhat compounded by management changes announced in November. Slow growth is not a new revelation, while the size and maturity of the market suggest large opportunities remain to build a profitable business. Moreover, the consequence of slower-than-expected growth need not be highly destructive cash flows.

XERO CUSTOMERS (000's)

Year to 31 Mar	2015A	2016A	2017F	2018F	2019F
Subscribers	475	717	1005	1325	1698
Australia	203	312	437	564	667
New Zealand	138	186	233	267	290
United Kingdom	83	133	204	292	406
North America	35	62	95	152	269
Rest of world	16	24	36	50	67

XERO CUSTOMERS (000's)



Those who use XRO recognise the potential for this company. Yes - it is still in the high-growth stage of is life-cycle, but the product is great, and it is gaining serious traction. Furthermore, management appear very patient, and if investors are the same they should be well rewarded. I like this stock.

XRO Year to 31 Mar		2016A	2017F	2018F	2019F
Adjusted Earnings	NZ$m	-82.	-75.3	-43.1	4.9
Earnings /share (Adjust)	NZc	-60.4	-54.8	-31.0	3.5
Cash Per Share	NZc	-55.7	-50.5	-26.5	7.7
Net Div / Share	NZc	0	0	0	0
Gross Div Yield	%	0	0	0	0

Contact Energy (CEN.NZ)

OUTPERFORM $4.70 **TARGET:** $6.26

Impressive progress in CEN's retail operation

■ While the recent investor update held no major news, it was still a confident and capable set of presentations that reassured, rather than excited.

■ For FNZC, CEN's breakout sessions cemented their view that its retail has moved well beyond only managing to bill. Probably the most impressive aspects were central coordination of products/tariff design, customer predictive algorithms combined with geospatial mesh data, and all of these embedded/operationalised in daily updated per-customer Customer Lifetime Value incorporated into day-to-day decisions and all customer interactions. These capabilities have all been developed and integrated in under a year.

■ FY17 EBITDAF forecast falls by roughly 1% to $329m, after updating for ASX forward price movements and latest monthly operating statistics. FNZC also cautiously allow for small LPG sale volume reductions beyond FY17 (1kt p.a. each year to FY21) to reflect greater GNE activity.

■ Catalyst for CEN rerating still looks like mid-2017, with its commitment to lift payout. While FNZC still think Tiwai exit has a low likelihood, earlier suggestions of the possibility to trade medium term load certainty, in exchange for cheaper gas prices, passed on to the smelter, as electricity price discounts have sadly borne no fruit. This might otherwise have been a positive catalyst for CEN.

■ With a scheduled mandatory outage at Te Mihi lowering FNZC's FY17 geothermal production by circa 150GWh, and FNZC's cautious assumption that competitor GNE's push into LPG may have a small (5kt p.a.) impact on CEN LPG sales over the next five years, their risk-weighted spot-DCF falls 1% to $6.03, and their DCF-based target price falls similarly to $6.26. They retain their OUTPERFORM rating.

Scenario	Key Assumptions	DCF
Base Case	**Tiwai at 572MW Jan '17, $80/MWh real prices by 2025**	**$6.12**
Tiwai Full Exit	Tiwai exits Jan'18, $80/MWh real prices by 2027	$5.50
Upside Growth	Tiwai at 572MW Jan'17, $85/MWh real prices by 2021	$6.68

CEN Year to 30 June		2016A	2017F	2018F	2019F
Adjusted Earnings	NZ$m	157	166	172	178
Earnings /share (Adjust)	NZc	21.9	23.2	24.1	25.5
EPS Growth	%	(0.1)	5.6	4.1	5.9
Price / Earnings Ratio	x	21.3	20.1	19.4	18.3
Cash Per Share	NZc	64.6	58.5	55.6	56.9
Net Div / Share	NZc	25.8	26.1	24.1	25.6
Imputation	%	53.8	70.0	83.0	79.5
Gross Div Yield	%	6.7	7.1	6.8	7.2

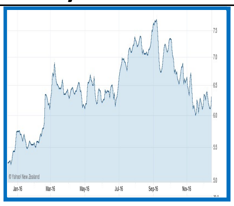
Source: Company data; NZX; First NZ Capital Estimates

STOCKS TO WATCH NEW ZEALAND

Prices as at 16th December 2016

NOTE: (1) THESE ARE ALL ONE YEAR GRAPHS (2) MANY STOCKS NOW EXCEED ANALYST TARGETS, EQUATING TO NEGATIVE PROJECTIONS

Many of these stocks look expensive, so only buy where there are genuine growth prospects, and/or sustainable dividends



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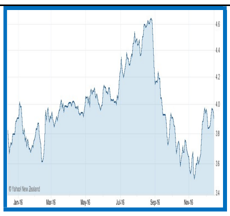
Auckland International Airport

AIA remains a growth stock, with tourism numbers growing at double digit rates. This is New Zealand's number One gateway to the world, and while it is one of those stocks that are always likely to look expensive, but I rate it a **HOLD**, but accumulate on weakness. AIA guided towards a normalised NPAT range of between $230m and $240m in the 2017 Financial Year. For me – this is a core portfolio stock.

20017 P/E: 31.4 2018 P/E: 28.0

NZX Code:	**AIA**
Share Price:	**$6.35**
12mth Target:	**$5.25**
Projected return (%)	
Capital gain	-17.3%
Dividend yield (Net)	2.8%
Total return	**-14.5%**
Rating:	**NEUTRAL**
52-week price range:5.25-7.75	



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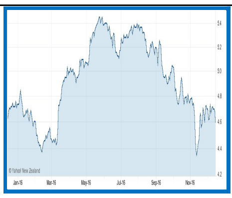
Chorus

CNU has followed through on its plans for 2016 refinancing of bank debt with a successful EMTN issue of NZ$785m resulting in the full repayment of bank facilities with duration of its debt extended out to between April 2020 and October 2023. In the near-term CNU is likely to remain disciplined on its approach to capital/dividend policy with a combination of factors to work through before CNU revisits this – namely UFB2, peak capex, telco review and greater post 2020 clarity, and visibility on line loss. Expect limited deviation from the guidance of moderate growth in dividends for now.

20017 P/E: 15.5 2018 P/E: 17.4

NZX Code:	**CNU**
Share Price:	**$3.89**
12mth Target:	**$4.37**
Projected return (%)	
Capital gain	12.5%
Dividend yield (Net)	4.6%
Total return	**17.1%**
Rating:	**NEUTRAL**
52-week price range: 3.49-4.65	



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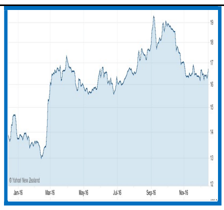
Contact Energy

CEN's retail operations have made impressive progress. Probably the most impressive aspects were central coordination of products/tariff design, customer predictive algorithms combined with geospatial mesh data, and all of these embedded/operationalised in daily updated per-customer decisions for all customer interactions. These capabilities have all been developed and integrated in under a year.

20017 P/E: 20.2 2018 P/E: 19.6

NZX Code:	**CEN**
Share Price:	**$4.70**
12mth Target:	**$6.35**
Projected return (%)	
Capital gain	35.1%
Dividend yield (Net)	5.3%
Total return	**40.4%**
Rating:	**OUTPERFORM**
52-week price range: 4.35-5.49	



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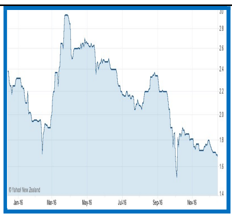
Ebos Group

EBO currently appears reasonably fully valued when compared to the broader NZ equity market. EBO's share price has performed strongly on the back of solid market share and earnings growth in pharmacy wholesale, consumer products and pharmacy retail across NZ and Australia. EBO achieved synergy benefits from the $1.1bn acquisition of Symbion in Australia, and has made further acquisitions in the animal care sector (which now represents 16% of group revenue) and the Australian pharmacy sector.

2017 P/E: 24.2 2018 P/E: 21.8

NZX Code:	**EBO**
Share Price:	**$16.48**
12mth Target:	**$14.88**
Projected return (%)	
Capital gain	-9.7%
Dividend yield (Net)	3.1%
Total return	**-6.6%**
Rating: NEUTRAL	
52-week price range: 13.00-19.40	



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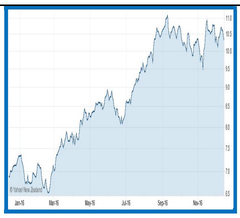
EROAD

Overall a good 1st Half 2017result with revenue growth and earnings in line with FNZC's expectations. Australia & NZ revenue grew 17% on a 35% increase in Units on Depot. The lower revenue compared to unit growth is due to timing but also a higher proportion of light vehicle solutions and customer renewal. ERD's current share price can be supported by the earnings and outlook of ERD's ANZ operation. This implies the market attaches little or no value to the growth opportunity ERD has in the US. The catalyst to close the gap to assessed value is the successful commercial launch of ERD's ELD product in North America in March 2017.

2017 P/E: N/A 2018 P/E: 29.8

NZX Code:	**ERD**
Share Price:	**$1.65**
12mth Target:	**$2.60**
Projected return (%)	
Capital gain	57.6%
Dividend yield (Net)	0%
Total return	**57.6%**
Rating: OUTPERFORM	
52-week price range: 1.45-2.98	



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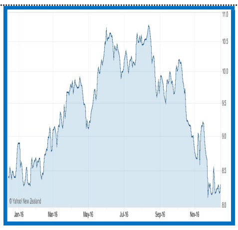
Fletcher Building

FBU's investor day highlighted possibly the most impressive middle management team to front FBU's annual investor day in the past eight years: Overall, our analysts came away from the presentation with greater confidence in their earnings forecasts for the next three years and, barring significant correction in the residential building cycle in Australia, FNZC thinks that FBU's management should be able to deliver in excess of NZ$800m EBIT in FY18F.

2017 P/E: 15.3 2018 P/E: 14.1

NZX Code:	**FBU**
Share Price:	**$10.32**
12mth Target:	**$10.10**
Projected return (%)	
Capital gain	-2.1%
Dividend yield (Net)	4.4%
Total return	**2.3%**
Rating:	**NEUTRAL**
52-week price range: 6.56-11.14	



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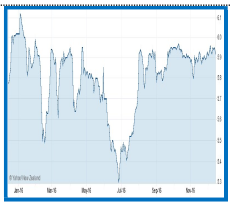
Fisher & Paykel Healthcare

Strong Respiratory and Acute Care (RAC) performance is a hallmark of FPH's strategy with the contribution from new applications a generational story. FPH expects to continue delivering revenue growth >20% per annum to 2020. Margin improvements are another feature which, from a longevity point of view, may persist beyond where the market expects. The potential of both are well understood in our view. Conversely, tailwinds in Obstructive Sleep Apnea (OSA) are beginning to fade with mask growth subject to the natural product lifecycle of FPH and its competitors, and weak flow generator performance a likely fixture for at least the next six months.

2017 P/E: 28.0 2018 P/E: 23.9

NZX Code:	**FPH**
Share Price:	**$8.25**
12mth Target:	**$9.70**
Projected return (%)	
Capital gain	17.6%
Dividend yield (Net)	2.5%
Total return	**20.1%**
Rating:	**OUTPERFORM**
52-week price range: 8.13-10.93	



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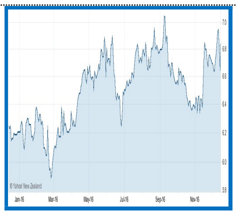
Fonterra Shareholder Fund

On 18 October 2016, FSF lifted its farm gate milk price forecast to $6.00/kgMS, up $0.75 on its prior estimate. The increase reflects falling production in the major exporting regions, particularly Europe and Australia, and an unprecedented decline in New Zealand milk supply (down 7%) due to wetter than normal spring conditions.

2017 P/E: 10.2 2018 P/E: 9.2

NZX Code:	**FSF**
Share Price:	**$5.95**
12mth Target:	**$6.22**
Projected return (%)	
Capital gain	4.5%
Dividend yield (Net)	6.8%
Total return	**11.3%**
Rating:	**NEUTRAL**
52-week price range: 4.75-6.12	



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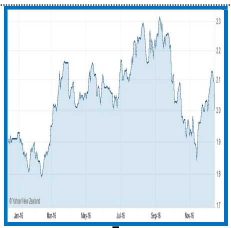
Freightways

FRE shareprice rallied 4.9% in November, as initial concerns over disrupted freight services following the Kaikoura earthquakes dissipated. FRE is a nationwide provider of express package services throughout New Zealand with approximately 40% market share; and with complementary business servicing the information management and business mail sectors. FRE has grown organically and via acquisition, with the most recent expansion being document destruction and information storage facilities in Australia.

2017 P/E: 18.4 2018 P/E: 16.7

NZX Code:	**FRE**
Share Price:	**$6.89**
12mth Target:	**$6.15**
Projected return (%)	
Capital gain	-10.7%
Dividend yield (Net)	4.3%
Total return	**-6.4%**
Rating:	**NEUTRAL**
52-week price range: 5.90-7.05	



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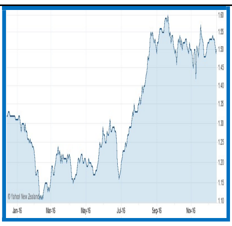
Genesis Energy

GNE's new strategy comprises three broad initiatives, and a focus on agile innovation for customer service and leveraging flexibility from its energy and generation portfolios. It intends to transform from a yield stock, into a "yield + growth" play. For investors the key tangible goal is to deliver ~$400m EBITDAF (375-425) by FY21. Although this looks high compared to FY17 $305m to $325m guidance, it's only $15m above FNZC's previous FY21 $385m. GNE thinks it has debt headroom for another $200-$250m capex in addition to capex for Kupe Phase II development and this strategy (if hybrid debt funded). One target may be an existing NZ LPG business. Capital returns, such as special dividends or buybacks, have been ruled out to keep its investment powder dry over the next few year.

2017 P/E: 27.4 2018 P/E: 25.5

NZX Code:	**GNE**
Share Price:	**$2.01**
12mth Target:	**$1.97**
Projected return (%)	
Capital gain	-1.7%
Dividend yield (Net)	8.7%
Total return	**7.0%**
Rating:	**UNDERPERFORM**
52-week price range: 1.76-2.33	



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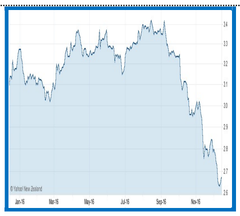
Heartland Bank

HBL like other banks and the broader financial sector benefited from increasing bond yields which should alleviate margin pressure and improve profitability. HBL also released its 1Q17 regulatory accounts which demonstrated good momentum after a strong 2H16. The accounts showed 4.2% growth in net receivables, management reaffirmed net profit guidance of $57-60 m. Equity raised will strengthen HBL's capital ratio providing headroom to support future asset growth. HBL is required to hold capital equal to 10.5% of risk-weighted assets. An equity raise of $30m will improve that ratio by ~0.9%.

2017 P/E: 12.4 2018 P/E: 11.7

NZX Code:	**HBL**
Share Price:	**$1.51**
12mth Target:	**$1.59**
Projected return (%)	
Capital gain	5.3%
Dividend yield (Net)	6.2%
Total return	**11.5%**
Rating:	**NEUTRAL**
52-week price range: 1.06-1.49	



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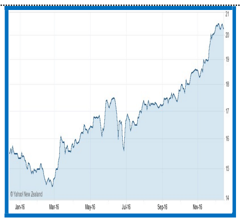
Infratil NZ

IFT is an NZX listed holding company specialising in long-lived, growth infrastructure assets. Currently IFT is an owner and operator of businesses in the renewable energy, airport public transport and social infrastructure sectors. Its assets include a 50.5% stake in Trustpower. 67% of Wellington Airport, 100% of NZ Bus which operates in Auckland and Wellington, 20% of Metlifecare and 50% of RetireAustralia. Recently IFT acquired a 48% stake in Canberra Data Centres. IFT looks good buying at this level.

2017 P/E: 44.4 2018 P/E: 22.7

NZX Code:	**IFT**
Share Price:	**$2.60**
12mth Target:	**$3.02**
Projected return (%)	
Capital gain	16.2%
Dividend yield (Net)	6.0%
Total return	**22.2%**
Rating:	**OUTPERFORM**
52-week price range: 2.64-3.45	



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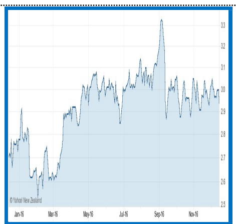
Mainfreight

New Zealand operations delivered a strong performance in 1H17 with revenue growth of 6.1% and EBITDA increasing 28.2% against a weak pcp. MFT leveraged off its market leader positioning in New Zealand to gain share in domestic freight as it successfully targeted key competitor accounts. Australia freight forwarding revenue growth of 7% along with logistics utilisation and efficiency improvement were the key drivers of a 22.1% increase in local currency EBITDA. A great growth story.

2017 P/E: 17.1 2018 P/E: 15.1

NZX Code:	**MFT**
Share Price:	**$20.50**
12mth Target:	**$17.10**
Projected return (%)	
Capital gain	-16.6%
Dividend yield (Net)	2.4%
Total return	**-14.2%**
Rating:	**NEUTRAL**
52-week price range:14.45-20.55	



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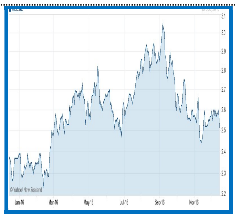
Mercury

MCY is currently trading above underlying value. FNZC's risk-weighted spot DCF estimate is $2.75/sh, and FNZC's DCF-based one year target price lifts 12cps to $2.80/sh. MCY remains the generator-retailer with both largest natural competitive advantages and fewest negative exposures within the sector. MCY is in many respects the "cleanest" sector exposure for investors – which may largely explain its attraction and strong trading in the current hunt for defensive yield. Nevertheless, it struggles to justify its current trading levels against value fundamentals.

2017 P/E: 28.6 2018 P/E: 26.8

NZX Code:	**MCY**
Share Price:	**$3.02**
12mth Target:	**$2.80**
Projected return (%)	
Capital gain	-7.3%
Dividend yield (Net)	5.2%
Total return	**-2.1%**
Rating:	**UNDERPERFORM**
52-week price range: 2.38-3.15	



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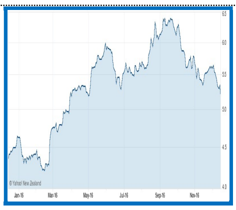
Meridian Energy

MEL is New Zealand's largest electricity generator and has a 100% renewable generation platform. It owns and operates New Zealand's largest portfolio of hydro and wind generation assets and generates about 30% of New Zealand's electricity from seven hydro and four wind facilities. MEL's generation and retail portfolio is carefully managed to reduce earnings volatility that can arise from adverse hydrological conditions. MEL has over 270,000 customers across its two brands, Meridian and Powershop. The Crown retains 51% ownership of MEL.

2017 P/E: 14.1 2018 P/E: 12.7

NZX Code:	**MEL**
Share Price:	**$2.52**
12mth Target:	**$2.76**
Projected return (%)	
Capital gain	9.5%
Dividend yield (Net)	6.7%
Total return	**16.2%**
Rating: NEUTRAL	
52-week price range: 2.53-3.07	



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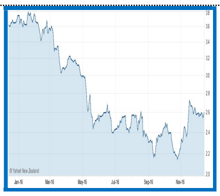
Metlifecare

MET has a portfolio of retirement villages around the North Island and is NZ's second largest retirement village operator. Locations include Auckland, Hamilton, and Bay of Plenty. MET has a strong and growing land bank of quality sites. Metlifecare offers a range of care levels and support, from independent living and in-home care services through to specialist aged residential care. MET was included into FNZC's Focus List on 14th March 2016, and has returned 14% (versus the NZ50 of 5.3%) since that time.

2017 P/E: 18.3 2018 P/E: 16.6

NZX Code:	**MET**
Share Price:	**$5.25**
12mth Target:	**$5.90**
Projected return (%)	
Capital gain	12.4%
Dividend yield (Net)	0.8%
Total return	**13.2%**
Rating: NEUTRAL	
52-week price range: 4.10-6.00	



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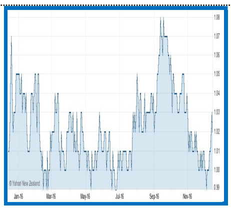
NZ Refining

After reaching multi-year lows circa in mid-August, reference Singapore complex margins appear to have rebounded by an average US$1.20/bbl to $3/bbl during September /October. Commentary points to reduced refinery availability and a turnaround of industry sentiment towards more balanced demand/supply of Asian refined products.

2017 P/E: 34.2 2018 P/E: 11.3

NZX Code:	**NZR**
Share Price:	**$2.60**
12mth Target:	**$2.67**
Projected return (%)	
Capital gain	2.7%
Dividend yield (Net)	2.0%
Total return	**4.7%**
Rating: OUTPERFORM	
52-week price range: 2.35-3.89	



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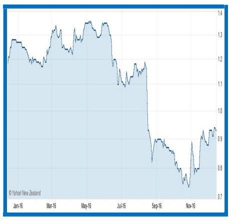
NZX

NZX has made three notable announcements recently. NZX has sold the underperforming Agricultural Magazines business, which we believe was only breakeven, and the Clear Grain Exchange which is expected to lose $0.7 million in FY16. In addition, the Ralec litigation saga has now concluded, removing the risk of an adverse judgement and further legal fees.

2017 P/E: 27.1 2018 P/E: 16.3

NZX Code:	**NZX**
Share Price:	**$1.01**
12mth Target:	**$1.12**
Projected return (%)	
Capital gain	10.9%
Dividend yield (Net)	6.1%
Total return	**17.0%**
Rating: NEUTRAL	
52-week price range: 0.97-1.08	



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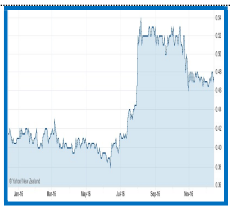
Opus International Consultants

FNZC rate OIC NEUTRAL with a $1.00 target price because of the increasing longevity of the downdraft in the Australian and Canadian markets. The causal factors, which could be regarded as structural, are beginning to create some strategic dilemmas for management and the Board. The current steep stock price discount to assessed valuation would suggest the market does not believe the present loss making position would, or could, be turned around, or that the company would exit these markets anytime soon. While FNZC see some long term value in the business, they struggle with how this might be crystallised

2017 P/E: 9.9 2018 P/E: 7.5

NZX Code:	**OIC**
Share Price:	**$0.86**
12mth Target:	**$1.00**
Projected return (%)	
Capital gain	16.3%
Dividend yield (Net)	5.2%
Total return	**21.5%**
Rating: NEUTRAL	
52-week price range: 0.74-1.36	



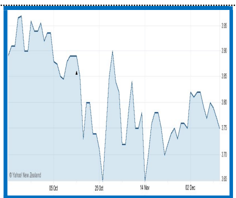
🡅

PGG Wrightson

FNZC continue to like management's growth strategy which focuses on improving existing business through share gain in segments where PGW is under-represented and on segments and geographies with structural growth opportunities. Key long-term opportunities for PGW include potential for share gain of rural retail supply into the NZ dairy sector, the irrigation sector, as well as seeds and irrigation solutions in Latam, especially in Uruguay.

2017 P/E: 10.8 2018 P/E: 10.1

NZX Code:	**PGW**
Share Price:	**$0.48**
12mth Target:	**$0.65**
Projected return (%)	
Capital gain	36.8%
Dividend yield (Net)	7.4%
Total return	**44.2%**
Rating: OUTPERFORM	
52-week price range: 0.38-0.54	



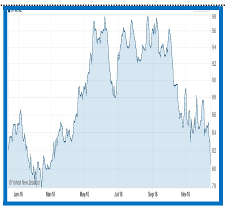
3 months 🡇 Ignore

Port of Tauranga

With the arrival of the 9,500 twenty foot equivalent units (TEU) container ships that are now regularly visiting New Zealand (only Tauranga) the game has changed. The Kaikoura earthquake has also increased the spotlight on coastal shipping, with POT clear winners. However, an efficient coastal feeder strategy must be devised before the key stakeholders can fully realise the value of a genuine New Zealand hub and bespoke container trade mode. This remains my favourite core portfolio stock. Just own it…

2017 P/E: 30.0 2018 P/E: 26.5

NZX Code:	**POT**
Share Price:	**$3.72**
12mth Target:	**$3.51**
Projected return (%)	
Capital gain	-5.6%
Dividend yield (Net)	7.4%
Total return	**1.8%**
Rating: UNDERPERFORM	
52-week price range: 3.56-4.05	



➔

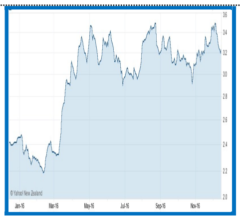
Ryman Healthcare

RYM has reported a first half profit of $76.5 m, up 9% on PCP. Medium term target remains to grow its underlying profit and dividends by 15% per annum. RYM shareholders will receive an increase of 16% in their interim dividend to 8.5 cents per share. Full year underlying profit is expected to be in range of $175m to $185m

2017 P/E: 26.8 2018 P/E: 23.0

NZX Code:	**RYM**
Share Price:	**$8.10**
12mth Target:	**$9.10**
Projected return (%)	
Capital gain	12.3%
Dividend yield (Net)	2.9%
Total return	**15.2%**
Rating: NEUTRAL	
52-week price range: 7.78-9.86	

Scales Corporation



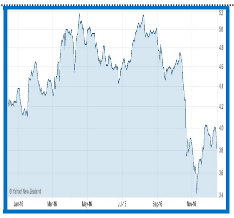
➔

SCL has a conservative balance sheet with opportunities for further return of capital to shareholders and to make value accretive acquisitions within the sector. Management is continuing to earn greater trust from the investment community for good execution and being good managers of shareholders' capital. FNZC's discounted cash flow based valuation suggests some more upside. Projection is for SCL to deliver circa 10% pa growth in earnings per share in FY18F and FY19F.

2017 P/E: 13.3 2018 P/E: 12.1

NZX Code:	**SCL**
Share Price:	**$3.27**
12mth Target:	**$4.00**
Projected return (%)	
Capital gain	22.3%
Dividend yield (Net)	5.1%
Total return	**27.4%**
Rating: NEUTRAL	
52-week price range: 2.16-3.55	

Sky City Entertainment



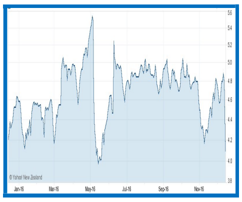
➔

SKC's 1Q17 Group revenue declined 5.7% for the period vs pcp, with revenue excluding International Business (IB) declining 3.0%. SKC Auckland revenue excluding IB declined 1.0% in 1Q17 with weaker gaming performance attributed to lower than expected visitation, reduced activity from premium players and a lower hold percentage on tables. Non-gaming revenue increased in the period. The lack of positive growth leverage from the concession benefits in 1Q17 is concerning.

2017 P/E: 17.1 2018 P/E: 16.1

NZX Code:	**SKC**
Share Price:	**$3.78**
12mth Target:	**$3.65**
Projected return (%)	
Capital gain	-3.4%
Dividend yield (Net)	5.4%
Total return	**2.0%**
Rating: NEUTRAL	
52-week price range: 3.44-5.19	

Sky Network Television



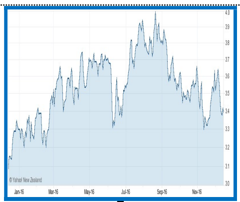
➔

The VodaSKT merger was met with some enthusiasm – it provides the prospect to diversify revenue with stable, albeit low growth, telco revenues; bring in the external capability of Vodafone (SKT struggling/lacking scale on platform); and access to synergies worth up to ~$1/share in NPV terms (realisation medium-term). A final decision is set for 21 December 2016.

2017 P/E: 13.4 2018 P/E: 16.0

NZX Code:	**SKT**
Share Price:	**$4.08**
12mth Target:	**$4.84**
Projected return (%)	
Capital gain	18.6%
Dividend yield (Net)	6.2%
Total return	**24.8%**
Rating: NEUTRAL	
52-week price range: 3.91-5.55	

Spark NZ



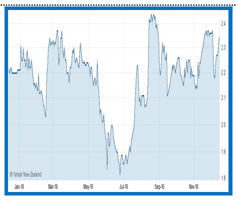
🡓

SPK has launched an "Upgrade New Zealand" programme. While the rhetoric in the attached media release understandably has a strong marketing pitch to it, the intent is consistent with the need for SPK to compete on the front foot in the move to fibre to ensure it retains market position. SPK needs to replace copper inputs with fixed wireless for those without access to fibre or on lower usage plans.

2017 P/E: 16.8 2018 P/E: 16.0

NZX Code:	**SPK**
Share Price:	**$3.40**
12mth Target:	**$3.04**
Projected return (%)	
Capital gain	-10.6%
Dividend yield (Net)	7.1%
Total return	**-3.5%**
Rating: UNDERPERFORM	
52-week price range: 3.10-4.01	

Steel & Tube Holdings



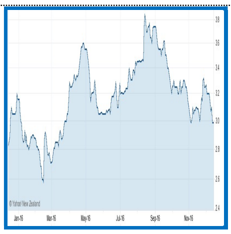
➔

STU is back onto a moderate growth path. NZ building activity is expected to further recover in FY17 and beyond driven by increased activity in Canterbury and Auckland. The rise in the value of non-residential building work consented over the past year suggests demand for steel should further recover. STU 1st Half performance will also likely be assisted by some price and margin. However, increasingly competition in the stainless steel and fastener market could offset some of these benefits.

2017 P/E: 8.9 2018 P/E: 8.6

NZX Code:	**STU**
Share Price:	**$2.35**
12mth Target:	**$2.25**
Projected return (%)	
Capital gain	-4.3%
Dividend yield (Net)	10.1%
Total return	**5.8%**
Rating: NEUTRAL	
52-week price range: 1.79-2.47	

Synlait Milk



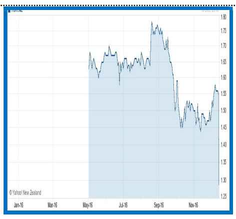
🡑

FY16 was a watershed year for SML. It completed its recent expansionary capex phase (total investment to date of ~$500 million) and enjoyed its first year of material success in its nutritionals strategy on the back of A2's infant formula success. This highlighted the profit potential associated with increasing finished infant formula (IF) sales (likely ~50% of gross profit attributable to ~15% of total sales volume). But it is important to highlight two things: that those sales are still largely dominated by one customer with a relatively short track record of its own; and visibility on gross margins is low and there are a number of factors that influence them. Bbuilding a track record will be important.

2017 P/E: 15.1 2018 P/E: 11.5

NZX Code:	**SML**
Share Price:	**$2.99**
12mth Target:	**$3.80**
Projected return (%)	
Capital gain	27.1%
Dividend yield (Net)	0%
Total return	**27.1%**
Rating: OUTPERFORM	
52-week price range: 2.50-3.87	

Tegel Group



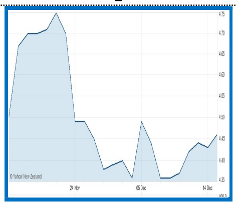
🡑

Disappointing as it is to see TGH reduce its prospectus forecast by c8.5% (at the mid-point of the new EBITDA range), we reiterate our OUTPERFORM rating with a revised $2.00 target price (from $2.10). FNZC maintain that the short oversupply is a timing issue on recovery rather than persisting structural challenge. While not yet evident in TGH's export revenue, it remains in discussions with potential new and existing customers to supply more products into Australia within the next 12 months.

2017 P/E: 12.0 2018 P/E: 11.4

NZX Code:	**TGH**
Share Price:	**$1.32**
12mth Target:	**$2.00**
Projected return (%)	
Capital gain	51.5%
Dividend yield (Net)	5.7%
Total return	**57.2%**
Rating: OUTPERFORM	
52-week price range: 1.29-1.80	

Trustpower

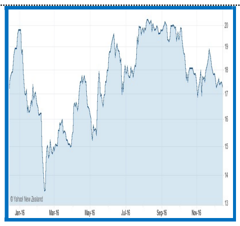


1 Month ➔ since split

TPW is relatively defensive, and will continue to deliver excellent income with the potential for medium-term capital growth. Post the demerger which took place on 31 October 2016, TPW retains the name and brand of the company and owns 570 MW of generation assets and has net assets of $1.3bn. The assets principally comprise New Zealand and Australian hydro generation and the New Zealand customer base. Under the demerger, TPW transferred all of its Australian and New Zealand wind and solar assets to Tilt Renewables.

2017 P/E: 17.2 2018 P/E: 12.2

NZX Code:	**TPW**
Share Price:	**$4.45**
12mth Target:	**$4.62**
Projected return (%)	
Capital gain	3.8%
Dividend yield (Net)	8.2%
Total return	**12.0%**
Rating: NEUTRAL	
52-week price range: 4.34-4.75	

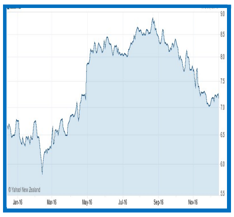


Xero

XRO continues to demonstrate underlying momentum in Australasia, and the region continues to be a stabilising influence (funding source) for international markets. Evidence the UK may be accelerating is a welcome addition to this, as is the continued easing of cost growth which provides further confidence that cash flow targets will be met. In contrast, uncertainty remains in North America and is somewhat compounded by management changes.

2017 P/E: n/a 2018 P/E: n/a

NZX Code:	**XRO**
Share Price:	**$17.45**
12mth Target:	**$21.00**
Projected return (%)	
Capital gain	20.3%
Dividend yield (Net)	0%
Total return	**20.3%**
Rating: OUTPERFORM	
52-week price range: 13.30-22.40	



Z Energy

ZEL has recorded some positive earnings momentum which appears attractive when combined with a share price which currently appears to offer good value when compared to the NZ equity market. In part this probably represents an increase in earnings associated with its holding in NZ Refining (NZR). ZEL appears to be under pressure from concerns about the long term impact of electric vehicles in NZ and increased operating costs which were reported in the 6 months to September 2016.

2017 P/E: 13.5 2018 P/E: 11.2

NZX Code:	**ZEL**
Share Price:	**$7.04**
12mth Target:	**$8.10**
Projected return (%)	
Capital gain	15.1%
Dividend yield (Net)	4.0%
Total return	**19.1%**
Rating: OUTPERFORM	
52-week price range: 5.82-8.90	

12th December 2016 Source: First NZ Capital, CSFB	Ticker	Mkt Cap (NZ$m)	Price (NZ$)	Target Price	Price Earnings FY16	Price Earnings FY17	Net Yield (%) FY16	Net Yield (%) FY17
CONSUMER DISCRETIONARY								
Restaurant Brands	RBD	631	$5.14	$5.73	20.5	17.7	4.1%	4.5%
SKYCITY Entertainment	SKC	2,633	$3.98	$3.65	17.1	16.1	5.0%	5.3%
Trade Me Group	TME	3,814	$4.80	$4.17	23.0	20.7	3.5%	3.9%
Sky Network TV	SKT	1,876	$4.82	$4.84	12.0	13.5	6.2%	6.2%
Kathmandu	KMD	387	1.92	1.98	11.6	10.7	5.7%	6.3%
Michael Hill International	MHJ	546	$1.41	$1.56	24.0	14.3	3.4%	3.5%
CONSUMER STAPLES								
Delegat Group	DGL	587	5.80	5.95	15.9	14.9	2.1%	2.2%
The a2 Milk	ATM	1,683	2.32	2.57	52.4	26.1	0.0%	0.0%
Fonterra Shareholders	FSF	719	$5.93	$6.22	11.7	10.2	6.7%	6.7%
NZ King Salmon	NZK	163	$1.18	$1.49	20.7	16.2	0.0%	3.1%
PGG Wrightson	PGW	359	$0.48	$0.65	9.2	9.9	7.9%	7.9%
Sanford	SAN	629	$6.72	$6.50	15.5	15.1	3.4%	3.6%
Scales Corporation	SCL	461	$3.30	$4.00	12.1	13.3	5.2%	5.2%
Synlait Milk	SML	550	$3.07	$3.80	13.7	14.6	0.0%	0.0%
Tegel	TGH	559	$1.57	$2.10	15.5	12.9	0.0%	5.0%
ENERGY								
NZ Refining	NZR	813	2.60	2.67	18.3	10.3	3.8%	5.9%
Z Energy	ZEL	2,896	$7.24	$8.10	20.3	13.5	3.7%	4.0%
FINANCIALS								
NZX	NZX	274	1.02	1.12	27.1	16.3	5.9%	6.1%
Turners	TNR	262	3.52	3.90	14.3	12.4	3.7%	4.0%
HEALTH CARE								
Pacific Edge	PEB	214	0.56	0.70	-13.6	-18.2	0.0%	0.0%
F&P Healthcare	FPH	4,670	8.24	9.70	32.4	27.8	2.0%	2.5%
Arvida	ARV	401	1.20	1.25	19.7	18.7	3.5%	3.8%
Orion Health	OHE	349	2.18	3.00	-7.2	-10.6	0.0%	0.0%
AFT Pharmaceuticals	AFT	267	2.76	3.10	-25.1	-14.6	0.0%	0.0%
INDUSTRIALS								
Freightways	FRE	1,072	6.92	6.25	19.7	18.6	3.9%	4.0%
Mainfreight	MFT	2,041	$20.27	$18.20	22.9	19.8	1.8%	2.1%
Air New Zealand	AIR	2,414	$2.15	$2.02	4.0	6.5	18.8%	7.5%
Metro Performance Glass	MPG	368	1.99	2.20	16.8	14.6	3.8%	3.8%
Methven	MVN	96	$1.31	$1.50	11.6	11.0	6.5%	6.9%
Opus International	OIC	141	$0.94	$1.00	13.4	10.8	4.3%	4.8%
Skellerup Holdings	SKL	287	1.49	1.55	13.9	14.1	6.0%	6.0%
Auckland Airport	AIA	7,342	6.17	5.25	34.5	30.4	2.8%	3.2%
Airwork Holdings	AWK	251	$5.00	$5.15	10.2	9.7	3.4%	4.4%
Port of Tauranga	POT	2,586	$3.80	$3.51	33.4	31.0	4.1%	3.0%
INFORMATION TECHNOLOGY								
EROAD	ERD	102	1.70	2.60	-92.8	n.m.	0.0%	0.0%
Vista Group International	VGL	466	5.80	6.15	39.9	26.8	1.1%	1.8%
Xero	XRO	2,411	$17.53	$21.00	-29.0	-32.0	0.0%	0.0%
MATERIALS								
Fletcher Building	FBU	7,391	10.65	10.10	17.6	16.2	3.7%	4.0%
Steel & Tube	STU	206	2.27	2.25	10.5	8.9	9.9%	9.9%
PROPERTY								
Argosy Property	ARG	830	1.02	1.13	16.2	15.1	5.9%	6.0%
Goodman Property Trust	GMT	1,543	$1.21	$1.29	15.3	15.0	5.5%	5.5%
Kiwi Property Group	KPG	1,769	$1.38	$1.46	17.9	18.9	4.8%	4.9%
Precinct Properties	PCT	1,429	$1.18	$1.26	19.6	19.0	4.6%	4.7%
Property for Industry	PFI	710	$1.57	$1.62	20.6	20.5	4.6%	4.7%
TELECOMMUNICATION SERVICES								
Chorus	CNU	1,595	3.92	4.37	17.3	13.2	5.1%	5.4%
Spark NZ	SPK	6,294	$3.44	$3.04	17.0	16.3	7.3%	7.3%
UTILITIES								
Contact Energy	CEN	3,384	4.73	6.26	21.6	20.4	5.4%	5.5%
Genesis Energy	GNE	2,120	$2.12	$1.97	20.0	29.0	7.7%	8.0%
Infratil	IFT	1,489	$2.66	$3.36	43.5	45.0	5.4%	5.9%
Mercury	MCY	4,084	$2.97	$2.70	26.9	26.6	6.2%	5.3%
Meridian Energy	MEL	6,587	$2.57	$2.58	28.3	26.9	7.2%	7.5%
Vector	VCT	3,201	$3.21	$3.49	27.2	23.9	4.9%	5.0%
MARKET AVERAGE (excluding ATM, ERD, OHE, PEB & XRO)					**19.6**	**17.3**	**4.2%**	**4.3%**

STRATEGY

Buy-side (investors) and brokers struggle in 2016

Buy-side vs brokers - Each year Credit Suisse analyse the stock-picking performance of the buy-side (investors) and stock-brokers. They look at short interest for the buy-side and consensus recommendations for brokers. Both sides of the equity industry have a strong affinity with momentum stocks. This is a "style" that outperforms in most years but can perform poorly in turn-around years. 2016 was a turn-around year.

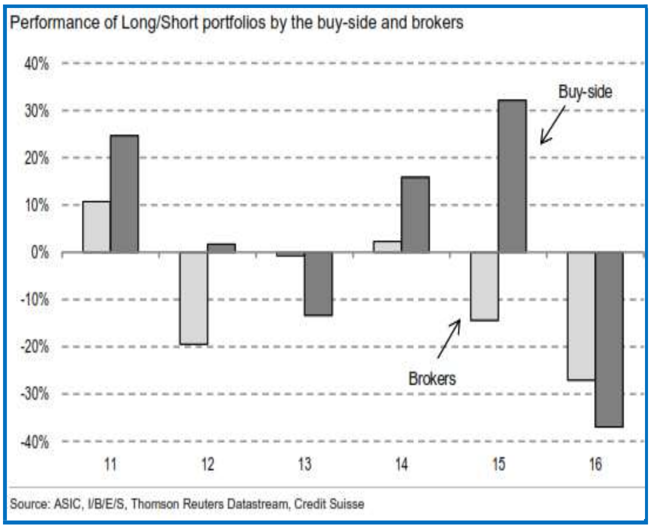
Stock picks for 2017

Going into 2017 the buy-side continues to be buyers of stocks with strong price momentum but now this includes the commodity companies like **Bluescope** and **South 32**.

Brokers are more cautious on commodity stocks, but are big buyers of gaming. Three stocks they like most include **Star Entertainment, Aristocrat** and **Crown**.

Double Consensus Long - In each of the last six years, stocks that both the buy-side and brokers like have generated positive total returns. In 2016 both groups bought Aristocrat, Caltex, Macquarie Group, Qantas and Star Entertainment. These stocks returned an average of 9%. Going into 2017 both groups like **Aristocrat, BlueScope, Caltex** and **ResMed**.

BUY-SIDE AND BROKERS STRUGGLE IN 2016



STRATEGY OUTLOOK

The equity industry's affinity with momentum brought them unstuck in 2016. Momentum strategies, like buying those stocks with rising prices or where Earnings per Share (EPS) trends higher, perform well in most years. But they can perform horrendously in turn-around years. 2016 was a turn-around year.

In Credit Suisse's annual year-end analysis of the consensus stock picks, they find that brokers outperformed the buy-side. However, both groups' notional long/short portfolios lost money.

Still, the stocks that ***both*** the buy-side and brokers liked last year again made investors money over the last 12 months. This is Credit Suisse's Double Consensus Long strategy, and it has generated positive total returns in each of the last six years.

Going into 2017, Credit Suisse find the buy-side consensus is smarting from their short position in commodities, and are now net long the sector. The clear consensus amongst the brokers is a long position in gaming. The Double Consensus Long strategy has generated positive returns, and includes stocks where both the buy-side and brokers are buyers. Going into 2017 buy-side and brokers are long **Aristocrat, BlueScope, Caltex** and **ResMed**.

Microsoft co-founder Bill Gates suggested that Donald Trump could be Kennedy-esque, if the president-elect played his cards right. "I had an opportunity to talk to him about innovation," Gates said. He commented that it was natural for innovation to be the central theme of the two billionaires' talks.

"The great thing about being in New Zealand is that we're quite small.
And sometimes smallness can be a strength because you're not a threat to anybody."
Steven Joyce

AUSTRALIAN FORECASTS 12th December 2016 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (A$m)	Price 12/12/2016 (A$)	Target Price (A$)	Price Earnings (x)		Gross Yield (%)	
					FY15	FY16	FY15	FY16
CONSUMER DISCRETIONARY								
Navitas	NVT	1,814	A$4.97	A$4.95	20.7	20.7	3.9%	3.8%
Aristocrat Leisure	ALL	9,754	A$15.28	A$16.50	24.5	20.4	1.6%	2.3%
Tabcorp Holdings	TAH	3,863	A$4.63	A$5.35	20.8	20.7	5.2%	5.2%
Flight Centre	FLT	3,167	A$31.36	A$36.49	12.8	13.9	4.8%	4.4%
Tatts Group	TTS	6,072	A$4.14	A$4.50	23	24.9	4.2%	9.1%
Crown	CWN	8,326	A$11.43	A$13.00	20.5	20.3	6.3%	4.4%
Star Entertainment	SGR	4310	A$5.22	A$6.50	17.9	18.7	2.50%	2.70%
Fairfax Media	FXJ	2081	A$0.91	A$1.10	16	15.4	4.40%	4.40%
REA Group	REA	6789	A$51.54	A$4.97	33.9	27.1	1.5%	1.8%
Harvey Norman	HVN	5318	A$4.78	A$61.00	16.9	14.4	6.3%	6.2%
JB Hi-Fi	JBH	3,018	A$26.39	A$26.43	17.3	13.9	3.8%	4.5%
CONSUMER STAPLES								
Coca-Cola Amatil	CCL	7,342	A$9.62	A$10.30	17.9	17.4	4.6%	4.7%
Treasury Wine	TWE	7,666	A$10.39	A$10.65	33.5	29	1.5%	2.2%
Wesfarmers	WES	46,041	A$40.71	A$41.18	19.5	16.8	4.6%	4.4%
Woolworths	WOW	29,331	A$22.77	A$24.50	17.9	20.4	3.8%	3.4%
Graincorp	GNC	2,076	A$9.07	A$9.58	39.5	14	1.2%	3.5%
Blackmores Ltd	BKL	1,883	A$109.31	A$125.00	19	25.9	3.8%	2.9%
ENERGY								
Origin Energy	ORG	11,915	6.79	5.40	24.2	23.3	1.5%	0.0%
Caltex Australia	CTX	7,644	A$29.31	A$40.00	14.1	13.1	3.5%	3.8%
Oil Search	OSH	8,072	A$7.12	A$4.44	56.3	23.8	0.8%	1.7%
Santos Ltd	STO	5,950	A$4.50	A$2.31	163.5	16.2	0.0%	0.0%
Woodside Petroleum	WPL	19,738	A$31.47	A$19.67	25	28.2	3.2%	2.8%
FINANCIALS								
Perpetual Limited	PPT	2,199	A$47.21	A$49.00	17.1	16.8	5.4%	5.6%
ASX	ASX	9,378	A$48.44	A$48.00	22	21.8	4.1%	4.1%
IOOF Holdings	IFL	2,670	A$8.90	A$9.00	15.4	15.4	6.1%	5.8%
Magellan Financial Group	MFG	3,985	A$23.16	A$26.00	20	19.4	3.9%	3.7%
Macquarie Group	MQG	29,420	A$86.44	A$85.00	14.4	14.1	4.6%	5.0%
Henderson Group PLC	HGG	1,700	A$4.00	A$2.85	15.5	12.6	4.4%	4.9%
ANZ Banking Group	ANZ	87,883	A$30.02	A$27.30	15.5	13	5.3%	5.5%
Westpac	WBC	108,215	A$32.34	A$31.50	14.2	13.7	5.8%	5.8%
Bank of Queensland	BOQ	4,472	A$11.55	A$11.50	12.7	12.5	6.6%	6.6%
Bendigo and Adelaide Bank	BEN	5,799	A$12.27	A$11.20	14.6	14.4	5.5%	5.5%
Commonwealth Bank Australia	CBA	139,577	A$81.00	A$85.00	15	14.6	5.2%	5.2%
National Australia Bank	NAB	79,474	A$29.91	A$30.00	12.7	12.3	6.6%	6.6%
Clydesdale Bank	CYB	A$2,120	A$4.80	A$3.13	32.5	16.5	0.00%	0.70%
AMP	AMP	A$14,345	A$4.85	A$5.00	-51.7	15.1	5.60%	5.70%
Challenger	CGF	6,283	A$10.99	A$11.50	18	16.7	3.0%	3.0%
Suncorp Group Limited	SUN	17,321	A$13.43	A$13.60	16.9	14.5	5.1%	5.4%
QBE Insurance Group	QBE	12,744	A$12.48	A$8.73	16.4	15.7	4.9%	4.4%
Insurance Australia Group	IAG	13,886	A$5.87	A$5.65	23.2	17.5	6.1%	4.5%
Medibank Private Limited	MPL	7,477	A$2.72	A$2.50	17.7	18.2	4.1%	4.3%
HEALTH CARE								
CSL	CSL	31,862	93.86	82.27	28.1	25.3	1.8%	1.9%
Cochlear	COH	6,564	114.30	123.30	34.6	29.6	2.0%	2.4%
Ansell	ANN	2,745	A$25.01	A$16.72	18.2	17.4	2.3%	2.4%
ResMed	RMD	A$8,695	A$8.29	A$6.88	24.2	25.5	2.00%	2.20%
Sonic Healthcare	SHL	A$9,112	A$21.91	A$21.75	20.2	20.5	3.40%	3.50%
Ramsay Health Care	RHC	13,657	A$67.58	A$75.00	29.2	26.2	1.8%	2.0%
Primary Health Care	PRY	2,023	A$3.88	A$4.00	19.4	18.1	3.1%	3.4%
Healthscope	HSO	3,973	A$2.29	A$2.40	20.4	21.7	3.2%	3.0%

AUSTRALIAN FORECAS 12th December 2016 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (A$m)	Price 12/12/2016 (A$)	Target Price (A$)	Price Earnings (x)		Gross Yield (%)	
					FY15	FY16	FY15	FY16
INDUSTRIALS								
Qantas	QAN	6,340	A$3.43	A$4.40	7.0	6.7	2.0%	7.9%
Brambles	BXB	13,919	A$11.77	A$8.77	24.9	21.0	2.5%	2.7%
Downer EDI	DOW	2,638	A$6.21	A$5.30	14.3	15.9	3.9%	3.9%
ALS Limited	ALQ	3,121	A$6.19	A$5.90	28.6	29.2	2.2%	2.0%
Seek	SEK	5,127	A$14.74	A$15.30	28.6	27.0	2.7%	2.8%
Aurizon	AZJ	10,372	A$5.06	A$4.75	20.7	19.0	4.9%	5.3%
Transurban	TCL	20,581	A$10.08	A$12.50	907.7	62.2	4.5%	5.0%
Sydney Airport	SYD	14,365	A$6.39	A$6.00	42.3	40.7	4.9%	5.3%
Qube Holdings Limited	QUB	3,470	A$2.39	A$2.30	31.4	28.1	2.3%	2.3%
INFORMATION TECHNOLOGY								
carsales.com.au	CAR	2,482	A$10.28	A$12.25	22.4	20.6	3.6%	3.9%
Computershare	CPU	5,035	A$12.38	A$8.78	16.7	17.2	2.7%	2.7%
MATERIALS								
Orica	ORI	6,400	A$17.07	A$16.89	16.4	17.4	2.9%	3.0%
Incitec Pivot	IPL	5,736	A$3.40	A$3.28	19.5	25.6	2.6%	2.0%
Dulux Group	DLX	2,304	A$5.92	A$6.00	17.7	17.3	4.0%	4.1%
CSR	CSR	2,149	A$4.26	A$3.75	13.0	11.4	5.6%	6.3%
Boral	BLD	6,284	A$5.36	A$6.45	15.1	15.0	4.2%	4.5%
James Hardie Industries	JHX	6,925	A$21.11	A$16.07	28.8	26.3	2.4%	2.7%
Amcor	AMC	12,382	A$14.36	A$11.22	18.8	18.1	3.8%	4.0%
Orora	ORA	3,379	A$2.80	A$3.05	20.9	19.3	3.4%	3.7%
Metals & Mining								
BHP Billiton	BHP	98,478	A$26.16	A$19.82	81.9	12.9	1.5%	4.9%
Rio Tinto	RIO	75,582	A$63.02	A$52.35	16.0	10.9	3.2%	9.7%
Newcrest Mining	NCM	10,526	A$18.44	A$13.61	31.1	17.3	0.5%	0.7%
Alumina Limited	AWC	3,731	A$1.74	A$1.16	31.8	11.7	6.2%	8.8%
Iluka Resources	ILU	2,998	A$7.16	A$7.00	-195.8	22.9	1.0%	0.0%
Fortescue Metals	FMG	15,706	A$6.78	A$4.86	16.0	7.2	2.2%	5.5%
BlueScope Steel	BSL	5,515	A$9.61	A$8.30	19.4	10	0.6%	1.0%
Northern Star Resources	NST	1,988	A$3.31	A$4.10	12.1	9.4	3.0%	3.2%
South 32	S32	11,792	A$2.98	A$2.09	64.1	9.1	0.0%	4.4%
REAL ESTATE / PROPERTY								
Lend Lease	LLC	8,063	A$13.83	A$17.00	11.5	10.6	4.3%	5.0%
GPT Group	GPT	8,837	A$4.92	A$5.21	16.4	16.0	4.8%	5.1%
Stockland Group	SGP	10,642	A$4.43	A$4.73	15.9	15.0	5.5%	5.8%
Mirvac Group	MGR	7,651	A$2.07	A$2.30	15.9	14.3	4.8%	5.0%
Investa Office Fund	IOF	2,754	A$4.49	A$4.48	15.7	15.3	4.4%	4.5%
Dexus Property Group	DXS	8,876	A$9.17	A$8.78	14.5	14.5	4.7%	4.9%
Goodman Group	GMG	12,202	A$6.82	A$7.37	17.0	15.9	3.5%	3.8%
Vicinity Centres	VCX	11,579	A$2.93	A$3.08	15.3	15.5	6.1%	6.0%
Westfield Corporation	WFD	13,785	A$8.91	A$8.25	19.8	18.8	3.8%	3.8%
Scentre Group	SCG	23,294	A$4.38	A$5.30	18.8	17.9	4.9%	5.1%
TELECOMMUNICATION SERVICES								
Telstra Corporation	TLS	59,658	A$5.00	A$4.80	15.2	14.8	6.2%	6.2%
TPG Telecom	TPM	6,313	A$7.44	A$8.00	17.3	16.6	1.9%	2.2%
Vocus Communications	VOC	2,527	A$4.08	A$6.00	13.6	11.9	4.3%	4.2%
UTILITIES								
AusNet Services	AST	5,259	A$1.48	A$1.65	15.9	19.1	5.8%	6.0%
Spark Infrastructure Grou	SKI	3,877	A$2.31	A$2.50	32.3	35.4	6.3%	6.6%
APA Group	APA	9,015	A$8.09	A$7.95	50.2	36.1	5.1%	5.4%
DUET Group	DUE	6,727	A$2.77	A$2.80	36.0	26.8	6.5%	6.7%
AGL Energy	AGL	14,328	A$21.29	A$22.50	20.5	18.5	3.2%	4.1%
Market Average					23.7	18.5	3.7%	4.2%

Global Equities – a look at the US, post-election

Healthcare

The healthcare sector is a notable benefactor of Trump's victory. The sector was under pressure leading into the election with the polls showing a likely victory for Hillary Clinton who campaigned against drug price inflation and promised increased regulation and greater government scrutiny. With a Republican sweep, this threat has gone. A number of healthcare companies stand to benefit from a low 10% repatriation tax, which should encourage companies to repatriate cash held offshore to the US. Trump did promise to repeal and replace Obamacare on his first day, which is a risk for the sector, in particular for hospitals. However, US politics is complex and even though the Republicans have a majority in the senate, they don't have the 60% of votes required to overturn laws. While not election related, the sector benefits from an aging population, has good growth prospects and trades at a reasonable valuation. FNZC's favoured investments in the sector are, **Pfizer (PFE.US), Johnson and Johnson (JNJ.US)** and **Worldwide Healthcare Trust (WWH.LN)**.

Technology

Technology companies have been out of favour post-election, as an anti-immigration policy could limit the talent pool for technology companies, protectionism could result in tariffs being imposed on imported technology products manufactured aboard and a stronger US dollar is detrimental for companies with high international revenue exposure. It is not all bad for the technology sector though, due to the potential for repatriation of cash held overseas and a lower corporate tax rate. **Apple (AAPL.US)** emerges as a big beneficiary, as it has substantial cash (US$200 billion) held offshore and a higher tax rate than other technology companies. The cash is likely to be used for share buybacks and acquisitions.

Financials

US financial companies have been out of favour for some time, but are benefiting from the expected impact of the new President. The improved outlook reflects a more positive view on US economic growth from increased investment, as well as higher long term interest rates and a stronger expectation for interest rate increases by the US Federal Reserve. FNZC's positive stance on US banks is bolstered by an expected relaxation of regulations and a lower tax rate. To gain exposure to the sector they favour **Bank of America (BAC.US)** and **iShares Global Financials Fund (IXG.US)**.

Manufacturing and Infrastructure

The proposed policy to return manufacturing capacity to the US is likely to take time to gain any traction given the time taken for companies to assess the impact of the proposed policy changes, and to develop appropriate plans. Consequently, it is worth watching a company like **Rockwell Automation (ROK.US)** which is involved in automation.

Another policy which is likely to take time to have an impact is construction of new infrastructure. This is likely to benefit machinery like **Caterpillar (CAT.US)**, engineering and construction companies and companies producing construction materials (in particular cement, aggregates. Consider **Cemex (CX)**, a global cement and aggregate producer with exposure to the US), and steel - **Nucor Corporation (NUE).**

Energy

The election of Trump marks a shift toward a more coal, gas and oil oriented energy policy, versus that of Obama. Trump has talked about lifting restrictions on the production of US energy reserves; withdrawing from climate change initiatives; and approving energy infrastructure projects, such as the controversial Keystone pipeline. Other positives for the sector include the re-negotiation of existing trade agreements, revisiting the Iranian nuclear deal, and a cut in corporate taxes. In the sector FNZC favour **Schlumberger (SLB.US)**. One word of caution is that short-term performance of energy companies is more likely to be driven by fluctuations in the price of oil, which is heavily impacted by the actions of major producers, including OPEC.

Thoughts from Warren Buffett (Letter to shareholders)

"At Berkshire, we, too, crave efficiency and detest bureaucracy. To achieve our goals, however, we follow an approach emphasizing avoidance of bloat, buying businesses such as PCC that have long been run by cost-conscious and efficient managers. After the purchase, our role is simply to create an environment in which these CEOs – and their eventual successors, who typically are like-minded – can maximize both their managerial effectiveness and the pleasure they derive from their jobs. (With this hands-off style, I am heeding a well-known Mungerism: 'If you want to guarantee yourself a lifetime of misery, be sure to marry someone with the intent of changing their behaviour.')"

BUFFET ON THE US ELECTION
(He has been a strong Clinton supporter)

"It's an election year, and candidates can't stop speaking about our country's problems (which, of course, only They can solve). As a result of this negative drumbeat, many Americans now believe that their children will not live as well as they themselves do. That view is dead wrong: The babies being born in America today are the luckiest crop in history. American GDP per capita is now about $56,000. As I mentioned last year that – in real terms – is a staggering six times the amount in 1930, the year I was born, a leap far beyond the wildest dreams of my parents or their contemporaries. U.S. citizens are not intrinsically more intelligent today, nor do they work harder than did Americans in 1930. Rather, they work far more efficiently and thereby produce far more. This all-powerful trend is certain to continue: America's economic magic remains alive and well. Some commentators bemoan our current 2% per year growth in real GDP – and, yes, we would all like to see a higher rate. But let's do some simple math using the much-lamented 2% figure. That rate, we will see, delivers astounding gains.

"For 240 years it's been a terrible mistake to bet against America, and now is no time to start. America's golden goose of commerce and innovation will continue to lay more and larger eggs. America's social security promises will be honoured and perhaps made more generous. And, yes, America's kids will live far better than their parents did."

NZ Daily Fixed Interest Rate Sheet

PRICES AS AT 16TH DECEMBER 2016 NOTE: Indicative pricing only

Secondary market	Code	Rating	Type	Maturity/ Reset Date	Coupon	Yield	Margin to SWAP	Minimum Size	Price/$100	Accrued Interest	Coupon Freq
Fletcher Building	FBI100	NR	Cap	15/03/2017	7.50%	**5.50%**	346	$2,000	$102.42	$1.97	2
Vector	VCT070	BB+	Cap	15/06/2017	7.00%	**4.80%**	268	$5,000	$101.13	$0.08	2
Fletcher Building	FBI110	NR	Cap	15/03/2018	7.15%	**4.00%**	177	$2,000	$105.64	$1.88	2
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	**4.30%**	183	$2,000	$103.73	$1.42	2
Fletcher Building	FBI130	NR	Cap	15/03/2019	6.45%	**4.30%**	183	$5,000	$106.22	$1.69	2
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	**5.40%**	285	$10,000	$105.69	$2.82	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	**4.54%**	191	$5,000	$106.61	$0.62	4
University of Canterbury	UOC010	NR	Snr	15/12/2019	5.77%	**4.10%**	145	$5,000	$104.72	$0.06	2
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	**4.50%**	182	$5,000	$114.60	$2.91	4
Fletcher Building	FBI140	NR	Cap	15/03/2020	5.80%	**4.20%**	150	$5,000	$106.31	$1.52	2
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	**4.00%**	114	$5,000	$108.08	$0.05	2
Bank of New Zealand	BNZ090	BBB+	Tier 2	17/12/2020	5.31%	**5.44%**	258	$5,000	$99.57	$0.03	4
Fletcher Building	FBI150	NR	Cap	15/03/2021	4.75%	**4.70%**	179	$5,000	$101.43	$1.25	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	**4.37%**	145	$5,000	$108.67	$1.36	4
Chorus Limited	CNU010	BBB	Snr	6/05/2021	4.12%	**4.21%**	127	$500	$100.14	$0.49	2
Fonterra Co-operative	FCG030	A-	Snr	20/10/2021	4.33%	**4.07%**	104	$5,000	$101.85	$0.71	2
Contact Energy	CEN030	BBB		15/11/2021	4.40%	**4.44%**	140	$5,000	$100.23	$0.41	4
Precinct Properties	PCT010	NR	Snr	17/12/2021	5.54%	**4.50%**	144	$5,000	$104.65	$0.03	2
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	**5.50%**	237	$5,000	$106.42	$0.08	4
Goodman Property Trust	GMB030	BBB+	Snr	23/06/2022	5.00%	**4.45%**	131	$5,000	$105.12	$2.45	2
Sky City Bond	SKC040	BBB-	Snr	28/09/2022	4.65%	**4.70%**	152	$5,000	$100.81	$1.05	4
Trustpower	TPW150	NR	Snr	15/12/2022	4.01%	**4.65%**	144	$5,000	$96.71	$0.04	4
Infratil	IFT210	NR	Bnd	15/09/2023	5.25%	**5.70%**	237	$5,000	$98.89	$1.37	4
Infratil	IFT230	NR	Bnd	15/06/2024	5.50%	**6.15%**	274	$5,000	$96.18	$0.06	4
Floating Rate/Perpetual Bonds	**Code**	**Rating**	**Type**	**Reset Date**	**Coupon**	**Price /$100**	**Margin to Minimum**	**Maturity**			**Freq**
ASB Bank Basel III complian	ABB031	BBB+	Tier 2	15/06/2019	6.65%	**5.00%**	280	$10,000	Perpetual		4
ANZ National Bank	ANBHA	BBB+	Tier 2	18/04/2018	5.28%	**101.80**	280	$10,000	Perpetual		2
ANZ National Bank	ANBHB	BBB-	Tier 1	25/05/2020	7.20%	**103.50**	440	$10,000	Perpetual		2
ASB Bank	ASBPA	BBB	Tier 1	15/11/2017	3.42%	**0.76**	250	$5,000	Perpetual		4
ASB Bank	ASBPB	BBB	Tier 1	15/05/2017	3.20%	**0.71**	240	$5,000	Perpetual		4
Credit Agricole S.A.	CASHA	BB+	Tier 1	19/12/2017	5.04%	**90.00**	290	$5,000	Perpetual		4
Fonterra Co-operative Gro	FCGHA	BBB+	Perp	10/07/2017	4.38%	**95.00**	210	$5,000	Perpetual		4
Genesis Power	GPLFA	BB+	Cap Bond	15/07/2018	6.19%	**102.60**	350	$5,000	Perpetual		4
Infratil	IFTHA	NR	Perp	15/11/2017	3.63%	**63.80**	360	$5,000	Perpetual		4
Quayside Holdings	QHLHA	NR	Perp Pref	12/03/2017	5.88%	**97.00**	210	$5,000	Perpetual		4
Rabobank Nederland	RBOHA	BBB-	Tier 1	8/10/2017	2.88%	**96.35**	740	$5,000	Perpetual		4
Rabobank Nederland	RCSHA	BBB-	Tier 1	18/06/2019	8.34%	**104.85**	440	$5,000	Perpetual		4
Works Infrastructure	WKSHA	NR	RPS	15/06/2017	7.21%	**100.50**	400	$3,000	$100.48		4

Nation Government's 18th December Cabinet Changes

Limitations and Disclaimer