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Investment Strategies

Volume 8

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Global Markets

Time for caution - but not fear

World Markets have performed strongly over the past three to four years, and many will be hailing "doom and gloom," but this is a time when our long term investors need to hunker down, and be prepared to ride any roller coasters that may appear.

In New Zealand we have a government that has played it safe, using prudent fiscal disciplines to drive growth at a time when most of the western world has been struggling. Dairy exports have spooked many, but while they account for 20% of our export earnings, they actually only account for 5% of our Gross Domestic Product (GDP).

Our National-led Government has cut the central government excesses of the previous regime, while encouraging innovation, and this has led to a country that is both positive and increasingly ambitious for all New Zealanders.

Bank interest rates look to be coming down, rather than up, and with the Exchange Rate drop benefiting exporters, we look pretty well positioned to meet anything that this uncertain world presents to us.

If you are a pessimist then I suggest you watch the price of Gold, which is a "safe-haven" in times of concern, but currently it remains subdued.

NZX50 Index – Last 12 months

Personal – if your company is needing to do some strategic thinking then "fresh eyes" always help. I am available, and happy to quote. Whether it's strategic thinking, funding (especially for the not-for-profit sector), RMA issues, or Investment Portfolio management.

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"Success is not final; failure is not fatal: It is the courage to continue that counts."
Winston S. Churchill

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The NZ Economy - July

The release of March 2015 quarter GDP data showing a weaker-than expected GDP growth outturn has raised some concerns regarding a weaker activity profile for the NZ economy. In particular, the modest March 2015 quarterly growth rate of 0.2% Quarter on Quarter (QoQ) resulted in the annual pace of GDP growth falling back to 2.6% QoQ, down from the previous above trend growth rate of 3.5% YoY.

Looking ahead, leading indicators of the NZ economy suggest a further weakening in the pace of growth with a sub-trend annual GDP growth rate of around 2.0%, driven by:

- A sharp decline in dairy prices, with the reduced prospects of a rapid near-term rebound,
- Agricultural-related weakness moving through the broader economy,
- Sharp downward-shift in both business and consumer confidence, and
- A falling positive contribution from the Canterbury earthquake rebuild.

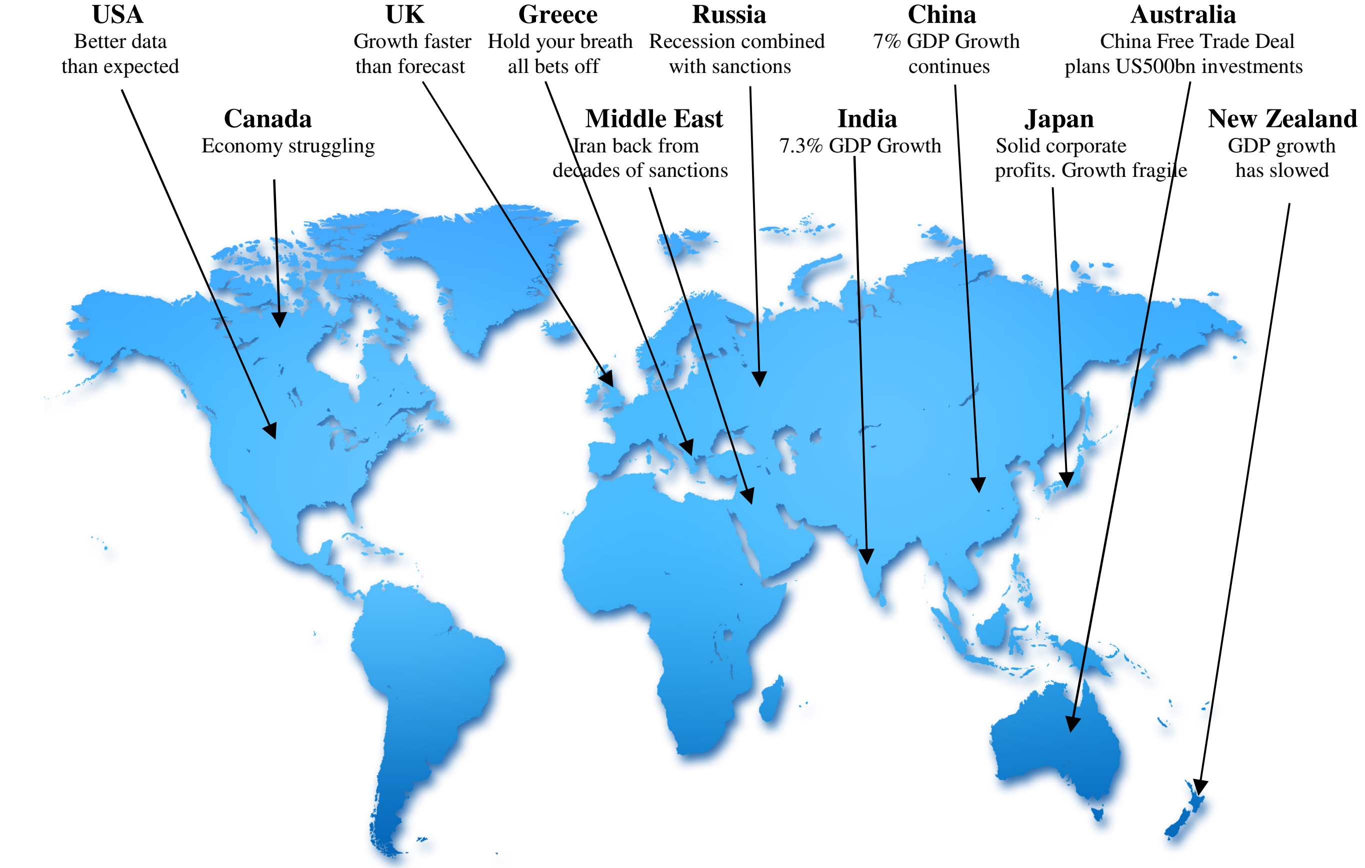
Moreover, against a global backdrop of Euro zone uncertainties surrounding a potential Greek exit, together with recent volatility in Chinese financial markets and the heightened risks of a hard landing, we would also assess the risks as being skewed towards a more pronounced period of sub-trend growth over the year ahead.

Nevertheless, currently supportive domestic factors limiting the risks of an emerging recession include: still robust housing market activity, on-going Canterbury rebuild construction and continued high levels of net migration, together with the prospect of further weakening in the NZ dollar and more supportive monetary policy settings.

Moreover, we assess that for a more substantial downturn to become entrenched it would likely require a significant deterioration in domestic labour market conditions and a rapid rise in the unemployment rate, which is not currently our central scenario.

Responding to the weaker-than-expected domestic growth backdrop, heightened global economic risks and set against muted inflation expectations and below target CPI outturns, we expect the RBNZ to act on their June 2015 *Monetary Policy Statement* (*MPS)* easing bias. In particular, we expect the RBNZ to undertake three additional 25bps cuts to the OCR over the remainder of this year, taking the OCR back to 2.50%. Specifically, we expect interest rate reductions at the RBNZ's 23 July *OCR Review*, the 10 September *MPS* and 29 October *OCR Review*.

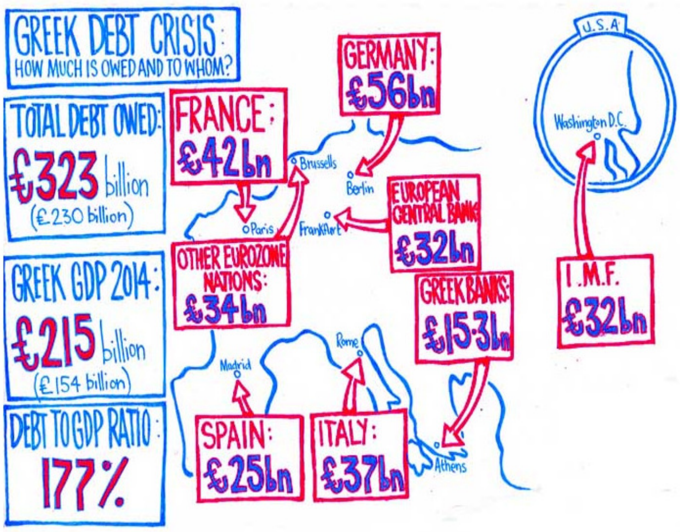
THE WORLD AT A GLANCE



The Global Economy

Eurozone – the Greek Bailout

What was agreed was not the next Greek bailout, merely a deal to begin talks about it. In relative terms it seems a good deal, but in practical terms it remains a real mess. They came to the agreement for two negative reasons; 1st: The alternative is much more uncertain, and therefore much scarier; and 2nd: Nobody wants to go down in history for being responsible for the exit of Greece from the EU. This is a really challenging austerity measure for a country that has already had its GDP drop by 25%. This is a forced deal, filled with great uncertainty.



Greece will receive between €82bn and €86bn in funding to cover its financing needs over the next three years, and to recapitalise its banks. This will come from the European Stability Mechanism bailout fund and (probably) the International Monetary Fund. This new bailout will be on top of the €240bn of assistance that has already been committed by Europe and the IMF to keeping Greece afloat since 2010.

Greek Prime Minister Tsipras has been forced to concede to the toughest measures ever imposed on a Eurozone economy, in return for opening talks on a new rescue package worth €86bn.

The cruel capitulation forced upon Greece offers no conceivable way out the country's perpetual crisis. The terms are harsher by a full order of magnitude than those rejected by Greek voters in the recent landslide referendum, and therefore can never command democratic assent.

They must be carried through by a Greek parliament still dominated by MPs from Left and Right who loathe every line of the summit statement, the infamous SN 4070/15, and have only agreed – if they have agreed – with a knife to their throats.

The creditors have sought to nail down the new memorandum by transferring €50bn of Greek assets to "an independent fund that will monetarise the assets through privatisations and other means". It will be used in part to pay off debts. This fund will be under EU "supervision". The cosmetic niceties of sovereignty will be preserved by letting the Greek authorities manage its day to day affairs. However, nobody is fooled.

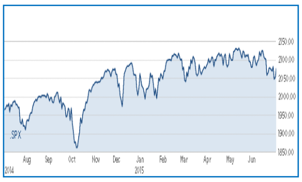
Greek Quiz

Solve the riddle:

STEP PETS PETS

Answer:
One step forward, two steps back

United States



USA is moving into "Presidential" mode, with aspirants vying for their Party nominations. Obama is now a "lame" duck President, seemingly incapable of making a positive impact from his term as President.

GDP Growth has turned negative after three strong quarters. The first-quarter decline in real GDP reflected declines in exports of goods, notably capital goods as well as autos and parts; in business investment, notably in mining exploration, shafts, and wells; and in state and local government spending.

Real GDP growth is measured at seasonally adjusted annual rates.

Partly offsetting the contributions to the decline in GDP, consumer spending on services rose, notably on health care and on housing and utilities. Also, inventory investment and housing investment rose.

Economic growth in the US is below trend, but is broadly based and stable. The key area of underperformance is consumer spending and consumer sentiment. The worry is that higher interest rates will see capital flow out of emerging markets to the US and drive the USD even higher. This move will force emerging markets to raise rates and stifle their growth. Despite the US Fed move to deflate the USD, the global weak growth outlook will continue to see the USD strengthen on a relative basis, and force the US Fed to talk down interest rate rise risks.

China

China's GDP growth likely slowed further in the second quarter, as a slowdown in investment and trade weighed on the world's second-largest economy. The median forecast in a poll of 14 economists indicates gross domestic product (GDP) expanded 6.9 percent in April-June, marginally down from 7.0 percent in the first three months of this year. That would be the worst quarterly result since the first three months of 2009, in the depths of the global financial crisis, when China's economy expanded by 6.6 percent.

We get concerned at a slowdown in China, but its GDP growth still runs at more than double that of Western countries.

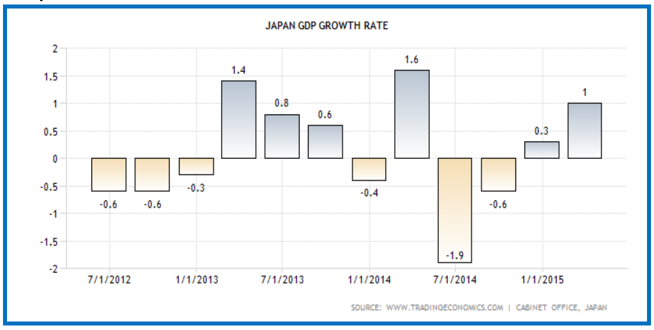
China's Stock Market has been facing a "melt down", but one has to remember that it has only 15m investors in its Stock Market (the Shanghai Composite Index), with an average of just US$15,000 for two thirds of these. The 30% plunge from its peak on 12th June 2015, was after a 135% rise over the previous 12 months. In reality there was little wealth effect on the way up, and market followers expect there to be little effect on the way down. Only 7% of China's urban population invest in the stock market, about half of that for US investors. US$30 trillion has been wiped off the Chinese market in the 30 days to 10th July, but there is still strong bank deposit inflows, growing 10%. Some commentators voiced worry at the margin lending losses by Chinese investors, but in fact margin lending in China is very small, and in the overall context, inconsequential.

The Communist Party has intervened because it is preoccupied with stability and staying in power, but we can't judge this market like Western Markets. To put it into perspective there has been a US$20 billion interference compared with a total market capitalization of US$30 trillion.

If you are looking to invest into the Chinese Markets then the best way is still via Hong Kong's Hang Seng, which doesn't look overvalued, trading on a Price to Earnings Ratio of just 11 times.

Japan

The Japanese economy has now rebounded from the contraction in the wake of its 2014 tax hike. Supported by the fall in oil prices and real wage gains, output growth is projected to reach ¾ per cent in 2015 and 1½ per cent in 2016.



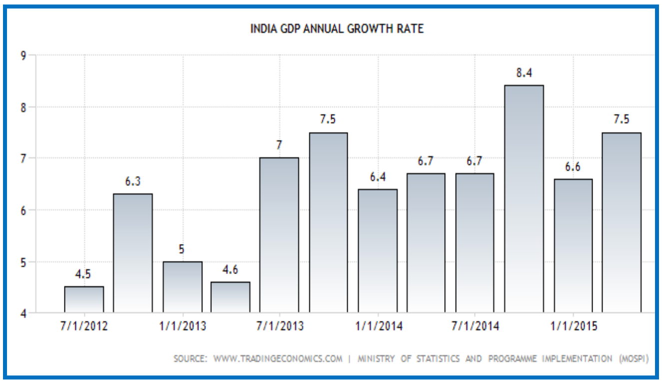
Export growth is projected to remain buoyant, reflecting the weaker yen and a gradual pick-up in world trade. Inflation, which has fallen close to zero, is projected to begin rising in the second half of 2015, reaching 1½ per cent by the end of 2016, while the unemployment rate continues to fall.

The Bank of Japan's "quantitative and qualitative monetary easing" is likely to continue until the 2% inflation target has been sustainably achieved. The reduction of public debt remains a top priority, as gross public debt has reached 230% of GDP. To achieve fiscal sustainability, a detailed and credible fiscal consolidation plan is needed, to attain the target of a primary budget surplus by 2020. Faster output growth through bold structural reforms, are needed to boost Japan's private-sector investment.

Business investment is a key to raising labour productivity, which is a quarter below the average of the top half of OECD countries. The planned cuts in Japan's relatively high corporate income tax rate are expected to spur investment, but other measures are needed. Further improving the corporate governance framework and accelerating product market reforms, to create new business opportunities, would encourage Japanese firms to invest their large cash holdings. Raising Japan's relatively low rate of firm creation, in part by promoting venture capital investment, is another priority.

India

India's economic growth will remain high, supported by a revival in investment. The FY 2015-16 fiscal consolidation target has been relaxed to allow for increased infrastructure investment while structural reforms to improve the ease of doing business and the "Made in India" initiative should boost corporate investment. Export growth will be held back by the currency appreciation. The decline in oil prices will reduce pressures on the current account deficit, inflation and subsidies. Improved public spending efficiency and increased revenue are required to fund needed public investment in physical and social infrastructure. The reduction in inflation expectations provides room for monetary easing. Addressing non-performing loans would strengthen monetary policy transmission.



Investment failed to rebound in 2014, reflecting poor infrastructure and delays in administrative procedures. The government has deregulated the coal sector, taken measures to improve the business environment and opened up new sectors – including construction, rail and insurance — to foreign direct investment. The 2015/16 Budget raises investment in the rail sector.

Australia

The Australian Budget was out on 12th May, and the forecasts include a deficit of A$35.1bn for 2015/16; 2.75% economic growth in 2015/16; 6.5% unemployment in 2015/16; and 2.5% inflation over next four years. They now talk about getting back to surplus in 2019/20, but that far out it can only be considered "hot air". Commentators called it a *forgettable Budget*, that shows little sign that "the Lucky Country" is any closer to recovery. Iron ore prices have fallen steeply. Unemployment is up. Consumer confidence is fragile. In Sydney, the gap between rich and poor has widened, with people in the poorer suburbs earning on average as little as A$38,637 a year, compared with A$143,112 in well-heeled areas.

Looking ahead, growth is projected to dip to 2¼ per cent in 2015 but pick up to nearly 3% in 2016.

Gathering momentum in consumption, non-resource investment and exports help the economy adjust and recover from the fall in commodity prices and unwinding resource-sector investment. Consumer price inflation has been dented by lower oil prices and will remain moderate due to economic slack.

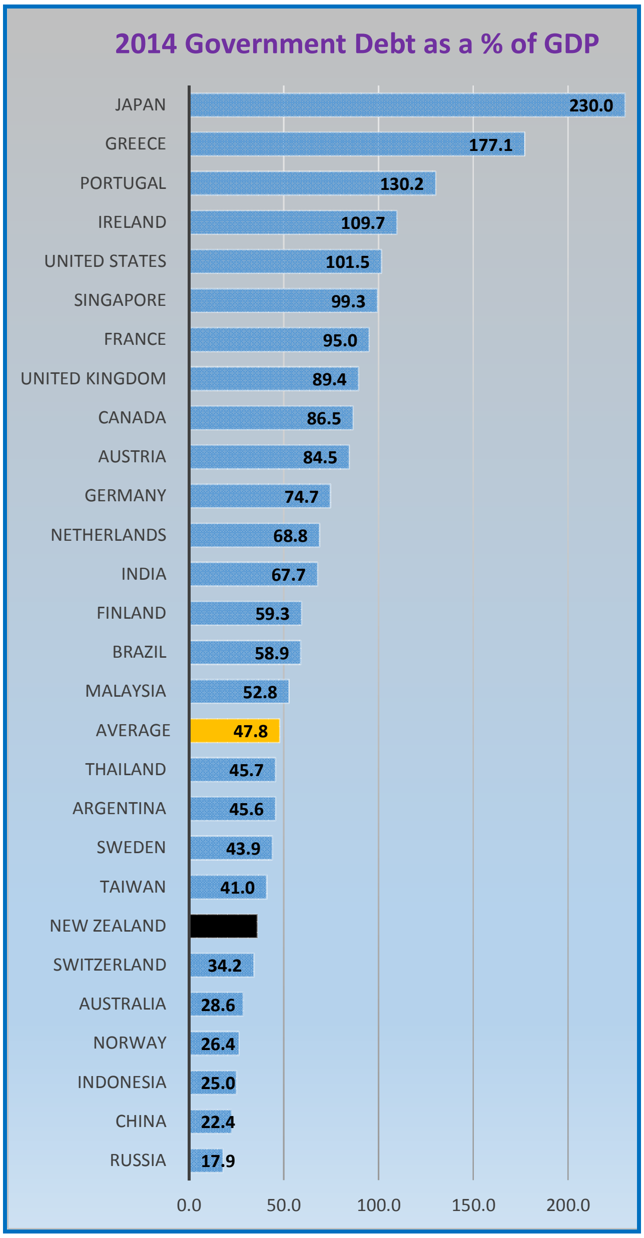
The unwinding of resource-sector investment reflects large-scale projects reaching completion and easing-up of investment plans given commodity-price falls. Enhancing the climate for business investment in non-commodity sectors requires maintaining sound macroeconomic policies, further tax reform, cuts to red tape and competition-boosting measures. Plans to boost investment in public infrastructure are welcome, but project selection will require rigorous cost-benefit analysis.

Commodities

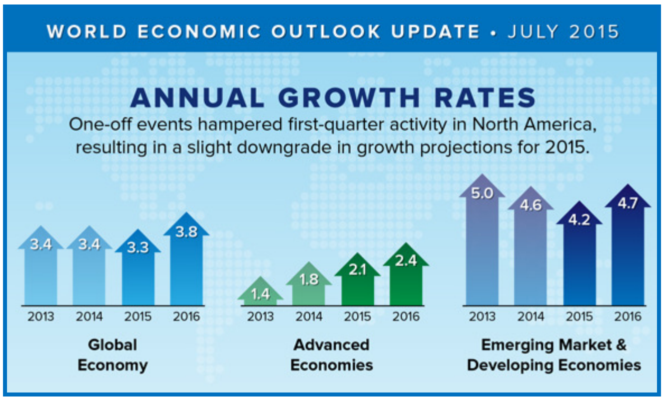
Oil prices have rebounded more than expected in the second quarter of 2015, reflecting higher demand and expectations that oil production growth in the United States will slow faster than previously forecast. Nevertheless, the average annual oil price expected for 2015—US$59 a barrel—is in line with expectations, with a somewhat smaller increase forecast for 2016 and beyond, as global oil supply is running well above 2014 levels and global oil inventories are still rising. The reduction in oil investment may, however, lead to a somewhat weaker boost to activity in North America from lower oil prices than expected earlier.

A Nuclear Deal with Iran will increase global supply, and this should see oil prices further constrained.

We expect Iron Ore to average below US$60 over the next few years with rising supply and falling demand while Energy prices likely average high to mid US$50 in the short to medium with OPEC holding over supply and more supply likely from Iraq and Iran. Longer term outlook for the fossil fuel and utilities sectors are likely to be challenged by improving battery technology supporting alternative clean energy sources in 5-10 year time frame. The next commodity up cycle will require a large emerging country like India or Indonesia to ramp up substantial building up phase like China. We struggle to see that in the next five years.



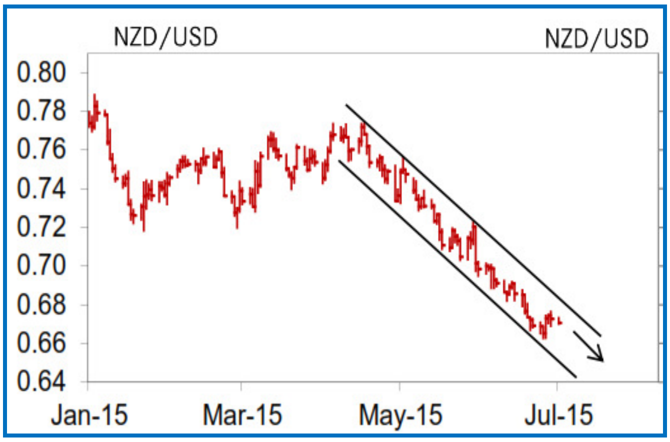
New Zealand Government Debt as a % of GDP

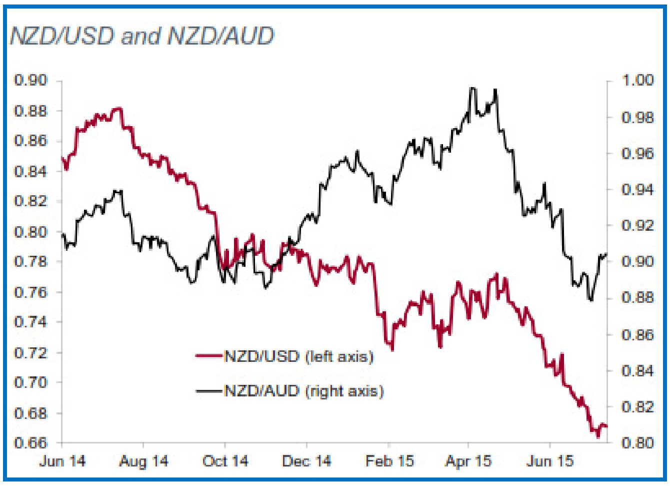


NZ Dollar

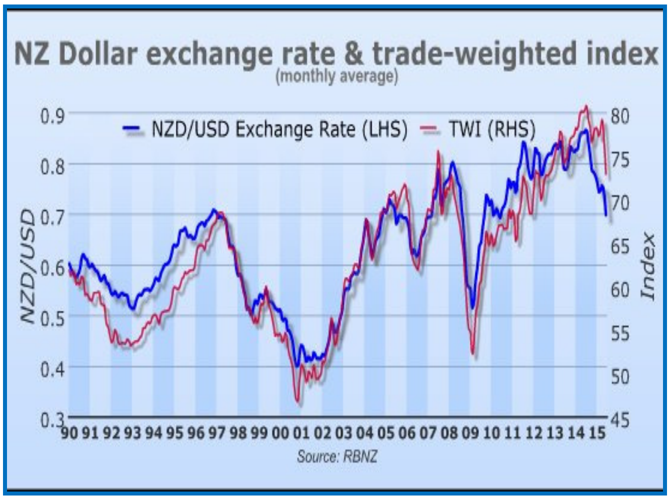
I remain bearish on the NZ/USD and the dollar has just broken through our short term target of 0.6560. The NZ economy continues to lose momentum, with dairy prices continuing lower. This should see the Reserve Bank cutting the OCR next week. When you add the global uncertainty, and the US reaffirmation of its tightening mode, the macroeconomic backdrop for the NZ Dollar is negative.

Looking forward, we can see a 0.62 cent NZD/USD within the next three to six months, before it finds a floor. This is good and bad news for our NZ economy – good for exporters and the dairy industry in particular, but it will drive costs, especially for commodities associated with the price of oil.





Source: Westpac Bank



Source: Reserve Bank of New Zealand

The Rise of ISIL

The Isis advance across northern Iraq last summer – and its subsequent declaration of a caliphate (a caliphate is a form of Islamic government led by a caliph – a person considered a political and religious successor to the prophet Muhammad and a leader of the entire Muslim community). This has taken the world by surprise, but it was a crisis that had been brewing for several years. This group now calls itself Islamic State, and grew out of the chaos and sectarian hatred unleashed at the end of the Iraq war.

The difference between Isis and the Islamic State?

Isis, or the Islamic State of Iraq and Syria, was regarded by the west as a terrorist organisation even before it began its murderous rampage across the Middle East. Initially called Al-Qaeda in Iraq, it became Isis or Isil in 2013, and then Islamic State after it claimed to have established a caliphate at the end of last summer.

It has played a prominent role in Syria's civil war with the chaos enabling it to develop a reputation as one of the most extreme groups operating in the region.

However, its insistence on strict Sharia law and its focus on establishing a state rather than toppling President Bashar al-Assad have alienated the group from the larger rebel movement. Its influence was curtailed last year when opposition groups ousted it from Idlib and Aleppo, two areas where it had been most active. It has also been repelled from Kobane, near the Turkish border, and come under attack in the Iraqi city of Tikrit, but it still controls large swathes of territory. Most recently it appears to have captured the city of Ramadi, just 70m west of Baghdad.

A group or a geographical state?

Islamic State "effectively governs a nation-size tract of territory that stretches from the eastern edge of the Syrian city of Aleppo to Fallujah in western Iraq – and now also includes the northern Iraqi city of Mosul". Although the borders of the territory it controls has ebbed and flowed since then, its power has not been substantially diminished. The group views itself as its own state with administrative buildings, courts, street signs and even its own newspaper.

What does Islamic State want?

Having established a caliphate, Islamic State now believes that it is the duty of all Muslims to emigrate to it and renounce their citizenship of any other nation. It regards any form of government other than its own as anathema to Islam. Islamic State's leadership believe they are on course for an apocalyptic battle with their enemies, from which they will emerge victorious. They foretell "*that the armies of Rome [usually interpreted as any Christian or non-Islamic force] will mass to meet the armies of Islam in northern Syria; and that Islam's final showdown with an anti-Messiah will occur in Jerusalem after a period of renewed Islamic conquest.*" As such, Islamic State supporters actively welcome the prospect of western intervention, which they believe will hasten their own final victory.

Is Islamic State part of al-Qaeda?

Isis began as an al-Qaeda offshoot but was officially rejected by the group last year. Al-Qaeda has reportedly complained that Isis is too brutal and that its focus on establishing a caliphate has distracted from the push in Syria to topple President Assad. The rejection means al-Qaeda's representation in Iraq is now limited, while Islamic State poses a significant challenge to Prime Minister Haider al-Abadi's control over the country.

Who leads Islamic State?

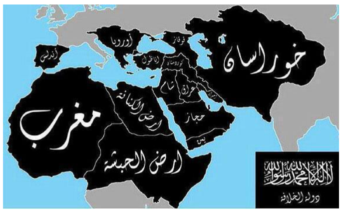
Abu Bakr al-Baghdadi, head of Islamic State, is now deemed one of the most powerful jihadi leaders in the world. He took over as leader of al-Qaeda in Iraq in 2010 after its former leaders were killed in an attack by US and Iraqi troops. Following the fate of his predecessors, he reportedly insists on extreme secrecy, sometimes wearing a mask as disguise. Baghdadi, also known as Abu Dua, is believed to be in his early 40s, with degrees in Islamic Studies, including poetry, history and genealogy. Born in Samarra, a largely Sunni city north of Baghdad, he was later held prisoner by the Americans in Bocca Camp in southern Iraq between 2005 and 2009.

The group's leadership is almost exclusively made up of Iraqis, but it has gained thousands of volunteers from across the Middle East and the West. US intelligence officials believe there are around 31,000 Isis militants, with two thirds comprising foreign fighters. Kurdish leaders claim the figure is much higher at around 200,000.

How is Islamic State funded?

The group made money through oil smuggling in Syria, racketeering and kidnappings, as well as donations from private jihadi networks in the Gulf. The militants have seized oilfields in Syria's Deir Ezzor province, made alliances with tribes to extract oil and were believed to be extorting taxes of up to $8m a month from businesses in Mosul before its takeover. After it seized Mosul last year, the group looted hundreds of millions of dollars from the city's banks, making it the richest terrorist group in the world. The group has issued annual reports since 2012 detailing its numerical "successes", including bombings, assassinations and new recruits, with the apparent aim of demonstrating its record to potential donors. The group claimed nearly 10,000 operations in Iraq in 2013 alone, with 1,000 assassinations and 4,000 improvised explosive devices planted.

Can Islamic State be stopped?



Experts believe that without intervention Isis will head south toward Iraq's capital city Baghdad. The US and other allies began carrying out airstrikes against Isis targets last year, enabling Kurdish forces on the ground to recapture territory from the militants. US officials claim that more than 10,000 Islamic State militants have been killed in the nine months of the coalition's bombing campaign. Iraqi forces, aided by Shi'ite militia, also took control of the northern city of Tikrit earlier this year.

Water has also become the latest weapon in Islamic State's arsenal. Militants have closed the gates of a dam in western Iraq, putting the southern provinces at risk of drought and redirecting the flow of the Euphrates River to give them better access to government fighters on the southern bank.

Nevertheless, the Pentagon continues to level bomb factories with airstrikes and has rushed anti-tank missiles to Iraq in the hope of stopping further waves of armoured suicide lorry bombs. Opponents of Islamic State may also be able to exploit one vulnerability. Unlike al-Qaeda, which can disappear into underground cells while remaining a threat, Islamic State depends on holding territory to maintain its claim on legitimacy. If its fighters are pushed back from the land they hold, its status as a caliphate is eroded.

However, former CIA director David Petraeus has warned that the Iran-backed Shi'ite militias helping to fend off Isis could pose a larger threat to stability in Iraq in the longer term. In a region dogged by sectarian tensions, Shi'ite militias were accused of committing atrocities against Sunni civilians while fighting the Sunni extremists earlier this year. Nothing is straight forward in the Middle East.

RUSSIA V USA – *HOW SERIOUS IS THE THREAT OF A NEW COLD WAR*

US has decided to move weapons onto Russia's doorstep as Vladimir Putin vows to bulk up his nuclear arsenal. Washington has announced that it will be repositioning tanks and heavy weapons in Eastern Europe, in the latest escalation in the simmering conflict between Russia and the US that is threatening a return to the days of the Cold War.

Around 250 US tanks and heavy weaponry units will be moved to positions in the Baltic States of Estonia, Lithuania and Latvia, as well as Bulgaria, Romania and Poland. This move is meant to reassure NATO's allies that have been unnerved by recent threats from Russia and terrorist groups. US defence secretary Ash Carter said the decision would "*enable richer training and [offer] more mobility to forces in Europe*". He said the US presence in the region would be "persistent" and "agile".

But the Russian defence ministry said stationing the artillery on its doorstep would be the most aggressive act by the US since the Cold War. Adding to the growing tensions, Vladimir Putin then announced that Moscow will be adding more than 40 intercontinental ballistic missiles to its nuclear arsenal this year.

The crisis in Ukraine has seen relations between Moscow and the West plunge to a post-Cold War low. NATO accuses Russia of arming and funding separatist troops, a claim Moscow continues to deny.

BBC's defence correspondent Jonathan Beale argues that "*while NATO insists this is not a new Cold War, it is starting to look and sound remarkably similar*". It is currently training its own rapid response force in Poland, which aims to have boots on the ground at trouble spots within 48 hours. Although authorities say it is not meant to be provocative, it is "*clearly designed to send a signal to Moscow.*" So where is this all likely to lead? It has very dangerous possibilities, but one hopes that cooler heads will prevail.

CHINA - A CAPITALIST OR A COMMUNIST SUCCESS?

Conventional western thinking is: "*Communism doesn't work!*" And an equally common response might be: "*Oh, yeah? What about China?*" The western thinker might reply: "*China, communist? Ha! They started to succeed when they opened up to free enterprise, and then they kept it going by privatizing the state-owned enterprises. China is a capitalist success story!*"

China's dramatic growth began in the 1980s, just after the government's sweeping program of pro-market reforms. China decollectivized agriculture, allowed private business and opened up to trade - and the economy took off. While we shouldn't downplay the importance of the private sector in China's success, we shouldn't overplay it, either. In particular, we need to take a closer look at those state-owned enterprises, or SOEs.

In 1999 China began transforming the SOE sector. Many of China's state-owned businesses weren't actually privatised at all! What happened was that they were listed as private companies, allowing outside investors to own stock in them. But the government retained majority ownership, meaning that the government could always call the shots. For example, Baoshan, a Shanghai steel manufacturer, is at least 75 percent owned by BaoSteel, which is wholly government-owned. In reality, Baoshan is a state-owned enterprise, but in the official figures it's counted as a private company.

There are also murkier cases. For example, Qingdao Haier - one of China's most famous appliance makers - is 46.5 percent state-owned. Theoretically, that's a minority stake, though it seems to stretch credibility to think that the remaining 53.5 percent could ever overrule a government decision. The company has reportedly been forced to acquire unprofitable companies on occasion, which is the kind of thing you would expect a state-owned enterprise to be forced to do. PC manufacturer Lenovo is majority-owned by private investors, and its chief executive officer insists that it is a "market-oriented" company, but the Chinese Academy of Sciences owns a significant minority stake.

So the "privatised" SOEs are often not really privatized. But this hasn't stopped them from doing well - Baoshan, for instance, made a US$940 million profit in 2014.

As for the SOEs that were closed after 1999, Hsieh and Song find that many were shut simply because they were unprofitable. Many smaller SOEs were allowed to survive, and many larger SOEs were consolidated into conglomerates. This isn't the free market - this is central planning.

And central planning appears to have worked, at least for a while. Following the reforms, the labour productivity of the remaining SOEs rose to equal that of private-sector companies. Although the SOEs continued to use their capital very inefficiently, total factor productivity - a measure of companies' overall efficiency - rose faster at SOEs than at private companies!

In other words, the history of China's state-owned enterprises is actually a success story for communism, not capitalism. Once in a while, it seems, a government really is nimble enough and motivated enough to manage a big chunk of the economy.

Our libertarian friend isn't going to be happy to hear that. But he can take comfort in the fact that eventually, free markets will beat centralized control. In his 2000 book "Can Japan Compete?" Harvard strategy professor Michael Porter and his Japanese co-authors recounted the story of Japan's industrial policy in the 1960s, 1970s and 1980s. They found that Japan's government often engaged in industrial policies much like those of China's government with its SOEs - encouraging companies to merge, trying to direct which markets they entered and so on. While these industrial policies met with some success for a while, eventually they almost all backfired, causing Japanese companies to lose market share once their costs rose.
China is no doubt a model to many people and governments who hope that the logic of capitalism can be overcome. But it may be a mistake to regard it as a communist success story, because the story isn't over. China's per capita GDP is only about US$13,000 per person -- still much lower than in Japan, the U.S. and other rich countries. When you're poor, catch-up growth is easy - just force your people to save money, force those savings into investment and copy foreign technology. Even with a partly communist system, you might not do too badly.

But once you reach the point where copying becomes harder and the return on physical capital falls, that might be when central planning starts breaking down, and some form of free markets - whether the Japanese form, the French form or the American form - becomes the only way to go. In other words, before we hail China as a model, let's see how rich it can get.

If the continuing dominance of the SOEs slows China down before it reaches the income of rich countries, then our libertarian friend will have reason to smile after all.

Sugar Tax – *What is so hard*

10 tsp. of sugar

Our Politicians have continually rejected the idea of a "sugar tax", but evidence from Mexico, which instigated a 10% Sugar Tax in January 2014, is showing real gains in the fight against obesity.

While our Government advocates for education rather than taxation (the carrot versus the stick argument), this in the face of impassioned pleas from a raft of public health experts, who cite unequivocal evidence that taxes work effectively on tobacco - a not unreasonable comparison - and have long worked here.

Until now the idea of a tax on sugar-sweetened beverages (SSBs) has been batted away by saying there was little evidence this specific tax would have any effect. Now, with evidence coming out of Mexico on the effect of the sugary drinks tax implemented in that country.

Mexicans are the world's biggest SSB consumers, drinking a massive 163L a person per year. Like New Zealand, they also have very high rates of obesity, diabetes and heart disease. In January 2014, the Mexican Government introduced a 10% tax on SSBs.

Preliminary results show the tax has achieved its initial goal, with an average reduction in SSB purchases of 6 per cent, rising to 12 per cent by year's end. The greatest reduction was among the lowest socio-economic group, at 17 per cent.

And this was despite some aggressive marketing campaigns by drink companies like Coca Cola. What was interesting was that water purchases increased. Mexican public health experts are now calling for the tax to be increased to 20 per cent.

If we are serious about getting better health outcomes, then our government needs to look to Mexican evidence, and get on board with this. This is a no-brainer. A tax might hurt the poor most, but if it means people think twice before grabbing that brightly coloured bottle and choose something else instead, or even go with plain water, it's hard to see that as a bad thing.

Increasing cigarette tax has been an outstanding success in the fight against health damaging smoking, and we didn't worry about hurting the poor smokers' feelings when the cigarette price goes up.

A sugar tax wouldn't be welcomed by supermarkets, but the long term benefits in obesity, including its escalating health costs involved, make this a smart solution to an ever growing public health issue.

To those people who say "*This is nanny state and why should I pay for other people's lack of willpower?*" I say "*Get over it*."

Statistics NZ Data

Population

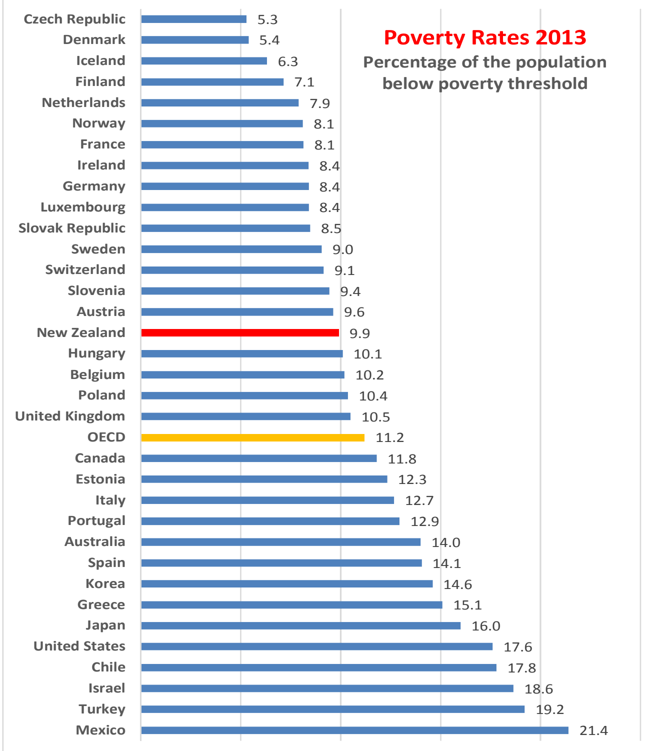
Estimated population at 31 March 2015:	4,578,900
Births March 2015 year:	57,476
Deaths March 2015 year:	31,482
Net migration March 2015 year:	57,822

Employment

Total employed March 2015 quarter:	2,355,000
Unemployment rate March 2015 quarter:	5.8%
Ave weekly earnings March 2015 quarter:	$1,085.48
Wage inflation March 2015 year:	+1.7%

Economic indicators

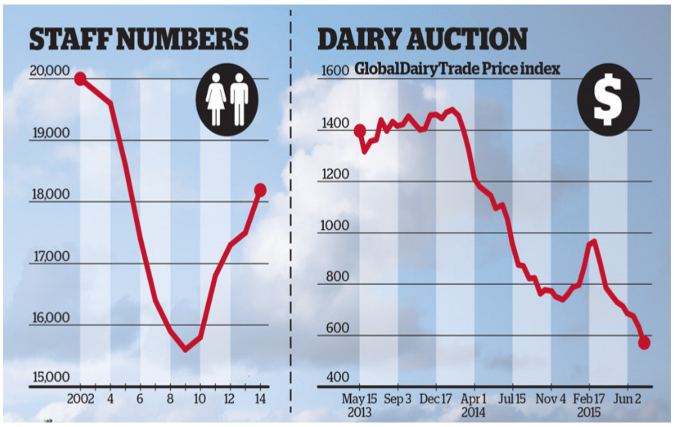
CPI March 2015 quarter:	-0.3%
GDP growth March 2015 quarter:	+0.2%
GDP year ended March 2015:	$239,065 million
GDP per capita year ended March 2015:	$52,735
Current acct balance March quarter:	-$1,779 million
Change from last quarter:	$751 million
Net international position March quarter:	-$153,500m



Fonterra's top salaries are ridiculous

Fonterra's plan to cut 523 jobs is a positive sign that they recognize the need to cut their cloth to the current financial conditions. The problem is that the organization quickly became bloated, and corporate greed is evident from the top down.

Fonterra employs more than 18,000, with one third based offshore, but I would have thought that they should first be looking at their senior leadership team - 17 of which earn more the $1m annually.



From 2002 until 2009 Fonterra rationalized the staff numbers dramatically, but from 2009 they then rehired close to 3,000 extra staff. Farmers need to be asking current management more hard questions.

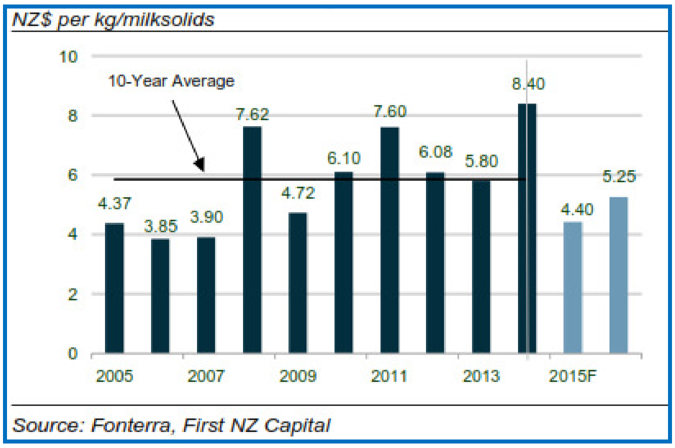
Fonterra's highest earners, taken from their 2014 Annual Report, include:

- $100,000 - $200,000: 3,482 staff
- $200,001 - $300,000: 402 staff
- $300,001 - $400,000: 138 staff
- $400,001 - $500,000: 66 staff
- $500,001 - $600,000: 29 staff
- $600,001 - $700,000: 13 staff
- $700,001 - $800,000: 15 staff
- $800,001 - $900,000: 6 staff
- $900,001 - $1 million: 8 staff
- $1 million - $2 million: 13 staff
- $2 million - $3 million: 2 staff
- $3 million - $4 million: 1 staff
- $4 million - $5 million: 1 staff

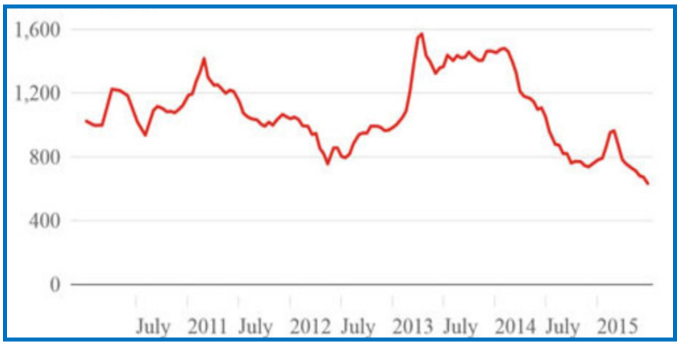
Teresa Gattung left Telecom as CEO in 2007, having been paid multi-million dollar salary. Her next job was as the inaugural Chair of Wool Partners International, with a salary around $250,000. This was a smart lady, but history tells us that her Telecom salary was not justified. Theo Spierings, and his senior leadership team, are no different.

Fonterra suppliers provided 17.9bn litres of milk in 2013-14, and this resulted into $22.3bn in revenue. Being CEO of Fonterra brings with it huge responsibility. but that still doesn't justify the salary packages of its Senior Management Team.

FONTERRA MILK SOLIDS PAYOUT



GLOBAL DAIRY TRADE PRICE INDEX



"Opportunities don't happen. You create them" - Chris Grosser

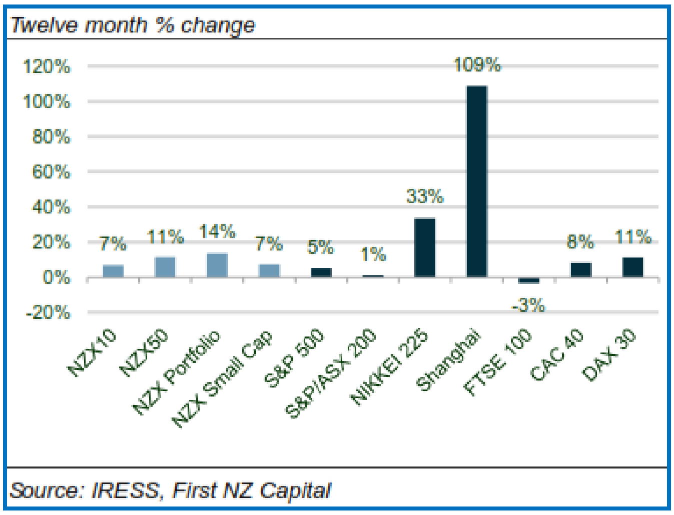
New Zealand Equities

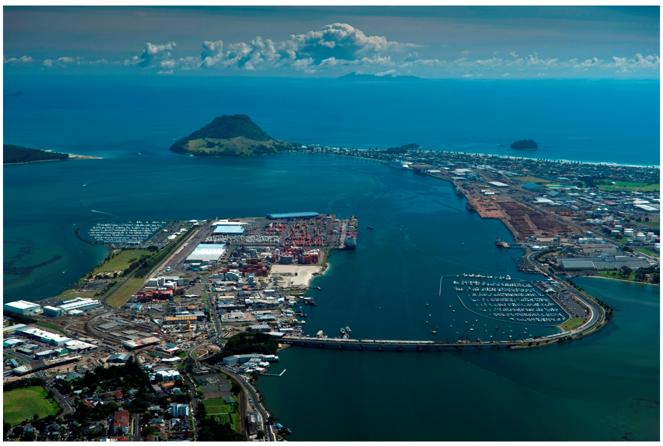
Economic data releases over the past month have broadly confirmed leading indicators suggesting a softening in the pace of NZ's economic growth. In particular, the release of the March 2015 quarter GDP data showed a weaker-than-expected activity profile, with the annual rate of GDP growth easing back to 2.6% YoY, down from the 3.5% YoY rate recorded over the previous quarter.

Somewhat worryingly, the annual pace of growth has already moved back to around its trend level, with continued dairy sector related weakness still to fully flow through, together with Canterbury earthquake rebuild activity likely to also make less of an additional positive contribution to GDP growth going forward. In addition, both consumer and business confidence weakened over the past month, while the fall in the ANZ's activity outlook indicator now suggests a below trend rate of GDP growth around the 2% level.

More positively, annual dwelling consents edged higher in May, house price growth picked up, while annual migration flows again posted a new historic high over May. Moreover, going forward, the recent depreciation in the NZ dollar can be expected to help support growth in exports and dampen some of the anticipated deterioration in NZ's external sector balance on the back of weakening in dairy exports.

EQUITY MARKET PERFORMANCE – 30TH JUNE 2015





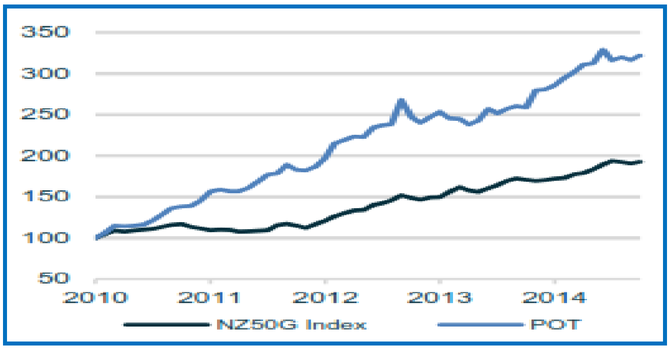
Port of Tauranga (POT)

ACCUMULATE $17.35 Target: $17.80

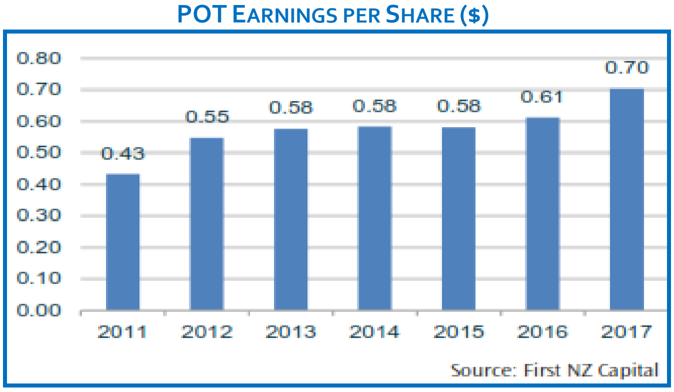
Port of Tauranga is NZ's largest port by trade volume. POT also owns 50% of Northport in Northland, 50% of PrimePort in Timaru, a freight/logistics operation & a log marshalling business. POT's major shareholder is Bay of Plenty Regional Council (54%).

With unsustainably low returns for shipping lines and the introduction of bigger ships from 2017, we expect significant future consolidation of container trade across NZ ports. POT is well placed to benefit from that consolidation through its close proximity to one of NZ's major export production regions, strategic investments in infrastructure facilities beyond Tauranga and its ability to invest for bigger ships while still earning a satisfactory return on invested capital on that incremental investment. Our analysts forecasts and valuation consider a range of scenarios with a base case more heavily weighted towards a 2 hub port scenario with POT acting as 1 of those hubs. They generate a discounted cash flow based price target of NZ$17.80 per share.

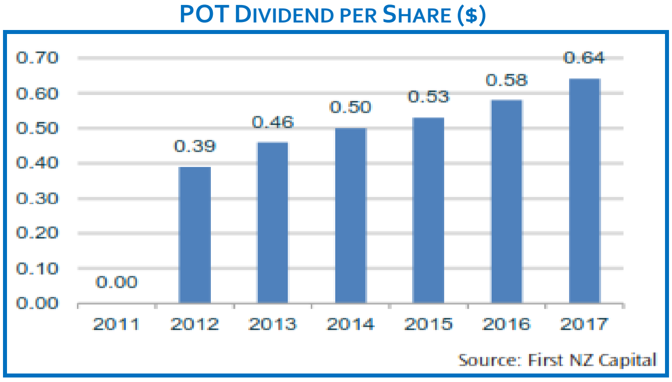
POT SHARE PRICE PERFORMANCE



POT EARNINGS PER SHARE ($)



POT DIVIDEND PER SHARE ($)

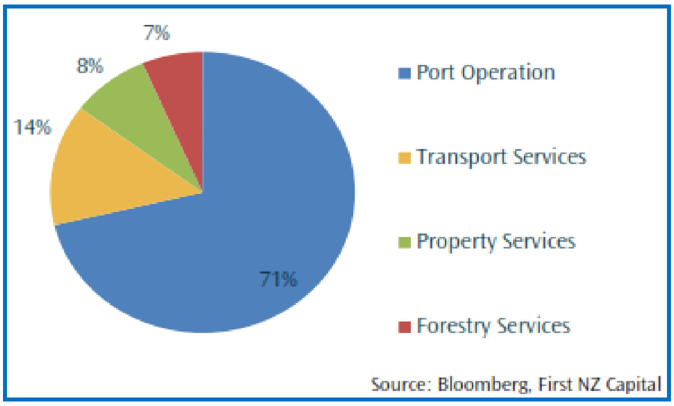


Port of Tauranga (continued...)

POT Year to 30 June		2014A	2015F	2016F	2017F
Adjusted Earnings	NZ$m	78.3	78.3	82.7	95.9
Earnings /share (Adjust)	NZc	58.4	58.0	61.2	70.5
EPS Growth	%	1.3	-0.6	5.6	15.1
Price / Earnings Ratio	x	29.5	29.7	28.1	24.4
Cash Per Share	NZc	74.1	74.2	78.6	89.3
Net Div / Share	NZc	50.0	53.0	58.0	64.1
Imputation	%	100	100	100	100
Net Yield	%	2.9	3.0	3.3	3.7
Gross Yield	%	4.1	4.4	4.8	5.3

Source: Company data; NZX; First NZ Capital Estimates

POT REVENUE BREAKDOWN



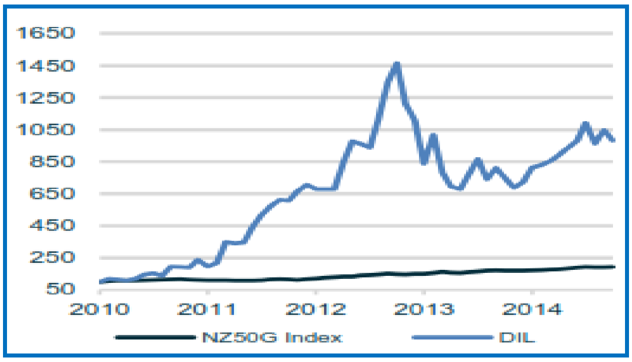
This is a great company, with a track record of market outperformance over many years. Accumulate shares now, as this company has double digit growth potential with port restructuring.

Diligent Board Member Services (DIL)

ACCUMULATE $5.28 Target: $6.10

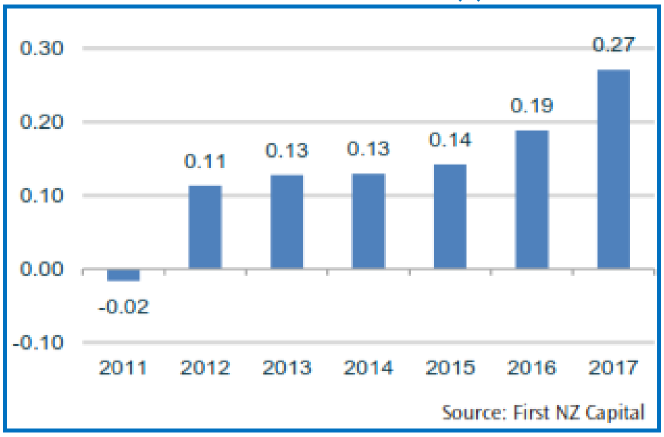
Diligent Board Member Services, Inc. (Diligent) is engaged in Web-based portals for Boards of Directors. The Company develops and sells an online software application called Diligent Boardbooks, a Web-based portal.

DIL SHARE PRICE PERFORMANCE



DIL has emerged well from the turbulent 18 month period from Dec 2012. Going forward, we expect greater stability and are encouraged by DIL's reinvestment for growth. We note that unlike the majority of NZ listed technology/software stocks, DIL has reasonable cash generation. We expect DIL to retain double digit growth at the top line over the next three years, whilst offering some interesting prospective upside from the new DiligentTeams (DT) product. However, the share price currently appears to fairly price both the core existing product's steady cashflows, as well as the Option value For DT. Coupled with this, DIL faces a transition year in 2015 as it heavily invests for growth and approaches the critical DT launch. Such a transition period represents an increased level of risk relative to the status quo of the existing product.

DIL EARNINGS PER SHARE ($)



DIL Year to 31 Dec		2014A	2015F	2016F	2017F
Adjusted Earnings	NZ$m	12.6	12.4	15.9	22.0
Earnings /share (Adjust)	NZc	12.9	14.2	18.8	27.1
EPS Growth	%	0.9	10.0	32.3	43.9
Price / Earnings Ratio	x	42.6	38.7	29.3	20.3
Cash / Share	NZC	15.8	18.4	24.1	33.6
Net Div / Share	NZc	0	0	0	0

Source: First NZ Capital Estimates

While there is unlikely to be any dividends for shareholders within the next few years, Diligent Board Member Services is a growth story that justifies investment. Continue to HOLD for capital appreciation.

Hallenstein Glasson Holdings (HLG)

OUTPERFORM $3.81 Target: $4.10

Hallenstein Glasson Holdings is a retailer of men's and women's clothing in New Zealand and Australia. While we don't assume HLG returns to the halcyon days of 2010 where it printed earnings in excess of $20 million, we believe the current share price undervalues the stock. Assuming the company can iron out its execution issues, our analysts are not uncomfortable with the stock trading at closer to 14.0x price-to-earnings (which their 12month target would imply).

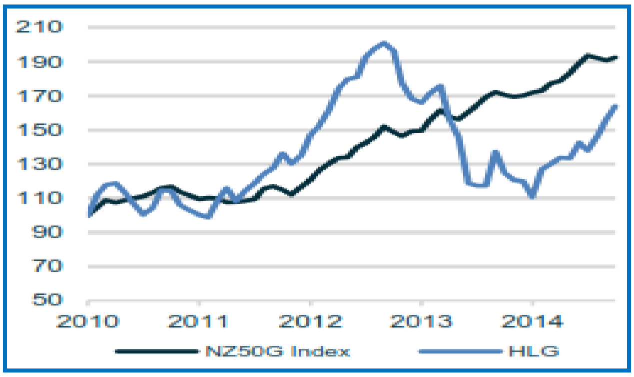
In addition the post Xmas trading update was positive, with Group sales for December/January +8% on the previous corresponding period (pcp). HLG is forecasting first half 2015 earnings at +32% on the pcp. The current yield also attractive at +12.8%, with a very robust balance sheet.

RISKS: The major risk is a deterioration in the retail environment. As a discretionary retailer, HLG is exposed to general economic conditions. The flipside to this is an improvement in macro conditions, particularly in Australia and NZ. This would provide HLG with an economic tailwind, thereby presenting an upside risk.

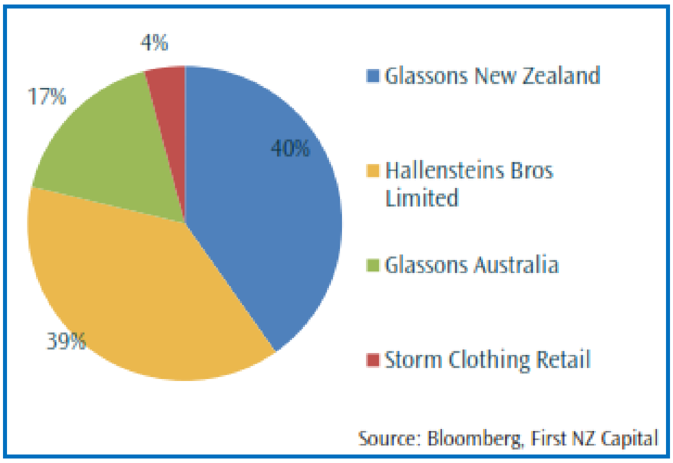
Deterioration in the competitive environment: HLG already operates in extremely competitive markets, and has done so for some time. We do not expect any meaningful change in the competitive landscape in the near term at least, although online sales are encroaching increasingly on this sector.

The key downside risk is a continued sluggish trend in overall retail sales and a disappointing seasonal outcome during winter. The apparel sector in NZ has become more competitive, and the performance of the Australian sector continues to disappoint.

HLG Share Price Performance



HLG Revenue Breakdown



HLG Year to 31 July		2014A	2015F	2016F	2017F
Adjusted Earnings	NZ$m	14.3	17.2	17.6	18.0
Earnings /share (Adjust)	NZc	24.2	29.2	29.9	30.5
EPS Growth	%	-24.1	20.7	2.4	2.2
Price / Earnings Ratio	x	14.2	11.8	11.5	11.3
Cash / Share	NZC	37.4	41.9	42.4	43.0
Net Div / Share	NZc	24.2	29.2	29.9	30.5
Imputation	%	100	100	100	100
Net Yield	%	6.9	8.4	8.6	8.7
Gross Yield	%	9.6	11.6	11.9	12.1

Source: First NZ Capital Estimates

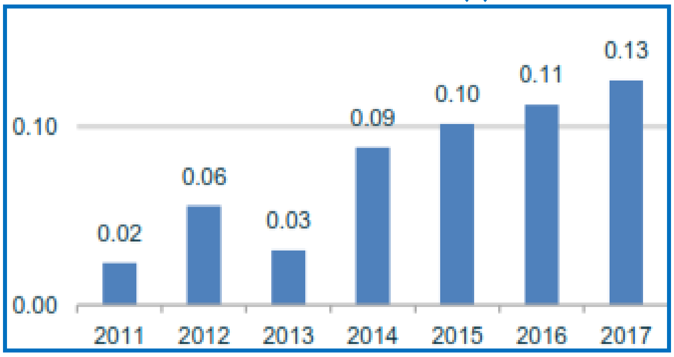
HLG has underperformed in the past couple of years, but we are confident that this has turned around. Long term investors have been very well rewarded, and with an unleveraged balance sheet, HLG's dividend yield is extremely compelling.

Heartland Bank (HNZ)

ACCUMULATE $1.24 Target: $1.40

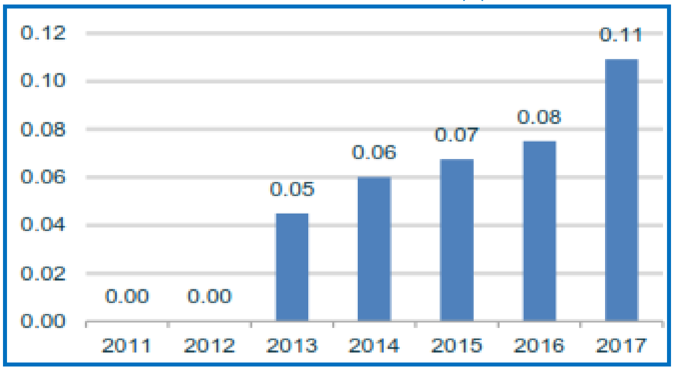
Heartland New Zealand Limited provides financial services to small-to-medium sized businesses, farmers and families. It offers finance, working and seasonal capital, home and vehicle loans, current accounts, investments, insurance and reverse mortgages.

HNZ Earnings per Share ($)



We continue to like HNZ's longer term investment case with potential to grow from both organic opportunities and the potential for accretive bolt-on acquisitions. The Home Equity Release business should start to contribute to earnings over the next few years which supports the positive earnings per share (EPS) growth story and a continued improvement in its return on equity. From a valuation perspective this should help support the earnings multiples applied to HNZ. When combined with balance sheet capacity to support core business growth, we believe HNZ can deliver growth in dividend per share (DPS) over time.

HNZ Dividend per Share ($)



HNZ Year to 30 Jun		2014A	2015	2016F	2017F
Adjusted Earnings	NZ$m	36	47	53	60
Earnings /share (Adjust)	NZc	9	10	11	13
EPS Growth	%				
Price / Earnings Ratio	x	13.9	12.1	11.0	9.8
Net Div / Share	NZc	6	7	8	11
Imputation	%	100	100	100	100
Net Yield	%	4.9	5.5	6.1	8.9
Gross Yield	%	6.8	7.5	8.5	12.3

Source: First NZ Capital Estimates

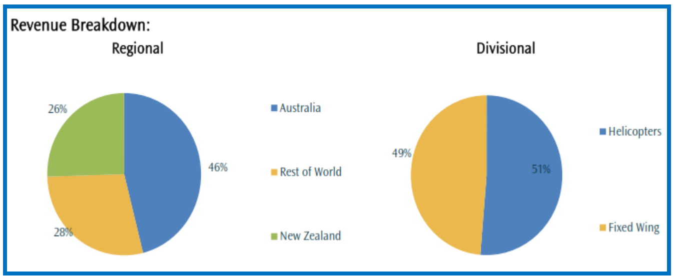
"Stop chasing the money and start chasing the passion."

Tony Hsieh

Airwork Holdings (AWK)

ACCUMULATE $3.25 Target: $3.75

Airwork Holdings Limited provides aviation services. The Company owns, operates, leases, maintains, upgrades and supports helicopter and fixed wing aircraft.



Since its public listing in late 2013 AWK has demonstrated an ability to source both Fixed Wing and Helicopter assets at below market rates, utilise engineering capabilities to upgrade where required, and then either trade, sell or redeploy within its lease fleet across a number of industries and regions. The Helicopter division, which we consider to be the primary reason to invest in AWK, has exhibited a particularly strong historic growth profile that we forecast to continue with average operating earnings growth of 12% across the next 5 year period. We believe that granting of new certifications underpins a particularly favourable outlook for the Helicopter engineering operations. We believe that the recent oil price decline presents potential short-term risk to AWK given the importance of that sector to the Helicopter industry. After a period of declining profits and returns, AWK is seeing opportunities to diversify its Fixed Wing customer base through new lease contracts with European express package operators, with the first of these to begin in 2016.

RISK: The main risks to earnings forecasts include the loss of key leasing contracts and incidents/accidents that would cause reputational damage and put at risk the excess return on invested capital (ROIC) that we assess AWK to earn against its tangible capital base. Other risks include supplier and accreditation risk and exposure to cyclical industries.

AWK Year to 30 June		2014A	2015F	2016F	2017F
Adjusted Earnings	NZ$m	13.5	15.3	19.1	24.1
Earnings /share (Adjust)	NZc	29.0	30.5	38.0	47.9
EPS Growth	%	22.6	5.0	24.9	26.0
Price / Earnings Ratio	x	11.2	10.7	8.5	6.8
Cash / Share	NZc	71.2	72.1	87.5	104
Net Div / Share	NZc	15.0	16.0	18.7	25.0
Imputation	%	50	100	100	100
Net Yield	%	4.6	4.9	5.8	7.7
Gross Yield	%	6.0	6.8	8.0	10.7

Source: First NZ Capital Estimates

Infratil (IFT)

ACCUMULATE $3.15 Target: $3.24

Worth considering for your portfolio – see valuation.

INFRATIL VALUATION July-2015 1-	**% Interest**	**Carrying value (NZSm)**	**% of portfolio**	**Market Price ($)**	**Market value (NZ$)**	**% of portfolio**	**Comment**
Renewable energy/electricity							
Trustpower(TPW.NZ)	50.9%	1,270	44%	$7.80	$1,242	41%	Market value of equity
Perth Energy		77	3%		$58	2%	Perth Energy (A$54m)
					$1,300	43%	
Retirement & aged-care							
Metlifecare(MET.NZ)	19.9%	200	7%	$4.88	$205	7%	Market value of equity
RetireAustralia	50%	209			$230	8%	Equity valued A$214.8m
Airports							
Wellington Airport	66%	350	12%		$464	15%	16 EV/EBITDA)
Public Transport							
NZ Bus		286	10%		$267	9%	EBITDA
Fuel distribution							
Z Energy (ZEL.NZ)	20%	410	14%	$6.20	$496	16%	Market value of equity
Other investments							
Infratil Property		33	1%		$33	1%	FY15 results
Sundry (Snapper/Mana/Isite)		24	1%		$24	1%	Book
ASIP Public Private Partnership		30			$30	1%	Book
Total Investments 2888 3048 100%		2,889			$3,049	100%	
Bonds/Net bank debt					-$742	24%	Market value of debt
Net Asset Value					$2,307	76%	
less:							
Corporate overheads(inc mgmt contract)					-$215		8x parent costs (ex subs cost reallocated)
Net Equity Value					$2,092		
NZD/AUD	0.935						
Shares (net of treasury stock)	561.6						
Valuation per share					**$3.72**		would equal $3.16/share at 15% discount-to-NAV

STOCKS TO WATCH

NEW ZEALAND   NOTE: THESE ARE ALL ONE YR GRAPHS   Prices as at 17th July 2015

Auckland International Airport

AIA provides a relatively low risk exposure to the airline industry's investment in fleet capacity and inbound Asian passenger growth. In a market favourably disposed to long duration infrastructure assets with low perceived risk, AIA is presently trading comfortably ahead of our analyst's discounted cash flow based 12-month price target.

20015 P/E: 35.5   2016 P/E: 32.8

NZX Code:	**AIA**
Share Price:	**$5.15**
12mth Target:	**$3.70**
Projected return (%)	
Capital gain	-28.2%
Dividend yield (Net)	2.9%
Total return	**-25.3%**

Rating: UNDERPERFORM

52-week price range (NZ$)3.66-5.30

Chorus

Focus will soon turn to CNU's long-term outlook. The copper pricing saga is almost over but CNU is clearly priced for risks that extend beyond copper pricing due to a lack of certainty on its capex profile, fixed line market and market share, regulatory framework and gearing. We continue to highlight the long-term upside associated with de-risking on long-term regulatory, but highlight a reasonable amount of uncertainty to navigate first.

20015 P/E: 10.0   2016 P/E: 11.2

NZX Code:	**CNU**
Share Price:	**$3.01**
12mth Target:	**$3.27**
Projected return (%)	
Capital gain	8.6%
Dividend yield (Net)	5.3%
Total return	**13.9%**

Rating: NEUTRAL

52-week price range (NZ$)1.65-3.18

Contact Energy

Medium term uncertainty around the future of Tiwai (ascribed 15% chance of 2017 exit) will have some small impact on the share price now. With its five-year multi-billion dollar investment programme completed with Te Mihi, CEN is now generating at least $150m per annum additional free cash flow, which could be returned to shareholders as buybacks and/or extra dividends.

20015 P/E: 22.1   2016 P/E: 21.6

NZX Code:	**CEN**
Share Price:	**$5.15**
12mth Target:	**$5.95**
Projected return (%)	
Capital gain	15.5%
Dividend yield (Net)	4.7%
Total return	**20.3%**

Rating: NEUTRAL

52-week price range (NZ$) 4.85-7.30

Delegat's Group

DGL has increased its debt levels ahead of its investment lifting earnings. While in the near term there is some risk that NZ dollar strength against the Australian dollar limits earnings growth, and DGL delivers a flatter return on invested capital profile, given the elevated level of capital expenditure, over the medium term. Our analysts continue to like DGL's investment case.

2015 P/E: 14.3   2016 P/E: 12.7

NZX Code:	**DGL**
Share Price:	**$4.90**
12mth Target:	**$5.20**
Projected return (%)	
Capital gain	6.1%
Dividend yield (Net)	2.4%
Total return	**8.5%**

Rating: NEUTRAL

52-week price range (NZ$) 4.10-5.19

Diligent

DIL has emerged well from the turbulent 2 year period from Dec-12. Going forward we see greater stability. Unlike the majority of NZ-listed technology / software stocks, DIL has reasonable cash generation. Expect DIL to retain double digit growth at the top line over the next three years, whilst offering some interesting prospective upside from the new DiligentTeams (DT) product.

2015 P/E: 39.7   2016 P/E: 30.0

NZX Code:	**DIL**
Share Price:	**$5.64**
12mth Target:	**$6.10**
Projected return (%)	
Capital gain	18.2%
Dividend yield (Net)	0.0%
Total return	**18.2%**

Rating: NEUTRAL

52-week price range (NZ$) 3.88-6.40

Ebos Group

At its recent first half 2015 result, EBO demonstrated an ability to deliver sales growth, reporting constant currency revenue and operating earnings growth of +6.5% and +13.0% respectively. Our analysts remain impressed with the discipline and the strategies undertaken by EBO management, which is yielding excellent results in the context of what is arguably a very challenging sector backdrop.

2015 P/E: 15.12016 P/E: 13.7

NZX Code:	**EBO**
Share Price:	**$10.20**
12mth Target:	**$11.00**
Projected return (%)	
Capital gain	7.8%
Dividend yield (Net)	4.4%
Total return	**12.2%**

Rating: NEUTRAL

52-week price range (NZ$) 8.44-11.20

EROAD

2016 will be a key year for ERD as it executes on its US growth strategy. Look for an update at ERD's first half 2016 result release in November 2015, where we expect a better read of its progress, particularly in Oregon. Our analysts have set a target price of $5.05 based on their discounted cash flow assumptions of ERD's growth potential.

2016 P/E: 66.3   2017 P/E: 20.5

NZX Code:	**ERD**
Share Price:	**$3.68**
12mth Target:	**$5.05**
Projected return (%)	
Capital gain	37.2%
Dividend yield (Net)	0%
Total return	**37.2%**

Rating: OUTPERFORM

52-week price range (NZ$) 3.32-4.28

F&P Healthcare

In the near term we are expecting FPH to continue to print double-digit constant currency growth, from its key Respiratory and Acute Care (RAC) and Obstructive Sleep Apnea (OSA) divisions. In addition, we anticipate the combination of product mix, operating efficiencies, and cost-savings out of Mexico, to drive margin expansion. While we have high praise for FPH, and it's across the board traction, we take the view that the current share price is incredibly demanding, and is certainly skewed (from a multiple perspective) towards the top-end of its peers.

2015 P/E: 35.4   2016 P/E: 31.4

NZX Code:	**FPH**
Share Price:	**$7.18**
12mth Target:	**$6.05**
Projected return (%)	
Capital gain	-15.7%
Dividend yield (Net)	1.9%
Total return	**-13.8%**

Rating: UNDERPERFORM

52-week price range (NZ$) 4.58-7.27

Fletcher Building

The New Zealand government recently said it has chosen Fletcher Building as the preferred developer for an $800 million project to build new homes in earthquake-damaged Christchurch. The residential building arm of Australia and New Zealand's biggest construction materials maker will build nearly 1,000 townhouses and apartments in the centre of New Zealand's second-largest city.

2015 P/E: 14.9 2016 P/E: 13.5

NZX Code:	**FBU**
Share Price:	**$8.03**
12mth Target:	**$10.80**
Projected return (%)	
Capital gain	34.5%
Dividend yield (Net)	5.1%
Total return	**39.6%**

Rating: OUTPERFORM
52-week price range (NZ$) 7.72-9.38

Fonterra Shareholder Fund

Fonterra collects 87% of NZ's milk, and has a broad range of interests across local milk pools and ingredients, foodservices and consumer brands globally. With this strong NZ dairy base and a significant focus on emerging markets, this is a potentially desirable and hard to access exposure. However, FSF's ability to convert the opportunities its position provides into a sustainable and growing earnings profile has been challenging. Because of the way the milk price is set, the margins from this business are low and also volatile.

2015 P/E: 13.8 2015 P/E: 13.5

NZX Code:	**FSF**
Share Price:	**$4.70**
12mth Target:	**$5.08**
Projected return (%)	
Capital gain	8.1%
Dividend yield (Net)	4.7%
Total return	**12.8%**

Rating: NEUTRAL
52-week price range (NZ$) 4.58-6.41

Freightways

FRE has announced a new combined airfreight network with New Zealand based aviation provider Airwork (AWK) and NZ Post subsidiary and express package competitor Express Couriers Limited (ECL). The agreement will see FRE and ECL transition airfreight operations to three 737-400 freighter aircraft where capacity will be evenly shared. AWK will cover all capex relating to the purchase of the three 737-400 aircraft and their freight conversion.

2015 P/E: 17.1 2016 P/E: 15.8

NZX Code:	**FRE**
Share Price:	**$5.92**
12mth Target:	**$6.45**
Projected return (%)	
Capital gain	8.4%
Dividend yield (Net)	4.3%
Total return	**12.7%**

Rating: NEUTRAL
52-week price range (NZ$) 4.78-638

Genesis Energy

GNE has a number of distinct differences from its competitor generator/retailers. It has the largest retail customer base, the only coal-fired power station (and also the newest combined cycle gas turbine) at its Huntly site, and it holds a 31% stake in the producing Kupe oil & gas field. NZ's very competitive retail electricity market means retail margins are unlikely to materially increase, and more likely to decline (in real 2015 dollar terms) over the next decade down to a 5% earnings margin.

2015 P/E: 19.6 2016 P/E: 20.5

NZX Code:	**GNE**
Share Price:	**$1.73**
12mth Target:	**$2.02**
Projected return (%)	
Capital gain	16.8%
Dividend yield (Net)	9.2%
Total return	**26.0%**

Rating: OUTPERFORM
52-week price range (NZ$) 1.65-2.28

Hallenstein Glasson

While our central premise does not assume HLG returns to the halcyon days of 2010 where it earnt in excess of $20m, the current share price undervalues the stock. The recent post Xmas trading update was positive, with Group sales for December/January +8% on the previous corresponding period (pcp). HLG is forecasting first half 2015 earnings at +32% on the pcp. Current yield also attractive at +12.8%, with robust balance sheet.

2015 P/E: 12.0 2016 P/E: 11.7

NZX Code:	**HLG**
Share Price:	**$3.49**
12mth Target:	**$4.10**
Projected return (%)	
Capital gain	17.5%
Dividend yield (Net)	8.4%
Total return	**25.9%**

Rating: OUTPERFORM
52-week price range (NZ$) 2.77-3.95

Heartland New Zealand

We continue to like HNZ's longer term investment case with potential to grow from both organic opportunities and the potential for accretive bolt-on acquisitions. The Home Equity Release business should start to contribute to earnings over the next few years which supports the positive earnings per share growth story and a continued improvement in its return on equity.

2015 P/E: 12.1 2016 P/E: 11.0

NZX Code:	**HNZ**
Share Price:	**$1.23**
12mth Target:	**$1.40**
Projected return (%)	
Capital gain	13.8%
Dividend yield (Net)	5.5%
Total return	**19.3%**

Rating: NEUTRAL
52-week price range (NZ$) 0.93-1.42

Hellaby Holdings

Whichever way you look at HBY, the stock looks cheap. It is trading at a deep discount to market multiples (our analysts SOTP valuation exercise yields a range of between $3.98 and $4.34), and to their DCF valuation is $3.55. In addition, the yield remains highly attractive. In their view, the true catalyst for value realisation would assume further divestments, or at the extreme a complete company break-up (the latter not a likely scenario).

2015 P/E: 10.1 2016 P/E: 9.0

NZX Code:	**HBY**
Share Price:	**$3.00**
12mth Target:	**$3.65**
Projected return (%)	
Capital gain	21.7%
Dividend yield (Net)	8.3%
Total return	**30.0%**

Rating: OUTPERFORM
52-week price range (NZ$) 2.75-3.46

Infratil NZ

IFT is a holding company specialising in long-lived, growth infrastructure assets in the energy, airport & public transport sectors in NZ. IFT also has exposure to the retirement sector through investments in Metlifecare & RetireAustralia. It is pushing ahead strongly with its Australian Retirement Home investments (alongside the NZ Superannuation Fund).

2015 P/E: 23.1 2016 P/E: 20.0

NZX Code:	**IFT**
Share Price:	**$3.15**
12mth Target:	**$3.24**
Projected return (%)	
Capital gain	2.9%
Dividend yield (Net)	4.5%
Total return	**7.4%**

Rating: NEUTRAL
52-week price range (NZ$) 2.36-3.41

→

Mainfreight

Expect MFT to look to replicate its successful domestic operating model in other key markets including Australia and in time North America. We believe that this along with expanding scale within these markets could lead to material improvement in earnings margin.

2015 P/E: 18.1 2016 P/E: 16.1

NZX Code:	**MFT**
Share Price:	**$15.24**
12mth Target:	**$17.50**
Projected return (%)	
Capital gain	14.8%
Dividend yield (Net)	2.2%
Total return	**17.0%**

Rating: NEUTRAL

52-week price range 14.00-16.35

→

Meridian Energy

MEL has a relatively volatile earnings profile due to its reliance on variable hydro inflows, so our analysts place more weight on the operating cost and make-up of energy margin rather than the bottom line from its inaugural post-initial public offering financial results. The key factors for the business will play out over the next few years, namely the Transmission Pricing Methodology review, and the chance of Tiwai smelter electing to shut down after 2017.

2015 P/E: 25.9 2016 P/E: 25.0

NZX Code:	**MEL**
Share Price:	**$2.15**
12mth Target:	**$2.22**
Projected return (%)	
Capital gain	2.8%
Dividend yield (Net)	6.9%
Total return	**9.7%**

Rating: NEUTRAL

52-week price range (NZ$) 1.71-2.70

↑

Metlifecare

Whilst MET has significantly lagged its peers in development, and will take several years to build up its capability and capacity, MET is at a turning point for development. We note recent improvement, albeit off a low base. From a valuation perspective, MET has significant upside potential if it can prove itself by executing successfully at its current greenfield developments at Glenfield and Unsworth.

2015 P/E: 19.2 2016 P/E16.2

NZX Code:	**MET**
Share Price:	**$4.63**
12mth Target:	**$5.50**
Projected return (%)	
Capital gain	18.8%
Dividend yield (Net)	0.9%
Total return	**19.7%**

Rating: OUTPERFORM

52-week price range (NZ$) 4.16-4.94

↑

Metro Performance Glass

Metro Performance Glass is NZ's leading value-added glass processor, a company that is well positioned to benefit from cycle-driven growth as well as from internal initiatives. These combined are forecast to deliver around 65% lift to earnings per share (EPS) by 2018. Our valuation target captures only $0.08 of the $0.72 potential uplift from the NZ double-glazed units retrofit market.

2015 P/E: 14.8 2016 P/E: 14.3

NZX Code:	**MPG**
Share Price:	**$1.62**
12mth Target:	**$2.20**
Projected return (%)	
Capital gain	35.8%
Dividend yield (Net)	2.2%
Total return	**38.0%**

Rating: OUTPERFORM

52-week price range (NZ$) 1.58-2.03

→

Mighty River Power

MRP has good fundamentals and slightly exceeded its prospectus forecasts for earnings, net profit and dividends. Flat electricity demand and generation oversupply imply new earnings growth opportunities should be limited for some time. MRP announced it would close the 140MW (formerly 175MW) Southdown gas-fired station, its only thermal plant, from 31 Dec 2015, which will mean it will become NZ's second 100% renewable generator.

2015 P/E: 24.5 2016 P/E: 22.0

NZX Code:	**MRP**
Share Price:	**$2.83**
12mth Target:	**$2.94**
Projected return (%)	
Capital gain	3.9%
Dividend yield (Net)	6.8%
Total return	**10.7%**

Rating: NEUTRAL

52-week price range (NZ$) 2.13-3.43

↑

The New Zealand Refining Company

NZR looks attractive against comparable multiples and on our analysts $3.16/share spot-DCF valuation. Macro-economic and commodity factors continue to favour NZR, aided by solid management delivery on self-help margin projects, cost reductions, and the Te Mahi Hou CCR project. But they suspect several more strong prints may be needed to overcome investor's (understandable) volatility fears and short-term dividend suppression.

2015 P/E: 6.8 2016 P/E: 7.3

NZX Code:	**NZR**
Share Price:	**$3.14**
12mth Target:	**$3.51**
Projected return (%)	
Capital gain	11.8%
Dividend yield (Net)	9.9%
Total return	**21.7%**

Rating: OUTPERFORM

52-week price range (NZ$) 1.58-3.19

↑

Opus International Consultants

Central and local government are the biggest customers for OIC, making up around 90% of revenue in NZ. The outlook for OIC NZ is a function of government investment in road transportation of as well as Canterbury rebuild. OIC remains interested in opportunities beyond NZ. However, a priority over the next 2 years will be on driving better business efficiency across the group. This will likely necessitate higher short term operating and capital expenditure.

2015 P/E: 8.4 2016 P/E: 7.2

NZX Code:	**OIC**
Share Price:	**$1.24**
12mth Target:	**$1.95**
Projected return (%)	
Capital gain	57.2%
Dividend yield (Net)	6.2%
Total return	**63.4%**

Rating: OUTPERFORM

52-week price range (NZ$) 1.22-1.84

→

PGG Wrightson

Our analysts continue to like management's growth strategy, which focuses on improving existing business through share gain in segments where PGW is under-represented. Key opportunities include potential for share gain of rural retail supply into the NZ dairy sector, growth in the irrigation sector, as well as seeds and irrigation solutions in Latin America, especially in Uruguay. The short term offset is the decline farm gate returns for dairying, sheep and beef due to weakening product prices.

2015 P/E: 9.4 2016P/E: 10.6

NZX Code:	**PGW**
Share Price:	**$0.47**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	7.5%
Dividend yield (Net)	8.6%
Total return	**16.1%**

Rating: NEUTRAL

52-week price range (NZ$) 0.38-0.52

↑

Port of Tauranga

With unsustainably low returns for shipping lines and the introduction of bigger ships from 2017, we expect significant future consolidation of container trade across NZ ports. We believe that POT is well placed to benefit from that consolidation through its close proximity to one of NZ's major export production regions, strategic investments in infrastructure facilities beyond Tauranga and its ability to invest for bigger ships while still earning a satisfactory return on invested capital (ROIC) on that incremental investment.

2015 P/E: 29.9 2016 P/E: 28.3

NZX Code:	**POT**
Share Price:	**$17.34**
12mth Target:	**$17.80**
Projected return (%)	
Capital gain	2.6%
Dividend yield (Net)	3.1%
Total return	**5.7%**

Rating: ACCUMULATE

52-week price range (NZ$15.06-18.35

↓

Precinct Properties

Flat medium term earnings and dividend pathway means little chance of any positive rerating in the current yield hungry environment. The combination of a below sector average yield, significant risks from a unprecedented long-term development pipeline and an Auckland CBD office market, which feels close to the top and heading for oversupply, makes PCT relatively unattractive. At Xmas PCT's gearing was 33.7%, occupancy was 98% and weighted average lease term was 5.3 years.

2015P/E: 18.9 2016 P/E: 18.7

NZX Code:	**PCT**
Share Price:	**$1.13**
12mth Target:	**$1.11**
Projected return (%)	
Capital gain	-1.8%
Dividend yield (Net)	4.7%
Total return	**2.9%**

Rating: UNDERPERFORM

52-week price range (NZ$) 1.07-1.26

→

Ryman Healthcare

RYM is well positioned to benefit from its highly attractive business model, compelling demographic tailwinds and best-of-breed management/operations/ assets. Our analyst's neutral rating is based on a relatively full valuation balanced against the potential for substantial long-term growth in both assets and earnings. This growth is underpinned by operational execution, capital efficiency, compelling demographics, and pent-up earnings momentum.

2015 P/E: 29.9 2016 P/E: 25.9

NZX Code:	**RYM**
Share Price:	**$8.14**
12mth Target:	**$8.25**
Projected return (%)	
Capital gain	1.8%
Dividend yield (Net)	1.9%
Total return	**3.7%**

Rating: NEUTRAL

52-week price range (NZ$) 7.22-8.68

↓

Sky City Entertainment

SKC faces both structural and regulatory headwinds that are unlikely to dissipate in the short to medium term. Competition for the leisure dollar and an image problem amongst the younger demographic appears to be causing gaming machine participation decline.

2015 P/E: 19.4 2016 P/E: 17.9

NZX Code:	**SKC**
Share Price:	**$4.21**
12mth Target:	**$3.65**
Projected return (%)	
Capital gain	-13.3%
Dividend yield (Net)	5.1%
Total return	**-8.2%**

Rating: UNDERPERFORM

52-week price range (NZ$) 3.41-4.49

→

Sky Network Television

Technology changes (largely around the increasing capacity of the internet for delivery of content) have bought new entrants into the content landscape and with this coming at the same time as SKT's business is maturing means that uncertainty is likely to be a factor over the medium-term. A subdued revenue environment together with pressure on programming costs and an increase in capital expenditure will put pressure on earnings over the next two to three years.

2015P/E: 13.1 2016 P/E: 13.6

NZX Code:	**SKT**
Share Price:	**$6.16**
12mth Target:	**$6.21**
Projected return (%)	
Capital gain	-0.8%
Dividend yield (Net)	5.1%
Total return	**4.3%**

Rating: NEUTRAL

52-week price range (NZ$) 5.55-6.95

→

Spark NZ

SPK is executing on its strategy to address the earnings headwinds resulting from ongoing declines in legacy fixed revenues. SPK's intent is clear and it is reinforcing its initiatives with growth investment across re-engineering, mobile, IT services and more. SPK is gaining confidence and has started to increase dividends. 2015 P/E: 15.7 2016 P/E: 15.2

NZX Code:	**SPK**
Share Price:	**$2.88**
12mth Target:	**$2.91**
Projected return (%)	
Capital gain	1.0%
Dividend yield (Net)	6.2%
Total return	**7.2%**

Rating: NEUTRAL

52-week price range (NZ$) 2.64-3.54

↑

Summerset Group Holdings

We see continuous improvement - helping to underwrite growth. SUM has a capable, motivated management team. "Low hanging" incremental improvements continue to be achieved. These are meaningful in aggregate, resulting in ongoing momentum. Coupled with the backdrop of a two-decade demographic tailwind, we expect SUM to surprise further to the upside.

2015 P/E: 25.0 2016 P/E: 20.6

NZX Code:	**SUM**
Share Price:	**$3.90**
12mth Target:	**$4.20**
Projected return (%)	
Capital gain	7.7%
Dividend yield (Net)	0.7%
Total return	**8.4%**

Rating: OUTPERFORM

52-week price range (NZ$) 2.61-3.68

"If you can dream it, you can do it." – Walt Disney

↑

Synlait Milk

SML's success in converting the company's planned dryer capacity, lactoferrin plant and canning facilities into higher margin sales will be a function of its ability to manoeuvre through the pending dairy market access changes in China, and to manage potential margin compression across the dairy supply chain. SML will need to manage multiple supply relationships for high value products with key customers, and to further attract milk supply in the region.

2015 P/E: 33.2   2016 P/E: 15.7

NZX Code:	**SML**
Share Price:	**$2.52**
12mth Target:	**$3.85**
Projected return (%)	
Capital gain	13.1%
Dividend yield (Net)	0%
Total return	**13.1%**

Rating: OUTPERFORM
52-week price range (NZ$) 2.52-3.75

→

TrustPower

The combined internet, phone, gas and electricity product has proved attractive, securing more than 15,000 customers over its first year with low churn out. Snowtown II completion is expected to give a full year contribution from 2016 and TPW's other potential Australian development opportunities have good prospects, now that a 33,000GWh Renewable Energy Target has been agreed. With a possible sell-down of the windfarms to low-cost capital investors, we see up to another $2.00 per share upside as possible for TPW.

2015 P/E: 19.5   2016 P/E: 19.5

NZX Code:	**TPW**
Share Price:	**$7.67**
12mth Target:	**$8.18**
Projected return (%)	
Capital gain	6.6%
Dividend yield (Net)	5.4%
Total return	**12.0%**

Rating: NEUTRAL
52-week price range (NZ$) 6.85-8.40

↓

Warehouse

The NZD/USD currency fall will not help, and competition and discounting is not expected to offer any reprieve going forward. It will be a challenge for WHS to grow sales and/or increase margins from here, particularly in a saturated market.

2015 P/E: 16.9   2016 P/E: 15.9

NZX Code:	**WHS**
Share Price:	**$2.61**
12mth Target:	**$2.40**
Projected return (%)	
Capital gain	-8.0%
Dividend yield (Net)	6.1%
Total return	**-1.9%**

Rating: UNDERPERFORM
52-week price range (NZ$) 2.59-3.45

→

Xero

At this juncture the market appears to have assigned a fair balance of risk and reward. XRO is the innovation leader of cloud accounting globally. Relative to competitors, XRO has gained the highest penetration of any single market. Whilst we believe that XRO is set to pull away from competition in the Australian and NZ markets, XRO faces much more intense competition in the critical US market. 2015 P/E: -60.1   2016 P/E: -49.2

NZX Code:	**XRO**
Share Price:	**$17.50**
12mth Target:	**$24.50**
Projected return (%)	
Capital gain	40.0%
Dividend yield (Net)	0%
Total return	**40.0%**

Rating: NEUTRAL
52-week price range ($) 15.00-26.90

↓

Z Energy

ZEL has agreed to acquire 100% of Chevron New Zealand's (CNZ) downstream fuels business for a total of $803m including $18m of transaction costs. We have undertaken a number of high-level scenarios for the uplift this transaction could yield resulting in an assessed valuation range of between $5.64 and $7.32, the latter including the upper end of synergies and a robust multiple. At this early point we apply a 75% probability to the uplift to our current valuation associated with applying an 8.8x earnings multiple to 2016 post-synergy earnings.

2015P/E: 19.0   2016 P/E: 17.0

NZX Code:	**ZEL**
Share Price:	**$5.74**
12mth Target:	**$6.02**
Projected return (%)	
Capital gain	4.9%
Dividend yield (Net)	4.2%
Total return	**9.1%**

Rating: UNDERPERFORM
52-week price range (NZ$) 3.70-6.21

If you are looking for a sharebroker I can recommend Graham Nelson, who works out of the Wellington office of First NZ Capital. With modern communications I am sure that you won't be disappointed….

Graham Nelson
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I have worked with Graham for many years, and he has always provided a thoroughly professional and courteous service, coupled with good advice.

NZ LISTED COMPANIES **14th July 2015** Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (NZ$m)	Price 14/7/15 (NZ$)	Price 30/3/15 (NZ$)	Fair Value	Price Earnings (x)		Gross Yield (%)	
						FY15	FY16	FY15	FY16
OIL & GAS & CONSUMABLE FUELS									
The NZ Refining Company	NZR	944	3.02		3.51	7.6	8.1	4.6%	20.6%
Z Energy	ZEL	2,324	5.81	5.00	6.02	19.2	17.2	5.8%	6.5%
INDUSTRIALS									
Capital Goods									
Fletcher Building	FBU	5,813	8.03	8.50	9.74	15.2	13.7	5.5%	6.2%
Opus International Consultants	OIC	187	1.25	1.40	1.95	8.4	7.3	8.4%	10.0%
Methven	MVN	82	1.13	1.15	1.25	11.1	11.1	9.8%	9.9%
Metro Performance Glass	MPG	303	1.64	1.81	2.20	15.0	14.4	3.0%	7.2%
Steel & Tube Holdings	STU	241	2.72	2.85	3.10	10.7	9.5	9.7%	11.5%
Agriculture									
Fonterra Shareholders' Fund	FSF	511	4.75	5.60	5.08	14.0	13.7	4.7%	5.1%
PGG Wrightson	PGW	355	0.47	0.49	0.50	9.5	10.8	11.8%	11.8%
Airlines									
Air New Zealand	AIR	2,833	2.53	2.70	2.30	7.3	6.3	7.7%	8.5%
Road Rail & Air									
Freightways	FRE	876	5.67	6.22	6.45	16.9	15.2	5.9%	6.2%
Mainfreight	MFT	1,517	15.23	16.63	17.50	18.1	16.1	3.1%	3.6%
Airwork Holdings	AWK	162	3.22	3.07	3.75	10.6	8.5	6.9%	8.1%
Transport Infrastructure									
Auckland International Airport	AIA	6,125	5.15	4.54	3.70	35.3	32.6	4.0%	4.2%
Port of Tauranga	POT	2,360	17.34	17.10	17.80	29.9	28.3	4.2%	4.6%
Infratil	IFT	1,764	3.14	3.18	3.24	23.1	20.0	12.2%	6.2%
CONSUMER DISCRETIONARY									
Hotels, Restaurants & Leisure									
Sky City Entertainment Group	SKC	2,409	4.10	4.05	3.65	18.9	17.4	5.2%	5.2%
Restaurant Brands New Zealand	RBD	406	4.06	4.03	4.15	18.0	16.1	6.4%	7.1%
Media									
Sky Network Television	SKT	2,385	6.13	5.90	6.21	13.1	13.5	7.0%	7.3%
Retailing									
The Warehouse Group	WHS	926	2.67	2.86	2.40	17.3	16.3	8.3%	7.8%
Briscoe Group	BGR	591	2.72	2.87	3.05	15.3	14.3	7.1%	7.5%
Hallenstein Glasson Holdings	HLG	193	3.25	3.45	4.10	11.1	10.9	12.5%	12.0%
Kathmandu Holdings	KMD	268	1.33	1.39	1.70	13.3	10.6	6.0%	7.5%
Michael Hill International	MHI	383	1.00	1.20	1.60	9.3	8.6	6.8%	7.3%
CONSUMER STAPLES									
Delegat's Group	DGL	490	4.85	4.56	5.20	14.2	12.6	3.4%	3.7%
Sanford	SAN	468	5.00	4.92	4.70	16.7	14.0	6.4%	6.4%
Synlait Milk	SML	372	2.54	2.65	3.85	33.5	15.8	0.0%	0.0%
HEALTH & AGED CARE									
Ebos Group	EBO	1,531	10.16	10.49	11.00	15.0	13.6	5.0%	5.5%
Fisher & Paykel Healthcare Corporation	FPH	3,937	7.04	6.50	6.05	34.7	30.8	2.7%	3.2%
Orion Health Group	OHE	626	3.90	4.75	5.00	-10.3	-19.8	0.0%	0.0%
Ryman Healthcare	RYM	3,995	7.99	7.84	8.25	29.3	25.4	1.7%	2.0%
Summerset Group Holdings	SUM	828	3.78	3.31	4.20	24.2	20.0	0.7%	0.9%
FINANCIAL									
Diversified Financials									
NZX	NZX	272	1.03	1.11	1.20	16.6	15.7	8.1%	8.1%
Coates Plc (x GPG)	COA	802	0.57	0.49	0.45	12.7	10.6	0.0%	0.0%
Hellaby Holdings	HBY	281	2.93	3.28	3.65	9.9	8.8	10.4%	11.9%
Heartland New Zealand	HNZ	569	1.21	1.28	1.40	11.9	10.8	7.7%	8.6%
Property									
Precinct Properties New Zealand	PCT	1,381	1.12	1.18	1.11	19.0	18.8	7.1%	7.1%
Argosy Property	ARG	872	1.09	1.14	1.14	18.0	17.8	8.3%	8.3%
DNZ Property Fund	DNZ	624	2.10	1.94	2.05	19.6	18.9	7.3%	7.5%
Goodman Property Trust	GMT	1,501	1.23	1.20	1.18	17.5	16.5	7.8%	8.1%
Kiwi Income Property Trust	KIP	1,664	1.32	1.29	1.31	18.6	21.1	7.4%	7.5%
Property For Industry	PFI	631	1.53	1.57	1.38	20.3	20.1	7.1%	7.2%
Vital Healthcare Property Trust	VHP	563	1.65	1.68	1.48	17.1	16.5	7.2%	7.5%
INFORMATION TECHNOLOGY									
Diligent Board Member Services	DIL	488	5.60	5.62	6.10	39.4	29.8	0.0%	0.0%
EROAD	ERD	220	3.67	4.15	5.05	274	62	0.0%	0.0%
Trade Me Group	TME	1,290	3.25	3.77	3.71	15.8	15.8	7.0%	7.3%
Xero	XRO	2,341	17.20	24.50	24.50	-33.9	-26.2	0.0%	0.0%
TELECOMMUNICATION SERVICES									
Chorus	CNU	1,098	2.77	2.89	3.27	9.3	10.4	0.0%	8.0%
Spark New Zealand	TEL	5,124	2.80	2.96	2.91	15.3	14.8	8.9%	9.4%
UTILITIES									
Contact Energy	CEN	4,696	5.04	5.95	5.95	21.6	21.1	20.9%	6.6%
Genesis Energy	GNE	1,705	1.71	2.32	2.02	19.4	20.2	13.0%	13.0%
Meridian Energy (full paid)	MEL	5,318	2.08	2.53	2.22	24.3	26.5	9.7%	10.0%
Mighty River Power	MRP	3,897	2.83	3.16	2.94	24.5	22.0	9.3%	9.5%
Trustpower	TPW	2,385	7.62	8.10	8.18	19.4	19.4	6.8%	7.1%
Vector	VCT	3,296	3.31	3.04	2.75	21.1	19.1	6.4%	6.5%
MARKET SUMMARY									
Market Average (excluding XRO)						**22.1**	**16.5**	**6.4%**	**6.6%**

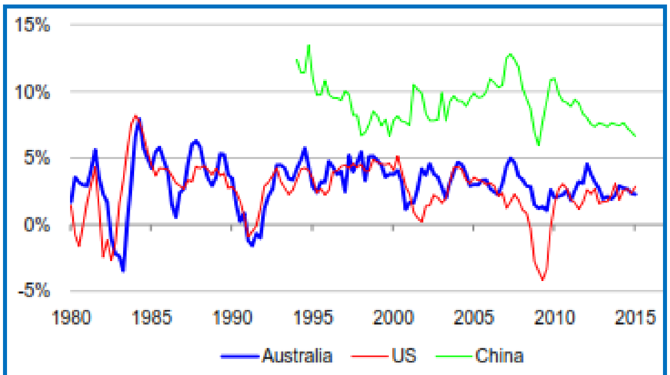
Strategy

Australia is now more correlated with China than the US. In real GDP terms, Australia remains more correlated with the US. But in nominal GDP terms, which is more important for RBA policy and corporate sales, Australia is far more correlated with China (75%). Indeed, China leads Australia by a quarter. In our view, the linkages between the two economies go beyond direct trade.

China has not grown so far in 2015. Nominal GDP shrank by roughly 4% annualised in 1Q, and our proprietary momentum index points to zero-to-negative growth in 2Q. Importantly, Chinese data significantly improves our Australian "now-cast" model, even though the model already takes into account external trade with China. Our analysis suggests that there is risk of nominal GDP recession in Australia.

More RBA rate cuts, weaker AUD/USD. We expect the RBA to resume cutting rates in 3Q. Indeed, the AUD/USD may be depreciating now in anticipation of this. Moderately lower rates and a weaker currency should be positive for Aussie equities, at least in local currency. A sharper decline and unusually high real interest rates will be negative.

YEAR-ENDED REAL GDP GROWTH BY COUNTRY



Source: Bloomberg, Datastream, Credit Suisse

Australia – Top Picks

Our analysts have updated their Top Picks for Australia. These include Oil Search and Tabcorp.

Oil Search

OUTPERFORM A$7.11 Target price A$9.00

Between oil's collapse and exploration disappointment/delays at all of Hides Deep, Elk-Antelope and Taza, it is perhaps unsurprising that Oil Search has underperformed the market by ~25% in the past 12 months. Whilst the oil price outlook remains cloudy, and there is scope for further delays with Elk-Antelope resource certification in particular, it is always important to step away and see what is being priced in. We believe Oil Search looks compelling once again. At US$80/bbl oil, Oil Search is on a ~12x P/E and offers a ~4% yield. With enough leverage if oil does shoot up, this is the place to be.

Tabcorp Holdings

OUTPERFORM A$4.85 Target price A$5.35

Favourable prospects in Tabcorp's wagering division lead us to recommend the stock with an A$5.35 target price and OUTPERFORM rating. Stimulated by mobile technology, the wagering industry is growing at least 5% in Australia. This should support at least 5% EPS growth for TAH over the next few years augmented by debt reduction. Our DCF-based A$5.35 target price translates into a 4.3% yield on FY17 DPS. That yield is consistent with TAH's recent trading range. TAH's P/E is overstated as the company annually amortises about A$40mn of its 2024 VIC Wagering Licence. As technology continues to erode licence exclusivity, TAH may not renew that licence for a significant sum. This means TAH's underlying EPS is about 3.3c higher and its FY16 P/E about 3pts lower.

Stock	Idea	Entry Date	MktCap	Last Price	Target Price	Analyst Rating	Growth 12MF	Growth 24MF	PE 12MF	DivYld 12MF	ROE 12MF	12MF EPS 3M Chg	Price 3M Chg	Price 12M Chg
NAB	Long	08/12/2014	87,110	33.31	37.50	O	3.5	1.3	12.2	6.1	12.9	-2.0	-12.1	3.1
MQG	Long	19/01/2015	27,148	81.40	90.00	O	7.5	7.8	15.4	4.5	12.0	12.8	4.9	36.5
CGF	Long	19/12/2013	3,829	6.72	8.30	O	9.5	8.2	11.1	4.6	13.2	-0.6	-4.0	-9.7
SCG	Long	08/05/2015	19,966	3.75	4.04	O	2.5	3.0	16.6	5.6	7.3	0.0	0.3	17.2
AGL	Long	23/10/2014	10,492	15.55	18.10	O	15.2	22.2	14.5	4.3	7.6	-6.4	3.0	4.8
OSH*	**Long**	**30/06/2015**	**10,857**	**7.13**	**9.00**	**O**	**34.5**	**43.4**	**16.8**	**2.7**	**9.0**	**4.6**	**1.7**	**-25.9**
SYR	Long	19/01/2015	618	3.74	7.30	O	-54.4	158.3	-40.3	0.0	-40.1	-402.2	1.4	-13.8
AZJ	Long	04/06/2015	10,886	5.13	5.80	O	11.9	16.8	16.4	4.3	10.4		6.7	3.0
BXB	Long	01/05/2015	16,610	10.60	13.20	O	20.7	16.4	18.8	3.2	20.9	-0.7	-7.7	15.3
PRY	Short	06/01/2015	2,601	5.04	5.05	U	4.2	5.4	18.7	3.4	5.2	2.0	-6.5	11.0
TAH*	**Long**	**30/06/2015**	**3,774**	**4.55**	**5.35**	**O**	**5.4**	**12.2**	**20.4**	**4.4**	**10.7**	**0.5**	**-4.4**	**45.2**
FXJ	Long	13/04/2015	1,973	0.82	1.20	O	15.9	0.5	11.4	6.1	8.2	0.0	-14.7	-9.9
REA	Long	07/05/2015	5,165	39.21	52.74	O	22.4	19.7	22.9	2.2	33.6	-3.1	-18.1	-8.2
GFY	Long	20/02/2015	123	3.04	3.70	O	15.7	11.9	8.6	8.4	14.7	0.0	-11.6	
ISU	Long	26/07/2013	377	1.44	1.85	O	10.7	18.3	15.2	0.0	8.8	0.0	-3.4	25.2
MTU	Long	08/01/2015	1,960	10.70	13.00	O	30.4	14.6	14.9	4.2	31.2	12.2	4.3	85.1

*New calls

Caltex Australia (CXT.AX)

OUTPERFORM A$34.23 Target price A$40.00

We believe Caltex remains misunderstood by many. It may no longer be viewed as a refiner, but with <20% of volumes receiving a retail margin and a collection of 24 terminals, 5 pipelines, 81 depots, membership of 7 airport JUHI's, ~300 road tankers/rail cars and ~800 owned or leased service stations, this is not a retailer either.

Here are the numbers... We estimate ~$525mn (50%) of FY15 EBITDA comes through non-retail fuel volumes. Of the other ~50%, much relies on infrastructure owned by Caltex too (Caltex doesn't split what of the ~800 owned/ leased stations are owned). Whilst Caltex's WACC is falling post the Kurnell conversion, much of the infrastructure is clearly worth more in the hands of others. If equity markets don't pay up, others (like Warren Buffett's Berkshire Hathaway) well might.

Caltex ticks all the boxes of Mr Buffett's economic moat test. (See NOTE below) It controls ~1/3 of the market, each state largely has a duopoly of wholesale supply and a friendly oligopoly of retail distribution (commercial is more competitive). Fuel margins are up ~200% in 10 years and Berkshire, with global experience, knows that Australia is the only OECD country that's retained volume growth. Yes it will slow, but look at Europe and the US for the past decade or more and look at the valuations there. This is a strong buy story.

CXT.AX Year to 31 December		2014A	2015F	2016F	2017F
Adjusted Earnings	A$m	493	513	573	610
Earnings /share (Adjust)	Ac	182.6	189.9	212.3	225.9
EPS Growth	%	51.4	4.0	11.8	6.4
Price / Earnings Ratio	x	17.7	17.0	15.2	14.3
Net Div / Share	Ac	70	95	106	113
Net Yield	%	2.2	2.9	3.3	3.5

NOTE:

Berkshire Hathaway has delivered A$ total returns of 22% per annum over the last 50 years. Aussie equities have returned 12% p.a. over the same period. For the first time in his 50-year career, Buffett has made a purchase in Australia - 3.7% of Insurance Australia Group.

One Australian dollar invested in Berkshire Hathaway 50 years ago would now be worth A$24,300. The same Australian dollar invested in the Aussie equity market, with dividends reinvested, would be worth just A$267.

Selected Australian Listed Companies - Earnings Forecast

Australian Forecasts 14th July 2015 Source: CSFB estimates	Ticker	Market Cap (A$m)	Price 8-Jun-15 (A$)	Price 30-Mar-15 (A$)	Fair Value (A$)	Price Earnings (x)		Net Yield (%)	
						FY15	FY16	FY15	FY16
BANKS									
ANZ Banking Group	ANZ	90,463	32.37	36.80	35.00	14.1	12.8	5.10%	5.50%
Commonwealth Bank Australia	CBA	140,543	86.35	94.34	91.00	18.4	16.5	4.20%	4.60%
National Australia Bank	NAB	87,591	33.36	38.83	37.50	13.4	15.4	5.70%	5.90%
Insurance									
AMP	AMP	18,693	6.32	6.51	6.70	24.5	19.6	3.60%	4.10%
QBE Insurance Group	QBE	14,446	14.26	12.82	10.22	-50.3	19.4	2.70%	2.90%
Suncorp Group	SUN	17,858	13.88	13.74	14.60	34.6	14.7	5.40%	7.60%
MATERIALS									
Chemicals									
Incitec Pivot	IPL	6,271	3.72	4.07	3.28	20.3	17.2	2.50%	2.50%
Orica	ORI	7,433	20.06	20.07	21.50	12.3	12.3	4.70%	4.80%
Materials & Mining									
BHP Billiton	BHP	106,107	27.41	30.75	22.30	8.9	7.7	5.70%	6.00%
Newcrest Mining	NCM	9,857	12.86	13.65	11.50	22.1	22.8	0.90%	0.00%
Rio Tinto	RIO	73,145	57.02	56.55	46.61	7.9	8.6	4.40%	4.90%
ENERGY									
Origin Energy	ORG	12,417	11.19	11.71	10.70	16.2	17.4	4.50%	4.50%
Santos	STO	7,544	7.52	7.53	7.50	14.5	13.9	4.00%	4.00%
Woodside Petroleum	WPL	20,715	33.98	35.04	28.22	12.1	8.6	9.90%	10.10%
HEALTHCARE									
CSL	CSL	31,277	90.94	91.85	76.28	27.8	24.3	1.50%	1.70%
Ramsay Health Care	RHC	12,705	62.87	66.63	70.75	43.8	36.8	1.10%	1.40%
CONSUMER STAPLES									
Woolworths	WOW	35060	27.68	29.62	29.75	14.6	14.1	4.90%	4.90%
INFORMATION TECHNOLOGY									
Computershare	CPU	4,922	11.96	12.80	10.54	16.1	14.7	2.90%	3.10%
TELECOMMUNICATION SERVICES									
Telstra	TLS	76,961	6.3	6.38	5.65	21.1	19.5	4.40%	4.70%
UTILITIES									
AGL Energy	AGK	10,620	15.74	15.31	18.10	14.2	15	4.00%	4.00%
MARKET SUMMARY									
Market Average						**16.2**	**17.2**	**4.00%**	**4.20%**

UK Investment Trust Performance

PRICES AS AT 2ND JULY 2015

Share Price 2-Jul-15 GBP pence	Net Asset Value	(Disc) Premium	*View	Investment Trust Company	Net Yield %	12 Month % Discount			1 Year % Return pa		3 Year % Return pa		5 Year % Return pa	
						Average	High	Low	Price	NAV	Price	NAV	Price	NAV
				Global Equity Funds										
639	636	0.60%	→	Bankers	2.4	-2.2	-5.9	1.4	36.6	31.4	25.5	18.1	17.5	11.1
506	563	-10.10%	↑	British Empire & Securities	1.9	-12	-14.6	-8.6	21.1	16	15.3	12.5	7.2	5.9
2,460	2,804	-12.30%	↓	Caledonia Investments	2.1	-16.1	-24.8	-9.7	30.9	29	28	15	9.1	5.8
1,068	1,130	-5.50%	↑	JP Morgan Overseas	1.4	-6.5	-8.4	-4	30.6	30.4	21.4	19.1	9.9	10.9
427	460	-7.30%	↑	Monks Investment	0.9	-12.4	-15	-8.8	31.8	23.5	17	13.5	10.5	8.3
1,575	1,544	2.00%	↑	RIT Capital Partners	1.9	-4.3	-7.8	-0.2	40.1	32	14.7	14.3	8.8	8.2
				European Funds										
807	815	-1.80%	NR	The European Trust	1.7	-13.4	-16.9	-8.2	23	18	27.4	19.6	14.9	9.3
244	256	-4.80%	→	JP Morgan European Smaller	1.2	-10.9	-15	-3.7	36.9	34.2	33	26.2	15.5	11.2
250	248	-0.50%	NR	BlackRock Greater European	2.2	-2.3	-6.3	1.3	23.9	20.8	22.1	19.1	13.8	10.9
				Asia/Pacific Funds (including Japan)										
323	318	1.60%	↑	Henderson Far East Income	5.3	2.3	-1.2	6.3	27.6	20.7	14.6	8.7	8.6	3.2
				Global Emerging Markets Funds										
593	658	-9.80%	↑	JPM Fleming Emerging Markets	0.9	-10.4	-13	-7.7	25.2	23.7	9.5	9.3	5.1	4.9
519	576	-10.00%	↑	Templeton Emerging Markets	1.3	-8.9	-11	-6.7		9.6	5.1	5.5	1.6	1.8
				Far East Exc Japan										
272	299	-9.20%	↑	Edinburgh Dragon	0.8	-9.5	-12.2	-6.1	23.9	24.3	10.5	10.1	7.2	6.2
518	578	-10.30%	NR	JP Morgan India	0	-11.8	-15.9	-4.7	45.6	45.4	20.5	20.8	5.7	5.8
280	306	-8.60%	↑	Schroder AsiaPacific	0.9	-9.8	-11.7	-7.2	33.8	30	14.6	13.2	10.8	9.6
				Other Funds										
811	879	-7.70%	↑	North American Income Trust	3.5	-3.8	-7.6	3	23.4	22.3	15.7	12.3	12.1	10.1
275	283	-2.80%	↑	JPMorgan American	1.2	0	-2.6	3.7	31.3	35.1	22.7	21.4	15.9	15.6
289	305	-5.10%	↑	BlackRock World Mining	6.5	-2.8	-10.6	8.2	-21.4	-22.7	-11.9	-17.4	-8	-12.4
585	584	-16.50%	↑	Polar Capital Technology	0	-2.7	-7.6	3	45.9	38.9	23.3	21.6	16.3	16.6
492	589	-16.50%	↑	SVG Capital	0	-19.1	-26.5	-8.4	36.5	31.8	26.1	20.4	28.3	22.3
295	284	3.80%	→	TR Property Trust	2.6	-0.3	-3.4	2.7	35.1	31.6	36.6	24	20.9	14.6
1,984	2,002	-0.90%	↑	Worldwide Healthcare Trust	0.8	-3.8	-8.4	2.2	72.1	69.1	40.7	37.5	27.5	24.5

1YR 3YR & 5YR PERFORMANCE FIGURES TO 30TH JUNE 2015 - ALL IN NZ DOLLARS - EXCHANGE RATE: UK£/NZ$ 0.4295 US$/NZ$ 0.6704

NOTE: *VIEW – FIRST NZ CAPITAL LIMITED

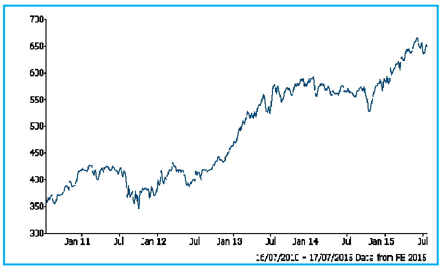
FNZC's aim is to identify Company's where the share price will outperform the benchmark on a risk adjusted total return basis. This may be through either a narrowing of the discount or outperformance of the underlying portfolio. Through the View we seek to identify buying opportunities for investors in each asset class, on a 12-18 months timeframe. Our view will take into account valuation, but will place a greater emphasis on the quality of management, performance record and risk characteristics (including portfolio diversification, gearing and any outstanding commitments). We will typically focus on the outlook for relative, rather than absolute share price performance.

Bankers Investment Trust (BIT.NZ)

PRICE: NZ$15.50 (UK£6.37)

Bankers is differentiated from its peers by its value orientated investment approach and a high 'neutral' UK weighting of 40%. The manager's approach is to focus on cash generative businesses that pay dividends.

BIT FIVE YEAR SHARE PRICE

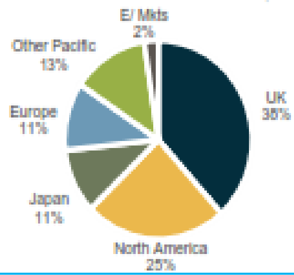


This value stock selection investment approach has been well suited to the recent market conditions. The manager believes Emerging Markets still face challenges and there will be further dislocations in the next 12 months. He is seeing an increasing number of cheap shares, but still believes it is too early to get involved. The portfolio has a 2% allocation to Emerging Markets and 13% in Asia Pacific.

Key Data — **Launch Date - 1888**

Year to July 2015	1Yr	3Yrs	5Yrs	10Yrs
Share Return on NZ$100	136.6	197.8	224.2	256.0
NAV Return on NZ$100	131.4	164.9	168.9	244.6
Current Discount/(Prem.)				(0.6%)
Gross Yield				2.4%
5 Yr Dividend Growth PA				4.5%
Gearing				4%
Total Assets Managed				£832m
NAV Volatility	12.0%	10.5%	13.3%	N/A
Benchmark Volatility	11.9%	10.6%	13.5%	N/A
12 Month High/Low				675/506p

Geographic Distribution (at 31 May 2015)



Following strong performance in 2013, he is also wary of high valuations in the US. More recently, however, strong performance has been driven by very good stock selection in key markets, particularly in Japan, the US and Europe. Returns from the China A shares are also a significant contributor to the overall performance, and the managers remain confident in their valuation. We regard Alex Crooke highly and the Company has an attractive yield relative to most of its Global Growth peers. Accordingly, we still believe that the Company is an attractive way for investors to gain a diversified exposure to global markets. However, the shares are now looking a bit more fully priced, at a small 0.6% premium, compared with a twelve month discount of 3.4%.

NOTE: Indicative pricing only

Secondary market	Code	Rating	Type	Maturity/ Reset Date	Coupon	Yield	Margin to SWAP	Price /$100	Coupon Freq
Fletcher Building	FBI060	NR	Cap	15/05/2016	9.00%	**4.40%**	139	$105.24	2
Fletcher Building	FBI070	NR	Cap	15/05/2016	7.75%	**4.50%**	149	$103.94	2
Infratil	IFT150	NR	Convert	15/06/2016	8.50%	**4.40%**	141	$104.39	4
Z Energy Ltd	ZEL010	NR	Snr	15/10/2016	7.35%	**4.20%**	122	$105.65	2
Fletcher Building	FBI100	NR	Cap	15/03/2017	7.50%	**4.48%**	150	$107.31	2
Vector	VCT070	BB+	Cap	15/06/2017	7.00%	**4.35%**	136	$105.43	2
Trustpower	TPW100	NR	Snr	15/12/2017	7.10%	**4.15%**	113	$107.36	4
Fletcher Building	FBI110	NR	Cap	15/03/2018	7.15%	**3.94%**	90	$110.44	2
Z Energy	ZEL020	NR	Snr	15/08/2018	7.25%	**4.27%**	119	$109.80	4
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	**3.72%**	57	$107.84	2
Contact Energy Limited	CEN020	BBB	Snr	15/05/2019	5.80%	**3.95%**	78	$107.53	4
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	**5.00%**	180	$105.83	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	**4.80%**	156	$108.73	4
Christchurch International Airport	CIA1010	BBB+	Snr	6/12/2019	5.15%	**4.10%**	52	$104.29	2
Auckland Intl Airport	AIA120	A-	Snr	13/12/2019	4.73%	**3.77%**	42	$105.00	2
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	**4.70%**	142	$117.03	4
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	**4.15%**	75	$110.40	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	**4.55%**	112	$108.78	4
Christchurch International Airport	CIA1020	BBB+	Snr	4/10/2021	6.25%	**4.50%**	100	$111.17	2
Trustpower	TPW120	NR	Snr	15/12/2021	5.63%	**4.54%**	101	$106.65	4
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	**4.74%**	115	$112.97	4

Floating Rate / Perpetual Bonds	Code	Rating	Type	Reset Date	Coupon	Price /$100	Margin to SWAP	Maturity	Coupon Freq
Credit Agricole S.A.	CASHA	BBB-	Tier I	19/12/2017	5.04%	**71.00**	400	Perpetual	4
Genesis Power Limited	GPLFA	BB-	Cap Bond	15/07/2018	6.19%	**103.60**	180	Perpetual	4
Infratil	IFTHA	NR	Perp	15/11/2014	4.53%	**68.00**	390	Perpetual	4
Quayside Holdings Ltd	QHLHA	NR	Perp Pref	12/03/2017	5.88%	**102.50**	177	Perpetual	4
Rabobank Nederland	RBOHA	A-	Tier I	8/10/2014	3.71%	**94.00**	280	Perpetual	4
Rabobank Nederland	RCSHA	A-	Tier I	18/06/2019	8.34%	**108.00**	330	Perpetual	4
Works Infrastructure Finance	WKSHA	NR	RPS	15/06/2015	7.95%	**103.50**	370	Perpetual	4

Final thought…

"Always do your best. What you plant now, you will harvest later."
Og Mandino

Limitations and Disclaimer