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Volume 21

Investment Strategies

DECEMBER 2017

The New Zealand General Election has come and gone. One man might have determined the new government, but that is the democracy that we have. Now is the time to move forward. The new government will bring in numerous changes, the exact details of which generally remain unknown.

From an equity market perspective, we believe that global events are likely to have a bigger impact on the NZ equity market than any changes brought in by the new government, although there are likely to be material impacts on specific sectors of the economy.

In my February Newsletter I gave my top picks for 2017. All, bar Z Energy, have performed strongly to date, this year. My picks were:

1-Jan-17 to 6-Dec-17	Last Price	Gain/Loss
Port of Tauranga	$4.86	26.2%
Synlait Milk	$6.84	119.9%
Trustpower	$5.95	26.1%
Xero	$29.96	71.2%
Z Energy	$7.53	3.7%

Below is the comparison year to date:

Performance to 6-Dec-2017	
AvonD Portfolio	49.4%
First NZ Capital	49.2%
JBWere	14.8%
Craigs IP	34.4%
Forsyth Barr	16.1%
Hamilton Hindin	40.2%
MSL Capital Mkts	14.2%
Vulcan Capital	-22.6%
Hobson Wealth Mgmt	16.7%

Markets:	
NZ50 Gross Index	18.6%
ASX200 - Aust 200 Index	5.2%
S&P500 - US Top 500 Index	17.5%
FTSE100 - UK Top 100 Index	2.6%

NOTE: NZ50 includes dividends. Portfolios don't.

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Statistics NZ Data

NEXT CENSUS DUE: 2018

Population

Estimated population at 30 Sept 2017:	4,817,494
Births Sept 2017 year:	58,494
Deaths Sept 2017 year:	33,240
Net migration September 2017 year:	70,986

Employment

Total employed Sept 2017 quarter:	2,593,000
Unemployment rate Sept 2017 quarter:	4.6%
Ave weekly earnings Sept 2017 quarter:	$1,174.64
Wage inflation Sept 2017 quarter:	1.9%
Cost Price Index Sept 2017 quarter:	0.5%
Intern. Investment Position June quarter:	-$154.2 bn
Change from last quarter:	-$1.187 bn
GDP per capita year ended June 2017:	$56,482
GDP Growth (volume) June 2017 quarter:	0.8%
Visitor arrivals Annual May 2017 +9.8%	3,614,339

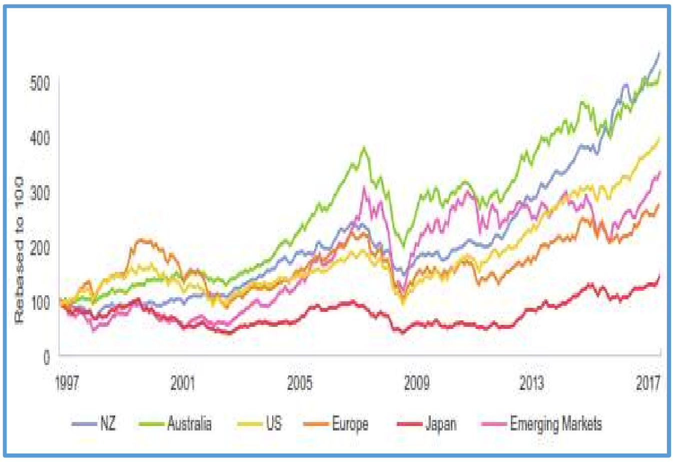
Source: Statistics New Zealand

RRP $5.00

WEBSITE:
vond.co.nz

GLOBAL MARKETS LOOKING EXCESSIVE

EQUITY MARKET PERFORMANCE
AS AT 31ST OCTOBER 2017



Soaring stock market valuations globally give rise to concerns that markets have over-heated. Some say that a looming correction is inevitable. Current valuations have hit levels not seen since the dotcom bubble and the eve of the Wall Street crash.

I have never been a “doom merchant” but with continued global instability, I recommend caution.

Donald Trump continues to struggle to get Congress support for his planned economic and social engineering, and his rhetoric around North Korea doesn’t give much confidence going forward.

Stocks are trading at levels only previously reached in the run-up to Black Tuesday and the tech collapse of 2000, fuelling concerns among economists that markets are destined for a devastating reversal that would throw world economic growth off track. In both cases, sharp market declines followed these high readings.

Price-earnings Ratios are at historical highs, and our New Zealand market is not exempt. The NZ50 is trading on a current Price to Earnings ratio of 21.2 – this indicates that it will take 21.2 years of income to pay for the price of a company. 21.2 is the average, so stocks trading above this are trading with huge growth expectations, to justify their valuations.

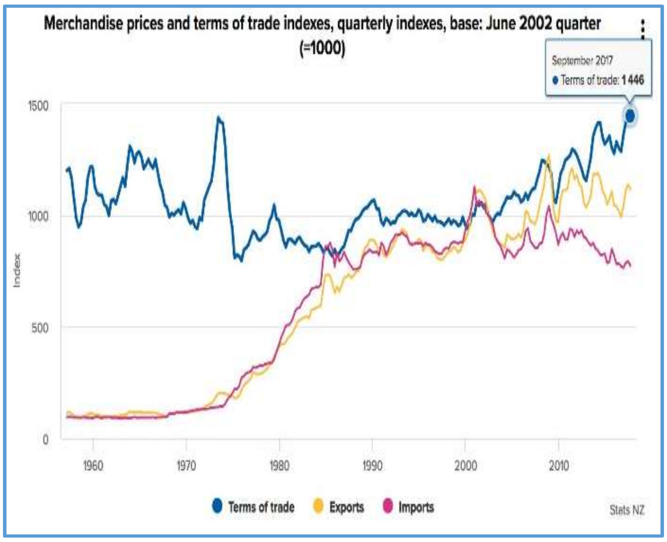
A low interest rate environment has continued to fuel share price valuations, but we are now probably seeing signs of a reversal in this low-interest rate climate. Excessively high interest rates could trigger a crash, while unreasonably low rates tend to create a bubble, followed by a bust.

Markets around the world seem vulnerable to a wide range of shocks, which could emerge from anywhere across the world. Markets are vulnerable not only to autonomous changes in sentiment but also to economic policies including policy failures. Trump’s return to protectionism increases this risk.

Rapid tightening of monetary policy in the eurozone, and a crunch in China's debt markets could also set off shock waves across the world. The risk will rise as the global economy runs closer to full capacity, inflation rises and central banks adjust their balance sheets.

Low interest rates will help sustain global markets, but lower growth, higher rates, or anything that alters the way the pie is being shared - such as an acceleration in wage growth not backed by higher productivity or changes in government policy relating to taxation, regulation, labour laws or even protectionism - could lead to a reassessment. Although there is no guarantee stocks will fall back sharply, market analysts are watching for any "catalysts for correction".

NEW ZEALAND ECONOMY REMAINS STRONG



New Zealand's Terms of Trade, which measure the purchasing power of our exports, rose 0.7 percent in the September quarter to an all-time high. The previous record high was September 1973. Economic data show the US, Japanese, Chinese and European economies all growing solidly for the first time since the Global Financial Crisis.

OECD’s 2017 Economic Survey of NZ

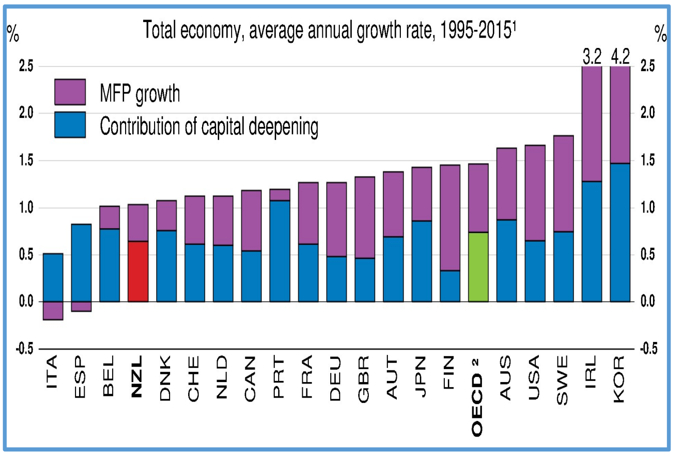
The 2017 OECD Survey of New Zealand notes New Zealand’s strong economic growth off the back of a booming tourism market, strong net inward migration, solid construction activity and supportive monetary policy. The report is also positive about New Zealand’s sound fiscal position with low public debt and a balanced budget.

The report highlights that New Zealand outperforms most OECD economies in regards to our standard of living, health status, the quality of our education system and our overall environmental quality. It shows that New Zealand’s labour market is performing strongly with high levels of employment and relatively strong real wage growth since the Global Financial Crisis. New

Zealand also has one of the lowest gender pay gaps in the whole of the OECD.

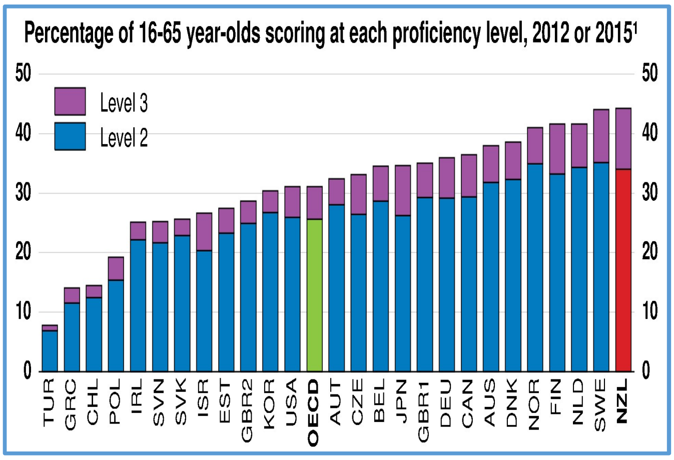
The OECD makes recommendations under three key themes, making growth more sustainable and greener, improving productivity, and adapting to the changing labour market.

Labour productivity growth is low



1. 1996-2015 for Austria; 1995-2014 for Australia, Ireland, Japan, Portugal and Spain.
2. Average of the 20 countries for which data are available.
Source: OECD (2017), Productivity database

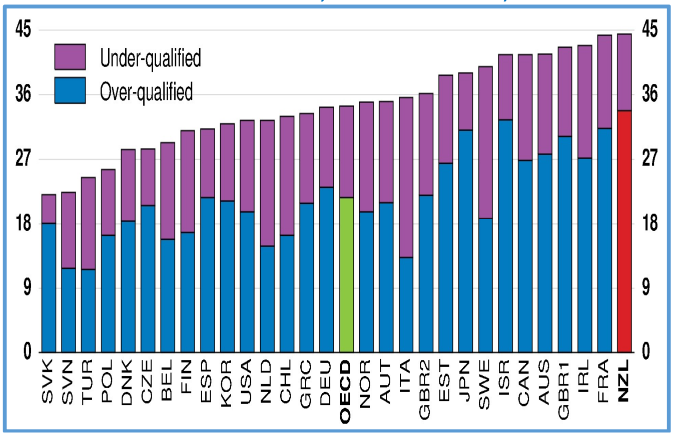
New Zealanders have high problem-solving skills in technology-rich environments



1. For the exact year of reference of the data, see footnote 2 in Figure 24. Data indicated as Belgium correspond to Flanders; GBR1 = England and GBR2 = Northern Ireland.
Source: OECD (2016), Skills Matter

Many NZ workers are overqualified for their jobs

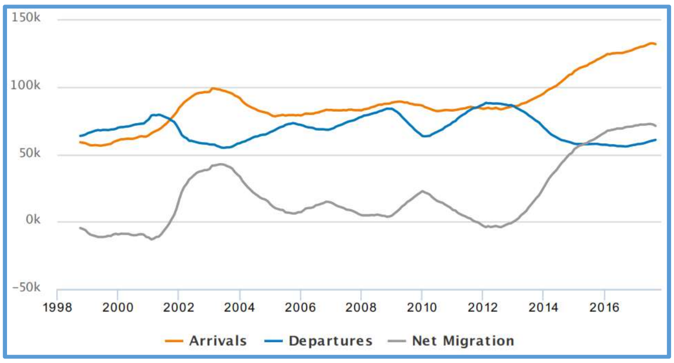
Percentage of mismatched workers,[1] by type of mismatch, 2012 and 2015[2]



1. Qualifications mismatch occurs when a worker has a higher or lower level of qualification than is required for his/her job. Field-of-study mismatch occurs when a worker has a qualification in a different field than required for his/her job.
2. For the exact year of reference of the data, see footnote 2 in Figure 24. Data indicated as Belgium correspond to Flanders; GBR1 = England and GBR2 = Northern Ireland.

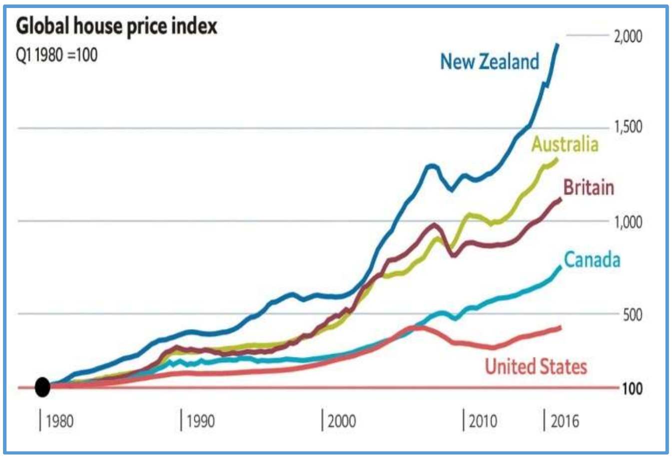
Source: OECD (2016), Skills Matter

New Zealand's Permanent and Long-term Arrivals, Departures, & Net Migration



SOURCE: Stats NZ

GLOBAL HOUSE PRICES



SOUCE: The Economist

Australian house prices may be higher than New Zealand in some places, but the relative performance of our houses when compared with Australia's is much, much better, particularly in recent years.

Australia put in place its ban on foreigners in the 1970s and ramped up enforcement in 2015. Victoria and New South Wales introduced a land tax for foreign buyers in mid-2016 and Victoria increased its stamp duty surcharge for foreign buyers to seven percent from three percent in mid-2016. Australia also removed the exemption from its capital gains tax for the main home for overseas investors in this year's budget.

New Zealand's house prices, and Auckland's in particular, have risen much faster than Australia's in the last three years in particular, as Australia ramped up its attempts to slow down the flow of capital coming in from overseas.

It seemed like the perfect counter-factual to argue that a ban on foreign buyers and a capital gains tax would not make any difference here. After all, it was argued, Australia has both rules in place and their prices are even crazier than New Zealand's.

But is that true?

The Economist measure above of house prices globally shows that New Zealand house prices vastly outperformed those of Australia, Canada, Britain and

In particular, Australia's house price performance underperformed through early to mid-2016 as its banks stopped lending to overseas investors because of concerns about the validity of income documentation. The New Zealand units of those same Australian banks also reduced lending to overseas investors through late 2016, which also coincided with a slowdown in the New Zealand property market.

The relative performances of the New Zealand and Australian property markets since the early 2000s show that the absence of foreign buyers' bans and a capital gains tax have been significant factors in helping New Zealand perform much better. The effect is most pronounced after the significant rise in net migration in the early 2000s and the arrival of capital from overseas in subsequent waves of migration.

The ability for rental property investors to borrow easily and heavily from banks to win highly-leveraged and tax free capital gains also helped super-power our prices, at least until late 2016 when the Reserve Bank forced such investors to have 40 percent deposits. Australian investors must pay a capital gains tax, which helped limit the extent of their appetite for such leveraged gains, although there was plenty of that investment too in Australia over the period -- again until the Australian Prudential Regulator forced the banks there to limit their lending to rental property investors.

New Zealand's outperformance of Australian prices significantly accelerated from 2002 to 2007 and from 2013 onwards. New Zealand had the same problems as Australia, with very fast lending growth from banks and with restrictions on growing housing supply, particularly in Sydney, so the main difference is the lack of a capital gains tax and foreign buyers ban.

If anything, New Zealand's outperformance of Australia is even more remarkable given the relative performances of our economies over that period. Australia's wage advantage over New Zealand grew sharply to around 30 percent between the early 1990s and now, which should have helped Australian house prices do much better than ours. Instead it was the other way around.

NEW ZEALAND WORK VISA ARRIVALS

TOP FIVE SOURCE COUNTRIES

THE SIZE OF THE MAORI ECONOMY

A recent Chapman Tripp reports the size of the Maori Economy is now $50 billion.

THE WORLD AT A GLANCE – including World wealth levels 2016, Credit Suisse

United States
Trump continues to alienate the media

UK
Growth forecast just 1.4%.
Brexit phase 2 - what's in store?

Europe
Will EU survive?
Italy next at risk of exiting

Russia
Russian economy stable
Putin remains in control

China
Chinese growth reignites to 6.8%

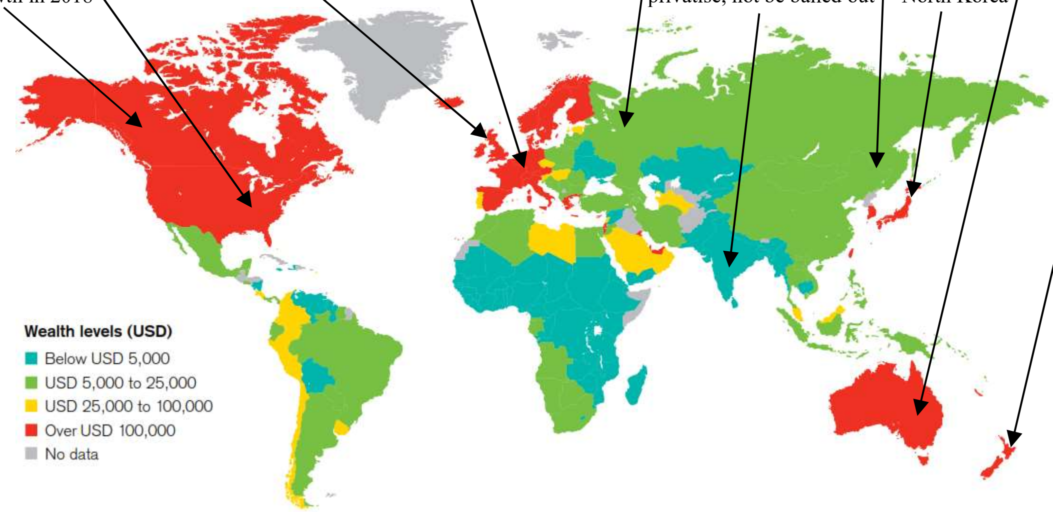
Australia
Turnbill's leadership starting to show dividends

Canada
Canadian economy stalling.
Much slower growth in 2018

India
Bad banks need to privatise, not be bailed out

Japan
Anxious about North Korea

New Zealand
Can Jacinda hold it together?



The Global Economic Outlook

Incoming Reserve Bank Governor, in his first interview since the announcement, described the global economy as in a "Goldilocks zone" of strengthening economic growth with low inflation and low interest rates.

"We are in a very, very positive situation," he said, pointing to real per capita GDP growth of 2.5 percent in Japan, for example.

He said global stock markets were neither wildly over-valued or under-valued, with Europe and Japan about 10 to 15 percent under-valued relative to long term valuations, while the United States was around 5 to 10 percent over-valued.

"Should there be a large downturn in 2018 that would be fantastic," Orr said of the likely effects on asset prices, given the NZ Super Fund was a long-term investor keen to buy assets during downturns in the knowledge they would bounce back over the long run.

Orr talked extensively about the long-term effects of demographic change (with ageing populations in the developed world and the urbanisation of younger emerging markets) and the effects of climate change. The one caveat was China, which "got old before they got rich."

Our analysts expect global economic growth of 2.9% in 2017 and 3.0% in 2018, which should allow central banks to unwind the ultra-accommodative monetary policy. Consequently, the US 10yr treasury yield is expected to reach 2.8% by year-end. There are now clear signs of a synchronised global profits recovery. All major equity regions are enjoying positive EPS momentum. We expect this to continue and support our analysts positive view on global equities. Their strategists forecast the S&P 500 to reach 2550 by year-end and expect better returns in Europe and Emerging Markets.

New Zealand's Economic Outlook

There is incongruency between Treasury's rosy economic outlook and Winston Peters' warning of a looming crash. Bank economists say Treasury's projections are 'somewhat of a best-case scenario'.

My concern is that historically left leaning government bureaucrats are letting this get in the way of providing a non-partisan view of our economy. Treasury is now predicting 3.6% GDP growth for the year to June 2019, whereas bank economists all predict 2.8%. The difference is important, because even with the higher Treasury estimates, Labour is living within the margin of error, in its mini-budget announced on 14th December.

ANZ's 4th December "Market Focus" says: 'We were already somewhat circumspect regarding the near-term growth picture, but our latest Business Outlook survey has put us on notice. The economy is clearly delicately placed, and near-term risks are downwardly skewed. However, we also need to be careful to avoid 'Chicken Little' prognoses. There are still reasons for optimism and we are maintaining a core view that any near-term growth wobble won't turn into something longer-lasting. In data this week, construction work and manufacturing production figures for Q3 will help us finalise a view on Q3 GDP growth (which at this stage we still see growing a modest 0.3% q/q). Global dairy prices are expected to remain under modest downward pressure, while our Commodity Price Index will provide an update on the broader picture.'

ANZ BANK - KEY FORECASTS	Jun-17	Sep-17	Dec-17	Sep-18	Dec-18	Sep-19
GDP (% yoy)	2.5	2.0	2.1	2.9	3.2	2.8
CPI (% yoy)	1.7	1.9	1.8	2.0	1.9	2.4
Employment (% yoy)	3.1	4.1	2.8	0.8	1.6	1.2
Unemployment Rate (% sa)	4.8	4.6	4.7	4.5	4.4	4.4
Current Account (% GDP)	-2.9	-2.7	-2.7	-2.7	-2.8	-2.7
Terms of Trade (% yoy)	10.1	12.3	4.6	-3.6	-2.0	0.4

NEW ZEALAND GDP ANNUAL GROWTH RATE

NEW ZEALAND GDP PER CAPITA

This GDP per Capita graph clearly shows that the 9 years of a National Government have added real wealth across New Zealand, and this wasn't just immigration led.

United States Economy

The U.S. economic outlook is healthy according to the key economic indicators. The most critical indicator is gross domestic product, which will rise to 2.5% in 2018. It's the same as the in 2017, but better than the 2.1% growth in 2016. The increase in GDP will drop to 2.1% in 2019 and 2.0% in 2020. That's according to the most recent forecast released at the Federal Open Market Committee meeting on December 13, 2017. This forecast begins to take into account the impact of Trump's policies.

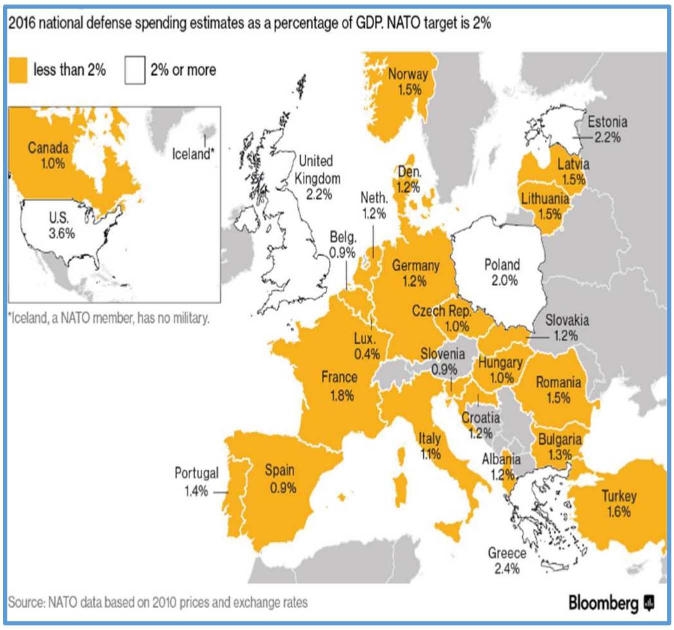
GDP measures the nation's production output. President Trump promised to increase economic growth to 4 percent. That's actually faster than is healthy. Growth at that pace leads to an overconfident irrational exuberance, and would create a boom that would likely lead to a damaging bust.

The Fed Reserve expects unemployment to drop to 3.9% in 2018 and 2019, but rise to 4.0% in 2020. That's better than the 4.1% rate in 2017, and 4.7% in 2016.

Trump’s Tax Reforms are now through the Senate, but it is still uncertain when the government's fiscal spending on infrastructure will come through. However, the persistent weakness of the dollar could improve net exports.

On the international stage, tensions between America and China are ramping up as President Donald Trump loses faith in China's ability to contain North Korea. America has agreed to sell US$1.42 billion worth of arms to Taiwan. Trump had initially delayed the deal after an early positive meeting with President Xi at Mar-a-Largo.

USA is concerned at Europe’s unwillingness to pay its fair share of NATO



“KNOWLEDGE IS POWER - BUT ONLY WISDOM IS LIBERTY” - Will Durant

United Kingdom Economic Outlook

CSFB economists' outlook for UK growth is relatively bearish. The British economy is expected to slow down from 1.8% in 2016 to 1.5% in 2017, dragged by weak consumer spending and unlikely to be compensated by rising net exports or business investments. Lower growth and further political uncertainty are likely to force the Bank of England to keep interest rate rises on hold throughout 2017. After the general election in June, the UK government has a weaker mandate to negotiate its previous hard version of Brexit.

The deficit is now forecast to come in at £51.7bn this year, down from the £68.2bn as forecast in November. Analysts now expect the deficit to increase by £6.5bn next year rather than shrinking by £7.2bn. Budget policy decisions will also push up public spending next year, whereas government departments appear to be underspending this year by more than expected.

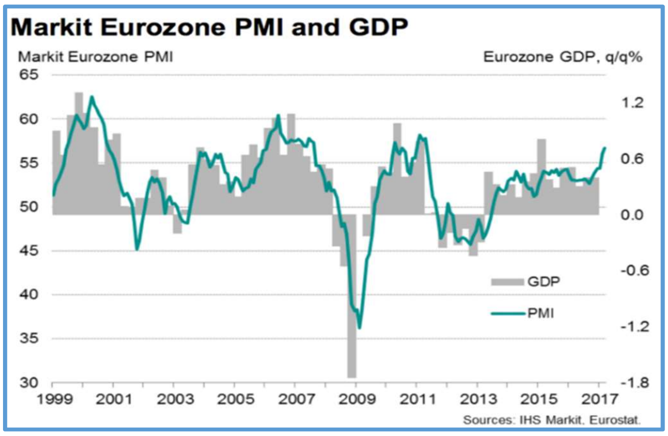
United Kingdom’s GDP Growth Rate

Scottish First Minister Nicola Sturgeon has announced she will seek permission from Westminster to call a second referendum on Scottish independence. She says Scots should be given a choice on whether to follow the UK into a hard Brexit or become an independent country. She argues that the result of the EU referendum has drastically altered the political landscape. Scotland overwhelmingly voted to remain in the EU, leading Sturgeon to claim the country was being "dragged out of the EU" against its will. She told reporters that the SNP had initially sought to work with Theresa May's government, but that May's determination for a "hard Brexit" – particularly the decision to leave the single market – left them with no choice but to revive the independence question.

SIR MICHAEL CAINE SAYS HE VOTED FOR BREXIT BECAUSE HE WOULD 'RATHER BE A POOR MASTER THAN A RICH SERVANT'

European Economy

The Euro regions have climbed out of their economic malaise (the result of the GFC), with strong manufacturing growth, as well as improving GDP (see graph)



The Euro Area trade surplus narrowed to EUR 18.9 billion in October 2017 from EUR 19.2 billion in the same month of the previous year, way below market expectations of EUR 24.6 billion.

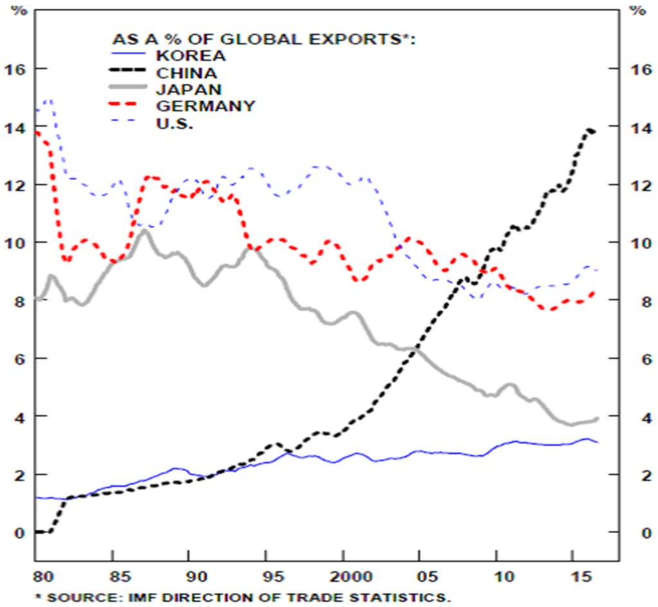
Imports jumped 10.1% to EUR 168.9 billion and exports rose at a softer 8.8% to EUR 187.9 billion. In the first ten months of the year, the trade surplus narrowed sharply to EUR 187.9 billion from EUR 213.8 billion in the same period of 2016. Balance of Trade in the Euro Area averaged 5310.56 EUR Million from 1999 until 2017, reaching an all-time high of 30076.20 EUR Million in July of 2015 and a record low of -16510.20 EUR Million in January of 2011.

EU GDP ANNUAL GROWTH RATE

Chinese Economy

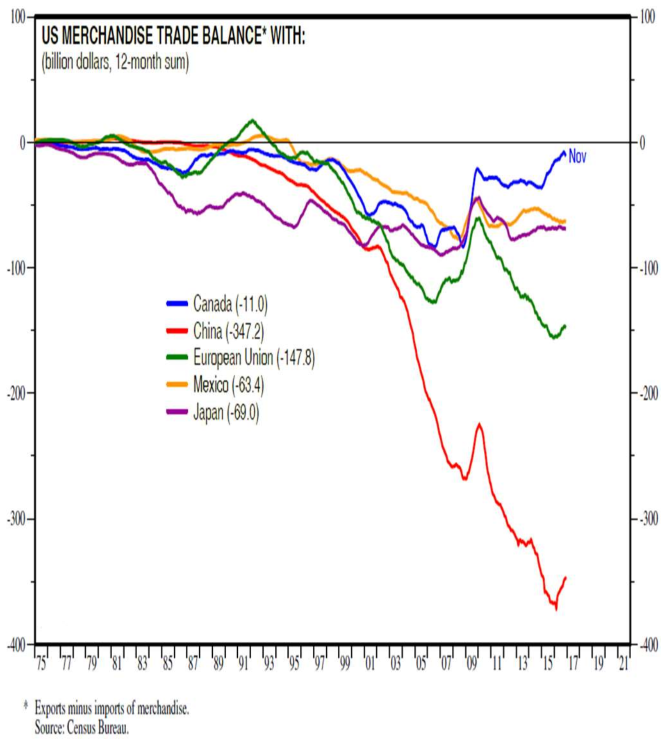
Our analysts predict China's economic growth to remain and should reach 6.8% in 2017 (6.7% in 2016). The economy is going through a cyclical moderation amid policy tightening. Borrowing costs have increased as the central government continues to take pre-emptive steps towards 'financial deleveraging'. Our Analyst's China economists believe the government has the resolve and ability to prevent any financial crisis in 2H17. Total social credit growth remains strong, and monthly bank lending has delivered positive surprises.

CHINA NOW DOMINATES SHARE OF GLOBAL EXPORTS



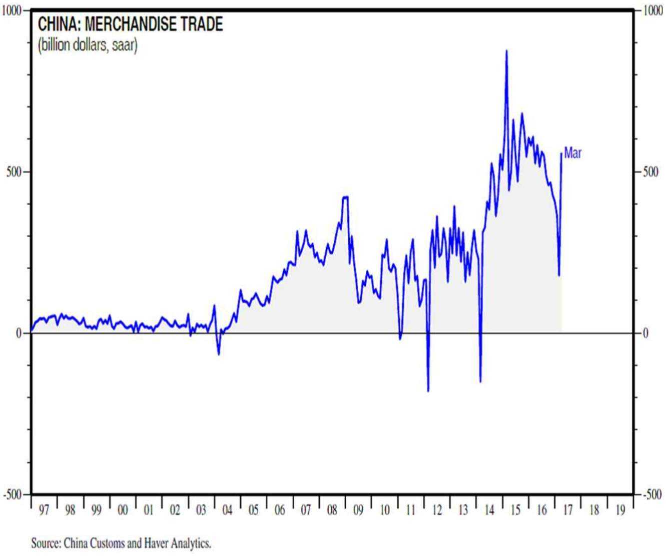
Property investments could slow down in 2H17 as developers can no longer access easy credit, but property sales in Tier 3 cities, which account for 50% of China's FAI investment, continue to deliver upside surprises to property investment growth.

CHINA'S HUGE TRADE IMBALANCE WITH THE US

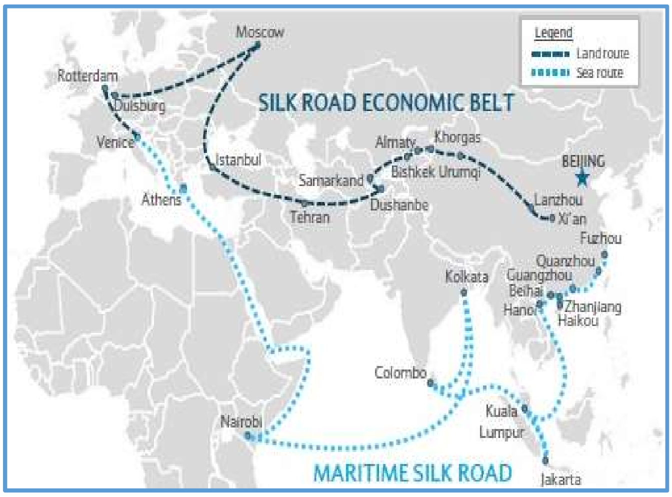


Infrastructure investment growth has moderated in recent months, but local governments could respond to the severe flooding in summer by building more infrastructure in the areas affected. Retail sales growth will remain stable while CPI inflation has been dragged lower by food prices. Capital outflows will remain subdued because the government continues to tighten capital controls and the PBoC keeps guiding CNY fix stronger. Upcoming political transition, the 19th party congress, should mean the government supports growth if the economy begins to deteriorate.

CHINESE EXPORTS STAGE A STRONG RECOVERY



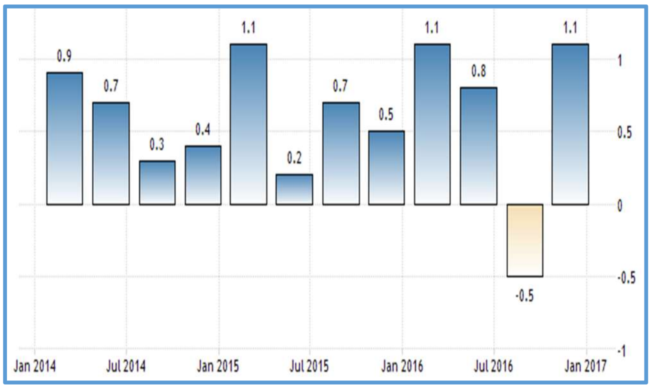
CHINA'S DRIVE TO GROW ITS GLOBAL TRADE



Australian Economic Outlook

In Australia, public investment is expected to fill the hole left by an orderly decline in housing investment. The drag from the decline in the resource based investment boom is finely expected to come to an end. The key risk for the Australian economy appears to be the potential for a meaningful fall in house prices. High house prices are reflected in the low rental yields currently being recorded. For the first time in 10 years Credit Suisse analysts expect all major sectors to report positive earnings growth over the next year.

AUSTRALIA'S GDP GROWTH RATE



Commodities

OIL PRICE WON'T RECOVER UNTIL 2020, BOSSES WARN

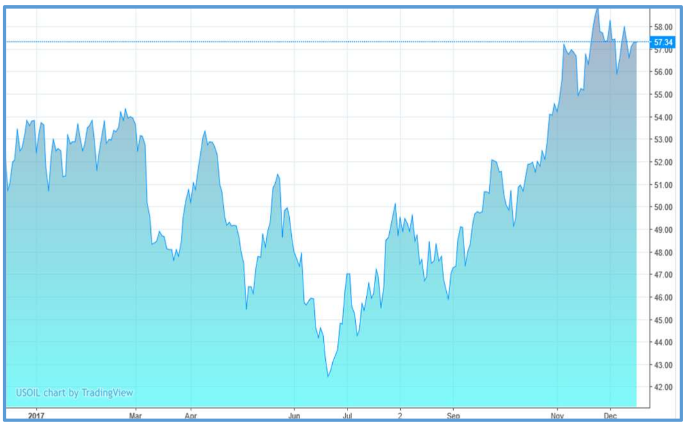
Oil bosses appear to have given up hope that prices will recover anytime soon and are warning that weak price levels will persist until the end of the decade, says Bloomberg. "The years of $100 oil will turn out to be an aberration," BP boss Bob Dudley told an industry event recently. He added it may take until 2020 until demand grows enough or a big enough supply gap opens that US producers can't fill. "Until then, it feels very tenuous," he said.

The U.S. Energy Information Administration predicts crude oil prices will average US$57/barrel in 2018. That's for Brent global. West Texas Crude will average around US$4/barrel less. The EIA warned that there is still some volatility in the price. It reported that commodities traders believe prices could range between $48/b and $68/b for March 2018 delivery.

A strong dollar depresses oil prices, because oil contracts are priced in dollars. Oil companies are laying off workers, and some may default on their debt. High yield bond funds haven't done well as a result.

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

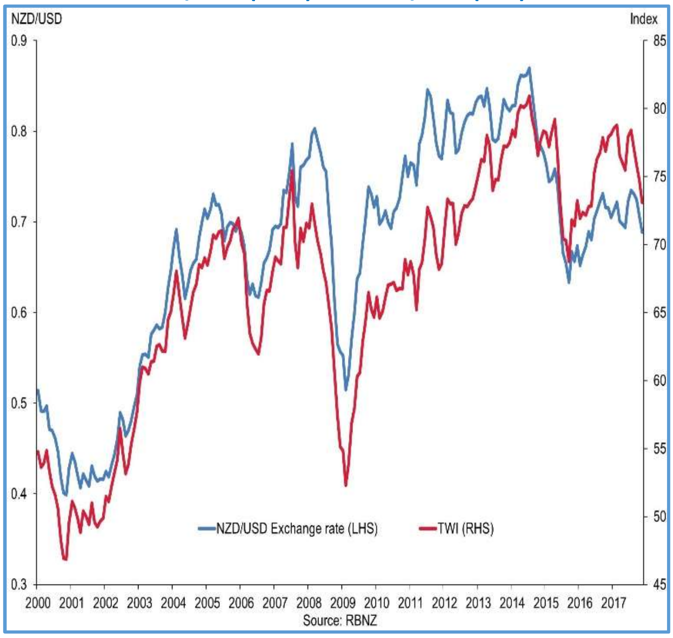
OIL: WEST TEXAS CRUDE (1 YEAR CHART)



Currency

The Reserve Bank in its August Monetary Policy Statement has forecast the Official Cash Rate to remain at current levels until the September 2019 quarter. The market believes that the bank will commence tightening at an earlier date. ANZ's Monetary Policy Expectations Analysis has the official cash rate moving to 2% in September 2018.

NZD/USD (BLUE) AND NZD/TWI (RED)



WHAT IS BITCOIN? AND HOW HIGH COULD ITS PRICE GO?

Bitcoin rose in value by $4,500 in a week but critics warn it is a 'frothy' market

The bitcoin frenzy saw the value of the virtual currency soaring past $17,000 per coin at the beginning of December - just 24 hours after clearing $14,000 for the first time.

"It's a bubble for sure, in its dynamic; we just don't know when or how it will collapse," said Neil Wilson, a senior analyst at ETX Capital.

At the start of 2017, bitcoin was below $1,000. By October it was up to $5,000, soaring to double that by late November. Yesterday bitcoin briefly peaked above $17,000, then fell to $15,000 this morning. Where it will be next week is anyone's guess.

"Put up the sign from Dante's Inferno – 'Abandon hope all ye who enter here' – I think that's probably what's needed," Sir Howard Davies, chairman of the Royal Bank of Scotland, and a former head of the UK's top financial watchdog, told Bloomberg TV.

So, what's all the fuss about?

What is bitcoin?

Bitcoin is a unit of digital currency and a worldwide payment system. It has no physical form and exists only as a string of computer code. Bitcoin is bought and sold online, generally in exchanges and stored in an online "wallet". Bitcoin code can also be stored on memory sticks or computer hard drives.

How much is a single bitcoin worth now?

Its price varies wildly. Currently, a single bitcoin was worth about US$16,000 (£11,950). By the time you read this article it could be flirting with US$20,000, or crashing and burning.

What drives the bitcoin market?

Bitcoin is a highly speculative venture that typically appeals to investors hunting for higher yields. A chunk of the market is driven by the "bitcoin whales" - the approximately 1,000 people who own 40% of the market.

"A few massive investors can rock it with a shrug," Bloomberg says. "They can send prices plummeting by selling even a portion of their holdings. And those sales are more probable now that the cryptocurrency is up nearly twelvefold from the beginning of the year."

Who invented bitcoin?

The identity of the mastermind behind bitcoin is a Japanese developer who goes by the pseudonym Satoshi Nakamoto, reports UK's Daily Telegraph. Ted Nelson, one of the web's founding fathers, has suggested Nakamoto is actually mathematician Shinichi Mochizuki.

In 2014, Newsweek claimed the founder was Dorian Prentice Satoshi Nakamoto, a 64-year-old father-of-six living near Los Angeles, although a brief interview with Nakamoto garnered no concrete evidence of this.

However, Australian entrepreneur Craig Wright told the BBC that he was part of a team of people who created the currency that is collectively known as Satoshi Nakamoto. "Wired" website later said Wright may have been a "hoaxer" looking to capitalise on the bitcoin bandwagon.

How do you spend bitcoins?

Bitcoin has gone a bit mainstream. Some coffee shops in London and New York accept it as payment, as do online retailers such Expedia, The Times says. Even cosmetics giant Lush takes the virtual currency at its online store, as do Microsoft, Steam and Wordpress.

If you want to buy something using bitcoins, you need to make sure the seller accepts the cryptocurrency. If they do, you need the anonymous identification number attached to the seller's "wallet" so that you can move coins from your virtual wallet to theirs.

The "anonymity" of these transactions has made the currency particularly popular with drug dealers, says ABC News.

CARMEL FISHER of Fisher Funds sums it up nicely:

A tweet doing the rounds recently summed up the frustration of 'old-fashioned' investors, those who didn't buy Bitcoin.

"You: a Wall St trader, spent years in schools learning the minutiae of finance, 10 years of 100-hour work weeks, super excited about your 10 per cent returns this year. Me: a Bitcoiner, read some books, posted on Twitter, ate some steaks, enjoying 900 per cent returns this year."

The tweet is essentially a modern take on Aesop's fable of the grasshopper and the ant. The ants (we old-fashioned investors) work hard all day, analysing securities and finding value in real assets while Bitcoiners (the grasshoppers) have enjoyed significant gains just by being on the right side of a momentum trade.

Should we let FOMO (fear of missing out) lead us to a different strategy for 2018? I for one won't be changing anything.

There is no point talking about what the price of Bitcoin or any other asset bubble might do from here; no one knows.

I'm happy to be an ant, stockpiling returns for the winter, grain by grain if needs be. The grasshoppers may be enjoying their summer harvest but it could disappear as quickly as it arrived.

Will it be frustrating to miss out on the grasshoppers' upside in 2018? Probably. Will I avoid the downside should the bubbles burst? Probably.

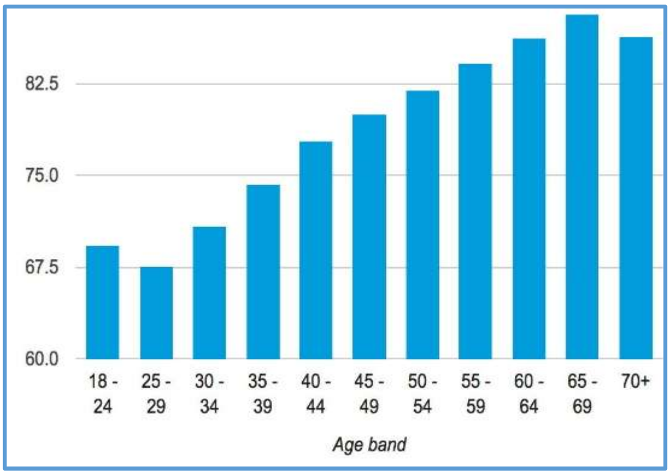
To mix Aesop's messages altogether, slow and steady wins the race.

THE NEW ZEALAND 2017 ELECTION VOTE ANALYSIS

The Electoral Commission has released a breakdown of voting statistics for the 2017 General Election by age and Māori descent. The turnout of voters was up on 2014 across all age groups, with a 6.5% increase for younger voters.

Overall turnout as a percentage of enrolled electors was 79.8%, the highest turnout since 2005 when it was 80.9%.

VOTERS BY AGE GROUP – AS A % OF TOTAL ENROLMENTS

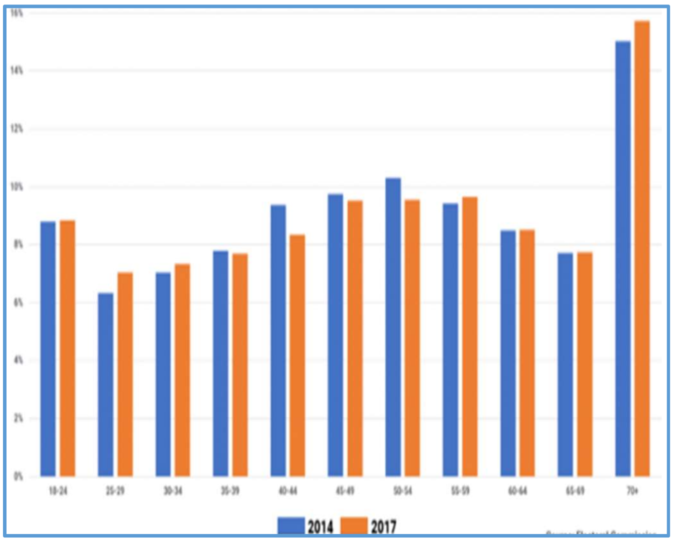


The figures show an increase in the number of voters as a proportion of enrolled electors in each age band.

Age band	2014 GE Turnout	2017 GE Turnout	Change
18 - 24	62.7%	69.3%	6.5%
25 - 29	62.1%	67.6%	5.5%
30 - 34	67.4%	70.9%	3.5%
35 - 39	72.8%	74.3%	1.5%
40 - 44	76.2%	77.8%	1.6%
45 - 49	78.6%	80.0%	1.4%
50 - 54	80.8%	81.9%	1.1%
55 - 59	83.3%	84.1%	0.8%
60 - 64	86.0%	86.2%	0.3%
65 - 69	88.1%	88.2%	0.2%
70+	85.8%	86.3%	0.6%

The turnout of voters who have identified themselves as being of Māori descent has also increased across the Māori and General Rolls from 67.6% in 2014 to 71.1% in 2017 (3.5%).

ACTUAL VOTERS BY AGE GROUP - 2014 VS 2017



GOALS FOR NATIONAL

Goals for "National for 2020" could include:

1. Knock 2.3% off NZ First to eliminate them from Parliament. Target their support base of rural/provincial NZ and remind them constantly Winston put the Greens into Government.
2. Target Labour seats to reduce them to a metropolitan party. Start three years campaigns to win West Coast Tasman, Napier, New Lynn, Te Atatu, Ohariu, Wigram, Palmerston North and Port Hills. This would reduce them to just 14 general electorate seats.
3. The Greens have never been in Government with the responsibilities of having good relations with other countries. Exploit pressure points on trade, defence and international relations. They need to lose just 1.4% to be out of Parliament.
4. Labour will be a very politically correct urban liberal party, with a strong emphasis on identity politics. Target West Auckland and South Auckland to reduce their party vote there by a couple of percent.

MPs FUNDING

	MPs	Elect MPs	Large Elect	List MPs	Exec	Non Exec	Leader	Party	MPs	Total
National	56	41	6	15		56	$3,701,920	$1,448,440	$14,195,926	$19,346,286
Labour	46	29	7	17	19	27	$1,836,640	$1,116,355	$10,169,938	$13,122,933
NZ First	9			9	5	4	$357,280	$213,460	$1,256,022	$1,826,762
Greens	8			8	4	4	$357,280	$191,460	$1,145,704	$1,694,444
ACT	1	1		0		1	$164,320	$25,865	$268,550	$458,735
TOTAL	120	71	13	49	28	92	$6,417,440	$2,995,580	$27,036,140	$36,449,160

This the funding each party will get in Parliament based on how many MPs they have, if they are in the Executive or not and if they are Electorate or List.

It excludes Ministerial Services that will provide 200 or so staff to Ministerial Offices.

The bulk of the funding is for individual MPs to hire staff both in Parliament and out of Parliament Offices. However, funding can be pooled and transferred.

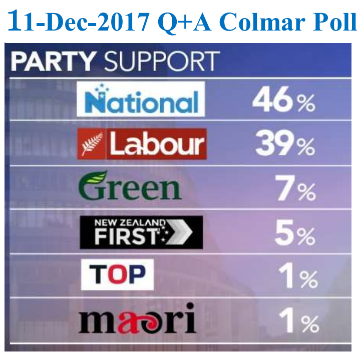
MP SALARIES

MP SALARIES	Salary	Super	Perks	Allowance	Total Return
Prime Minister	$471,049	$32,792	$13,600	$22,606	$540,047
Deputy PM	$334,734	$32,792	$13,600	$16,980	$398,106
Cabinet Ministers (18)	$296,007	$32,792	$13,600	$16,980	$359,379
Speaker	$296,007	$32,792	$4,600	$21,136	$354,535
Leader of the Opposition	$296,007	$32,792	$4,600	$16,980	$350,379
Ministers outside of Cabinet (6)	$249,839	$32,792	$13,600	$16,980	$313,211
Government Senior Whip	$222,460	$32,792	$4,600	$16,980	$276,832
National Deputy Leader	$217,827	$32,792	$4,600	$16,980	$272,199
National Senior Whip	$217,352	$32,792	$4,600	$16,980	$271,724
Deputy Speaker	$209,471	$32,792	$4,600	$16,980	$263,843
ACT Party Leader	$179,713	$32,792	$4,600	$16,980	$234,085
Green Whip	$182,573	$32,792	$4,600	$16,980	$236,945
NZ First Whip	$184,003	$32,792	$4,600	$16,980	$238,375
Parliamentary Under-Secretaries (2)	$194,374	$32,792	$4,600	$16,980	$248,746
Assistant Speakers (2)	$179,713	$32,792	$4,600	$16,980	$234,085
Junior Whips (3)	$179,713	$32,792	$4,600	$16,980	$234,085
Select Committee Chairs (12)	$179,713	$32,792	$4,600	$16,980	$234,085
Select Committee Deputy Chairs (12)	$168,992	$32,792	$4,600	$16,980	$223,364
Ordinary MPs (54)	$163,961	$32,792	$4,600	$16,980	$218,333
TOTAL	$4,423,508	$623,052	$123,400	$332,402	$5,502,362

- Jacinda Ardern will be on a package of $540,000
- Winston Peters will be on a package of $400,000
- Labour and NZ First Ministers will be on a package of $360,000
- Green Ministers will be on a package of $313,000
- Under-Secretaries will be on a package of $250,000
- Trevor Mallard as Speaker will be on a package of $354,000

LATEST POLITICAL POLL – 11TH DECEMBER 2017

The latest poll has both National and Labour tracking higher since the election.



Labour has got off to a shaky start, indicating that they were totally unprepared for a coalition win into government.

Their first mini-budget is indeed bold; giving them no room for meeting further social and labour force initiatives in the next three years.

The unions are already flexing their muscles (recent train strikes in Wellington and Auckland), so watch this space. The challenge for National will not to be overly negative and gloating in opposition.

BRITAIN IS THE BEST PREPARED COUNTRY IN THE WORLD FOR THE LOOMING ARTIFICIAL INTELLIGENCE REVOLUTION

Britain is well ahead of not only Germany and France, but also the United States, a major new study finds. The UK is a pioneer in the field of robotics and has the digital skills and know-how to make the most of the technological change, researchers said.

The AI Readiness Index, by the Oxford Insights Team, put the UK in the top spot out of the world's 35 most advanced countries - beating the US into second place. Interestingly, New Zealand is No 9 in OECD in embracing Artificial Intelligence.

TOP TEN WORLD ROBOTICS RANKINGS:

1. Britain
2. United States
3. Canada
4. Korea
5. Netherlands
6. France
7. Japan
8. Australia
9. **New Zealand**

UK Prime Minister Theresa May hailed the *"welcome news that we are leading the world,"* but said *"she is determined for Britain to embrace AI even more. We know that AI is shaping the future, and we're absolutely determined to both make the most of its vast opportunities, yet also manage and mitigate the potential risks. We must harness the power of the digital revolution for all mankind, so that it works for to improve people's lot in life. It's a big goal, and it's nice to receive the acknowledgement that we're doing something right."*

There have been growing fears that the march of the robots will force humans out of jobs and cause mass unemployment in the UK.

A report by the accountancy firm PwC earlier this year warned that more than 10 million jobs in Britain could be lost as technological change sweeps through workplaces. But this latest report, which looks at how ready governments in the OECD are to embrace and make the most out of the growth of AI. It looks at the digital skills, research and investment, and quality of data different countries.

APPLE CAR: AI CHIEF REVEALS DRIVERLESS TECH PROGRESS

Self-driving system tipped to be sold to existing car manufacturers

Apple has remained tight-lipped over its driverless car technology for years, with only a few leaked documents revealing the existence of the project.

But now the tech giant has shared a progress report on its secretive vehicle tech at a "free lunch" for around 200 artificial intelligence (AI) experts, Wired Website reports.

According to Wired, Apple's head of AI, Ruslan Salakhutdinov, revealed how the company uses machine learning, a technique whereby an AI trains itself, to hone the vehicle's self-driving abilities.

Salakhutdinov talked of "using data from cameras and other sensors" to help its driverless systems "spot cars and pedestrians on urban streets", drive in "unfamiliar spaces" and "build detailed 3D maps of cities", adds Wired.

The Apple boss also demonstrated the technology's ability to function in the rain, and how it can identify pedestrians who are "partially obscured behind parked cars".

However, one thing he didn't reveal is how the Cupertino-based firm plans to commercialise its driverless technology. Apple is believed to be focusing on developing autonomous systems that can be sold to existing car manufacturers, rather than developing its own vehicles.

A number of other tech giants are taking a similar approach to branch into the motoring industry. Chipmaker Intel announced a technical partnership with Google's autonomous vehicle company Waymo in September. Intel plans to integrate its latest technology into Waymo's specially adapted Chrysler Pacifica MPVs.

Agribusiness – Looking from the outside in

PRIMARY INDUSTRY EXPORT REVENUE 2004-2018^F

Units - NZ$m	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018^F
Dairy	6,093	5,982	6,986	7,849	10,359	11,037	10,313	12,913	13,379	13,139	17,792	14,049	13,289	14,637	17,350
Meat & wool	6,847	6,760	6,659	6,776	6,940	7,826	7,111	7,836	7,781	7,794	8,160	9,001	9,200	8,355	8,480
Forestry	3,295	3,243	3,249	3,647	3,294	3,615	3,923	4,578	4,327	4,526	5,199	4,681	5,140	5,488	5,760
Horticulture	2,212	2,269	2,326	2,649	2,897	3,338	3,279	3,382	3,560	3,547	3,794	4,173	4,987	5,148	5,410
Seafood	1,257	1,266	1,278	1,311	1,272	1,460	1,406	1,562	1,545	1,546	1,500	1,563	1,768	1,744	1,850
Arable	92	89	109	110	142	157	144	153	173	224	228	177	205	191	205
Other primary sector[3]	1,114	1,299	1,337	1,490	1,526	1,586	1,544	1,681	1,783	1,940	1,910	2,315	2,614	2,539	2,560
TOTAL	**20,910**	**20,908**	**21,944**	**23,832**	**26,430**	**29,019**	**27,720**	**32,105**	**32,548**	**32,716**	**38,583**	**35,959**	**37,203**	**38,102**	**41,615**

SOURCE: Ministry of Primary Industries

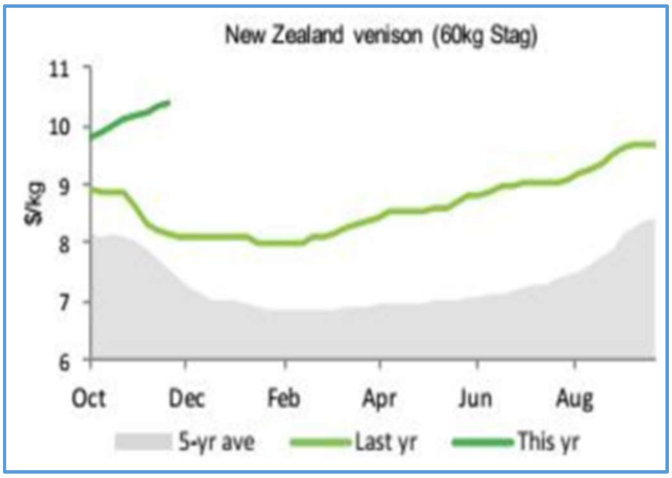
Note: [3] Other primary sector exports & foods include: live animals, honey, and processed foods such as chocolate and tomato sauce.

New Zealand's primary industry exports are forecast to increase 1.4 percent to $37.5bn for the year ending June 2017, up $0.8bn from MPI's December forecast.

Dairy export volumes were much stronger over the December quarter than had previously been forecast. Strong global prices for forestry and dairy products, combined with rising horticulture production volumes, more than offset falling beef and lamb exports due to lower stock numbers in our latest forecast.

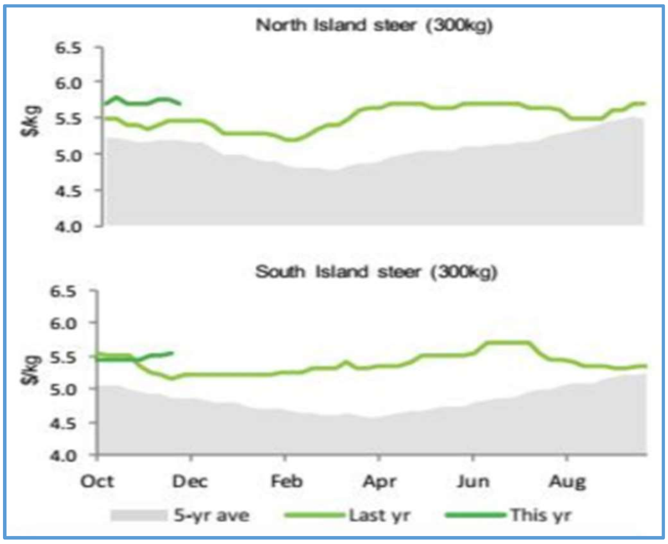
MPI expect dairy prices to continue to remain relatively stable (at higher levels than in the previous year) over the remainder of the season, buoyed by lower production coming out of the Southern Hemisphere. In addition, record forestry harvest volumes are expected to drive an increase in log exports, particularly for use in the Chinese housing market.

VENISON - $/kg CWT (net)				
Grade	Weight	30-Nov-17	30-Nov-16	Change
North Island Stag	60kg	$10.05	$8.15	23.3%
South Island Stag	60kg	$10.55	$8.15	29.4%
North Island Hind	50kg	$9.95	$8.05	23.6%
South Island Hind	50kg	$10.45	$8.05	29.8%

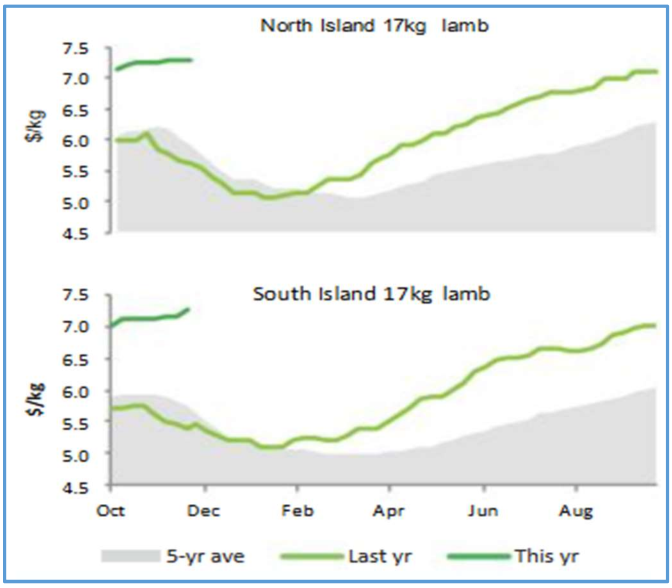


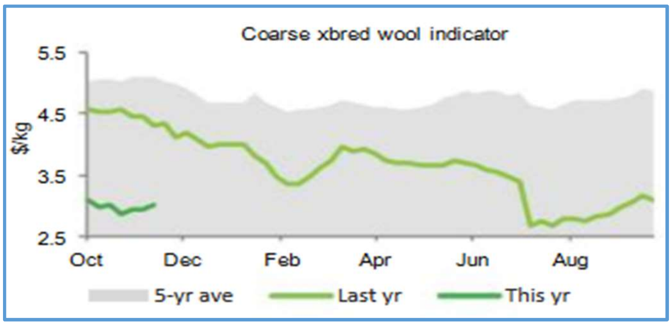
DAIRY FUTURES - US$/T							
Global Dairy Trade	30-Nov-17	10-Sep-16	15-Dec-15	6-Dec-14	Yr Change 30-Nov-17	Yr Change 10-Sep-16	Yr Change 15-Dec-15
Whole Milk Powder	2,800	2,870	2,304	2,400	-2.4%	24.6%	-4.0%
Skim Milk Powder	1,705	2,250	1,891	2,440	-24.2%	19.0%	-22.5%
Andydrous Milkfat	6,725	4,740	3,450	3,800	41.9%	37.4%	-9.2%
Butter	5,240	3,800	3,136	3,200	37.9%	21.2%	-2.0%

BEEF - Slaughter price NZ$/kg				
Grade	Weight	30-Nov-17	30-Nov-16	Change
North Island - Steer	300kg	$5.70	$5.45	4.6%
South Island - Steer	300kg	$5.55	$5.15	7.8%
North Island - Bull	300kg	$5.65	$5.20	8.7%
South Island - Bull	300kg	$5.30	$4.60	15.2%
North Island - Cow	200kg	$4.50	$4.00	12.5%
South Island - Cow	200kg	$4.30	$3.70	16.2%
Exports - US Imported 95CL bull		$7.28	$6.46	12.7%
Exports - US Imported 90CL cow		$6.79	$6.07	11.9%



SHEEP MEAT - $/kg CWT (net)				
Grade	Weight	30-Nov-17	30-Nov-16	Change
North Island Lamb	17kg	$7.30	$5.60	30.4%
South Island Lamb	17kg	$7.25	$5.40	34.3%
North Island Mutton	20kg	$5.00	$2.90	72.4%
South Island Mutton	20kg	$4.95	$2.75	80.0%
Exports - UK CKT lamb leg		$9.62	$7.70	24.9%





THE COMING DAIRY REVOLUTION

Keith Woodford, independent consultant, NZ Herald 20 July 2017

"Our current pickle is a consequence of history. Decisions which seemed justifiable to many at the time, now, with hindsight, look decidedly flawed. Rising dairy prices over the last nine months have given dairy farmers a pulse of optimism. This has followed more than two years of terrible prices with most farmers requiring support from their financiers.

I too am optimistic about the long-term future, but only if the industry can recognise the need for fundamental change. Otherwise, the developing scenario threatens to be a repeat of what the wool industry has experienced over the last 50 years: a slow but ongoing decline, with the occasional price surge being just enough to sustain false hope.

The consequence is that we have the wrong cows, the wrong dairy systems, the wrong product mix, a raft of environmental issues, and too much debt. Perhaps most important, is dairy has lost its social licence from the broader community.

All the above issues can be successfully addressed. But only if the industry has strong leadership and sheds its defensive shield. I do have nagging doubts as to whether that will occur, because it will be perceived by some in the industry as eating a very unpalatable meal of humble pie."

Keith Woodford noted the glaring difference between dairying in New Zealand and a science-driven Holland industry focused on exports of value-add products and an industry with a social licence. The Dutch industry is very different from how European dairying is typically perceived from here.

"In Holland the main urban community likes what it sees. On warm summer days, the cows are grazing on green pastures. The rest of the time in that inclement climate they are inside. The nitrogen leaching issue, which arises from concentrated urine patches deposited by cows in autumn and winter, has been largely solved - it is simply no longer an issue of concern, with tight laws on effluent management. However, there are remaining tensions around new phosphate allowances, with some farmers feeling very aggrieved.

This overall situation of community acceptance has not happened by chance; it has taken a lot of work.

New Zealand needs its agriculture industries. Without agricultural exports, our economy would look mighty sick. In general, our climate and soils are much more suited to pastoral agriculture than horticulture. We use about 120,000 hectares of land for horticulture, led by kiwifruit, wine grapes and apples, supported by myriad other crops. Hopefully our horticulture industries will expand a lot further, but the notion that most of our more than 10 million hectares of pastoral land and more than two million hectares of dairy land could be used for horticulture is greatly flawed. The climate, soils, logistics and economics simply do not stack up.

Compared to the rest of the world, dairy is where New Zealand has a competitive advantage. Climate, scale and well-developed quality assurance systems are in our favour. Scale, at both farm and industry level, is the one that is least recognised. The Achilles heel of the current New Zealand dairy industry is that it is structured predominantly for the manufacture of whole-milk powder. This whole-milk powder is the cheapest, easiest form of long-life product to produce. Since 2000, our milk production has increased by 75%, but whole-milk-powder production has more than tripled. Its production fits perfectly with our seasonal production systems. The only problem is that only developing countries use big quantities of it.

For the past 20 years, our dairy wealth has come from selling whole-milk powder, much of the time at very good prices, initially to the oil-rich countries and more recently to China. Go back about eight years, and Venezuela was our largest market. However, with lower oil prices, plus social and political dislocation, Venezuela is now no more than a blip on New Zealand's whole-milk-powder horizon. Other oil producing countries are also struggling to find the funds to purchase our powder.

The Chinese demand came just at the right time for New Zealand. China has been hugely important to the New Zealand dairy industry and will continue to be so. However, the evidence is that whereas overall Chinese demand for dairy products continues to increase, with infant formula being the standout, the demand for whole-milk powder has jumped up and down and is now no higher than it was five years ago. The lack of growth in Chinese demand for whole-milk powder should come as no surprise. It is what happens in developing countries as they get more sophisticated logistics and move to more sophisticated dairy products.

Another big problem for the New Zealand industry is that it has chosen to ignore the threat posed by A2 milk, i.e. milk that is free of A1 beta-casein. In Australia, A2 milk is well above the radar. It is the largest selling brand nationally in supermarkets, at double the price of standard milk. The premium-priced "a2 Platinum" infant formula has moved from a standing start just over two years ago to now having more than a 30 per cent market share in Australia, with much of that on-sold to China.

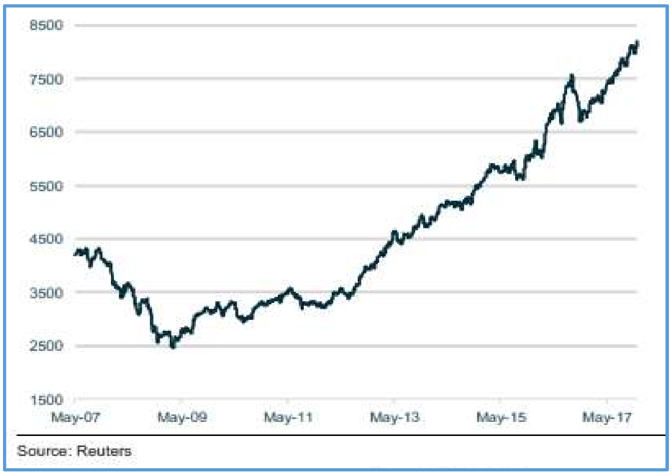
The one clear starting point for New Zealand dairy is to recognise that the industry does indeed have to change. Some farmers and some operators along the value chain can see that future and will find the pathways to success.

But right now, there are still far too many who are focused on the past, and without the personal and financial resilience to find pathways forward. And there lies the nub."

New Zealand Equities

The NZX50 Gross Index has had a stellar 7-year run. Historically Labour Governments have been generous spenders, and New Zealand equity markets have enjoyed their term. My advice would be to tread cautiously.

NZX50 GROSS INDEX 2007 TO 2017



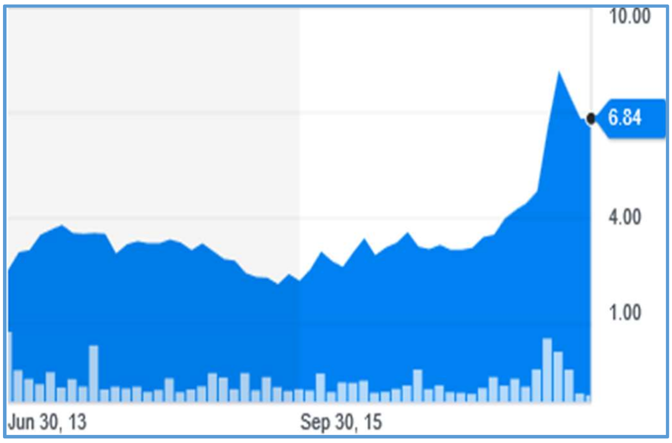
NOVEMBER 2017 - NZX50 GROSS – BEST & WORST

Synlait (SML.NZ)

UNDERPERFORM $6.84 **FNZC TARGET:** $5.98

TIME TO TAKE SOME PROFITS – Sell down, not out

This stock has been a "market darling" in 2017. The shareprice has moved from $2.95 to $8.25, before settling back to $6.84 currently. If you haven't already it could be time to take some profits, but I don't think I would be exiting this stock completely. It still has lots of potential to surprise positively.



The momentum in SML's business is strong, on the back of growth in key customer—ATM's sales. If volume growth is maintained without a change in margins SML has strong earnings leverage to its remaining base and finished Infant Formula (IF) capacity (FY18 volumes roughly half capacity) in the next few years. There are opportunities to diversify the finished IF customer base, if New Hope and Munchkin get traction.

Notwithstanding favourable dynamics, our analysts do question long-term margins on steady state finished IF volumes to a small number of larger, rather than niche, customers.

Synlait plans to expand into the North Island with a second powder drying plant, and is seeking farmers to supply it with milk. In late November, the Canterbury-based company opened a new $55 million blending and packaging plant in Auckland, bringing total canning capacity to 64,000 tonnes a year. The part-Chinese-owned company reported its best ever performance this year, with an after-tax profit of $38.2 million, an increase in revenue and a large amount of debt paid off. The company also raised $97.6 million in a capital raise completed in October. This has enabled debt to be reduced by $131.3 million to $82.6 million, establishing an excellent base for the next phase of growth.

Its investment in research and development had increased from $2.25m last year to $4.75m this year, and was forecasting a spend of $7m next year.

John Penno has signalled that he will step down as CEO later in 2018, after 12 years at the helm. John noted that SML didn't envisage taking on the same number of suppliers as in Canterbury, where there are about 200. "We've always found the ability to get the amount of milk we require, as an infant formula manufacturer we don't need huge amounts of milk because there are a lot of other ingredients in the process. We'll be looking for a very small amount of milk."

Building a new plant was something the company approached with caution, because it was conscious there was more capacity available now than in the past, and milk supply might not keep growing.

It was also conscious of its exposure to China, but had diversified into other countries with products such as Munchkin Grass Fed infant formula products in the United States.

SML Year to 31 July		2017A	2018F	2019F	2020F
Adjusted NPAT	NZ$m	38	69	78	92
Earnings /share	NZc	21.3	38.4	43.6	51.6
PE Ratio	x	32.1	17.8	15.7	13.3
Cash/Share	NZc	57.6	45.4	57.7	66.5
Dividend/share	NZc	0	0	0	0

Source: Company data; NZX; First NZ Capital Estimates

Scales Corporation (SCL.NZ)

OUTPERFORM $4.32 **FNZC TARGET:** $5.00

Possibly the pick of the bunch for 2018

Still underappreciated and undervalued: On further analysis, our analysts now think the 2018 prospects for SCL's horticulture business is more positive than previously thought. The significantly lower apple inventory available in the EU market through to mid-2018 as well as constrained production volume from other counter-seasonal Southern Hemisphere apple exporters should be positive for NZ product price. In particular, the available supply of the Braeburn variety is very low in key EU destinations typically targeted by NZ grown Braeburn. Subject to a normal NZ apple harvest season, this is a powerful cocktail for potentially a strong earnings outcome that could exceed our current FY18F EBITDA forecast by up to 17%.

Capitalising on significant and growing appetite for NZ apples in Asia: SCL is set to further enjoy NZ's advantageous geographic proximity, as a counter-seasonal supplier of premium-grade fresh apples into the Asian region where discerning consumers are willing to pay a premium for the colour and eating qualities of the fruit NZ is able to produce. Additionally, SCL as one of the major independent cold-storage facility operators, stands to benefit from ongoing growth in global demand for NZ agri-products.

The next trading update is scheduled to be in February 2018. SCL remains a well-managed business. The consistency in execution and delivery by management over the last three years even when operating conditions have been challenging in FY17F should see further expansion in valuation multiples (a decline in cost of capital required) over time.

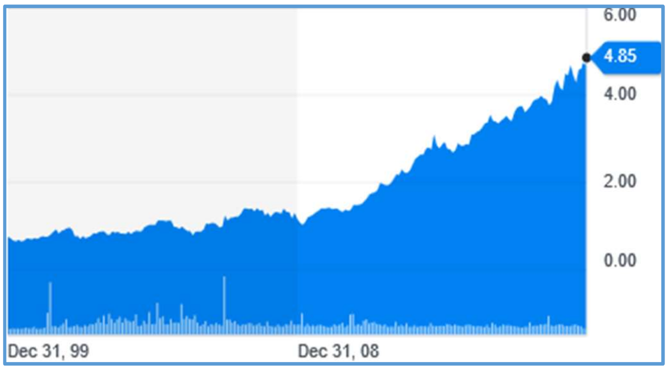
A caution is always the risk of adverse weather affecting returns.

SCL Year to 31 Dec		2016A	2017F	2018F	2019F
Adjusted NPAT	NZ$m	38	33	39	42
Earnings /share	NZc	27.5	23.4	28.1	30.0
PE Ratio	x	15.7	18.4	15.4	14.4
Cash/Share	NZc	29.7	31.6	36.8	38.8
Dividend/share	NZc	17.0	18.0	19.0	21.0
Imputation	%	100	100	100	100
Net Dividend Yield	%	4.3	4.6	4.8	5.3
Gross Div Yield	%	6.0	6.3	6.7	7.4

Source: Company data; NZX; First NZ Capital Estimates

Port of Tauranga (POT.NZ)

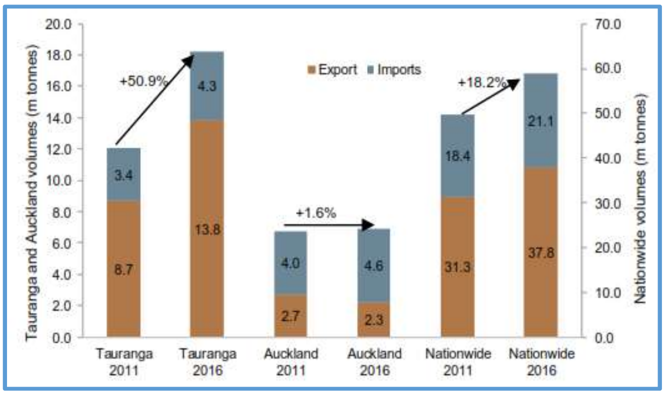
NEUTRAL: $4.89 ~~**FNZC TARGET:** $3.60~~ **MY TGT:** $5.00
12-month price movement: $3.70 to $5.05



POT has successfully capitalised on its location, rail and road links, developing POT into New Zealand's pre-eminent port, and one which rivals(and often outperforms) global peers in terms of productivity.

Management's strategic initiatives including its long-term partnership agreements with key clients (Kotahi, KiwiRail, Carter Holt Harvey), and focus on integrating its supply chain, via investment in Northport, Metroport, MetroBox, PrimePort Timaru, and Coda. This has strengthened POT's position in the market place, and allowed them to continue to invest for future growth.

GROWTH IN IMPORT & EXPORT VOLUMES 2011-2016



While not cheap trading on a one year forward PE of 37x, the company's growth outlook is supported by the incremental opportunities that will accrue from its landbank, extension of the hub strategy into the South Island (Timaru Container Terminal and Rolleston intermodal freight hub), industry consolidation around key ports (supported by POT's ten-year commitment from Kotahi) and further vertical integration.

Although POT's infrastructure is not immune from competitive factors, changes in trade flows and the general cyclical nature of the agriculture based products in which it exports, the company is well placed to continue to deliver growth at levels above overall growth in New Zealand trade over time. As such, we view the company as a Core holding in any investment portfolio and an ideal vehicle for gaining exposure to rural New Zealand. Long-term investors should take advantage of any share price weakness to build an exposure to this quality name.

Port of Tauranga - FINANCIAL (Year to 30 June)	2017	2016	2015	2014	2013	2017 Growth	2016 Growth	2015 Growth	2014 Growth
Operating income	255,882	245,521	268,460	266,538	244,147	4.2%	(8.5%)	0.7%	9.2%
EBITDA	152,385	143,180	143,161	141,642	134,992	6.4%	0.0%	1.1%	4.9%
Surplus after taxation – reported	83,441	77,314	79,148	78,252	112,123	7.9%	(2.3%)	1.1%	(30.2%)
Surplus after taxation – underlying	83,441	77,314	79,007	78,252	77,228	7.9%	(2.1%)	1.0%	1.3%
Dividends paid related to earnings	108,893	72,142	69,419	63,035	63,035	50.9%	3.9%	10.1%	0.0%
Total equity	931,943	885,684	887,550	812,419	793,878	5.2%	(0.2%)	9.2%	2.3%
Net interest bearing debt	374,816	308,420	287,379	254,471	190,787	21.5%	7.3%	12.9%	33.4%
Total assets	1,422,600	1,322,367	1,297,018	1,154,883	1,112,581	7.6%	2.0%	12.3%	3.8%
Interest cover (times)	7.5	7	7.2	7.8	8.3	7.1%	(2.8%)	(7.7%)	(6.0%)
Gearing ratio (%)*	28.7	25.8	24.5	23.9	19.4	11.2%	5.3%	2.5%	23.2%
Return on average equity (%)	9.3	8.7	9.3	9.7	10.1	6.9%	(6.5%)	(4.1%)	(4.0%)
Share price ($)**	4.45	3.90	3.46	3.09	2.78	14.1%	12.7%	12.0%	11.2%
Market capitalisation ($)	3,028,586	2,654,267	2,354,811	2,072,096	1,864,215	14.1%	12.7%	13.6%	11.2%
Underlying earnings per share (cents per share)***	12.4	11.4	11.6	11.7	11.5	8.8%	(1.7%)	(0.9%)	1.7%

Port of Tauranga - OPERATIONAL	2017	2016	2015	2014	2013	2017 Growth	2016 Growth	2015 Growth	2014 Growth
Cargo throughput (000 tonnes)	22,194	20,120	20,179	19,737	19,065	10.3%	(0.3%)	2.2%	3.5%
Containers (TEU)****	1,085,987	954,006	851,106	759,587	848,384	13.8%	12.1%	12.0%	(10.5%)
Net crane rate (container moves per hour)*****	36.2	35.6	35.5	36.9	34.5	1.7%	0.3%	(3.8%)	7.0%
Ship departures	1,651	1,482	1,555	1,612	1,529	11.4%	(4.7%)	(3.5%)	5.4%
Berth occupancy (%)	47	46	46	43	40	2.2%	0.0%	7.0%	7.5%
Total cargo ship days in port	2,589	2,504	2,528	2,364	2,232	3.4%	(0.9%)	6.9%	5.9%
Turn-around time per cargo ship (days)	1.4	1.6	1.6	1.5	1.5	(12.5%)	0.0%	6.7%	0.0%
Cargo tonnes per ship	13,442	13,549	12,510	12,921	12,469	(0.8%)	8.3%	(3.2%)	3.6%
Average cargo ship gross tonnage (GT)	29,654	26,665	25,018	24,924	24,641	11.2%	6.6%	0.4%	1.1%
Average cargo ship length overall (metres)	199	190	185	187	187	4.7%	2.7%	(1.1%)	0.0%
Number of employees – Port of Tauranga Limited	206	194	193	191	185	6.2%	0.5%	1.0%	3.2%
Lost time injuries (LTI – frequency)******	2.8	5.6	2.9	3.1	14.1	(50.0%)	93.1%	(6.5%)	(78.0%)
Total injury (frequency rate)	5.6	5.6	14.7	3.1	31	0.0%	(61.9%)	374.2%	(90.0%)

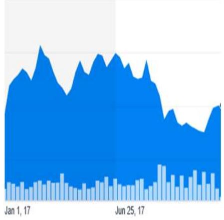
*Net interest bearing debt to net interest bearing debt + equity
**On 17 October 2016, the Parent Company completed a 5:1 share split. Prior years adjusted for the split.
***Based on 680,581,230 shares.
The Board approved a final dividend of 6.2 cents per share ($42.2 million) and a special dividend of 5.0 cents per share ($34.0 million) after year end payable on 6 October 2017.

****TEU = Twenty Foot Equivalent Units
*****As measured by the Australian Productivity Commission.
******Number of lost time claims per million hours worked.
Operational data relates to the Parent Company as opposed to the Group.

STOCKS TO WATCH NEW ZEALAND

NOTE: THESE ARE ALL ONE YEAR GRAPHS

Prices as at 11th Dec 2017



Auckland International Airport

Normalised NPAT increased 16.5% to $247.8m. International passenger growth of 11.0% was the key driver of EBITDA increasing 9.8% in FY17 to $470.8m. Our analysts were encouraged by comments from AIA of having observed a recovery in China passengers back to double digit growth in early 1H18. AIA continues to trade at a significant premium to assessment of fundamental value.

20017 P/E: 31.4 2018 P/E: 30.0

NZX Code:	**AIA**
Share Price:	**$6.53**
12mth Target:	**$5.10**
Projected return (%)	
Capital gain	-21.8%
Dividend yield (Net)	3.3%
Total return	**-18.5%**
Rating:	**NEUTRAL**

52-week price range:6.02-7.43

The a2 Milk Company

Up a whopping 287% so far this year, but the current growth projection is priced in. ATM delivered 69% YoY revenue growth in 4M18A which was 13% ahead of our estimate, and was an acceleration from the 37% YoY growth achieved in 2H17A. This was due to larger-than-expected IF sales ahead of the major retail events in China. It is possible that ATM could further over-achieve investor expectations. However, given ATM's current IF revenue base, the magnitude of this surprise will likely begin to taper.

20018 P/E: 31.8 2019 P/E: 24.4

NZX Code:	**ATM**
Share Price:	**$7.85**
12mth Target:	**$8.50**
Projected return (%)	
Capital gain	8.3%
Dividend yield (Net)	0.0%
Total return	**8.3%**
Rating:	**NEUTRAL**

52-week price range: 2.00-9.00

Chorus

CNU's decision to underwrite its Dividend Reinvestment Plan (DRP) at the FY17 result raised the question whether there is pressure on CNU's capital structure, especially with capex being brought forward. The post FY22/23 free cash flow profile continues to suggest CNU is well placed for material deleveraging but there are questions emerging on medium-term outlook around competitive dynamics and impact on long-term connections/pricing. Our analysts believe CNU remains well placed to retain its dividend policy for now and is currently unlikely to need to sustain a DRP underwrite, but will continue with it for now.

20017 P/E: 14.7 2018 P/E: 16.3

NZX Code:	**CNU**
Share Price:	**$4.06**
12mth Target:	**$4.27**
Projected return (%)	
Capital gain	5.2%
Dividend yield (Net)	5.4%
Total return	**10.6%**
Rating:	**NEUTRAL**

52-week price range: 3.82-477

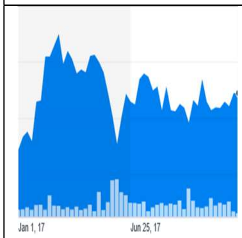
Contact Energy

A possible catalyst for CEN rerating could be a mid-2017 commitment to lift payout. We think management delivered that. The investment thesis for CEN remains unchanged: it is a cash generative ex-growth stock with defensive qualities, and continues to produce cash flow well above its current dividend level, the difference previously channelled into debt reduction—a nearly finished effort that sees the company able to materially lift dividends in FY18. Low 2H17 hydro hasn't stopped CEN delivering on investor expectations for improving cashflows and yield.

20017 P/E: 27.8 2018 P/E: 25.8

NZX Code:	**CEN**
Share Price:	**$5.47**
12mth Target:	**$6.50**
Projected return (%)	
Capital gain	18.8%
Dividend yield (Net)	5.9%
Total return	**24.7%**
Rating:	**OUTPERFORM**

52-week price range: 4.57-5.85



Ebos Group

EBO's FY17 result highlighted the successful integration of acquisitions, earnings growth and good cash flow discipline (despite headwinds from Hepatitis C). These have been a hallmark of the business through time, with positive outcomes achieved in competitive markets and in spite of regulatory pressures. Changes to the composition and pricing of the Pharmaceutical Benefits Scheme (PBS) in Australia are the most obvious example of this. EBO can continue to manage these challenges, but note that some levers are running out; in this environment the company's biggest advantages appear scale, investment in automation and a well-established customer base.

2017 P/E: 20.1 2018 P/E: 18.7

NZX Code:	**EBO**
Share Price:	**$18.34**
12mth Target:	**$18.40**
Projected return (%)	
Capital gain	0.1%
Dividend yield (Net)	3.8%
Total return	**3.9%**
Rating:	**NEUTRAL**

52-week price range: 16.16 -18.90

EROAD

ERD's 1H18 result was slightly weaker than expected as restructuring costs and higher US operating costs weighed on near-term earnings. ERD's NZ operation continues to deliver very strong unit and revenue growth and with a reasonable pipeline and momentum in the business this should continue in the near term. ERD is gaining traction in North America but execution in the important ELD window is critical.

2017 P/E: -36.8 2018 P/E: -77.1

NZX Code:	**ERD**
Share Price:	**$3.22**
12mth Target:	**$3.30**
Projected return (%)	
Capital gain	0.6%
Dividend yield (Net)	0%
Total return	**0.6%**
Rating:	**NEUTRAL**

52-week price range: 1.59-3.43

Fletcher Building

FBU's new CEO, Ross Taylor's early priorities will be to finalise a current detail portfolio review and align the company's strategy accordingly. An outcome is likely to signal a desire for a more streamlined collection of businesses with a NZ-centric building and construction sector exposure. FBU represents a broad-based exposure to the Australasia building and construction sector, with approximately 68% of EBIT sourced from NZ, and 16% from Australia. Expect sustained current earnings level from ongoing strength in the NZ building and construction sector, led by higher population growth, demand for housing and infrastructure.

2018 P/E: 18.2 2019 P/E: 12.5

NZX Code:	**FBU**
Share Price:	**$7.40**
12mth Target:	**$8.50**
Projected return (%)	
Capital gain	14.9%
Dividend yield (Net)	4.9%
Total return	**29.8%**
Rating:	**OUTPERFORM**

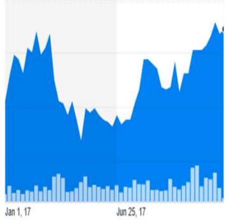
52-week price range: 7.55-10.86

Fisher & Paykel Healthcare

After a stellar five years, FPH is operating at a scale that allows significant investment in R&D, new production facilities and increased returns to shareholders. However (1) growth will ebb and flow on FPH's product cycle and that of its competitors; and (2) with the stock priced at 37x forward EPS there is limited room for hiccups. Our analysts remain enthusiastic about FPH's outlook but believe growth options are overstated in a share price 17% above spot DCF.

2018 P/E: 39.9 2019 P/E: 35.9

NZX Code:	**FPH**
Share Price:	**$13.59**
12mth Target:	**$12.00**
Projected return (%)	
Capital gain	-11.7%
Dividend yield (Net)	1.8%
Total return	**-9.9%**
Rating: UNDERPERFORM	
52-week price range: 8.24-13.89	

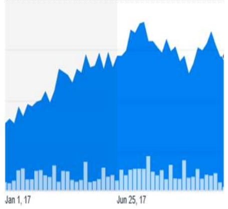


Fonterra Shareholder Fund

FSF currently appears to offer reasonable value and is currently benefiting from positive share price and earnings momentum. FSF's earnings tend to be quite cyclical, with FY1 proving to be a soft year for earnings, although not nearly as bad as that of FY15. The negative impact in FY17 reflects a sharp increase in NZ milk costs which squeezed margins, a strong NZ dollar and a low stream return due to the relative pricing of reference and non-reference dairy commodity prices.

2018 P/E: 13.5 2019 P/E: 9.5

NZX Code:	**FSF**
Share Price:	**$6.39**
12mth Target:	**$6.12**
Projected return (%)	
Capital gain	-4.2%
Dividend yield (Net)	6.1%
Total return	**1.9%**
Rating: NEUTRAL	
52-week price range: 5.88-6.43	

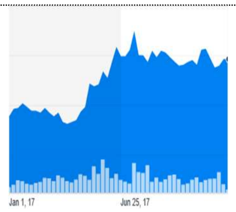


Freightways

FRE revenue increased 7.0% in the past year, with Express Package volume growth increasing from levels observed in 2H17. Group EBITDA increased 8.1% with capacity investment diluting Express Package margins and Information Management margins staging a recovery against its weak previous report.

2018 P/E: 19.1 2018 P/E: 17.4

NZX Code:	**FRE**
Share Price:	**$7.68**
12mth Target:	**$7.10**
Projected return (%)	
Capital gain	-7.5%
Dividend yield (Net)	4.3%
Total return	**-3.2%**
Rating: NEUTRAL	
52-week price range: 6.70-8.19	



Genesis Energy

Our analysts believe GNE's strategy, comprising three broad initiatives (intended to transform from a yield stock into a "yield + growth" play) can leverage its distinct competitive advantages. In their view its updated financial targets are achievable (FY21 strategic targets upgraded to $400-$430 million EBITDAF - the $15-$20 million upgrade primarily reflects addition of Nova LPG business) and the executive team galvanised to do so.

2018 P/E: 23.6 2019 P/E: 21.0

NZX Code:	**GNE**
Share Price:	**$2.44**
12mth Target:	**$2.18**
Projected return (%)	
Capital gain	-10.6%
Dividend yield (Net)	7.3%
Total return	**-3.3%**
Rating: UNDERPERFORM	
52-week price range: 2.01-2.62	

Heartland Bank

HBL was formed in January 2011, as a result of the amalgamation of CBS Canterbury, Marac Finance and Southern Cross Building Society. HBL became a registered bank in December 2012 and currently has an investment grade BBB (outlook stable) credit rating from Fitch. HBL entered FY18 with good momentum across key business areas; however, FNZC believe that potential for slowing domestic economic activity presents cyclical risk to the investment thesis.

2018 P/E: Restricted

NZX Code:	**HBL**
Share Price:	**$2.07**
12mth Target:	**Restricted**
Projected return (%)	
Capital gain	
Dividend yield (Net)	5.7%
Total return	**5.7%**
Rating: NEUTRAL	
52-week price range: 1.46-2.14	

Infratil NZ

After a good first half result and MET divestment, IFT has $670m investment headroom available and has strongly hinted at deployment in 2018. Renewable investments at TLT and/or Longroad were hinted most. Our analysts revised EBITDAF forecasts remain consistent with guidance. Guidance for fully-imputed final dividend between 10.5cps to 11cps, implying FY18 gross dividend yield circa 7% at current share price.

2018 P/E: 33.6 2019 P/E: 23.7

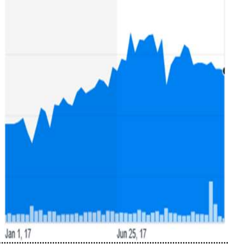
NZX Code:	**IFT**
Share Price:	**$3.31**
12mth Target:	**$3.20**
Projected return (%)	
Capital gain	-3.3%
Dividend yield (Net)	5.3%
Total return	**2.0%**
Rating: NEUTRAL	
52-week price range: 2.64-3.34	

Mainfreight

EBITDA increased 2.8% in 1H18 to $88.8m. Domestic Freight EBITDA increased 11.2%, with strong growth momentum in Australia partly offset by higher-than-expected earthquake-related costs in NZ and disappointing operating leverage in Europe. Air & Ocean EBITDA decline of 16.9% was driven by the loss of a major airfreight contract that negatively impacted performance in the Americas and Asia.

2018 P/E: 21.3 2019 P/E: 18.3

NZX Code:	**MFT**
Share Price:	**$24.50**
12mth Target:	**$21.60**
Projected return (%)	
Capital gain	-11.8%
Dividend yield (Net)	2.1%
Total return	**-9.7%**
Rating: UNDERPERFORM	
52-week price range:20.35-25.77	

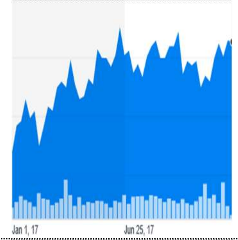


Mercury

MCY is a generator-retailer with the largest natural competitive advantages and fewest negative exposures within the sector. After achieving and securing major cost savings, with the shift to 100% renewable and exit from offshore geotherm all complete, MCY is now in many respects the "cleanest" genco exposure for investors. However, it appears to be currently trading at a sizeable premium to underlying value.

2018 P/E: 32.5 2019 P/E31.9

NZX Code:	**MCY**
Share Price:	**$3.38**
12mth Target:	**$3.07**
Projected return (%)	
Capital gain	-9.1%
Dividend yield (Net)	5.1%
Total return	**-4.0%**
Rating: NEUTRAL	
52-week price range2.90-3.60	



Meridian Energy

Our analysts one-year target price lifts to $2.87 (based on DCF, and assuming ongoing capital returns). This valuation assumes the new Transmission Pricing Methdology (TPM) proposal will proceed (conferring circa 15 to 20 cents per share valuation benefit). Margin gains for Powershop in Australia, and successful completion of first launch milestones for the UK franchise model bode well for continued growth of this business.

2018 P/E34.4 2019 P/E: 30.3

NZX Code:	**MEL**
Share Price:	**$2.97**
12mth Target:	**$2.87**
Projected return (%)	
Capital gain	-3.3%
Dividend yield (Net)	6.6%
Total return	**3.3%**
Rating: NEUTRAL	
52-week price range: 2.53-3.02	

Metlifecare

MET has a portfolio of retirement villages around the North Island and is NZ's second largest retirement village operator. Locations include Auckland, Hamilton and Bay of Plenty. MET has a strong and growing land bank of quality sites. NZ retirement village companies have underperformed in the wake of policy announcements from the new Labour-led government which look set to adversely impact the strength of the NZ housing market.

2017 P/E: 20.5 2018 P/E: 16.9

NZX Code:	**MET**
Share Price:	**$5.95**
12mth Target:	**$7.46**
Projected return (%)	
Capital gain	25.4%
Dividend yield (Net)	1.2%
Total return	**26.6%**
Rating: OUTPERFORM	
52-week price range: 5.22-6.30	

Michael Hill Internation

Accompanying MHJ's FY17 profit announcement were a number of positive developments. This included the Canadian business's greater scale creating earnings leverage as highlighted by 2.50% EBIT margin expansion in 2H17, cost control in NZ, ongong improvement in inventory management and lower than expected net debt.

2018 P/E: 13.3 2019 P/E: 12.0

NZX Code:	**MHJ**
Share Price:	**$1.30**
12mth Target:	**$1.50**
Projected return (%)	
Capital gain	15.3%
Dividend yield (Net)	4.2%
Total return	**19.5%**
Rating: OUTPERFORM	
52-week price range: 1.10-1.58	

NZ Refining

Our analysts forecasts now show notably strong earnings and cashflows in FY17 (Balance Date is Dec-31). They have no doubt that both refinery margins and the currency outlook will be more volatile than their relatively unchanged assumptions might imply, but for now the FY17 result looks like it could support modest dividend increase and debt repayment. The potential stock overhang of partial sell-down by either Mobil or ZEL remains a risk.

2017 P/E: 8.8 2018 P/E: 17.3

NZX Code:	**NZR**
Share Price:	**$2.50**
12mth Target:	**$2.95**
Projected return (%)	
Capital gain	18.0%
Dividend yield (Net)	4.7%
Total return	**22.7%**
Rating: NEUTRAL	
52-week price range: 2.30-2.91	

NZX

NZX has the potential for continued earnings growth over the next few years from incremental growth in its core operations, continued growth from Dairy and its Funds business and cost management. In the medium term, NZX faces risks as new avenues to raise and trade securities arise and from competition from other exchanges.

2017 P/E: 19.4 2018 P/E: 16.7

NZX Code:	**NZX**
Share Price:	**$1.10**
12mth Target:	**$1.18**
Projected return (%)	
Capital gain	7.3%
Dividend yield (Net)	5.5%
Total return	**12.8%**
Rating: OUTPERFORM	
52-week price range: 1.01-1.24	

PGG Wrightson

PGW is projecting for the company's FY18F Operating EBITDA to be similar to the NZ$64.5mn achieved in FY17A. We note that the company has typically taken a conservative approach in providing early guidance and has raised the level as the financial year progresses. That said, expectations across different operations and regions are mixed.

2017 P/E: 12.0 2018 P/E: 11.6

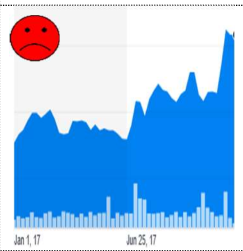
NZX Code:	**PGW**
Share Price:	**$0.57**
12mth Target:	**$0.59**
Projected return (%)	
Capital gain	3.5%
Dividend yield (Net)	6.8%
Total return	**10.3%**
Rating: NEUTRAL	
52-week price range: 0.47-0.62	

Port of Tauranga

FNZC have long held the view that unsustainably low returns earned by international shipping lines on New Zealand trade routes would force structural change to the container trade industry. Their big-ship strategy is paying handsomely. POT is a high-quality infrastructure asset, supported by a strong management team and well positioned to benefit from structural change that is forecast. This remains a core portfolio stock.

2018 P/E: 35.0 2019 P/E: 32.0

NZX Code:	**POT**
Share Price:	**$4.87**
My 12mth Target:	**$5.00**
Projected return (%)	
Capital gain	2.7%
Dividend yield (Net)	2.8%
Total return	**5.5%**
Rating: ~~UNDERPERFORM~~	
52-week price range: 3.70-5.05	



Ryman Healthcare

While RYM has doubled the size of its business over the last five years, its maintenance of this level of target growth is resulting in a significant increase in debt which is up over four-fold in the same period. Debt is growing faster on higher absolute growth hurdles, higher value areas (Australia and more Auckland centric development) and greater development intensity. RYM looks to be taking on core debt as core cash flows are insufficient to meet maintenance capex and dividends.

2018 P/E: 43.3 2019 P/E: 39.3

NZX Code:	**RYM**
Share Price:	**$10.39**
12mth Target:	**$7.54**
Projected return (%)	
Capital gain	-27.4%
Dividend yield (Net)	1.9%
Total return	**-25.5%**
Rating: UNDERPERFORM	
52-week price range:8.05-10.69	

Scales Corp oration

SCL is set to further enjoy NZ's advantageous geographic proximity, as a counter-seasonal supplier of premium-grade fresh apples into the Asian region where discerning consumers are willing to pay a premium for the colour and eating qualities of the fruit NZ is able to produce. Our analysts higher Target Price reflects their expectation for favourable apple production level and selling conditions in 2018, as well as potential tailwind from a weaker NZD in 2018.

2017 P/E: 16.9 2018 P/E: 14.1

NZX Code:	**SCL**
Share Price:	**$4.30**
12mth Target:	**$4.50**
Projected return (%)	
Capital gain	4.6%
Dividend yield (Net)	4.5%
Total return	**9.1%**
Rating: NEUTRAL	
52-week price range: 3.20-4.30	

Sky City Entertainment

SKC's performance between FY08 and FY17 is indicative of a mature business profile, with minimal earnings growth despite an increasingly capital intensive operating platform. While we see relative value starting to emerge, we believe this is yet to sufficiently compensate investors for elevated earnings and valuation risk attached to the NZICC and Adelaide redevelopment projects.

2018 P/E: 16.2 2018 P/E: 15.5

NZX Code:	**SKC**
Share Price:	**$3.95**
12mth Target:	**$3.60**
Projected return (%)	
Capital gain	-8.9%
Dividend yield (Net)	5.1%
Total return	**-3.8%**
Rating: NEUTRAL	
52-week price range: 3.58-4.56	

Sky Network Television

Forecasts reflect a moderate, ongoing, earnings decline for SKT over the next 5 years (EBITDA falls nearly 30% from FY17 levels by FY22) with SKT managing capex at levels that do not see the major increases SKT has seen in previous investment cycles on a lower capital intensity set-top box model. While SKT remains well placed to retain content in the medium term, revenue growth will be hard and margin pressure will be ongoing as competition also impacts rights costs.

2018 P/E: 8.9 2019 P/E: 9.9

NZX Code:	**SKT**
Share Price:	**$2.53**
12mth Target:	**$2.87**
Projected return (%)	
Capital gain	13.4%
Dividend yield (Net)	6.1%
Total return	**19.5%**
Rating: NEUTRAL	
52-week price range: 2.43-4.71	

Spark NZ

Despite ongoing structural challenges in a broadly competitive industry, FNZC expects the current stable earnings profile to be maintained for at least the short to medium term. SPK's defensive qualities appeals in what they view as an expensive market, and on that basis they have moved from a neutral to an overweight active position following recent share price weakness.

2018 P/E: 18.1 2019 P/E: 17.4

NZX Code:	**SPK**
Share Price:	**$3.66**
12mth Target:	**$3.13**
Projected return (%)	
Capital gain	-14.5%
Dividend yield (Net)	7.0%
Total return	**-7.5%**
Rating: NEUTRAL	
52-week price range: 3.32-3.96	

Synlait Milk

The momentum in SML's business is strong, on the back of growth in key customer—ATM's sales. If volume growth is maintained without a change in margins SML has strong earnings leverage to its remaining base and finished Infant Formula (IF) capacity (FY18 volumes roughly half capacity) in the next few years. Synlait plans to expand into the North Island with a second powder drying plant, and is seeking farmers to supply it with milk.

2018 P/E: 17.8 2019 P/E: 15.7

NZX Code:	**SML**
Share Price:	**$6.84**
12mth Target:	**$5.98**
Projected return (%)	
Capital gain	-12.5%
Dividend yield (Net)	0%
Total return	**-12.5%**
Rating: NEUTRAL	
52-week price range: 2.95-8.25	

Tilt Renewables

FNZC regards the 1st Half 2018 in line. A$49.3m EBITDAF was 1.7% below their A$50.2m forecast, and A$2.5m NPAT loss (vs our A$3.3m forecast loss). Given this is TLT's first complete post-separation period, these figures provide useful reassurance for our key assumptions about the existing wind fleet – average wind revenue was A$87/MWh (vs FNZC's $88/MWh), O&M costs A$17/MWh (vs their A$18/MWh), and development /overhead costs were A$11.4m (vs their A$10.8m).

2018 P/E: n/a 2019 P/E: 26.8

NZX Code:	**TLT**
Share Price:	**$2.05**
12mth Target:	**$2.27**
Projected return (%)	
Capital gain	10.7%
Dividend yield (Net)	5.0%
Total return	**15.7%**
Rating: OUTPERFORM	
52-week price range: 1.86-2.37	

Tourism Holdings

Continued momentum entering FY18 in visitor arrival numbers, particularly in the NZ Rentals business. In part this is driven by declining long-haul yields from recent expansions in international airline capacity. THL reported a slow start to the 1Q18 for the NZ Tourism business. FNZC is now forecasting an NPAT of NZ$44.9m in FY20 vs. THL's target of NZ$50m. Share price seems to have overrun.

2018 P/E: 16.5 2019 P/E: 15.0

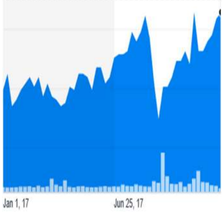
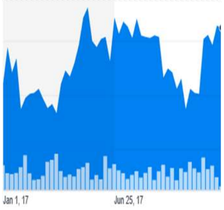
NZX Code:	**THL**
Share Price:	**$5.28**
12mth Target:	**$4.08**
Projected return (%)	
Capital gain	-22.7%
Dividend yield (Net)	4.5%
Total return	**-18.2%**
Rating: UNDERPERFORM	
52-week price range: 3.32-5.30	

Trustpower

Strong 1st Half result - $159.1m EBITDAF (previously $110.2m), Underlying NPAT $83m. Net Debt $639m, and interim 100%-imputed 17cps dividend (ahead of FNZC's forecast of 16cps). FNZC also remain conscious that changes to TECT arrangements could materially reduce earnings. Their FY18 38cps dividend forecast looks sustainable for several years and implies an attractive 8% gross yield.

2018 P/E: 13.7 2019 P/E: 14.8

NZX Code:	**TPW**
Share Price:	**$5.96**
12mth Target:	**$5.33**
Projected return (%)	
Capital gain	-10.6%
Dividend yield (Net)	6.4%
Total return	**42%**
Rating: NEUTRAL	
52-week price range: 4.38-6.05	

	**Vector** VCT's earnings guidance of a relatively flat FY18 EBITDA reflects continued growth in the meters business and new acquisitions of PowerSmart and Eco ($12.5m net benefit) being largely offset by lower gas distribution and trading earnings. In NZ, VCT expects to install 80-100,000 additional smart meters during FY18, after which it will have largely completed its smart meter rollout in NZ. VCT can sustain a reasonable dividend, which should sustain its share price. 2018 P/E: 26.3 2019 P/E: 26.0	**NZX Code:** **VCT** **Share Price:** **$3.47** **12mth Target:** **$3.60** **Projected return (%)** Capital gain 3.7% Dividend yield (Net) 4.8% **Total return** **8.5%** **Rating: NEUTRAL** 52-week price range: 3.11-3.51
	**Xero** Another key milestone passed as EBITDA hits breakeven. Highlights included strong subs growth in Australia (+72k), a continued ramp in the UK (+41k) and GM +4.7% YoY, thanks to the AWS migration. Free cash outflow ($35mn) was up YoY but contained abnormal costs and capex on XRO's new Wellington HQ. XRO shares will cease trading on the NZX at the end of January. 2018 P/E: n/a 2019 P/E: 680	**NZX Code:** **XRO** **Share Price:** **$30.50** **12mth Target:** **$29.80** **Projected return (%)** Capital gain -2.3% Dividend yield (Net) 0% **Total return** **-2.3%** **Rating: NEUTRAL** 52-week price range: 17.26-35.50
	**Z Energy** Fuel retailers may get their best chance to convince competition experts that the last five years of retail margin increases and variations were justified. We can't yet gauge their chances of success or the range of interventions if they fail to do so (but we do expect focus on shared terminal and shipping access for third parties). We keep a watching brief for early Government intervention and/or a formal decision to proceed with a market study. 2018 P/E: 13.9 2019 P/E: 13.4	**NZX Code:** **ZEL** **Share Price:** **$7.80** **12mth Target:** **$7.88** **Projected return (%)** Capital gain 1.0% Dividend yield (Net) 6.2% **Total return** **7.2%** **Rating: NEUTRAL** 52-week price range: 6.80-8.03

New Zealand Equities - Gross Dividend Yields

14 December 2017

COMPANY	RATING	PRICE (NZ$)	GROSS DIVIDEND YIELD FY-1	FY0	FY1	FY2	DIVIDEND COVER FY-1	FY0	FY1	FY2	NET DEBT/ EQUITY[1]
NZME	N	$0.87	15.2%	15.2%	12.8%	12.0%	1.5	1.4	1.4	1.4	29.4%
Steel & Tube	U	$2.02	11.0%	11.0%	11.0%	11.0%	1.4	1.4	1.3	1.4	47.1%
The Warehouse	N	$2.06	10.8%	10.8%	10.8%	11.0%	1.2	1.2	1.3	1.3	32.3%
Genesis Energy	U	$2.45	8.9%	9.6%	10.2%	11.8%	0.4	0.6	0.6	0.7	59.8%
New Zealand Refining Company	O	$2.49	5.0%	9.6%	4.9%	15.3%	1.7	1.7	1.7	0.8	19.8%
Air New Zealand	U	$3.21	9.1%	9.5%	9.5%	9.5%	1.6	1.6	1.5	1.7	41.6%
Metro Performance Glass	O	$0.98	10.8%	9.1%	9.7%	10.6%	1.6	1.8	1.8	1.8	59.1%
PGG Wrightson	N	$0.58	9.0%	9.1%	9.1%	9.1%	1.3	1.2	1.3	1.3	44.6%
NPT	O	$0.60	9.0%	9.0%	9.0%	9.0%	1.1	1.1	1.0	1.0	53.6%
Trustpower	U	$5.90	n.a.	8.9%	9.1%	9.3%	n.a.	1.1	1.0	1.0	45.7%
Spark	U	$3.68	8.8%	8.8%	8.8%	9.4%	0.9	0.9	0.9	1.0	71.1%
Argosy Property	N	$1.08	8.4%	8.6%	8.6%	8.6%	1.1	1.1	1.1	1.1	61.7%
Tegel	N	$1.18	8.9%	8.4%	9.2%	9.4%	1.3	1.3	1.2	1.2	24.7%
Stride	O	$1.76	8.4%	8.4%	8.5%	8.5%	1.0	1.1	1.0	1.1	41.4%
Meridian Energy	N	$2.94	7.8%	8.2%	8.0%	7.0%	0.5	0.4	0.5	0.7	25.5%
Methven	N	$1.02	8.1%	8.2%	8.5%	11.3%	1.3	1.3	1.3	1.2	50.2%
Augusta Capital	O	$1.05	7.8%	7.8%	7.8%	8.2%	1.4	1.4	1.5	1.2	10.5%
Sky Network Television	N	$2.67	14.6%	7.8%	7.8%	7.8%	1.1	1.8	1.7	1.5	17.8%
NZX	N	$1.12	7.4%	7.7%	7.9%	8.0%	0.6	1.0	1.1	1.2	-19.7%
Kathmandu	N	$2.35	6.5%	7.7%	7.7%	8.0%	1.5	1.4	1.5	1.5	4.8%
Skellerup	U	$1.83	7.2%	7.6%	8.1%	8.5%	1.2	1.2	1.2	1.2	16.8%
Chorus	N	$4.14	7.1%	7.4%	7.7%	8.1%	1.3	1.1	0.7	0.6	177.8%
Kiwi Property Group	N	$1.39	7.3%	7.4%	7.5%	7.6%	1.1	1.1	1.1	1.1	44.6%
Investore Property	O	$1.45	5.1%	7.1%	7.6%	7.8%	1.3	1.1	1.1	1.1	82.8%
Goodman Property Trust	N	$1.39	7.1%	7.1%	7.1%	7.3%	1.2	1.2	1.2	1.2	49.4%
Infratil	N	$3.34	6.5%	7.0%	7.4%	7.8%	1.2	0.6	0.8	0.9	132.5%
Property For Industry	N	$1.64	6.7%	6.8%	6.9%	7.1%	1.0	1.1	1.1	1.1	45.3%
Contact Energy	O	$5.57	6.3%	6.6%	8.7%	9.3%	0.8	0.7	0.7	0.7	53.3%
Vector	N	$3.47	6.4%	6.5%	6.6%	6.7%	0.9	0.8	0.8	0.9	104.2%
Precinct Properties	N	$1.35	6.2%	6.4%	6.7%	6.9%	1.1	1.1	1.1	1.1	45.3%
Turners Limited	O	$3.30	6.1%	6.3%	6.7%	7.0%	1.8	2.0	1.9	1.9	103.7%
Fletcher Building	O	$7.50	7.2%	6.3%	7.6%	8.0%	1.2	1.2	1.5	1.5	58.3%
Sky City	U	$4.03	5.9%	6.1%	6.1%	6.7%	1.2	1.2	1.3	1.1	53.3%
Green Cross Health	O	$1.60	6.1%	6.1%	6.1%	6.5%	1.7	1.9	2.0	2.0	27.1%
Z Energy	N	$7.80	5.2%	5.7%	10.0%	10.4%	1.7	1.7	1.0	1.0	111.1%
Scales Corporation	O	$4.35	5.4%	5.7%	6.1%	6.7%	1.6	1.3	1.5	1.4	11.7%
Michael Hill	O	$1.32	5.5%	5.7%	5.7%	6.3%	1.8	1.8	2.0	2.0	14.9%
Mercury NZ	U	$3.37	7.6%	5.7%	6.0%	6.3%	0.7	0.7	0.6	0.6	33.1%
Freightways	N	$7.65	5.0%	5.5%	6.5%	7.4%	1.3	1.3	1.2	1.2	57.7%
Trademe	N	$4.86	5.3%	5.5%	6.7%	7.0%	1.3	1.2	1.1	1.1	9.2%
Fonterra	N	$6.40	6.3%	5.5%	7.3%	9.4%	1.1	1.4	1.4	1.2	78.8%
Tourism Holdings	U	$5.28	5.2%	5.0%	5.8%	6.8%	1.1	1.4	1.3	1.2	78.0%
New Zealand King Salmon	N	$2.20	3.2%	4.9%	5.5%	7.1%	1.7	1.5	1.5	1.5	5.3%
Restaurant Brands	N	$6.93	4.6%	4.9%	5.4%	5.8%	1.2	1.4	1.4	1.5	82.8%
Tower	N	$0.69	0.0%	4.9%	8.7%	9.1%		2.1	1.0	1.0	-38.0%
Oceania Healthcare	N	$0.98	0.0%	4.8%	5.2%	5.3%	0.0	1.8	1.7	2.0	27.0%
Auckland Airport	U	$6.70	4.3%	4.5%	4.7%	4.7%	1.0	1.0	1.0	1.0	57.9%
Arvida	N	$1.24	4.1%	4.3%	5.5%	6.0%	1.7	1.8	1.7	1.7	22.3%
Ebos	N	$18.12	3.8%	4.2%	4.4%	4.7%	1.4	1.4	1.4	1.4	37.6%
Gentrack	U	$6.47	2.7%	4.1%	4.8%	5.6%	1.3	1.2	1.2	1.2	24.5%
Sanford	O	$8.25	3.9%	3.9%	3.9%	3.9%	1.8	2.2	2.3	2.5	26.7%
Port of Tauranga	U	$4.87	3.2%	3.4%	3.6%	3.8%	1.1	1.1	1.1	1.1	41.8%
CBL Corporation	O	$3.07	2.3%	3.1%	3.7%	4.6%	4.2	3.3	3.3	3.0	-135.9%
TILT Renewables	O	$2.02	n.a.	2.8%	6.3%	6.8%	n.a.	-0.1	0.6	0.7	116.1%
Delegat's Group	N	$7.63	2.4%	2.5%	2.8%	3.4%	2.9	2.9	3.1	3.0	87.3%
Mainfreight	U	$24.66	2.3%	2.5%	3.0%	3.5%	2.5	2.5	2.4	2.4	22.3%
Fisher & Paykel Healthcare	U	$13.54	2.0%	2.3%	2.6%	3.4%	1.5	1.5	1.5	1.3	3.6%
Ryman Healthcare	U	$10.30	1.7%	1.8%	1.9%	2.0%	1.2	1.2	1.2	1.2	48.9%
Summerset Group	N	$5.14	1.5%	1.7%	1.8%	2.0%	1.0	1.6	1.6	1.7	44.5%
Vista Group	N	$2.65	1.0%	1.5%	2.7%	3.5%	2.5	2.0	2.0	2.0	-30.8%
Metlifecare Limited	O	$6.00	1.0%	1.2%	1.5%	3.3%	3.1	4.1	3.9	2.1	3.3%
AFT Pharmaceuticals	O	$2.49	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-2569.4%
a2 Milk	N	$7.77	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-58.9%
Orion Health	N	$0.89	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-38.6%
Synlait Milk	U	$6.71	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	18.3%
Xero	U	$29.40	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-30.3%
MEDIAN			**6.0%**	**6.1%**	**6.7%**	**7.1%**	**1.2**	**1.2**	**1.2**	**1.2**	**41.5%**

Source: First NZ Capital, CS Group Estimates

1. The Net Debt/Equity ratio is calculated as Gross Debt less cash holdings divided by Total Equity. Negative ratios indicate a net cash position.

2. Ratings: "O" - Outperform, "N" - Neutral, "U" - Underperform, "R" - Restricted.

3. FY0 represents the current financial year.

NZ LISTED COMPANIES 11-Dec-17 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap	Price 11-Dec-17	Target Price	Price Earnings (x)		Net Yield (%)	
		(NZ$000)	(NZ$)	(NZ$)	FY17	FY18	FY17	FY18
CONSUMER DISCRETIONARY								
Kathmandu	KMD	471	2.33	2.15	12.5	11.8	5.6%	5.6%
Michael Hill International	MHJ	473	1.34	1.38	13.9	13.2	4.1%	4.1%
NZME Limited	NZM	172	0.88	0.88	6.8	7.6	10.8%	9.1%
Restaurant Brands New Zealand	RBD	853	6.90	6.55	24.3	20.8	3.3%	3.6%
Sky Network Television Limited	SKT	996	2.56	2.87	8.5	9.3	10.9%	5.9%
SKYCITY Entertainment Group Ltd.	SKC	2,664	3.95	3.60	17.1	16.2	5.1%	5.1%
The Warehouse Group Limited	WHS	714	2.06	2.05	10.4	10.4	7.8%	7.8%
Tourism Holdings Ltd	THL	634	5.24	4.08	22.3	17.4	4.0%	4.2%
Trade Me Group Ltd	TME	3,818	4.81	4.35	20.6	19.9	3.8%	4.0%
CONSUMER STAPLES								
Delegat Group	DGL	778	7.69	7.20	20.2	19.0	1.7%	1.8%
Fonterra Shareholders' Fund	FSF	882	6.36	6.12	13.9	13.4	6.3%	5.5%
Green Cross Health Ltd.	GXH	238	1.69	2.22	13.9	12.8	4.1%	4.1%
New Zealand King Salmon Co Ltd	NZK	312	2.25	2.33	26.3	18.8	2.2%	3.5%
PGG Wrightson	PGW	438	0.58	0.59	11.8	12.4	6.5%	6.6%
Sanford	SAN	773	8.26	8.50	19.5	16.6	2.8%	2.8%
Scales Corporation	SCL	601	4.30	4.50	18.4	15.3	4.2%	4.4%
Synlait Milk Limited	SML	1,226	6.84	5.98	32.1	17.8	0.0%	0.0%
Tegel	TGH	413	1.16	1.24	11.7	12.2	6.5%	6.2%
The a2 Milk Company Limited	ATM	5,735	7.85	8.50	61.1	32.6	0.0%	0.0%
ENERGY								
NZ Refining	NZR	791	2.53	2.95	8.9	17.5	6.8%	3.4%
Z Energy	ZEL	3,108	7.77	7.79	15.8	13.8	3.8%	4.2%
FINANCIALS								
CBL Corporation	CBL	729	3.09	3.49	13.3	11.3	2.3%	2.6%
NZX	NZX	301	1.12	1.18	18.9	16.2	5.5%	5.7%
Turners Automotive	TRA	280	3.31	3.60	13.0	11.2	4.4%	4.5%
HEALTH CARE								
AFT Pharmaceuticals	AFT	242	2.49	3.09	-13.1	-21.2	0.0%	0.0%
Arvida	ARV	505	1.22	1.22	16.6	14.7	3.6%	3.8%
Ebos Group Limited	EBO	2,798	18.34	18.40	20.1	18.7	3.4%	3.8%
Fisher & Paykel Healthcare Corp.	FPH	7,589	13.30	12.00	44.5	39.7	1.5%	1.7%
Metlifecare Limited	MET	1,292	6.06	7.46	20.6	17	1.2%	1.5%
Oceania Healthcare Ltd	OCA	586	0.96	1.01	25.7	11.2	0.0%	4.9%
Orion Health Limited	OHE	176	0.90	1.01	-4.2	-5.6	0.00%	0.0%
Ryman Healthcare Ltd	RYM	5,200	10.40	7.54	47.7	47.7	1.7%	1.8%
Summerset Group Holdings Ltd	SUM	1,160	5.20	5.28	39.1	33.7	1.60%	1.80%
INDUSTRIALS								
Air New Zealand	AIR	3,683	3.28	2.90	9.7	9.5	6.40%	6.70%
Auckland Airport	AIA	7,823	6.53	5.10	31.4	30.0	3.1%	3.3%
Freightways	FRE	1,184	7.63	7.10	20.9	19.4	3.6%	4.0%
Mainfreight	MFT	2,447	24.30	21.60	23.7	21.8	1.70%	1.90%
Methven	MVN	75	1.02	1.10	11.7	11.2	6.90%	7.10%
Metro Performance Glass Ltd	MPG	172	0.93	1.20	7.6	7.9	8.2%	6.9%
Port of Tauranga	POT	3,308	4.86	3.60	39.6	37.3	2.3%	2.5%
Skellerup Holdings	SKL	357	1.85	1.65	16.1	15.5	5.10%	5.40%
INFORMATION TECHNOLOGY								
EROAD	ERD	196	3.22	3.30	-36.8	-77.1	0.0%	0.0%
Vista Group International Limited	VGL	437	2.65	2.85	40.2	22.1	1.2%	2.3%
Xero	XRO	4,154	30.01	29.80	-59.7	-128	0.0%	0.0%
MATERIALS								
Fletcher Building	FBU	5,081	7.29	8.50	15.7	17.3	5.3%	4.7%
Steel & Tube	STU	185	2.04	1.80	9.2	9.4	7.8%	7.8%
REAL ESTATE								
Argosy Property Ltd	ARG	871	1.06	1.08	15.9	16.0	5.8%	5.9%
Augusta Capital Ltd	AUG	91	1.04	1.16	13.5	13.3	5.3%	5.3%
Goodman Property Trust	GMT	1,771	1.38	1.30	16.6	17.6	4.8%	4.8%
Kiwi Property Group Limited	KPG	1,914	1.35	1.43	18.1	18.6	5.0%	5.1%
Investore Property Limited	IPL	380	1.45	1.47	21.5	18.5	3.7%	5.1%
NPT Limited	NPT	97	0.60	0.66	15.9	15.6	6.0%	6.0%
Precinct Properties NZ	PCT	1,611	1.33	1.30	21.6	21.2	4.2%	4.4%
Property for Industry Ltd	PFI	810	1.63	1.64	20.4	19.4	4.6%	4.7%
Stride Property Group	SPG	646	1.77	1.90	17.2	16.8	5.6%	5.6%
TELECOMS								
Chorus	CNU	1,722	4.06	4.29	14.7	16.3	5.2%	5.4%
Spark NZ	SPK	6,716	3.66	3.17	16	16.9	6.8%	6.8%
UTILITIES								
Contact Energy	CEN	3,918	5.47	6.50	27.8	25.8	4.8%	5.9%
Genesis Energy Limited	GNE	2,420	2.42	2.16	35.5	23.3	6.9%	7.0%
Infratil	IFT	1,865	3.33	3.20	18.3	34.3	4.7%	5.0%
Mercury NZ	MCY	4,629	3.36	3.07	26.3	31.3	5.8%	4.6%
Meridian Energy	MEL	7,561	2.95	2.87	34.7	34.6	6.40%	6.40%
TILT Renewables	TLT	582	2.04	2.03	36	-477.7	2.8%	2.8%
TrustPower	TPW	1,865	5.96	5.33	16.3	13.9	5.60%	6.40%
Vector	VCT	3,480	3.48	3.60	23	26.8	4.6%	4.7%
MARKET AVERAGE					20.8	18.9	4.2%	4.3%

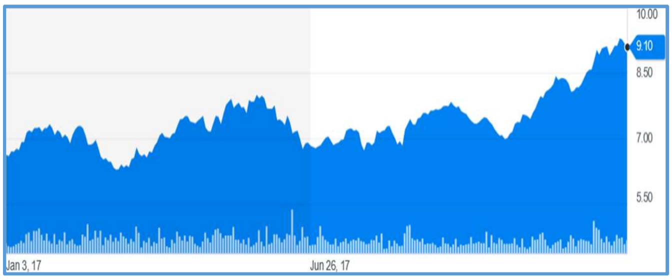
Buy-side vs brokers: Each year, our analysts analyse the stock-picking performance of the buy-side (investors) and stock brokers. To provide an indication of the consensus buy-side positions, we use short interest ratios. For the brokers, we employ consensus stock recommendations. Brokers tend to outperform the buy-side during periods of buoyant markets. In 2017, the brokers' consensus long-short positions returned 9%, while the buy-sides returned 2%.

Stock picks for 2018: For the year ahead, the buy-side is long momentum and buying mining service companies such as CIMIC and ALS. They are nervous on the Aussie consumer and short JB Hi-Fi, Harvey Norman and Flight Centre. Meanwhile, brokers favour the global fund managers such as Janus Henderson and Magellan. They are also long commodity stocks such as Rio Tinto and Bluescope.

Double Consensus Long: Our DCL strategy buys stocks that both the buy-side and brokers like the most. The strategy has generated a positive return in seven of the last seven years and outperformed the market by 10% p.a. over this time. For 2018, the strategy is long CSL, Janus Henderson and Qantas.

Origin Energy (ORG.AX)

OUTPERFORM A$9.10 **TARGET:** A$9.50



We believe that ORG's share price offers value in both a relative and absolute sense. Management is making good progress implementing ORG's turnaround strategy. The company's FY18 profit guidance signals further benefit from high wholesale electricity prices. In the medium term, ORG is shifting its investment focus to developing new electricity generation capacity from renewable sources.

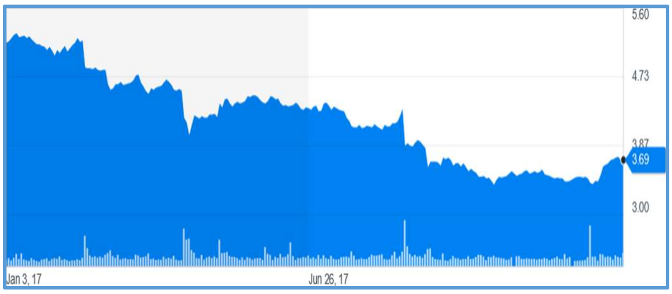
Lower coal seam gas drilling costs represent a key component of this expected cost reduction. Importantly ORG has reduced net debt by $1 billion as promised and with the Lattice Energy sale netting proceeds of a further $1 billion, we estimate ORG's pro forma net debt position to be around $7.1 billion as at 30 June 2017. This means ORG is well on its way to achieving its FY18 target of net debt "below $7 billion", and is closing in on a net debt target of $6 billion, a level which we believe could allow ORG to reinstate dividends in FY19.

ORG's earnings are sensitive to changes in the oil price (a US$5/bbl change in the oil price impacts the APLNG distribution to ORG by $125 million), wholesale electricity price (a $10/mwh electricity price change impacts profit by $120 million) and retail energy margins of LPG, gas and electricity.

ORG.AX Year to 30 June		2017A	2018F	2019F	2020F
Adjusted NPAT	A$m	550	964	1157	1498
Earnings /share	Ac	31.2	54.8	65.8	85.2
PE Ratio	x	28.2	16.1	13.4	10.3
Dividend/share	Ac	0	0	20	51
Dividend Yield	%	0	0	2.3	5.8

Telstra Corporation (TLS.AX)

OUTPERFORM A$3.70 **TARGET:** A$4.00



TLS has historically been a strong, consistent and reliable dividend payer, which has been attractive to investors from Australia and offshore. However, the National Broadband Network (NBN) rollout in Australia will result in TLS losing two thirds of its fixed line earnings by 2022 (fixed line earnings accounted for 30% of TLS's FY17 earnings). This loss is partially offset by recurring revenue from the NBN and one-off NBN payments. However, the one-off NBN payments will peak in FY18 and fall to zero by FY23.

The FY17 dividend of $0.31/share has become unsustainable given the eventual loss in future earnings, pressure on the balance sheet and TLS's desire to maintain its A- credit rating. Therefore, TLS has reduced its dividend to $0.22/share, reflecting a new dividend pay-out ratio of 70-90%. This appears sustainable for at least the next four years, when there is some risk of a further reduction, albeit relatively limited in size. TLS's share price has fallen to reflect the lower dividend, resulting from the FY22 earnings hole created by the end of the NBN one-off payments and higher mobile telephone competition.

We forecast mobile earnings to decline over the next 2-3 years as TPG enters the market as a low cost operator. However, they should return to growth as the new 5G network is introduced, which opens up a significant new revenue opportunity for the industry. We believe that TLS's share price currently offers good value relative to the broader equity market. TLS has a cash dividend yield of 6.1%.

AUSTRALIAN FORECASTS 11th December 2017 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (A$m)	Price 11/12/2017 (A$)	Target Price (A$)	Price Earnings (x)		Gross Yield (%)	
					FY15	FY16	FY15	FY16
CONSUMER DISCRETIONARY								
Aristocrat Leisure	ALL	14,616	22.89	24.60	26.7	23.4	1.5%	1.9%
Crown	CWN	8,545	12.41	12.00	26.2	26.7	11.5%	3.9%
Domino's Pizza Enterprises	DMP	4,054	46.28	50.10	33.7	28.3	2.0%	2.5%
Fairfax Media	FXJ	1,719	0.75	0.71	12.1	15.4	5.4%	4.7%
Flight Centre	FLT	4,576	45.28	39.25	19.5	17.8	3.1%	3.5%
JB Hi-Fi	JBH	2,931	25.52	19.89	13.8	13	4.6%	4.7%
Star Entertainment Group	SGR	4,855	5.88	6.25	22.7	19.9	2.7%	2.7%
Tabcorp Holdings	TAH	4,268	5.11	4.80	33.4	28.0	4.9%	4.7%
Tatts Group	TTS	6,625	4.51	4.20	29	28.3	8.3%	3.4%
CONSUMER STAPLES								
Coca-Cola Amatil	CCL	6,197	8.37	9.80	15.1	15.2	5.5%	5.5%
Graincorp	GNC	1,801	7.87	9.02	12.8	15.8	3.8%	7.2%
Treasury Wine	TWE	11,761	16.19	14.15	40.8	35.6	1.6%	1.9%
Wesfarmers	WES	49,526	43.68	41.82	17.1	18.1	5.1%	4.1%
Woolworths	WOW	35,111	26.91	25.31	24.3	22.9	3.1%	3.0%
ENERGY								
Caltex Australia	CTX	8,775	33.65	39.70	14	14.7	3.6%	3.4%
Oil Search	OSH	8,350	7.30	5.64	28.3	24.9	1.5%	1.6%
Origin Energy	ORG	15,962	9.08	9.50	29.1	16.6	0.0%	0.0%
Santos Ltd	STO	7,889	5.05	3.84	19.5	22.8	0.0%	0.0%
Woodside Petroleum	WPL	20,149	31.86	20.64	21	22.8	3.8%	3.5%
FINANCIALS								
AMP	AMP	15,234	5.22	5.60	16.3	15.7	5.4%	5.6%
ASX	ASX	10,897	56.29	51.00	25.1	24.6	3.6%	3.7%
BT Investment Management Limited	BTT	3,407	10.77	11.00	19.5	17	4.2%	4.7%
Challenger Limited	CGF	8,597	14.08	13.20	21.4	20.7	2.5%	2.4%
IOOF Holdings	IFL	3,837	10.93	12.90	19.4	18.4	4.8%	4.9%
Janus Henderson Group	JHG	6,485	48.32	35.00	15.1	13.8	2.6%	3.7%
Macquarie Group	MQG	33,318	97.89	105.00	15.2	14	4.8%	5.1%
Magellan Financial Group	MFG	4,582	26.59	29.00	23.3	18.7	3.2%	4.0%
Perpetual Limited	PPT	2,188	46.97	55.50	16	15.5	5.6%	5.9%
Commercial Banks								
ANZ Banking Group	ANZ	83,775	28.52	31.00	12.6	12.5	5.6%	5.6%
Bank of Queensland	BOQ	4,970	12.66	12.75	13.5	13.4	6.6%	6.0%
Bendigo and Adelaide Bank	BEN	5,556	11.53	11.90	14.5	13.6	5.9%	6.1%
Clydesdale Bank	CYB	2,462	5.80	3.43	13.6	13.5	0.3%	1.2%
Commonwealth Bank Australia	CBA	140,131	79.95	75.00	14.4	13.9	5.4%	5.4%
National Australia Bank	NAB	80,096	29.83	34.50	12.4	12.4	6.6%	6.6%
Westpac	WBC	107,398	31.64	33.50	13.7	13.7	5.9%	5.9%
Insurance								
Insurance Australia Group	IAG	17,247	7.29	7.50	19.3	19.3	4.5%	4.1%
Medibank Private Limited	MPL	9,061	3.29	2.80	21.6	21.6	3.6%	3.7%
QBE Insurance Group	QBE	10,996	10.77	8.62	43.2	13	3.1%	5.2%
Suncorp Group Limited	SUN	18,650	14.39	14.50	17.5	16.7	5.1%	5.1%
HEALTH CARE								
Ansell Limited	ANN	2,707	25.16	16.28	18.8	19.2	2.3%	2.4%
Cochlear	COH	10,379	180.36	142.50	46.4	41.7	1.5%	1.7%
CSL Ltd	CSL	48,093	141.65	117.77	36.3	31	1.3%	1.5%
Healthscope	HSO	3,528	2.03	1.87	19.6	20.4	3.4%	3.3%
Ramsay Health Care	RHC	14,111	69.83	71.60	26.7	24.5	1.9%	2.1%
ResMed Inc.	RMD	12,239	11.46	7.80	33.2	30.7	1.6%	1.7%
Sonic Healthcare	SHL	9,628	22.78	21.40	21.6	20.7	3.4%	3.5%

AUSTRALIAN FORECASTS 11th December 2017 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (A$m)	Price 11/12/2017 (A$)	Target Price (A$)	Price Earnings (x)		Gross Yield (%)	
					FY15	FY16	FY15	FY16
INDUSTRIALS								
ALS Ltd	ALQ	3,519	6.98	7.80	31.3	24.8	1.9%	2.4%
Brambles	BXB	12,159	10.18	7.06	20.5	19.4	2.9%	3.0%
CIMIC Group Limited	CIM	16,469	50.79	28.00	24	23.5	2.5%	2.6%
Downer EDI	DOW	4,008	6.74	6.90	19.3	15.4	3.6%	3.9%
Seek	SEK	6,505	18.55	15.80	32.5	32.8	2.4%	2.4%
Transportation Infrastructure								
Aurizon	AZJ	10,696	5.31	4.90	23.6	19.5	4.2%	4.4%
Macquarie Atlas	MQA	4,139	6.18	6.50	8.3	42.2	3.2%	3.8%
Qantas	QAN	9,535	5.42	7.00	11.7	10	2.6%	2.6%
Qube Holdings Limited	QUB	4,195	2.62	2.30	47.3	45.2	2.1%	2.1%
Sydney Airport	SYD	16,537	7.35	6.80	48.3	44	4.7%	5.0%
Transurban	TCL	25,411	12.37	13.00	121.2	74.9	4.2%	4.6%
INFORMATION TECHNOLOGY								
carsales.com.au	CAR	3,606	14.87	13.00	30.2	27	2.7%	3.0%
Computershare	CPU	6,698	16.42	11.88	22.6	20.6	2.2%	2.4%
Link Administration Holdings Limited	LNK	4,325	8.78	8.50	26.7	22.3	1.6%	2.2%
REA Group	REA	10,101	76.69	75.00	44.3	34.4	1.2%	1.6%
MATERIALS								
Adelaide Brighton	ABC	4,318	6.64	5.75	21.1	20.6	3.7%	4.4%
Amcor	AMC	13,693	15.75	11.51	19.7	19.4	3.6%	3.7%
Boral	BLD	9,179	7.83	7.30	23.4	19.8	3.1%	3.1%
CSR	CSR	2,438	4.84	4.90	13.3	11.7	5.4%	5.4%
Dulux Group	DLX	3,071	7.89	7.40	21.5	20.5	3.3%	3.5%
Incitec Pivot	IPL	6,470	3.84	3.49	22.4	20.4	2.5%	2.5%
James Hardie Industries plc	JHX	7,157	21.61	16.38	29	27	2.3%	2.5%
Orica	ORI	7,037	18.67	18.19	18.3	18.8	2.8%	2.9%
Orora	ORA	3,994	3.31	3.45	21.5	19.5	3.3%	3.5%
METALS & MINING								
Alumina Limited	AWC	4,886	2.26	1.81	13.4	21.1	7.4%	5.9%
BHP Billiton	BHP	103,680	27.28	20.12	15.8	12.1	3.1%	3.6%
BlueScope Steel	BSL	7,854	14.05	13.95	12.7	12.7	0.6%	0.9%
Evolution Mining Limited	EVN	4,096	2.42	2.22	19.3	13.8	2.1%	4.1%
Fortescue Metals Group Ltd	FMG	10,811	4.63	4.67	5.2	8.6	9.7%	7.6%
Iluka Resources	ILU	3,906	9.33	11.10	40.2	11.9	1.6%	0.8%
Newcrest Mining	NCM	13,205	22.92	13.94	33.6	25.5	0.9%	1.2%
Northern Star Resources Ltd	NST	3,486	5.78	4.55	18.8	13.1	1.6%	1.7%
OZ Minerals	OZL	2,434	8.15	8.25	14.6	23.9	1.5%	1.5%
Rio Tinto	RIO	84,494	69.88	56.99	10.3	11.9	5.6%	4.9%
South 32	S32	12,699	3.26	2.35	11.5	16.4	4.1%	2.4%
REAL ESTATE								
Charter Hall Group	CHC	2,974	6.39	4.71	17.8	17.7	4.7%	4.8%
Dexus Property Group	DXS	10,525	10.35	9.14	16.2	16.2	4.4%	4.6%
Goodman Group	GMG	15,577	8.65	8.01	20.1	18.8	3.0%	3.2%
GPT Group	GPT	9,693	5.38	5.35	17.4	16.6	4.6%	4.7%
Investa Office Fund	IOF	2,893	4.84	4.58	16.3	15.7	4.2%	4.2%
Lend Lease	LLC	9,472	16.22	18.94	12.5	12.1	4.0%	4.3%
Mirvac Group	MGR	9,166	2.47	2.50	17.1	15.9	4.2%	4.4%
Scentre Group	SCG	22,442	4.22	5.30	17.3	16.4	5.1%	5.2%
Stockland Group	SGP	11,320	4.65	4.71	16	15	5.5%	5.7%
Vicinity Centres	VCX	10,821	2.80	2.65	14.9	14.5	6.2%	5.8%
Westfield Corporation	WFD	13,260	8.50	7.09	18.8	17.5	4.0%	4.2%
TELECOMMUNICATION SERVICES								
Telstra Corporation	TLS	43,648	3.67	4.00	11.3	11.5	8.4%	6.0%
TPG Telecom	TPM	5,920	6.39	4.55	13.2	15.3	1.6%	0.6%
Vocus Communications	VOC	1,842	2.96	Res	12	13.2	2.0%	0.0%
UTILITIES								
AGL Energy	AGL	16,809	25.63	27.00	21.4	16.7	3.6%	4.5%
APA Group	APA	9,873	8.86	7.80	41.7	41.6	4.9%	5.1%
AusNet Services	AST	6,986	1.94	1.85	27.1	25	5.1%	4.8%
Spark Infrastructure Group	SKI	4,583	2.73	2.40	46.7	44.8	5.6%	5.9%
MARKET AVERAGE (PE Ratios exclude: TCL)					**21.9**	**20.3**	**3.7%**	**3.7%**

The role index providers play has rapidly expanded in the last two decades with equity index-makers becoming arbiters of how investors allocate their money. Three large firms, FTSE Russell (owned by LSE.LN), MSCI (MSCI.US) and S&P Global (SPGI.US) dominate equity index-making. They charge customers for both access to data and for the use of their indices. The rise of passive investing has been a large tailwind for these companies, boosting their share prices in the process. The amount of money that tracks equity market indices provided by these companies is estimated at a staggering US$38 trillion. Meanwhile consolidation has cemented their industry positions.

With the significant amount of funds following their indices the power the index providers have to influence equity markets or particular companies has dramatically increased. In June, MSCI decided to include Chinese equities in its emerging-markets equity index, which is used by funds totalling US$1.6 trillion. As Chinese equities are added into the index, passive funds have to buy a substantial amount of Chinese equities. Similarly, both FTSE Russell and S&P Global chose to alter their rules which govern index composition to exclude companies from their indices that list only non-voting shares, such as Snap (SNAP.US). The index-makers thereby have influence over corporate governance as it becomes less attractive for companies to issue non-voting shares.

Regulator Starting to the Bite

Ten years ago the five largest companies in the US were Exxon Mobil (XOM.US), General Electric (GE.US), Microsoft (MSFT), AT&T (T.US) and Proctor and Gamble (PG.US). Today only MSFT remains with Apple (APPL.US), Google's parent Alphabet (GOOGL.US), Facebook (FB.US) and Amazon (AMZN.US) replacing the others.

These knowledge based companies differ from traditional consumer and manufacturing companies as their business model allows them to capture up to 90% market share versus traditional business models that top out around 40%. There have been a few signs recently that the tide might be turning for these technology giants.

The equivalent Chinese companies including Tencent (TCEHY.US), Alibaba (BABA.US) and Weibo (WB.US) have started to come to the attention of regulators due to their market power.

FB spends US$1 billion on content, such as news and sports, against which it earns revenue, including ad revenue. Yet the company claims to be a platform not a media company. After the company's website was hijacked by Russian propaganda in the US election, there has been growing pressure on FB to hire more staff to check content which will increase expenses.

The Road to Superintelligence

All of us use artificial intelligence (AI) often, but we don't realise it. John McCarthy, who coined the term AI in 1956, complained that, "as soon as it works, no one calls it AI anymore." To help define AI, it is helpful to break down the broad concept into three categories. The lowest level is weak AI, which is AI that specialises in one area such as being able to beat the world champion of chess, but playing chess is the only thing it can do. The next level is strong AI, or human level

Creating strong AI is a much harder task than weak AI and is yet to be done. It involves the ability to reason, plan, solve problems, think abstractly, comprehend complex ideas and learn from experience. The highest level is artificial superintelligence (ASI). This is intellect greater than human capabilities.

We currently live in a weak AI world, examples being:

- Anti-lock brakes which are one of many AI systems in your car.
- Your phone and its apps contain dozens of AI systems, whether it is maps, music recommendations from Spotify or Apple's Siri.

Each new weak AI innovation adds another brick along the path to strong AI and ASI. The graph below maps out a possible timeline.

AI is likely to be a big market and first movers should have sustainable advantages. Leaders should be able to keep barriers to entry high by owning the data. Companies that should benefit include:

- Facebook (FB.US) where AI is a strategic priority for the next 10-years. The company is
- currently leveraging AI in chatbots on Messenger and in its core news feed, where AI improves
- content relevance.
- General Electric (GE.US), while still in the early stages, GE's Predix platform is gaining
- momentum. GE sees its software business reaching US$15 billion by 2020 versus US$6 billion
- today (5% of sales), with the internet of things market representing a US$225 billion opportunity.
- IBM (IBM.US) is a leader in AI and IBM's AI, Watson, is the future of the company. IBM needs Watson to work for the company to move beyond its legacy systems and software business. Like GE, AI does not yet make up a material amount of IBM's sales.

NZ Daily Fixed Interest Rate Sheet

PRICES AS AT 11 DECEMBER 2017 NOTE: Indicative pricing only

Secondary Market	Code	Rating	Type	Maturity	Coupon	Yield	Margin to SWAP	Price /$100	Accrued Interest	Coupon Frequency
Z Energy Ltd	ZEL020	NR	Snr	15/08/2018	7.25%	3.45%	150	$104.89	$2.38	4
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	4.03%	200	$102.99	$1.34	2
Fletcher Building	FBI130	NR	Cap	15/03/2019	6.45%	4.03%	200	$104.52	$1.60	2
Contact Energy Limited	CEN020	BBB	Snr	15/05/2019	5.80%	2.79%	73	$104.63	$0.46	4
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	4.09%	200	$106.55	$2.73	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	4.16%	200	$105.29	$0.53	4
University of Canterbury	UOC010	NR	Snr	15/12/2019	5.77%	3.85%	168	$106.53	$2.87	2
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	4.00%	180	$112.10	$2.79	4
Fletcher Building	FBI140	NR	Cap	15/03/2020	5.80%	4.00%	179	$105.27	$1.44	2
Rabobank Nederland	RBO010	A+	Snr	10/06/2020	4.59%	2.86%	61	$104.17	$0.05	2
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	3.24%	90	$111.48	$3.07	2
Bank of New Zealand	BNZ090	BBB+	Tier 2	17/12/2020	5.31%	3.98%	164	$106.38	$2.61	4
Fletcher Building	FBI150	NR	Cap	15/03/2021	4.75%	4.40%	202	$102.24	$1.18	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	5.02%	264	$104.98	$1.27	4
Chorus Limited	CNU010	BBB	Snr	6/05/2021	4.12%	3.59%	119	$102.12	$0.43	2
Auckland Intl Airport	AIA130	A-	Snr	28/05/2021	5.52%	2.99%	58	$108.50	$0.24	2
Fonterra Co-operative Group	FCG030	A-	Snr	20/10/2021	4.33%	3.02%	55	$105.39	$0.65	2
Contact Energy Limited	CEN030	BBB	Snr	15/11/2021	4.40%	3.37%	89	$104.12	$0.35	4
Fletcher Building	FBI160	NR	Cap	15/03/2022	5.00%	4.37%	185	$103.65	$1.24	2
Genesis Power Limited	GNE030	BBB+	Snr	18/03/2022	4.14%	3.55%	103	$103.29	$0.99	2
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	4.26%	170	$113.98	$3.41	4
Genesis Power Limited	GNE040	BB+	Capital	9/06/2022	5.70%	4.55%	199	$104.74	$0.08	4
Goodman Property Trust	GMB030	BBB+	Snr	23/06/2022	5.00%	3.65%	109	$107.96	$2.38	2
Heartland Bank	HBL010	BBB	Snr	21/09/2022	4.50%	3.92%	133	$103.52	$1.04	2
Sky City Bond	SKC040	BBB-	Snr	28/09/2022	4.65%	3.90%	130	$104.26	$0.98	4
Air New Zealand Limited	AIR020	NR	Snr	28/10/2022	4.25%	3.91%	130	$102.05	$0.55	2
Trustpower	TPW150	NR	Snr	15/12/2022	4.01%	4.00%	137	$102.06	$1.99	4
Trans Power	TRA090	AA-	Snr	15/03/2023	5.45%	3.38%	72	$111.25	$1.35	2
Fonterra Co-operative Group	FCG040	A-	Snr	7/03/2023	4.42%	3.47%	82	$105.69	$1.20	2
Meridian Energy	MEL030	BBB+	Snr	14/03/2023	4.53%	3.65%	100	$105.28	$1.14	2
Wellington Intl Airport	WIA030	BBB+	Snr	12/05/2023	4.25%	3.85%	118	$102.29	$0.38	2
Summerset Bond	SUM010	NR	Snr	11/07/2023	4.78%	4.04%	135	$105.69	$2.03	4
Infratil	IFT210	NR	Bnd	15/09/2023	5.25%	4.71%	200	$102.68	$0.00	4
Infratil	IFT230	NR	Bnd	15/06/2024	5.50%	5.00%	220	$105.48	$2.73	4
Precinct Properties Limited	PCT020	NR	Snr	27/11/2024	4.42%	4.36%	150	$100.59	$0.21	2

Floating Rate/ Perpetual Bonds	Code	Rating	Type	Reset Date	Coupon	Price /$100	Margin to SWAP		Interest	Coupon Frequency
ASB Bank Basel III compliant	ABB031	BBB+	Tier 2	15/06/2019	6.65%	3.75%	190		$3.31	4
ANZ National Bank	ANBHA	BBB+	Tier 2	18/04/2018	5.28%	101.15	90		$0.83	2
ANZ National Bank	ANBHB	BBB-	Tier 1	25/05/2020	7.20%	106.75	250		$0.38	2
ASB Bank	ASBPA	BBB	Tier 1	15/11/2017	3.30%	0.87	190			4
ASB Bank	ASBPB	BBB	Tier 1	15/05/2018	3.03%	0.85	170		$0.24	4
Fonterra Co-operative Group	FCGHA	BBB+	Perp	10/07/2018	4.15%	95.00	200		$1.77	4
Genesis Power Limited	GPLFA	BB+	Cap Bond	15/07/2018	6.19%	101.90	150		$2.56	4
Infratil	IFTHA	NR	Perp	15/11/2017	3.50%	71.50	360			4
Quayside Holdings Ltd	QHLHA	NR	Perp Pref	12/03/2018	4.32%	100.50	190		$1.10	4
Rabobank Nederland	RCSHA	BBB-	Tier 1	18/06/2019	8.34%	106.60	240		$4.08	4
Works Infrastructure Finance	WKSHA	NR	RPS	15/06/2018	6.05%	107.50	360		$3.01	4

Apologies for the time it has taken to get this newsletter out. The Election was a major distraction for me! I started writing it in June, and then rewrote it several times since then. Of course, the economic climate continually changes, so each delay required a substantive rewrite!

Have a relaxing Christmas, and enjoy the festive season.