Bay Brokers Limited

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

Investment Strategies

Volume 11

DECEMBER 2015

May I wish you all the very best for the Festive Season, and let's hope that 2016 will continue on as another great year for all ambitious New Zealanders. This is a great country; and one in which we can all be very proud to call home.

Andrew

The Flag Debate

My Dad fought in the Second World War, and I never saw a photo that included the current NZ Flag. Looking at the photo below he had twin ferns with an NZ in the centre as his beret badge, and his brass buttons included only the four stars depicting the Southern Cross. I am a strong advocate for a flag change, and the selected alternative was my first pick.

2015 has been a pretty good year; especially if you live in the wonderful Western Bay of Plenty. The recovery of the Kiwifruit industry has pumped in much needed income, and our industrial and export orientated businesses have also prospered.

It is great to once again see cranes operating in downtown Tauranga; and more than $2 billion in property sales being generated in the last twelve months.

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AUCKLAND'S NEXT MAYOR?

Thank goodness Victoria Crone, the former Xero boss, has put up her hand to stand for the 2016 Auckland Mayoralty race. She is a true contender, from the Right, and has the ability to beat Labour contender, Phil Goff.

Crone has immediately resigned as Xero's Managing Director, to concentrate on her candidacy. By contrast, Phil Goff continues to feed out of the Parliamentary trough, and says he will only stand down as an MP if he is successful in the Mayoralty race. This has given Victoria Crone the high ground, and it will resonate with Auckland voters. Being paid as an MP in Wellington, while campaigning for the Auckland Mayoralty is taxpayer funded electioneering via the backdoor. Which is precisely what Labour's MP for Mt Roskill, and Auckland Mayoral candidate Phil Goff is doing.

Xero shareholders won't be paying Victoria Crone for her campaign, but taxpayers will continue to remunerate Mr Goff. What a double standard!

On cue, the knockers have been after Victoria Crone in force, saying – "no one's heard of her", "she has no experience", "her launch was, oh, so terrible". But her only crime is that she's not Phil Goff. Crone needs to ignore the knockers, and I am sure she will.

She will be extremely well resourced, with "Big Business" behind her, and this will make the race for the Mayoralty a real race – one which I think Victoria Crone will relatively easily win…

Victoria Crone is exactly what Auckland needs – real business savvy. It's true she has no political experience – but that will also be a strength. Aucklanders don't want their Mayoralty to be a retirement job for MPs who have been in Parliament too long.

Goff does know politics - he was first elected to Parliament when Victoria was 7 years old. But politics is all that Goff knows. Crone has lived in the "real" world - the one the rest of us live in. She has had to pay rates and taxes and had to budget. Taxpayers haven't paid her wages. She has had to earn them. She is a mother, a top businesswoman and athlete.

RADICAL RMA REFORMS PROPOSED

Local Government New Zealand (LGNZ) are proposing a radical reform of the country's planning and environment laws. In a so-called "Blue Skies" document released on 15th December, LGNZ offers two stages of reforms.

LGNZ are calling for either reducing the authority of the resource Management Act or scrapping it altogether. And as a second stage LGNZ proposes scrapping the Resource Management Act, the Land Transport Act and the Local Government Act and replacing them with by two new pieces of legislation.

LGNZ say the current programme of RMA reforms is encouraging and moving in a positive direction, but they believe even the current reforms are unlikely to be enough.

So they are proposing three options:

- **Option One** - Blending the land use, infrastructure planning and funding components of the Local Government Act, the RMA and Land Transport Management Act into a single Planning Act and creating a separate Environment Act.
- **Option Two** - Retaining the three acts but installing overarching planning legislation that sets the regional strategic direction and the high-level parameters within which the acts are to operate.
- **Option Three** - Changing financial signals to promote sustainable decision making that integrates economic and environmental outcomes. This last option could require substantial finance, so it is the least likely to be agreed to.

The other two options slot neatly into the current review of the three acts by the Productivity Commission. The key question asked by LGNZ is whether, after 25 years and repeated experiments and amendments, the RMA was still fit for purpose.

"While we welcome the recently announced changes to the RMA, it is time for some blue skies thinking about what a fit for purpose resource management regime could look like," said LGNZ President Lawrence Yule.

There has been a growing consensus among some key groups like Infrastructure New Zealand and the Auckland Employers and Manufacturers' Association that the relatively modest reforms proposed by Environment Minister Dr Nick Smith, in the RMA bill currently lined up to come before the Local Government and Environment Select Committee in March are not enough.

Statistics NZ Data

Population

Estimated population at 15 Dec 2015: 4,645,169
Births Sept 2015 year (Dec 14): (57,242) 60,558
Deaths Sept 2015 year (Dec 14): (31,063) 31,852
Net migration Oct 2015 year (Feb 15): (55,121) 62,477

Employment

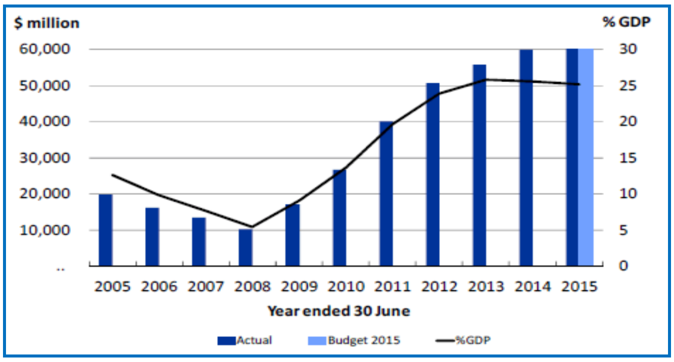
Total employed Sept 2015 quarter: 2,347,000
Unemployment rate Sept 2015 quarter: 6.0%
Ave weekly earnings Sept 2015 quarter: $1,124.40
Wage inflation Sept 2015 year (Dec 14): (1.8%) 1.6%

Economic Indicators

CPI Sept 2015 quarter: 0.3%
GDP Growth (volume) Sept 2015 quarter: +0.9%
GDP per Capita year ended Sept 2015: $53,277

International Position Sept Quarter: **-$150.962 Billion**
Govt Operating Surplus (at 30th June) **$414 Million**
Net Government Debt (at 30th June) **$60.63 Billion**
Net Government Debt as a % of GDP **25.2%**

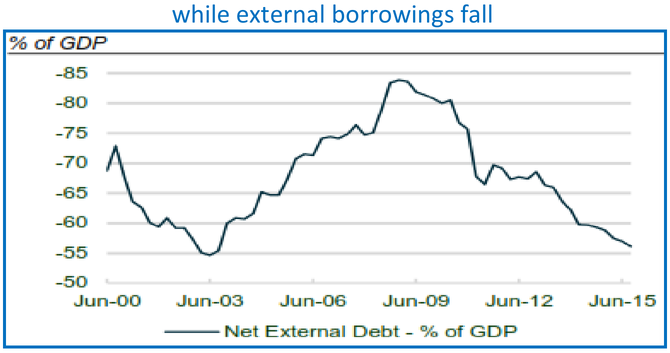
NET GOVERNMENT DEBT



Source: The NZ Treasury

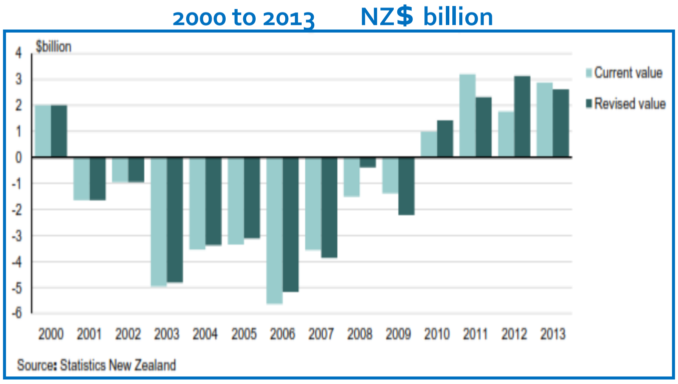
NET EXTERNAL DEBT

Decreases as NZ's external lending increases, while external borrowings fall



HOUSEHOLD SAVINGS – ANNUAL REVISIONS

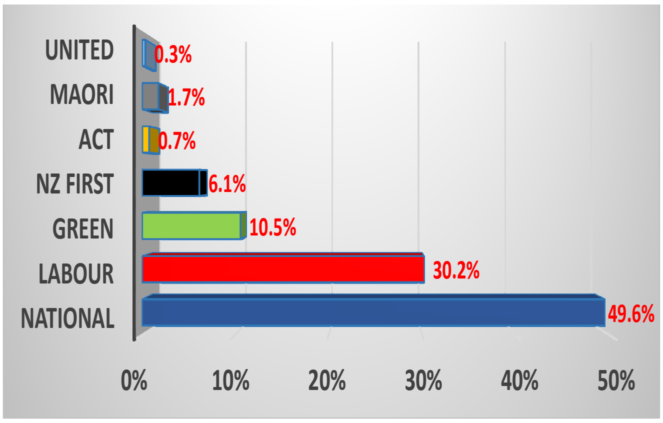
2000 to 2013 NZ$ billion



NEW ZEALAND POLITICAL POLLS

Seven years in with a John Key led government, and the National Party is sitting at an all-time high when you average out the Political Polls taken over that time.

CURIA PUBLIC POLL AVERAGE 15-DEC-2015



PARAPROSDOKIANS

PARAPROSDOKIANS are figures of speech in which the latter part of a sentence is unexpected..... Winston Churchill loved them.

1. Where there's a will, I want to be in it.

2. Since light travels faster than sound, some people appear bright until you hear them speak.

3. If I agreed with you, we'd both be wrong.

4. War does not determine who is right - only who is left.

5. Knowledge is knowing a tomato is a fruit. Wisdom is not putting it in a fruit salad.

6. They begin the evening news with 'Good Evening,' then proceed to tell you why it isn't.

7. To steal ideas from someone is plagiarism. To steal from many is called research.

8. I didn't say it was your fault, I said I was blaming you.

9. Behind every successful man is his woman. Behind the fall of a successful man is usually another woman.

10. A clear conscience is the sign of a bad memory.

11. I used to be indecisive. Now I'm not so sure.

12. Going to church doesn't make you a Christian any more than standing in your garage makes you a car.

13. I'm supposed to respect my elders, but it's getting harder and harder for me to find one now.

14. I am not arguing with you, I am explaining why you are wrong.

RBNZ MONETARY POLICY STATEMENT

On 10th December the Reserve Bank cut the OCR by 25bps to 2.50% - in line with market expectations. The RBNZ concluded their policy assessment with a more neutral bias, suggesting that "monetary policy needs to be accommodative to help ensure that future average inflation settles near the middle of the target range. We expect to achieve this at current interest rate settings".

Despite presenting an unchanged 90-day track of 2.6% over the entire forecast horizon, they did note that "the Bank would reduce rates if circumstances warrant" - suggesting a slight dovish tone; and that they would "continue to watch closely the emerging flow of economic data".

Moreover, the RBNZ was keen to highlight that estimates of "core" inflation have been centred around 1.5% for the past three years and that they expect headline inflation to move closer to the core measures over the near-term.

Another notable feature of the December MPS has been the increased focus on risks around the RBNZ's central forecast scenario. In particular, the Bank notes four risk scenarios that could lead to differing interest rate profiles including persistently higher net immigration; a drought associated with El Nino conditions; further falls in export prices; and household expenditure picking up on the back of strong house prices.

Regarding to comments on the NZ dollar, the Bank noted that "the rise in the exchange rate is unhelpful and further depreciation would be appropriate in order to support sustainable growth". The initial market response to the December MPS has been for the NZD to strengthen, likely reflecting the presentation of an unchanged 90-day interest rate track, set against a backdrop of headline CPI inflation continuing to remain below the 1-3% target midpoint until the final quarter of 2017.

IS TREASURY'S OPTIMISM ABOUT THE ECONOMY JUSTIFIED

From a political point of view three different big numbers stand out from the half yearly economic and fiscal update on 15th December.
They were:

- The lower tax take
- The $1 billion for extra capital expenditure next year and substantial amounts from then on.
- The return to 3% + growth in the 2017/18 year.

THE TAX TAKE

The reduction in the tax forecast tax take is tiny --- peaking at just over two percent in 2017/18 but set against inflation which is not expected to reach two per cent till 2016/17 and then stay around there for another year, the net effect will be a real reduction in Government tax revenue of nearly $5.8 billion over the next four years.

NEW TAX FORECASTS ($m)

	Budget	15/12/15	Change	Inflation
2015	65824	66055	0.35%	0.3%
2016	68098	67648	-0.66%	1.4%
2017	71718	70226	-2.08%	2.1%
2018	75995	74351	-2.16%	1.9%
2019	79633	79134	-0.63%	2.1%
2020		83141		

The net effect of this is to lower the Budget surplus/deficit forecasts. That means a forecast deficit for the 2016 Budget of $400 million.

Finance Minister Bill English has been warning about the lower tax for much of the year now which means that the Cabinet has had ample time to consider it, and English is saying that the Government will not change the spending plans it announced in the last Budget. "*We don't intend to make any spending changes in an attempt to move the small forecast deficit in 1015/16 back to surplus*," he said.

"*The 14/15 surplus target was very important as a way of turning around a large deficit. Now that has been achieved and the books are broadly in balance and in the immediate future we don't intend to alter our spending plans in response to small positive or negative OBEGAL balances*." Those spending plans include tax cuts promised for 2017. And Minister English gave a clear hint that those could be brought forward to 2016.

Don't expect the Government to go outside the spending projections set out at the last Budget of new expenditure of $1 billion in 2016 and $2.5 billion in 2017. However English said "rephasing" of that spending between the two Budgets was possible.

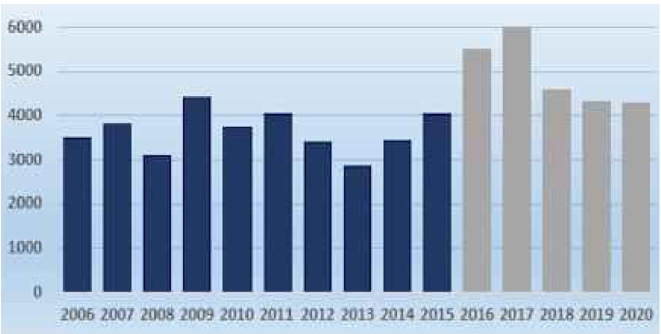
But he warned that after seven or eight years of virtually frozen spending, the Government was coming under increasing spending pressure from some departments. Though English has relaxed some of the debt targets over the immediate future he says the Government is still on track to achieve a debt target of 20% of GDP by 2020.

BIG TICKET GOVERNMENT SPENDING ($m)			
	2015	**2017**	**Change**
Welfare	10,089	10,641	5.52%
Super	11,591	12,860	12.69%
Education	12,879	13,316	4.37%
Health	15,058	15,616	5.58%

CAPITAL SPENDING

Minister English is setting aside an extra $1 billion for capital spending next year. This will be the beginning of an overall increase in capital expenditure intended to carry on through the forecast period.

SIGNIFICANT CAPITAL SPENDING



The increases come as the Government has exhausted the money set aside in the "Future Investment Fund" which was the proceeds of the power company privatisations and which was reserved for capital infrastructure projects. All up it is proposing to invest $24.7 billion dollars on capital items by 2020.

This will include major expenditure on Transport, as well as significant spending planned on new schools, defence equipment and the ongoing Canterbury rebuild. Bill English also pointed to two big Government IT projects --- at IRD and at the GCSB.

Was this reflecting the Reserve Bank Governor's recent call for more infrastructure spending in Auckland to try and kick-start some economic activity and thus move inflation up from its current ultra-low levels?

Bill English said that the Government had "noted" the Governor's comments. "I think matching the Governor's comments and the increase in the capital allowance are to some extent coincidental. The biggest immediate capital commitment there would be on the supply of housing," he said.

THE OVERALL ECONOMIC OUTLOOK

Treasury estimates growth to pick up in the second half of next year and then to increase to a very healthy 3.6% in the 2017/18 year. That will delight the Beehive because it means the Government will go into the 2017 election with a growing economy.

That optimism is shared by the Ministry of Primary Industries who recently published their annual Situation and Outlook Report for primary industries. They are forecasting a 5.3% increase in primary industries export revenue in the year to June 2016 despite a 7% fall in dairy production. Then in the year to June 2017 they are forecasting a 16.1% increase in revenue buoyed up a by a three per cent increase in dairy production.

Treasury noted that a more severe El Nino than MPI are expecting could change MPI's growth forecasts. But MPI says that the dryer conditions brought on by an El Nino are likely to adversely affect only about 35% of the national dairy herd. When considering the other side of this El Nino, the heavier rain the west could actually increase production in large parts of the country.

MPI says farmers are well placed to manage their way through the El Nino because of:

- Better productivity per animal and improved farming practices;
- Increased land under irrigation (although irrigation restrictions are already in place in Canterbury);
- Significant cow culling which has already occurred in response to high beef prices and a low dairy price forecast.

However it is the Treasury's 3.6% GDP growth forecast for 2017/2018 that has surprised many. They are predicting higher GDP Growth than any yearly rate achieved since National was elected in 2008 (even during the dairy boom).

Treasury is also projecting CPI inflation to rise to 1.4% by March next year, with inflation expected to return to the 2% midpoint of the RBNZ's target band by the end of 2016. In contrast, even the RBNZ doesn't expect inflation to get back to this level until a full year later.

Without doubt the impact of El Nino will be critical to determining whether growth - and with it, inflation – gets reignited. In the meantime though, Ministers can go to their summer break mildly optimistic about the economic future and therefore their own political futures.

China in perspective

The statistics demonstrating China's modern growth over the next decade are staggering:

- The number of Chinese households with an annual disposable income of over US$10,000 (in nominal terms) will almost quadruple – from 57.1 million households to 222 million.
- One in every six people in the world is Chinese, and their homeland has amassed its resources to turn a population advantage into economic might.
- China's foreign reserves, which exceed US$3 trillion, are now the largest in the world.
- Two hundred of the world's top 700 cities will be in China, requiring 97 new airports and 30,000km of new railways.
- China's per-capita gross domestic product (GDP) is about US$7,500. Due to its historically high level of savings (which has funded the country's phenomenal growth), per capita consumption rates remain relatively low at about US$2,500 a year. In the United States, that consumption figure is about US$30,000 per person. With China moving to a domestic consumption growth model, this figure will rise significantly.
- China appears on track to become the world's largest economy, yet it is still a developing country. China's economic growth over the past 25 years is probably the largest and most sustained period of wealth creation in the history of the world. In 1800, China generated 25 percent of the world's industrial output. By 1975, it had fallen to 1.5 percent. It is now on its way back to 25 percent.

With numbers like these, there is little argument about China's dominance and influence in the global economy. China is a vital part of the global supply chain; rather than just being the end-market for imports or manufacturer of exports, it is increasingly part of a more sophisticated trading picture. China is now often a point on the supply chain where one part is assembled with another before being exported to another market for final production, and yet another market for sale. Across Asia intermediate goods make up more than 60 percent of imports, and China is the top importer of intermediate goods in the world.

This is just one way in which China's predominant reputation as a powerhouse of cheap manufacturing labour is changing fast. China is taking deliberate steps to move further up the value chain. As part of the 12th Five-Year Plan, the government will boost expenditure on research and development to 2.2 percent of GDP. It also has ambitious targets for the registration of patents. This is on top of existing efforts to encourage internationally based Chinese researchers to return to China and to recruit 2,000 foreign experts to work in national laboratories.

By 2015, China had the biggest research and development workforce in the world. This concentrated investment in technology has led to China emerging as an innovator in sectors such as aviation, clean energy, finance, telecommunications and science.

"Between 1949 and 1978, 280,000 Chinese nationals travelled abroad. In 2004, 22 million went abroad, rising to 57 million in 2010. Chinese officials anticipate this will exceed 100 million annually within the next five years."

Ministry of Foreign Affairs and Trade

NEW ZEALAND & CHINA

New Zealand enjoys a positive profile within China thanks to the 'four firsts'. New Zealand was:

- The first Western country to conclude a bilateral agreement with China on its accession to the World Trade Organisation (August 1997)
- The first developed economy to recognise China's status as a market economy (May 2004)
- The first developed country to enter into Free Trade Agreement (FTA) negotiations with China (announced November 2004)
- The first OECD country to sign a high-quality, comprehensive and balanced FTA with China (April 2008)

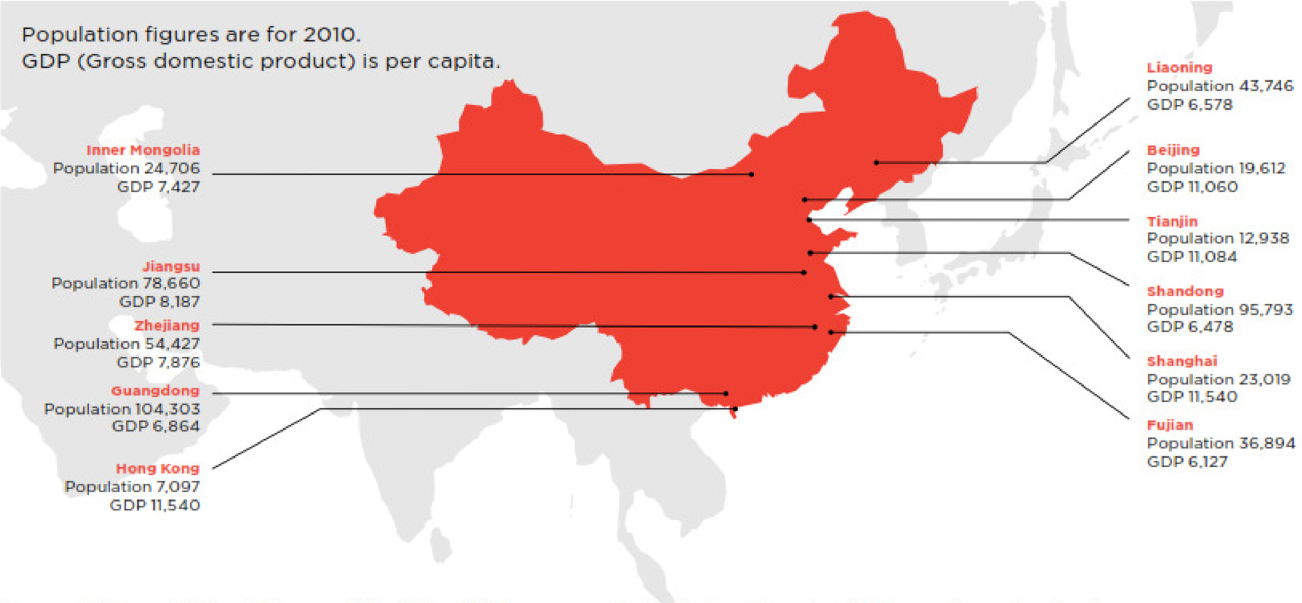
The FTA between New Zealand and China (NZ-China FTA) came into force on 1 October 2008 and liberalises and facilitates trade in goods and services, improving the business environment and promoting cooperation in a broad range of economic areas.

This early willingness to recognise and trade with China has been repaid with a level of engagement which is of substantial economic and strategic value to New Zealand.

Over half of China's 1.35 billion population now live in urban areas. Two-thirds of China's population – an estimated 64 percent – will live in cities by 2025.

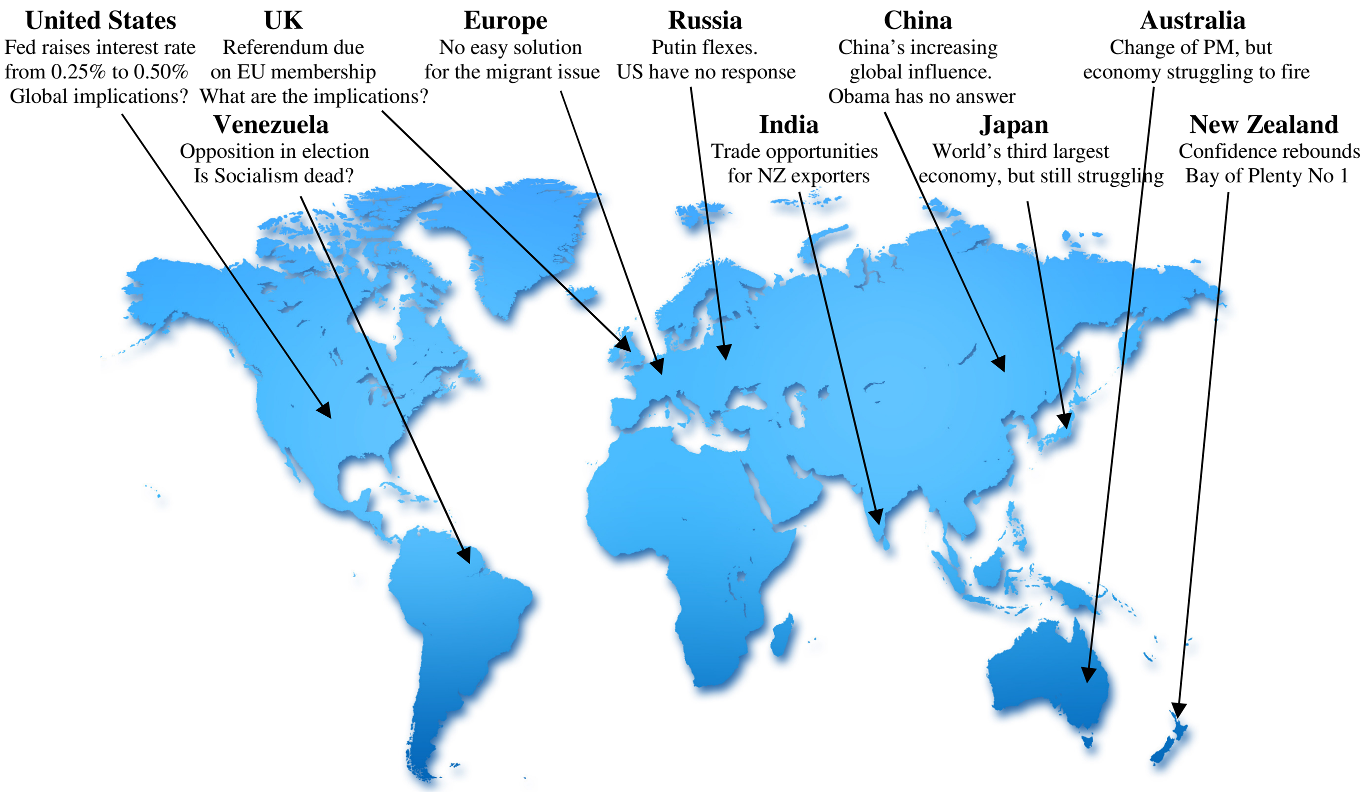
"China's way of doing business is already having an influence around the world. World businesses will evolve to keep up with it."

McKinsey Global Institute



Source: Chinese National Bureau of Statistics 2010, currency in US dollars (map is of China customs territory)

THE WORLD AT A GLANCE



The Global Economy

Recent Developments and Prospects

Global growth declined in the first half of 2015, reflecting a further slowdown in emerging markets and a weaker recovery in advanced economies. It is now projected at 3.1 percent for 2015 as a whole, slightly lower than in 2014, and 0.2 percentage point below the forecasts in the July 2015 *World Economic Outlook (WEO) Update*. Prospects across the main countries and regions remain uneven. Relative to last year, growth in advanced economies is expected to pick up slightly, while it is projected to decline in emerging market and developing economies. With declining commodity prices, depreciating emerging market currencies, and increasing financial market volatility, downside risks to the outlook have risen, particularly for emerging market and developing economies. Global activity is projected to gather some pace in 2016. In advanced economies, the modest recovery that started in 2014 is projected to strengthen further. In emerging market and developing economies, the outlook is projected to improve: in particular, growth in countries in economic distress in 2015 (including Brazil, Russia, and some countries in Latin America and in the Middle East), while remaining weak or negative, is projected to be higher next year, more than offsetting the expected gradual slowdown in China.

Where Are Commodity Exporters Headed?

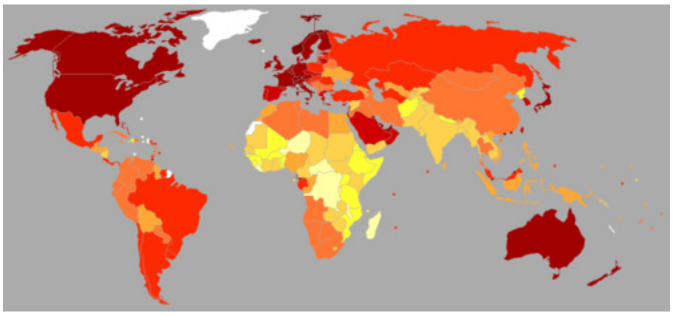
Output Growth in the Aftermath of the Commodity Boom - Commodity prices have declined sharply over the past three years, and output growth has slowed considerably among those emerging market and developing economies that are net exporters of commodities. A critical question for policymakers in these countries is whether commodity windfall gains and losses influence potential output or merely trigger transient fluctuations of actual output around an unchanged trend for potential output. The weak commodity price outlook is estimated to subtract almost 1 percentage point annually from the average rate of economic growth in commodity exporters over 2015–17 as compared with 2012–14. In exporters of energy commodities, the drag is estimated to be larger: about 2¼ percentage points on average over the same period. The projected drag on the growth of potential output is about one-third of that for actual output.

Global Financial Stability

Financial stability has improved in advanced economies since April, but risks continue to rotate toward emerging markets. The global financial outlook is clouded by a triad of policy challenges: emerging market vulnerabilities, legacy issues from the crisis in advanced economies, and weak systemic market liquidity. Although many emerging market economies have enhanced their policy frameworks and resilience to external shocks, several key economies face substantial domestic imbalances and lower growth. Recent market developments such as slumping commodity prices, China's bursting equity bubble and pressure on exchange rates underscore these challenges. The prospect of the U.S. Federal Reserve gradually raising interest rates points to an unprecedented adjustment in the global financial system as financial conditions and risk premiums "normalize" from historically low levels alongside rising policy rates and a modest cyclical recovery.

Asia and Pacific Region

While Asia's growth has recently disappointed, the region is expected to grow at a steady 5.4 percent in 2015-16, remaining the global growth leader. Asia's growth should benefit from relatively strong labour markets and disposable income growth along with the ongoing gradual recovery in major advanced economies. Across most major Asian economies, lower commodity prices should help consumption. Negative risks to growth dominate, especially the possibility of a sharper slowdown in China or larger spillovers from the changing composition of China's demand. In addition, further U.S. dollar strength accompanied by a sudden tightening of global financial conditions, weaker growth in Japan, and weaker regional potential growth could also dim Asia's growth prospects. High leverage could amplify shocks, and lower commodity prices will also hurt corporate investment in key commodity-producing sectors. All in all, despite its resilient outlook, Asia is facing a challenging economic environment. This calls for carefully calibrated macroeconomic policies and a renewed impetus on structural reforms to facilitate investment and improve economic efficiency, bolstering economic resilience, and potential growth.



Countries by 2014 GDP (nominal) per capita in US Dollars.

> $129,696	$8,106 – 16,212	$507 – 1,013
$64,848 – 129,696	$4,053 – 8,106	< $507
$32,424 – 64,848	$2,027 – 4,053	Unavailable
$16,212 – 32,424	$1,013 – 2,027	

GDP per Capita

2015 GDP per Capita - IMF data			
Rank		Country	US$
1		Luxembourg	103,187
2		Switzerland	82,178
3		Qatar	78,829
4		Norway	76,266
5		United States	55,904
6		Singapore	53,224
7		Australia	51,642
8		Denmark	51,424
9		Iceland	51,068
10		San Marino	49,139
11		Sweden	48,966
12		Ireland	48,940
13		Netherlands	44,333
14		United Kingdom	44,118
15		Canada	43,935
16		Austria	43,547
17		Finland	42,159
—		Hong Kong	42,097
18		Germany	41,267
19		Belgium	40,456
20		France	37,728
21		New Zealand	36,963
22		Israel	35,702
23		United Arab Emirates	35,392
24		Japan	32,481
—		European Union	32,006
25		Kuwait	29,983
26		Italy	29,847

GDP Growth

GDP growth is the most prominent indicator of economic performance, however, it usually does not provide a full picture on the economic well-being of people. In most OECD countries, GDP dropped sharply at the beginning of the economic crisis, while the impact on household income was less pronounced.

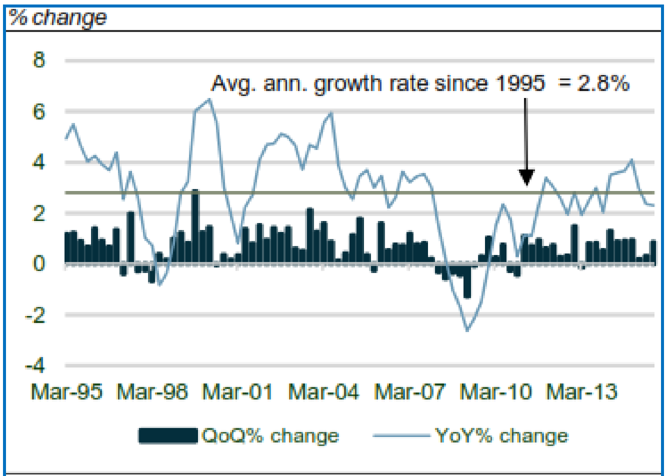
However it should be noted that both New Zealand and Australia have transited the Global Financial Crisis better than the rest of the OECD, and strongly outperformed both USA and the United Kingdom.

New Zealand

GDP growth has come in above expectations, bouncing back following a muted first half of 2015. The September 2015 quarter production GDP increase of 0.9% QoQ was above the RBNZ expectation for a 0.6% QoQ increase, although was more in line with market expectations centred around a 0.8% QoQ rise.

In terms of the annual rate of growth for the September 2015 quarter, activity increased by 2.3% YoY, down slightly from a revised 2.4% YoY annual increase recorded over the June 2015 quarter. However, it is notable that with the current population growth rate around the 2.0% YoY level, per capita GDP growth continues to remain relatively subdued – estimated at an annual increase of just 0.3% YoY over the September 2015 quarter.

New Zealand GDP

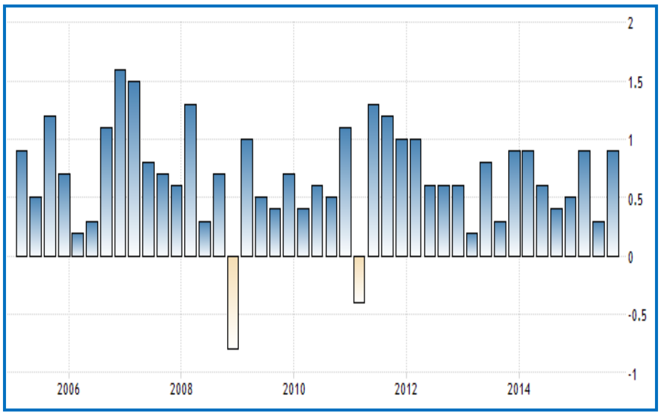


Source: Statistics NZ, First NZ Capital

Australia

Australian GDP expanded 0.9 percent in the September quarter of 2015, as compared to an upwardly revised 0.3 percent growth in the previous quarter and above market consensus. Positive contributions from net exports and final consumption expenditure offset a decline in investment. GDP Growth Rate in Australia averaged 0.87 percent from 1959 until 2015.

Australia's GDP Growth Rate per Quarter 2006 to 2015

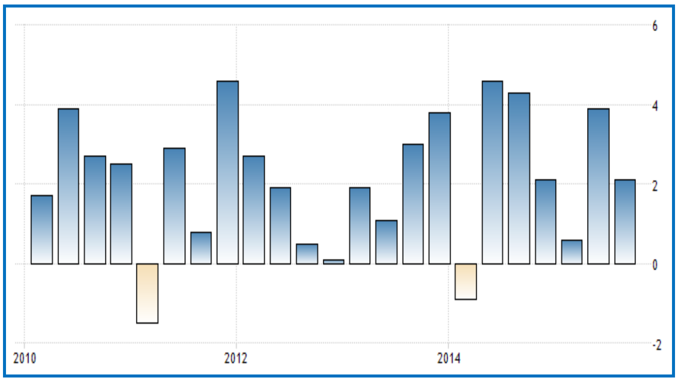


Australia's economy is dominated by its services sector, yet its economic success is based on abundance of agricultural and mineral resources. Australia's comparative advantage in the export of primary products is a reflection of the natural wealth of the Australian continent and its small domestic market. The country is a major regional financial centre and a vital component of the global financial system.

United States

The US economy advanced an annualized 2.1 percent on quarter in the three months to September of 2015, up from the 1.5 percent reported last month, according to the second estimate released by the Bureau of Economic Analysis. The decrease in private inventory investment was smaller than previously estimated. GDP Growth Rate in the United States averaged 3.24 percent for the years 1947 through to 2015.

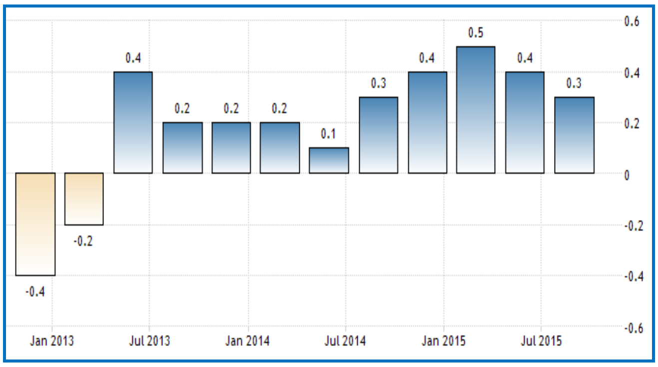
US GDP Growth Rate per Quarter



Eurozone

The Eurozone economy advanced at a slower 0.3 percent on quarter in the three months to September of 2015, compared to a 0.4 percent expansion in the previous period and the lowest performance in a year, figures from the second estimate confirmed. Household consumption was the main driver of growth, offsetting a negative impact from external trade. GDP Growth Rate in the Euro Area averaged 0.36 percent from 1995 until 2015.

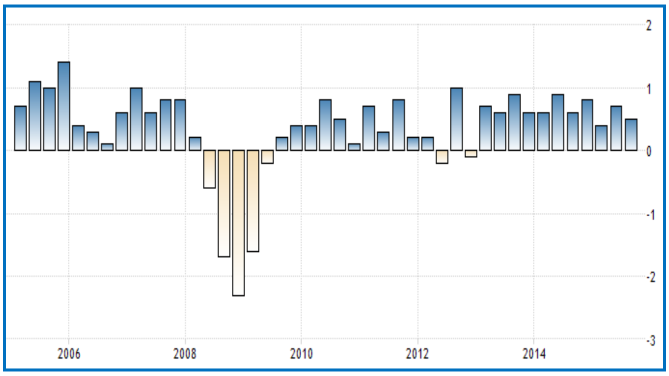
EUROZONE GDP GROWTH RATE PER QUARTER



United Kingdom

The UK economy advanced 0.5 percent in the three months to September of 2015, slowing from a 0.7 percent expansion in the previous period, and in line with the preliminary estimate. Gross capital formation rebounded while net externals proved a drag of 1.5 percentage points on overall growth in the quarter. GDP Growth Rate in the United Kingdom averaged 0.61 percent for the years 1955 through to 2015.

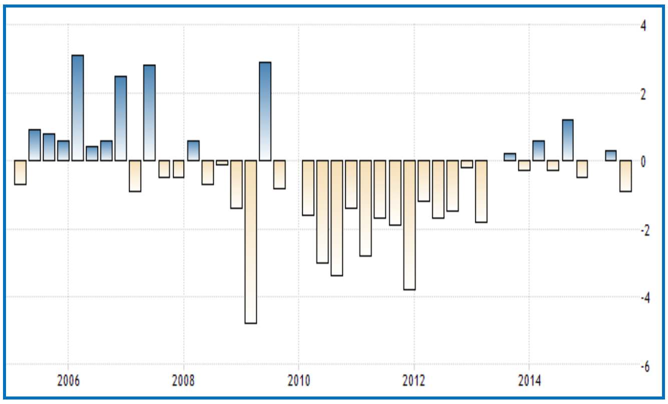
UNITED KINGDOM GDP GROWTH RATE PER QUARTER



Greece

The Greek economy contracted 0.9 percent on quarter in the three months to September of 2015, worse than a 0.5 percent contraction reported in the preliminary estimate. Gross fixed capital formation slumped 7 percent while total consumption fell 1 percent. Exports went down 7.1 percent and imports dropped at a faster 16.9 percent. On a year-on-year non-seasonally adjusted basis, the GDP contracted 0.9 percent. GDP Growth Rate in Greece averaged 0.21 percent from 1995 until 2015.

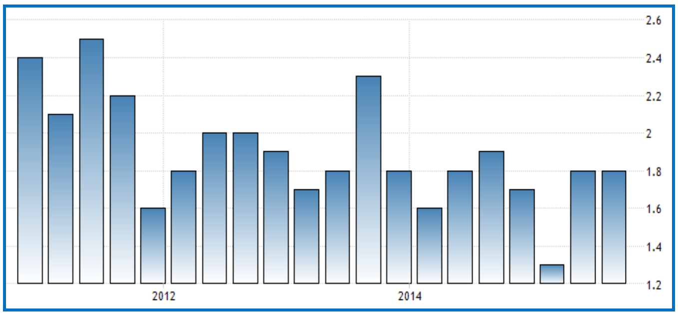
GREECE GDP GROWTH RATE PER QUARTER



China

The Chinese GDP expanded by a quarter-on-quarter seasonally adjusted 1.8 percent for the third quarter of 2015, the same pace as a downwardly revised expansion reported in the June quarter and slightly above market consensus. GDP Growth Rate in China averaged 1.9 percent per quarter between 2010 and 2015.

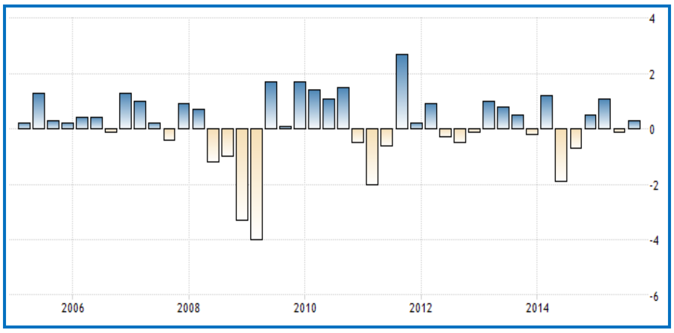
CHINA'S GDP GROWTH RATE PER QUARTER



Japan

The GDP in Japan advanced 0.3 percent for the quarter in the three months to September 2015, compared to an initial estimate of a 0.2 percent contraction. Capital expenditure increased while inventories shrank less than expected, final figures showed. GDP Growth Rate in Japan averaged 0.49 percent per quarter between 1980 and 2015.

JAPAN'S GDP GROWTH RATE PER QUARTER 2006 to 2015

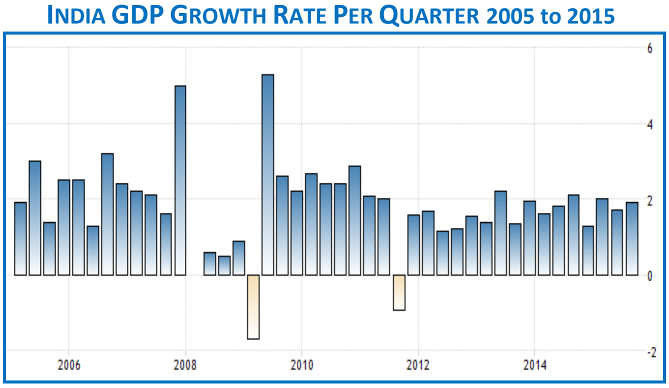


India

India's GDP Growth Disappoints

The Indian economy expanded 7 percent year-on-year in the second quarter of 2015, slowing from a 7.5 percent growth in the previous period. While services and manufacturing grew at a slower pace; mining and construction accelerated and agriculture reported expansion.

INDIA GDP GROWTH RATE PER QUARTER 2005 to 2015



Commodities

Source: Credit Suisse

China's demand growth has rapidly slowed, causing over-supply across the commodities sector, which is still geared for growth. Prices for the entire metal complex crashed in 4Q15, driving deep into cost curves. Participants are now urgently seeking closures and production suspensions to bring some price relief.

As prices capitulate, we are becoming more positive about the commodities sector because the necessary price pain may be nearly complete. Industry rationalisation is starting, so selected metals may see improvement from 4Q15 pricing in the year ahead. For mining equities investors, dire 4Q commodities pricing is being reflected in share prices, so moderate metals recovery through the year may see upside. Weak balance sheets are now being exposed and can be appropriately priced. We believe the balance of risk is shifting towards the long-side from the short.

In our opinion, bulks remain the most exposed to further downside. There may be trading opportunities for **iron ore** in 1H16, as Chinese steel mills begin to consume iron ore rather than dump it, but by 2H16, we expect the price to worsen as shrinking demand drives the next wave of mine exits. **HCC** is also exposed to the shrinking steel sector, but with tenuous demand from China. We believe **thermal coal** is structurally impaired, squeezed between China's declining demand and slowing India imports.

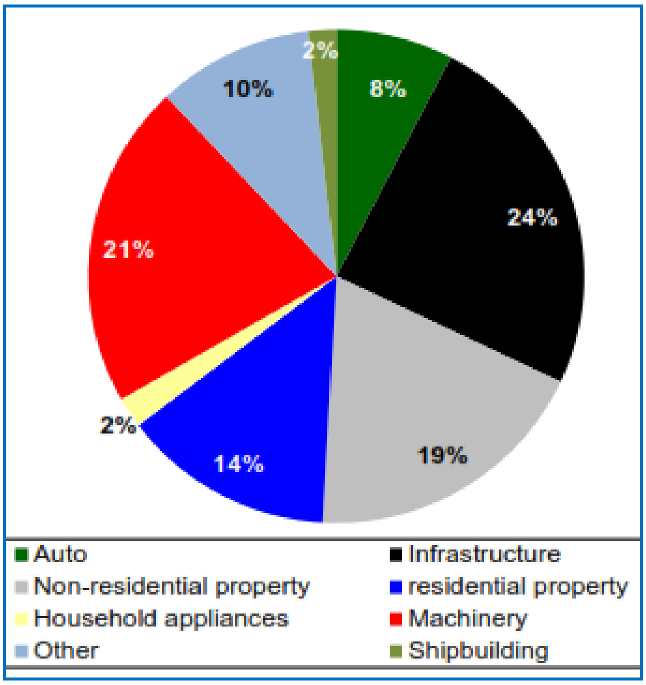
Metals are more attractive with **copper, zinc** and **nickel** being our **preferred exposures. Aluminium and alumina** are in a dire state, with almost the entire Chinese industry losing money, but more expansions underway. Action seems inevitable, but may take the form of SRB buying metal, whereas rationalisation is required. Aluminium remains risky in our view. **Gold, silver** and **uranium** seem range bound in the year ahead.

LONGER TERM DEMAND RISKS FROM CHINA

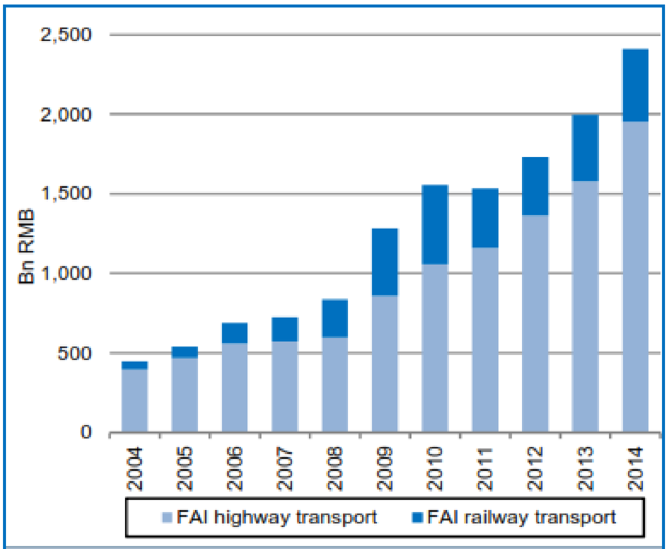
The Chinese property downturn is widely understood to have hit commodities demand heavily, but longer term, our China Materials analysts are reasonably sanguine about the sector. Their estimate is that China construction activity can stabilise at a LT rate of about 900-1000mn m^2 per year. Property completions were 1075mn m^2 in 2014, so the LT estimate is approximately 15% below current levels.

The major structural change we are forecasting over time is an unwinding of investment into infrastructure - particularly railways and expressways. Infrastructure absorbs 25% of China's steel demand (see Figure below), so as we noted in the September edition of our Commodities Forecasts, the commodities impacted most heavily from lower infrastructure are iron ore, metallurgical coal and zinc.

CHINA STEEL USAGE 2014



CHINA'S FAI RAILWAYS & HIGHWAYS



Source: CEIC, Credit Suisse estimates

RAILWAYS ARE BUILT OUT

Railways are a sector where construction now rivals developed nations. Our China analysts estimate the length of the railway per capita in China is 0.14m/person, or 20.4 metres per km^2 of land. That level is only 27% of the US and 63% of Japan. However, given the higher efficiencies of Chinese railways (we estimate throughput per km of rail length is nearly

2.5x that of the US), and the higher population density (eastern and central China accounts for 30% of the total land area and 80% of the population), our estimate is that the adjusted railway intensity in China has reached 135m per km^2, over 4x that of the US and nearly the same as Japan.

Lots of Expressway for Every Car

Looking at Expressways, our analysts calculate that metres per capita in China is 0.08, ahead of Japan (0.06), but behind the road-loving US with 0.37m/capita. However, car ownership in China is well behind both the US and Japan – 0.1 units per capita versus 0.59 in Japan and 0.82 units/capita in the US. So in terms of expressway per vehicle, China has 0.8m per auto compared to only 0.45m in the US and 0.1m per auto in Japan.

Infrastructure Build Will Slow Rather Than Cease – Except for the Power Grid

Our China analysts expect that China will continue to build new infrastructure, but the lower annual addition with cut commodity demand in steel and cement significantly. Our analysts estimate that China's steel demand will fall by 16% from current levels, mostly driven by declining infrastructure demand. They see LT steel demand settling at close to 600Mtpa from the current 708Mtpa. That would imply a steel intensity of 413kg/person, between that of the US (335kg/person) and Japan (531kg/person). The only exception in infrastructure spend is likely to be the power grid. The grid development is in line with the current power demand, but the intensity of power use per capita in China remains far below that of the US and Japan. With continued power demand growth over time, the grid will require ongoing investment. It is not overbuilt already.

Crude Oil

The price of crude oil continues its downward slide, to its lowest point in the last 10 years. With USA legislating to allow its oil producers to export US crude (a first in 40 years) there are no signs for a turnaround any time soon. Fracking has made the USA self-sufficient in oil, and their politicians are determined that they will no longer be held hostage to Middle Eastern oil.

West Texas Crude Oil – 10 Year Chart

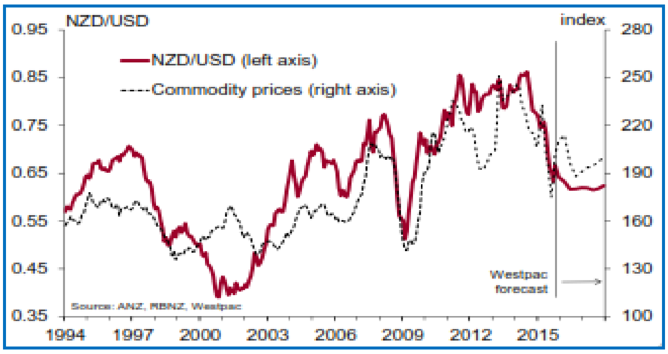
New Zealand Dollar

Westpac Forex Predictions		NZD/USD Level	NZD/AUD Level	NZD/GBP Level	NZD/JPY Level
2015	Mar - Actual	0.75	0.96	0.50	89.6
	Jun - Actual	0.73	0.94	0.48	88.8
	Sep - Actual	0.65	0.90	0.42	79.6
	Dec	0.64	0.94	0.43	78.1
2016	Mar	0.63	0.95	0.43	77.5
	Jun	0.62	0.94	0.42	76.9
	Sep	0.62	0.93	0.42	77.5
	Dec	0.62	0.90	0.41	78.1
2017	Mar	0.62	0.89	0.40	76.3
	Jun	0.62	0.87	0.39	76.3
	Sep	0.62	0.86	0.38	76.3
	Dec	0.62	0.87	0.39	77.4

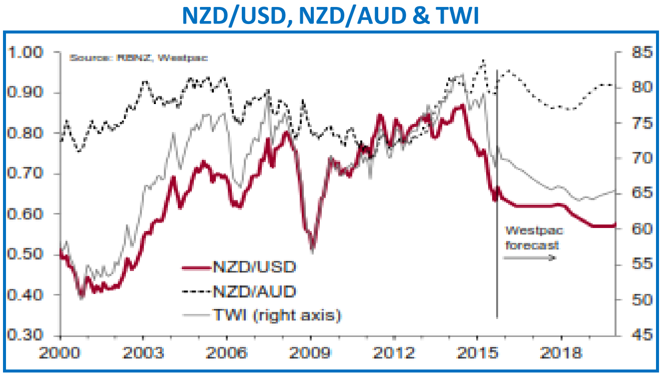
The New Zealand dollar's decline has been checked by a rebound in export commodity prices and a delayed start to US interest rate hikes. Over the past week the Fed tightened rates for the first time in nine years, taking the target range for the Fed Funds Rate to 0.25–0.50%. The tone of the accompanying statement was upbeat on the outlook for the US labour market and economy more generally. Expect future changes in the Fed Funds Rate to be "gradual". This does not mean a mechanical process will be followed, or that rate hikes will be equally spaced. Nevertheless, expect the NZD to edge lower against the USD over the next year as the interest rate gap narrows.

Strength against the AUD may persist for longer as the latter is weighed down by weak commodity prices.

NZ Dollar & Commodity Prices
Inflation Adjusted



NZD/USD, NZD/AUD & TWI



Source: Westpac Bank

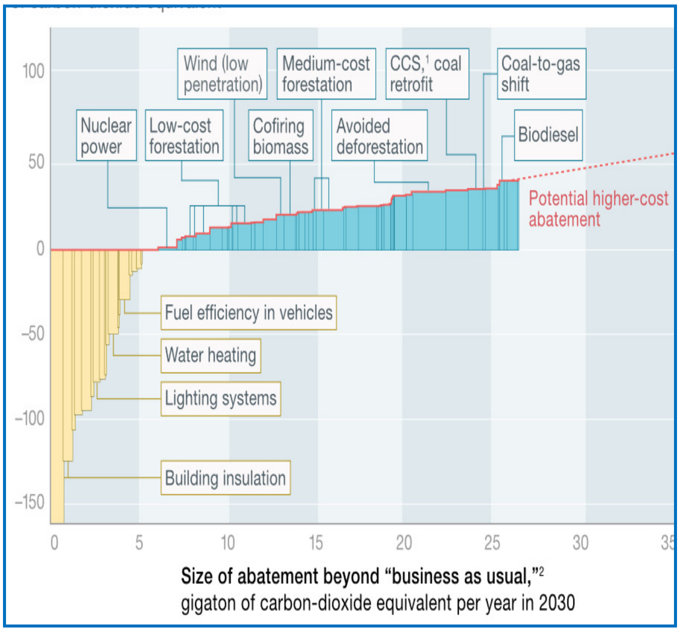
Peering into energy's crystal ball *McKinsey's predictions from 2007 updated*

Back in 2007, McKinsey did two pieces of groundbreaking research that still inform how many think about energy — the resource-productivity framework and the greenhouse-gas cost curve (see below). Then, with metaphorical holding of breath, they made forecasts based on that work. McKinsey colleagues thought it would be interesting to look back at these predictions - which were broadly on target, with a few clunkers - and then consider what might come next.

The classic 2007 global cost curve estimated the size and cost of feasible approaches to abatement (of carbon-dioxide equivalent) by 2030.

COST OF ABATEMENT

€ PER TONNE OF CO^2 EQUIVALENT



WIN SOME, LOSE SOME

The 2007 McKinsey research looked at a number of potentially disruptive technologies and assessed their prospects. Here's how they did:

- ***Solar.*** Photovoltaic (PV) installations have taken off much faster than they expected. Costs fell steeply, driving adoption. The compression of costs happened throughout the solar-energy system, from sourcing raw materials to manufacturing to installation and service. They expected costs to fall to \$2.40 per watt by 2030 but weren't bullish enough; in fact, they are on course to hit \$1.60 per watt by 2020.
- ***Wind.*** McKinsey projected that the global base of 94 gigawatts installed in 2007 would expand to 800 gigawatts by 2030. Again, growth has been faster than expected, with close to 370 gigawatts of installed capacity by 2014. That's a 22 percent increase compared to our prediction for 2014. The key, again, was lower costs. Also, manufacturers improved their maintenance protocols and turbine efficiency. A cautionary note: new onshore wind installations dropped by more than 20 percent in 2013.
- ***Batteries.*** In 2007, McKinsey published its first greenhouse-gas cost curve, which measured the relative economics of dozens of different ways of curbing emissions. At that time, they did not even include electric vehicles; expecting that the big improvements would come from internal-combustion engines. But innovation in consumer devices (smartphones, tablets, and laptops) is changing the game for large-format batteries. In 2007, large-format lithium-ion storage cost about \$900 per kilowatt-hour; today, the cost is about \$380, and it's on track to drop below \$200 in five years.
- ***Unconventional oil and gas.*** They did see shale coming, but were way off in terms of how fast mass-scale production would happen and how low costs would go. As gas prices peaked in 2008, a massive wave of innovation was unleashed. Result: US unconventional-oil production rose from almost nothing in 2007 to 3.7 million barrels a day in 2014.
- ***Energy efficiency.*** Innovation has come faster than expected; the forces they thought would hold it back, such as high adoption costs and the slow pace of improvement, proved surmountable. Today we are at a tipping point in consumer behavior; cheap mobile communications, for example, are enabling the connected home. And hardware costs have fallen. For example, LED bulbs now cost about \$12 each, down by 80 percent from 2010.

In all these areas, McKinsey got the direction right, but not the speed. In other cases, unforeseen events or pressure from competing technologies had the opposite effect on our predictions. Specifically, they saw a bigger future for nuclear, but cost overruns, cheap natural gas, and the 2011 disaster at Fukushima derailed these expectations. Biofuels have also stalled. In 2007, they projected annual consumption of 14 billion gallons by 2030; reality is nowhere near on pace. A lack of innovation and low oil prices have hurt demand for biofuels. Finally, they were too bullish on carbon capture and storage (CCS), a way to make the burning of coal much cleaner. High costs and technical difficulties have slowed adoption. Today, only 13 CCS projects are in operation, and others have been cancelled or delayed - 4 in 2013 alone. As a whole, then, they were too optimistic about most fossil fuels and not optimistic enough about most renewables, natural gas, and efficiency. If all these energy trends continue - and, of course, they might not - what are the implications?

Without venturing too deep into the geopolitical weeds, consider what happens to countries - such as Iran, Saudi Arabia, and Venezuela, whose economies rely heavily on fossil fuels - if demand for their oil peaks or growth slows. Just a decade ago, the idea that the United States is now the largest producer of petroleum and natural-gas hydrocarbons would have seemed ludicrous. Today, the country sends diesel fuel to Europe, gasoline to Latin America, and natural gas to a growing number of markets. Almost no crude oil now moves across the Atlantic to the United States; almost all of it moves to Asia. These shifts are changing the dynamics of regional markets around the world and shifting the centre of trading and pricing to Asia.

Low prices and uncertainty, meanwhile, are making the pressure on oil and gas companies to improve their performance more urgent. Disappointing conventional-exploration results, declining production efficiency, and rising capital intensity have harmed the confidence of investors. Utilities are already struggling to deal with competition from on-site generation—energy from rooftop panels, gas turbines, or other sources that are produced for a specific place—and valuations have tumbled in many markets.

For consumers, the biggest change will probably be on the road. Electric vehicles accounted for under 1% of US sales in 2014 and for even less globally—but the pace is picking up. McKinsey's Energy Insights unit projects that in 2030, about 10% of all cars in the 34 member countries of the OECD will be at least partially electric. China has set an ambitious target of five million electric or plug-in hybrid vehicles on its roads by 2020. Autonomous (self-operating) trucks in mining and farming are delivering big savings on labour and carbon-dioxide emissions. Car-sharing services are taking off in Europe and the United States, while Lyft, Uber, and others have upended the taxi business and begun to change patterns of personal vehicle ownership and public-transport choices.

MORE PREDICTIONS

All in all, McKinsey's 2007 research and predictions held up reasonably well. So going forward - Here's how they see a few important trends:

- ***Gas will be king.*** In China and the United States, the future is bright for gas because demand is expanding - for example, in the shift to gas for heavy road transport. Cities in California, Illinois, New York, and elsewhere are equipping their fleets with gas-powered vehicles. In Asia, gas isn't used as much, because resources are monopolized. In Europe, where energy demand is declining, many markets are looking to coal rather than gas.
- ***Solar will grow fast but remain small compared with conventional sources.*** Crashing prices in solar may be the key to bringing power to the more than 1.3 billion people who currently do without. A future of distributed generation would allow countries to leapfrog the cost and complexity of building reliable grids. PV is set to capture by far the largest slice of the renewables pie.
- ***Coal will grow more slowly but will remain huge.*** The king of fossil fuels is still top of the heap in Asia and will probably remain the fuel of choice. While China is making ambitious moves toward cleaner energy, a true shift away from coal is not imminent. In the United States and Europe, coal is under pressure from regulators and low natural-gas prices. According to the US Energy Information Administration, coal still accounts for 39% of US electricity generation today, but that's down from almost 50% a decade ago; moreover, no new coal-fired capacity is expected to come on line. And although coal is proving irresistible as much of Europe shifts away from nuclear and continues to experiment with renewables and shale gas, its attraction will fade in time as a result of environmental concerns.
- ***Value will continue to migrate from generation to services.*** Distributed generation, dispatchable demand, and the digital grid are redefining the power system. Disruptors are cutting out traditional utilities as new technologies (and financing techniques) let customers opt out of traditional energy supplies.

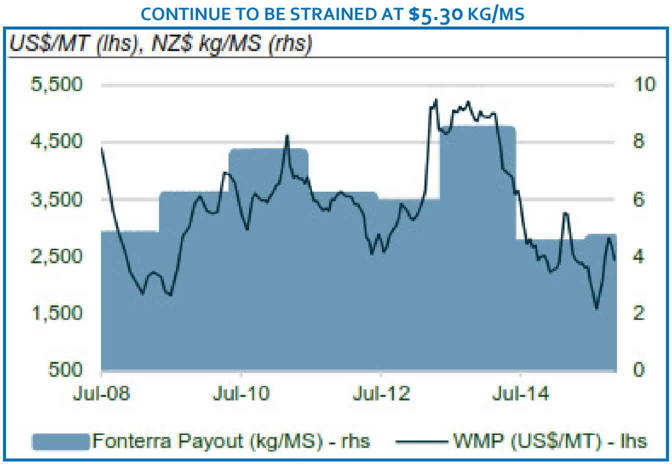
Finally, a word about outlier technologies—things that aren't particularly popular or feasible at the moment. Nuclear could be a surprise winner. Small modular reactors can provide 24-hour power, without the immense capital expenditure of traditional nuclear reactors. Yes, nuclear is controversial in many countries, but as an emission-free source of constant power, it may be difficult to avoid.

And then there's hydrogen. Admittedly, the hype has been wrong before, but it's interesting that Toyota remains optimistic enough to be working with the Japanese government and others to build a fuelling infrastructure. Toyota is focused on making longer-range hydrogen-fuel-cell vehicles the standard for clean transportation.

So that's McKinsey's take. If They're wrong—and they're sure to be in some areas—they will let you know in, say, another eight years.

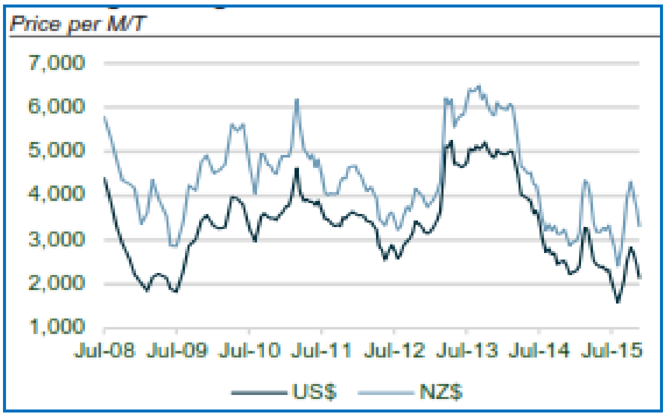
DAIRY INCOMES

CONTINUE TO BE STRAINED AT $5.30 KG/MS



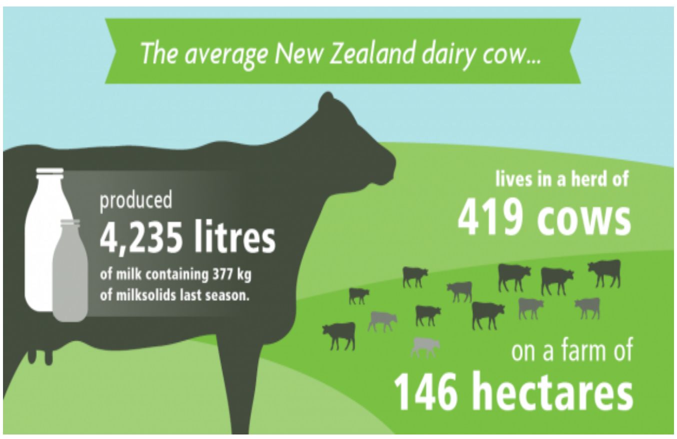
WHILE WMP HAS SHOWN SOME RECOVERY,

INDEBTED FARMERS ARE UNDER INCREASING PRESSURE



Global Dairy Trade	15-Dec-15	6-Dec-14	6-Dec-13	1-year Change	2-year Change
Butter	3,136	3,200	4,100	-2.0%	-23.5%
Skim Milk Powder	1,891	2,440	4,835	-22.5%	-60.9%
Whole Milk Powder	2,304	2,400	5,100	-4.0%	-54.8%
Cheddar Cheese	2,856	3,400	4,800	-16.0%	-40.5%
Andydrous Milkfat	3,450	3,800	5,450	-9.2%	-36.7%

As at 16-Dec-2015 US$/tonne fob



According to Dairy NZ/LIC statistics a cow's annual average production contained 377 kilograms of milksolids (8.9%) in 2014-15, which is what New Zealand's dairy farmers are paid for, compared to 308 kilograms (8.6%) in 2004-05.

Cows from North Canterbury are the highest producers. On average each produced 4706 litres of milk in 2014-15 with 416kg MS.

In 2014-15 there were 5.02m cows producing milk across the country, up from 4.9m in 2013-14. However, this season farmers have been reducing cow numbers because of the low milk price.

In 2014-15 dairy companies processed 21.3 billion litres of milk containing 1.89b kg MS. Total milksolids increased by 3.6% from the previous season. This was a record level of milk production and 56% higher on a milksolids basis than 10 years ago.

Fifty per cent of cows live in a herd of between 100 and 349 cows, 29% in herds of 500 or more and 12% in herds of 750 or more. Only five per cent were in herds of 1000 or more. Waikato, has the biggest cow population with 23.4%. North Canterbury was the next highest with 13.4% of the national milking herd. Southland was the only other region reaching double-digits with 11.4%.

Two thirds of NZ herds were run by owner-operators, with 17% in herds owned by 50:50 sharemilkers and 15% in herds run by variable-order sharemilkers. Sharemilker herds continue to decline.

Forestry

Indicative NZ Radiata Pine Log Prices	Sept 2015 Qtr	3 Year Average
Export (NZ$ per JAS m^3 FOB)		
Pruned	189 – 211	183
Unpruned A Grade	90 – 133	134
Unpruned K Grade	91 – 125	127
Pulp	73 – 110	112
Domestic (NZ$ per tonne delivered at mill)		
P1	135 – 174	145
P2	116 – 133	124
S1	100 – 108	106
S2	85 – 105	101
L1 and L2	78 – 94	93
S3 and L3	76 – 90	90
Pulp	31 – 55	49

New Zealand Equities

NZ EQUITY MARKET SUMMARY

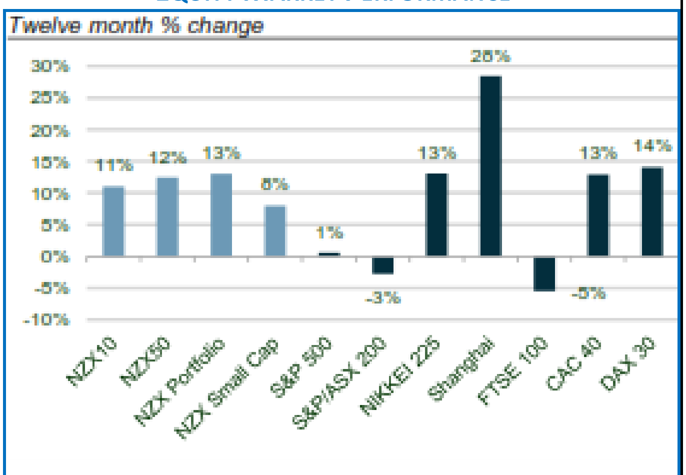
Further broad improvement in activity, but inflationary pressures remain muted. The domestic activity backdrop over the past month has been one of a further broad improvement. In particular, retail and electronic card transactions have been robust, likely supported by a combination of strong tourism growth and historic high net migration inflows, together with the positive wealth effect from further house price growth.

The general improvement in domestic spending has also been reflected in a further improvement in both business and consumer sentiment over the past month.

Nevertheless, despite these positive signs, aggregate activity still appears to be tracking below potential in a 2.0-2.5% range. Headwinds holding back a faster pace of growth include the recent softening in dairy auction prices, continuing to highlight the downside risks to the meeting of Fonterra's 2016 projected farm pay out of NZ$4.60 kg/MS. Moreover, the dairy sector continues to face financial challenges even if this forecast is achieved, reflecting that the effective break-even pay out for dairy farmers is currently estimated at NZ$5.30 kg/MS. In addition, the unemployment rate edged up to 6.0% from 5.9% over September quarter, with the deterioration in labour market conditions somewhat understated by a sharp decline in the participation rate.

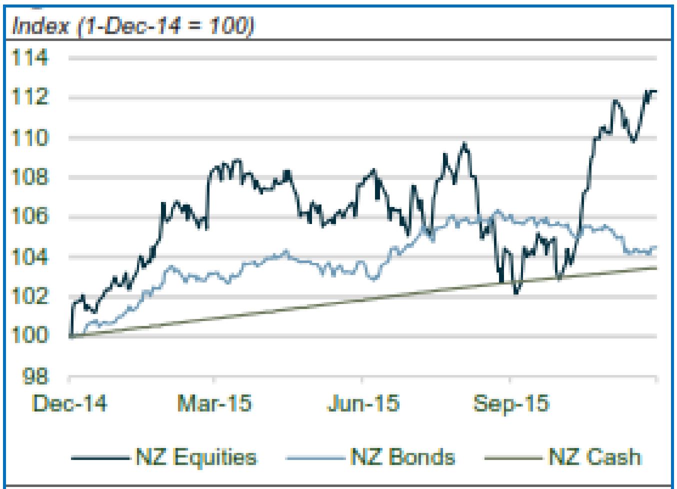
Consistent with an activity backdrop of slightly below trend GDP growth and a rising unemployment rate, inflation pressures continue to remain muted. In addition to annual CPI inflation for the September 2015 quarter continuing to remain well below the bottom of the RBNZ's 1-3% inflation target, surveyed inflation expectations have softened further, while wage pressures as measured by the labour cost index fell further below the 2% level.

EQUITY MARKET PERFORMANCE



Source: IRESS, First NZ Capital

NZ ASSET CLASS RETURNS – LAST 12 MONTHS



Source: IRESS, First NZ Capital

Top Picks

Underperform			Neutral			Outperform		
	AIA	NPT	KPG	COA	AUG	ARG	ERD	CEN
	AIR	PFI	MEL	DGL	FSF	AWK	MFT	MET
	ATM		NZR	DIL	IFT	CNU	NZX	MPG
	SKC		PCT	FRE	MVN	HNZ	OHE	NPX
	VCT		POT	GNE	STU	IQE	OIC	
	VHP		SAN	MRP		SKT	SCL	
			SML	PGW		SUM	SKT	
			SPK	RYM		XRO		
			TME	STR				
				TPW				
				VGL				
				ZEL				

Contact Energy CEN)

OUTPERFORM Price: $4.10 Target Price: $6.26

CEN's share price appears cheap relative to the broader equity market. This is despite the overhang of the Origin Energy sell down being removed and the risk of a potential Tiwai Point aluminum smelter exit being pushed out to late 2016. CEN's outlook appears positive with profit expected to benefit from lower costs assisted by the closure of the Otahuhu power station.

In addition retail electricity prices appear to have stabilised as discounts have stabilised. Furthermore, following completion of a five year capital expenditure programme, CEN is forecast to return a substantial proportion of its free cash flow to shareholders via share buybacks and special dividends. Target price $6.10

Pacific Edge Biotechnology (PEB)

OUTPERFORM Price: $0.45 Target Price: $0.60

Our analysts have initiated coverage on PEB with an OUTPERFORM rating and a target price of $0.60. PEB has developed a suite of molecular diagnostic tests (Cxbladder) to detect and monitor bladder cancer via a urine specimen. It is a leader in this field, with its products outperforming existing tests, especially for low grade and upper urinary tract tumours. PEB's commercial progress to date has developed slower than investors have hoped with 1H16 product revenue of $1.8m. They consider 2016 a critical year for PEB to demonstrate its potential to execute in the US market. Key events include gaining CMS approval for reimbursement, which covers circa 40% of PEB's potential market and is likely to act as a catalyst for increased payer focus on Cxbladder; and completion of a user programme with Kaiser Permanente a leading integrated health care player. The drivers for Urologist uptake are complex but we see these two events as potential catalysts to help lift uptake.

Forecasting revenue and earnings is challenging given PEB's stage of development and the potential for large groups adopting Cxbladder (e.g.,CMS, Kaiser, VA) to influence the timing and magnitude of revenue uplift. Execution in the US market is the key risk.

Given the early stage of PEB's commercialisation of Cxbladder, our analysts have considered a number of possible scenarios when assessing PEB's value. This derives a valuation range of $0.45 to $1.16 per share. They note PEB's share price currently assumes a certain level of success in its US strategy. They wait for greater evidence of Cxbladder's commercial execution to better assess its longer-term financial potential before they factor in a scenario with a high level of success.

PEB Year to 31 March		2015A	2016F	2017F	2018F
Adjusted Earnings	NZ$m	-11.2	-11.5	-10.9	-2.3
Earnings /share (Adjust)	NZc	-3.5	-3.1	-2.9	-0.6
EPS Growth	%	12.8	-12.8	-5.9	-78.5
Price / Earnings Ratio	x	-12.8	-14.7	-15.6	-72.6
Cash Per Share	NZc	-3.4	-3.0	-2.8	-0.5
Net Div / Share	NZc	0	0	0	0

Summerset (SUM)

OUTPERFORM Price: $4.02 Target Price: $4.35

SUM recently upgraded earnings guidance as it experiences strong sale volumes and expanding development margins. The outlook remains strong with solid demand across the NZ industry, and specifically at SUM's new villages. Momentum is expected to continue into FY16 with a number of main building openings expected to propel sales, a lift in build rate from circa 300 to 400+ units and staggered pricing initiatives. We expect 18% earnings growth in FY16.

In the longer term SUM is well positioned to benefit from its highly attractive business model, compelling demographic tailwinds and strong management. Critical to its success and therefore valuation is execution of its business strategy. Target price $4.35

Scales Corporation (SCL)

OUTPERFORM Price: $2.41 Target Price: $2.75

Through good management of a bumper 2015 season, SCL is closing the year with another upgrade, guiding FY15F EBITDA to $60-63m (previously $52-56m) due to better final crop acceptance rate for Mr Apple and price achieved. There remains upside risks to FY16F guidance from better volume and pricing. SCL is positioned to achieve further earnings growth as existing orchards continue to mature in FY17 and beyond. SCL's declared interim dividend payable in January 2016 and a projected final dividend payable in July 2016 are estimated to deliver a combined 7.1% cash yield.

SCL Year to 31 Dec		2014A	2015F	2016F	2017F
Adjusted Earnings	NZ$m	19.8	35.9	29.1	34.0
Earnings /share (Adjust)	NZc	15.3	25.7	20.8	24.3
EPS Growth	%	-6.4	68.2	-18.9	16.8
Price / Earnings Ratio	x	16.0	9.5	11.7	10.0
Cash Per Share	NZc	22.7	32.9	28.4	31.6
Net Div / Share	NZc	10.0	16.5	13.0	15.0
Gross Dividend Yield	%	5.7	9.4	7.4	8.5

Synlait Milk (SML)

NEUTRAL Price: $3.00 Target Price: $3.19

Total FY15 sales were $448.1m, well back from $600.5m last year. Revenue decreased due to fall in global commodity prices, which disguises the increase in value added products sold during FY15.

Looking forward, SML's FY16 performance is getting a boost from strong momentum in one of its customer's infant formula (IF) sales. SML has a portfolio of four finished IF customers with a fifth taking volume in 2H16. The portfolio approach is deliberate but it is worth noting that FY16 sales will be dominated by one customer with that customer experiencing strong sales momentum in Australia currently, with grey market channels into China part of the success.

Synlait has built strong supplier and customer relationships in FY15 to deliver future earnings growth. The next two years will be focused on improving operational excellence, executing against our value added strategy, reducing debt and improving return on capital. SML offers attractive return potential as it de-levers and delivers sustainably higher nutritional volumes and overall margins. Risks include milk supply & product quality.

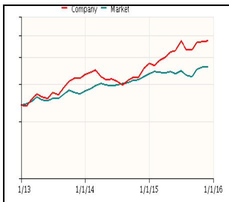
SML Year to 30 July		2015A	2016F	2017F	2018F
Adjusted Earnings	NZ$m	12.2	27.7	32.1	37.2
Earnings /share (Adjust)	NZc	7.2	18.9	21.9	25.5
EPS Growth	%	-46.2	162	15.9	16.2
Price / Earnings Ratio	x	40.6	15.5	13.4	11.5
Cash Per Share	NZc	15.8	32.5	36.8	42.2
Net Div / Share	NZc	0	0	0	12.7
Gross Dividend Yield	%	0	0	0	6.0

Source: Company data; NZX; First NZ Capital Estimates

STOCKS TO WATCH NEW ZEALAND

Prices as at 15th December 2015

NOTE: THESE ARE ALL THREE YEAR GRAPHS – RED LINE IS THE STOCK – GREEN LINE IS THE MARKET



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Auckland International Airport

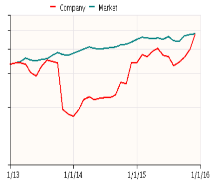
While AIA has a relatively low risk exposure to the airline industry's inbound Asian passenger growth. We note however that upside to this exposure for AIA's aeronautical regulated asset base is limited such that the average return across a 5-year window should not exceed a weighted average cost of capital (WACC) percentile determined by the NZ Commerce Commission. AIA is trading ahead of our analyst's discounted cash flow based 12-month price target.

20016 P/E: 33.4 2017 P/E: 30.8

NZX Code:	**AIA**
Share Price:	**$5.31**
12mth Target:	**$4.00**
Projected return (%)	
Capital gain	-24.7%
Dividend yield (Net)	3.0%
Total return	**-21.7%**

Rating: UNDERPERFORM

52-week price range (NZ$)3.77-5.64



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Chorus

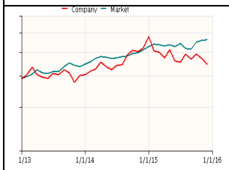
CNU received some welcome relief in the final copper pricing determination with combined UCLL+UBA pricing of $41.69 compared to current pricing of $34.44 but still down on pre-separation $45.92. The market was already conditioned for something closer to $38 following two drafts at this level but the impact is still very positive even after allowing for an increase in nonrecurring charges and guidance which highlights operating cost pressures in the business currently. Our analyst's FY17 EBITDA is up 8% on previous (first full year impact).

20016 P/E: 13.7 2017 P/E: 10.9

NZX Code:	**CNU**
Share Price:	**$3.77**
12mth Target:	**$3.97**
Projected return (%)	
Capital gain	5.4%
Dividend yield (Net)	5.0%
Total return	**10.4%**

Rating: NEUTRAL

52-week price range (NZ$) 2.48-3.18



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Contact Energy

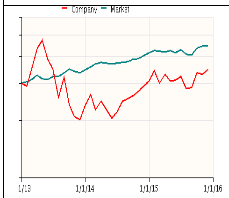
CEN guidance noted that FY16 EBITDAF is unlikely to be materially different to the $525mn booked in FY15, in contrast with pre-announcement consensus of $554m. In effect this is a ~$30mn (-5%) guidance downgrade vs. market. Our analysts think the small retail netback reduction could be recovered at April re-pricing, sales volumes look likely to rise, while the thermal cost rise is a book cost attributed to use of stored gas.

20016 P/E: 21.5 2017 P/E: 18.5

NZX Code:	**CEN**
Share Price:	**$4.70**
12mth Target:	**$6.26**
Projected return (%)	
Capital gain	33.2%
Dividend yield (Net)	6.8%
Total return	**40.0%**

Rating: OUTPERFORM

52-week price range (NZ$) 4.70-6.70



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Diligent

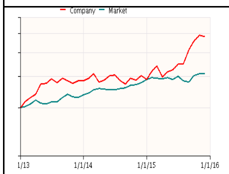
Diligent Corporation is engaged in Web-based portals for Boards of Directors. The Company develops and sells an online software application called Diligent Boardbooks, a Web-based portal. DIL has reasonable cash generation, and we expect it to retain double digit growth at the top line over the next three years. The share price currently appears to fairly price both the core existing product's steady cashflows, as well as the option value for DT. Continue to hold this stock for consistent growth

2016 P/E: 31.6 2017P/E: 22.0

NZX Code:	**DIL**
Share Price:	**$5.95**
12mth Target:	**$6.10**
Projected return (%)	
Capital gain	7.0%
Dividend yield (Net)	0.0%
Total return	**7.0%**

Rating: NEUTRAL

52-week price range (NZ$) 4.11-6.40



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Ebos Group

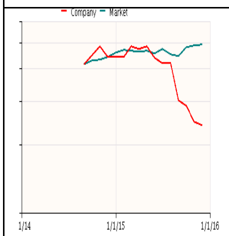
A top performer in 2015, we believe that Ebos still trades at an attractive Price to Earnings Ratio. It's recent purchase of Red Seal for $80m is expected to be immediately earnings accretive. Hold for further growth.

2016 P/E: 17.1 2017 P/E: 15.3

NZX Code:	**EBO**
Share Price:	**$13.46**
12mth Target:	**$12.00**
Projected return (%)	
Capital gain	-10.8%
Dividend yield (Net)	4.9%
Total return	**-5.9%**

Rating: NEUTRAL

52-week price range ($) 8.50-13.50



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EROAD

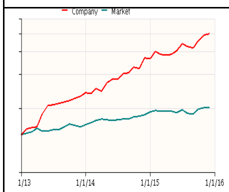
EROAD provides a highly secure & accurate service for managing and paying road user chargers and providing a number of other regulatory functions and commercial services for truck and fleet operators. Its service has been approved in NZ and Oregon (US). Key risks to our analyst's target price include, but are not limited to the emergence of factory installed telematics, data centre or security breach, subscriber growth, subscription renewal rates, increased competition, regulatory change, execution risk and currency fluctuations. Positives include a strong business case, combined with growth opportunity. Disappointing to date.

2016 P/E: N/A 2017 P/E: 38.1

NZX Code:	**ERD**
Share Price:	**$2.38**
12mth Target:	**$3.75**
Projected return (%)	
Capital gain	36.4%
Dividend yield (Net)	0%
Total return	**36.4%**

Rating: OUTPERFORM

52-week price range (NZ$) 2.33-4.28



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Fisher & Paykel Healthcare

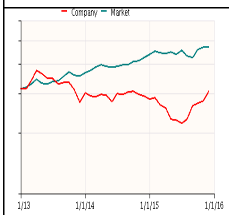
Our analysts believe that FPH is very well positioned to take advantage of a significant long duration growth option. If FPH can continue to build on its existing intellectual property platform then they contend that, even with increased competition, market leadership can be maintained and strong excess return on capital sustained in the long term. They have upgraded their rating from Underperform to NEUTRAL.

2016 P/E: 32.7 2017 P/E: 26.8

NZX Code:	**FPH**
Share Price:	**$8.15**
12mth Target:	**$8.60**
Projected return (%)	
Capital gain	5.5%
Dividend yield (Net)	2.5%
Total return	**8.1%**

Rating: NEUTRAL

52-week price range (NZ$) 5.48-8.10



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Fonterra Shareholder Fund

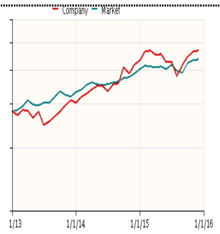
FSF represents 7-12% of the equity in Fonterra. FSF provides a wide ranging exposure to the dairy industry including a significant position in globally traded dairy commodities due to its strong position in the NZ milk market where it collects ~85% of milk, as well as a broad range of interests across local milk pools and ingredients, foodservices and consumer brands in Australia, Middle East and Asia, Greater China and Latin America. FSF's ability to convert the opportunities its position provides into a sustainable and growing earnings profile has been challenging. A myriad of factors, both in and outside FSF's control likely contribute to this lack of success to date.

2016 P/E: 11.6 2017 P/E: 10.2

NZX Code:	**FSF**
Share Price:	**$5.70**
12mth Target:	**$6.12**
Projected return (%)	
Capital gain	7.4%
Dividend yield (Net)	6.4%
Total return	**13.8%**

Rating: NEUTRAL

52-week price range (NZ$) 4.60-6.31



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Freightways

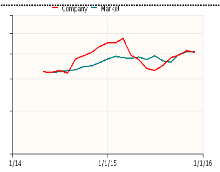
Freightways (FRE) provides express package services: New Zealand Couriers (premium), Post Haste (mid-tier) and Castle Parcels (low-tier). FRE also operates a business mail service, and a document storage and destruction business in NZ and Australia. Due to higher levels of operating leverage, earnings are vulnerable to any revenue decline. FRE also has a high dependence on its air cargo fleet. New competitors and a restructured NZ Post may also propose risk as could any amendment to employment legislation given Freightways reliance on contractors. However, FRE, can drive mid-single digit earnings growth for the Express Package division in the medium term.

2016 P/E: 17.5 2017 P/E: 16.2

NZX Code:	**FRE**
Share Price:	**$6.25**
12mth Target:	**$6.30**
Projected return (%)	
Capital gain	0.8%
Dividend yield (Net)	4.1%
Total return	**4.9%**

Rating: NEUTRAL

52-week price range (NZ$) 4.86-640



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Genesis Energy

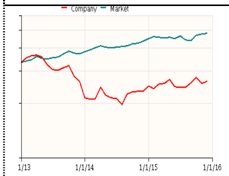
Kupe cash flow benefits now extend to circa 2021 before field capex is required. Apart from Tiwai smelter exit, dividend levels near 17dps look sustainable for the next four years on our model forecasts (~6dps of which is due to Kupe). Risks remain, with Rankines not yet settled, carbon price uncertainty and ongoing Tiwai exposure - these offset an attractive yield.

2016 P/E: 23.3 2017 P/E: 25.7

NZX Code:	**GNE**
Share Price:	**$1.89**
12mth Target:	**$1.83**
Projected return (%)	
Capital gain	-3.2%
Dividend yield (Net)	9.2%
Total return	**6.1%**

Rating: NEUTRAL

52-week price range (NZ$) 1.68-2.40



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Hallenstein Glasson

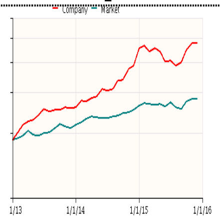
HLG is a retailer of men's and women's clothing in New Zealand and Australia. Intense competition has meant sales have been achieved at the expense of margin compared to the same period last year. The impact of a weaker New Zealand and Australian dollar is beginning to exert margin pressure. Against this, with no debt HLG is trading at a comfortable Price to Earnings ratio. Hold for yield.

2016 P/E: 11.3 2017 P/E: 11.0

NZX Code:	**HLG**
Share Price:	**$3.36**
12mth Target:	**$4.10**
Projected return (%)	
Capital gain	22.0%
Dividend yield (Net)	8.8%
Total return	**30.8%**

Rating: OUTPERFORM

52-week price range (NZ$) 3.00-3.95



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Heartland New Zealand

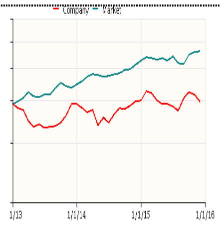
HNZ provides financial services to small-to-medium sized businesses, farmers and families. It offers finance, working and seasonal capital, home and vehicle loans, current accounts, investments, insurance and reverse mortgages. We like HNZ's investment case from both an organic growth basis and the potential for accretive bolt on acquisitions over time. Assuming momentum emerges in the home equity release business and continues in its core operation—this implies continued earnings growth for FY16 and FY17, which is supportive for DPS growth. The next result release is February 2016.

2016 P/E: 11. 2017 P/E: 10.8

NZX Code:	**HNZ**
Share Price:	**$1.32**
12mth Target:	**$1.38**
Projected return (%)	
Capital gain	4.5%
Dividend yield (Net)	6.2%
Total return	**10.7%**

Rating: OUTPERFORM

52-week price range (NZ$) 0.98-1.42



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Hellaby Holdings

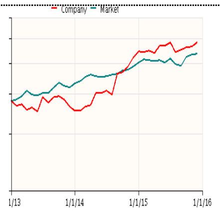
HBY is a diversified investment company with a "buy, build and harvest" strategy. HBY has been conservative on the M&A front with a focus on building on existing businesses with it more resembling a collection of small industrial businesses with a corporate overlay than an active investment company. Expect HBY to continue with this strategy with a bias to its existing assets and the bolt-on acquisition strategy. HBY turned the Group around post-GFC but has been unable to progress closing the value gap in recent years. Look for this to reverse, which will then see value recognised.

2016 P/E: 10.9 2017 P/E: 10.1

NZX Code:	**HBY**
Share Price:	**$2.82**
12mth Target:	**$3.75**
Projected return (%)	
Capital gain	33.0%
Dividend yield (Net)	7.1%
Total return	**40.1%**

Rating: OUTPERFORM

52-week price range (NZ$) 2.73-3.46



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Infratil NZ

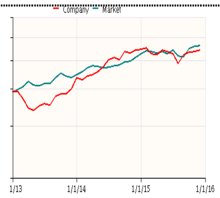
The slow resurgence of Australian Renewables incentives has so far limited value gains possible for TPW, which is IFT's primary electricity exposure as majority holder. IFT probably regards its 66% stake in unlisted Wellington International Airport as a core investment, with a sanctioned major capital programme underway, and a possible $300mn, 300m airport extension being considered to unlock increased international traffic, particularly between Asia and Wellington. IFT also holds a 20% stake in retirement home operator Metlifecare and 50% in RetireAustralia.

2015 P/E: 29.3 2017 P/E: 25.9

NZX Code:	**IFT**
Share Price:	**$3.09**
12mth Target:	**$3.37**
Projected return (%)	
Capital gain	9.0%
Dividend yield (Net)	4.4%
Total return	**13.4%**

Rating: NEUTRAL

52-week price range (NZ$) 2.80-3.41



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Mainfreight

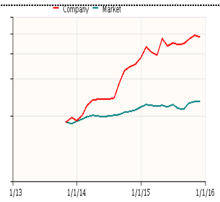
Weaker-than-expected domestic transport growth and an elevated cost structure have combined to deliver a disappointing 1H16 result. Despite being aware of MFT's increased investment in headcount and reduced utilisation from new facilities, our analysts were surprised by the scale of margin decline in New Zealand, Australia and The Americas. However, they are confident that improved cost control and underlying growth in domestic freight volumes can deliver a recovery in performance in 2H16.

2016 P/E: 17.8 2017P/E: 15.2

NZX Code:	**MFT**
Share Price:	**$15.48**
12mth Target:	**$17.50**
Projected return (%)	
Capital gain	13.0%
Dividend yield (Net)	2.3%
Total return	**15.3%**

Rating: NEUTRAL

52-week price range 14.04-16.35



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Meridian Energy

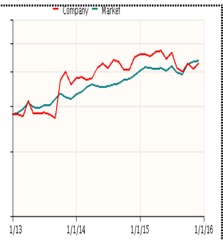
Meridian Energy is a New Zealand electricity generator that produces around a quarter of New Zealand's electricity. It's generation is 100% renewable, using hydro and wind generation. It's vertically integrated with a large retail base of customers. The signing of the Paris COP21 Climate Change agreement should benefit MEL. Moving to more low-carbon energy supply suggests long-term support for utilities with a hydro generation focus like MEL, which is also expanding into wind generation.

2016 P/E: 27.6 2017 P/E: 26.9

NZX Code:	**MEL**
Share Price:	**$2.30**
12mth Target:	**$2.19**
Projected return (%)	
Capital gain	-4.8%
Dividend yield (Net)	7.1%
Total return	**2.3%**

Rating: NEUTRAL

52-week price range (NZ$) 2.04-2.70



Metlifecare

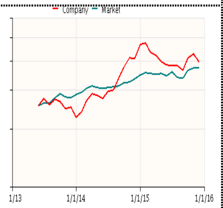
As with all NZ retirement village operators, MET is set to benefit from strong demographic drivers over the coming decade. MET has an advantaged portfolio from a geographic perspective, given the majority of its units are in Auckland. Similarly, its portfolio mix towards retirement village, as opposed to aged care gives results in more leverage to the property cycle. This is currently supportive, particularly in Auckland. However, this also leaves it more exposed to an eventual property downturn, more so given its villages are more lifestyle-oriented than peers and hence less "needs-based"..

2016 P/E: 17.1 2017 P/E116.0

NZX Code:	**MET**
Share Price:	**$4.37**
12mth Target:	**$5.05**
Projected return (%)	
Capital gain	15.6%
Dividend yield (Net)	0.9%
Total return	**16.5%**

Rating: OUTPERFORM

52-week price range (NZ$) 4.12-4.94



Mighty River Power

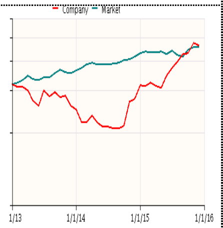
MRP is one of New Zealand's largest electricity companies – with its core business based on reliable, low fuel-cost electricity generation complemented by sales to homes and businesses. It has good fundamentals but flat electricity demand and generation oversupply imply new earnings growth opportunities should be limited for some time. It also faces systematic annual revenue risk arising from inflow variability into its hydro generation from Lake Taupo down the Waikato river chain.

2016 P/E: 21.6 2017 P/E: 22.1

NZX Code:	**MRP**
Share Price:	**$2.72**
12mth Target:	**$2.89**
Projected return (%)	
Capital gain	6.2%
Dividend yield (Net)	5.2%
Total return	**11.4%**

Rating: NEUTRAL

52-week price range (NZ$) 2.38-3.43



NZ Refining

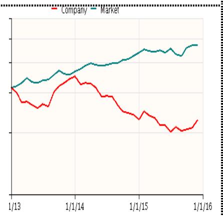
NZR is heavily exposed to global refining margins, which are volatile. Reported margins have remained high in 2015, helped by low crude prices, crude differentials and strong product cracks. Risks remain around NZR's refining margin, but expect benchmark Asian refining margins to finish 2015 on a high note, before progressively weakening over 2016. However, current earnings momentum is positive, including a number of "self-help" margin initiatives to increase energy efficiency and improve the proportion of higher value refined products. A return to dividends (the first since 2013) was announced in August.

2016 P/E: 7.9 2017 P/E: 10.1

NZX Code:	**NZR**
Share Price:	**$3.66**
12mth Target:	**$3.69**
Projected return (%)	
Capital gain	0.8%
Dividend yield (Net)	8.2%
Total return	**9.0%**

Rating: NEUTRAL

52-week price range (NZ$) 1.66-3.62



Opus International Consultants

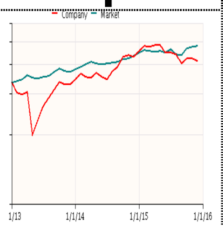
Opus International Consultants Limited is a supplier of multidisciplinary consultancy and project management services across a range of disciplines including, civil, mechanical and electrical engineering. OIC overseas operations could remain sub-scale for a number of years, especially in Australia. OIC's exposure to the oil and gas service sector through Stewart & Weir in Canada means there could be further downstream impact on demand for survey work given the ongoing volatility in oil and gas prices. P/E Ratio remains attractive.

2016 P/E: 6.9 2017 P/E: 6.4

NZX Code:	**OIC**
Share Price:	**$1.19**
12mth Target:	**$1.95**
Projected return (%)	
Capital gain	63.9%
Dividend yield (Net)	7.6%
Total return	**71.5%**

Rating: OUTPERFORM

52-week price range (NZ$) 1.16-1.59



PGG Wrightson

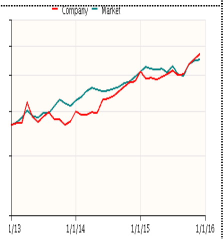
PGG Wrightson Limited operates in the agricultural sector through two segments: Rural Services (which includes retail, livestock, insurance, real estate, wool and irrigation services) and Seed & Grain in South America, New Zealand and Australia. The company's expansion in New Zealand farm irrigation business and South America seeds and grain market should pay dividends for shareholders in the long term. Based on our analysis of PGW cashflow and balance sheet, we think PGW can sustain 4.0 cents per share dividend in the short term. However, a protracted and deeper downturn in the NZ rural sector may require a more conservative payout level beyond 2016.

2016 P/E: 9.5 2017 P/E: 8.7

NZX Code:	**PGW**
Share Price:	**$0.42**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	19.0%
Dividend yield (Net)	9.6%
Total return	**28.6%**

Rating: NEUTRAL

52-week price range (NZ$) 0.38-0.53



Port of Tauranga

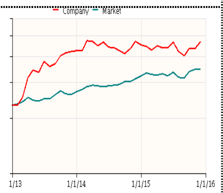
Expect the larger vessels to start calling at Tauranga within the next 12-18 months. The port dredging represents the final building block of the $350m capital investment programme, necessary to be able to host ships carrying 6,500 to 7,000 TEUs (20 foot equivalent containers). Reported net profit after tax for the 12 months to 30 June 2015 rose 1.1% to $79.1 million, up from $78.3 million in the same period last year, with traffic flows from the Company's expanded freight catchment offsetting falls in log exports across its Tauranga wharves. POT is entering a consolidation phase which will once again build increased shareholder value. Do not sell this stock.

2016 P/E: 32.5 2017 P/E: 28.9

NZX Code:	**POT**
Share Price:	**$18.96**
12mth Target:	**$17.80**
Projected return (%)	
Capital gain	-6.1%
Dividend yield (Net)	2.9%
Total return	**-3.2%**

Rating: NEUTRAL

52-week price range (NZ$15.85-19.10



Ryman Healthcare

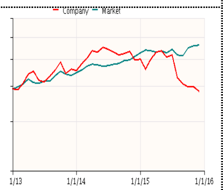
RYM is well positioned to benefit from its highly attractive business model, compelling demographic tailwinds and best-of-breed management / operations / assets. The neutral rating is based on a relatively full valuation balanced against the potential for substantial long-term growth in both assets and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

2016 P/E: 26.1 2017 P/E: 23.9

NZX Code:	**RYM**
Share Price:	**$8.22**
12mth Target:	**$8.25**
Projected return (%)	
Capital gain	0.4%
Dividend yield (Net)	1.9%
Total return	**2.3%**

Rating: NEUTRAL

52-week price range (NZ$) 7.05-8.63



Sky Network Television

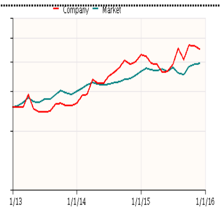
SKT must continue to grow subscribers to be competitive for content over the long-term. It is possible SKT will need to make changes to its approach to delivery and packaging/pricing of content to keep up with what subscribers want. With a lot of uncertainty, retain a cautious approach to the investment case but highlight that we continue to assume that SKT does enough to avoid the impact of more significant structural change. I see medium term risk.

2016P/E: 10.3 2017 P/E: 11.0

NZX Code:	**SKT**
Share Price:	**$4.31**
12mth Target:	**$5.49**
Projected return (%)	
Capital gain	13.3%
Dividend yield (Net)	5.6%
Total return	**18.9%**

Rating: NEUTRAL

52-week price range (NZ$) 4.58-6.64

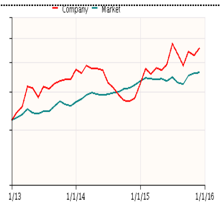


Spark NZ

In the nearer term, a stabilising of earnings and a strong balance sheet mean that the stock is likely to find support above our discounted cashflow (DCF) valuation on yield. However, with ongoing medium-term erosion in high margin legacy fixed revenues to factor in, and concerns regarding industry structure and visibility on where earnings settle and the sustainability of growth initiatives beyond the nearer term we retain a cautious approach to our forecasts and DCF valuation.

2016 P/E: 16.5 2017 P/E: 15.2

NZX Code:	**SPK**
Share Price:	**$3.15**
12mth Target:	**$2.94**
Projected return (%)	
Capital gain	-6.7%
Dividend yield (Net)	7.8%
Total return	**1.1%**
Rating: NEUTRAL	
52-week price range (NZ$) 2.64-3.54	

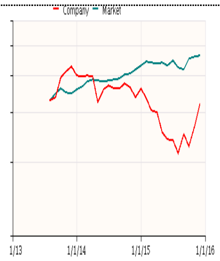


Summerset Group Holdings

SUM is well positioned to benefit from its highly attractive business model, compelling demographic tailwinds and strong management. At this juncture, SUM currently offers the highest rate of growth amongst NZ retirement operators for both earnings and proportionate build rate. SUM's build rate, the key determinant of earnings growth, is expected to almost double from 2013-2016. We believe a robust platform has been put in place to ensure sustainable growth well into the future. SUM has been one of the top performers in the NZ market since listing. However, we see further potential upside after a year of underperformance in 2014, and heading into a high growth phase, as SUM will need to prove up its execution capability.

2016 P/E: 18.2 2017 P/E: 15.7

NZX Code:	**SUM**
Share Price:	**$3.95**
12mth Target:	**$4.35**
Projected return (%)	
Capital gain	10.1%
Dividend yield (Net)	0.9%
Total return	**11.0%**
Rating: OUTPERFORM	
52-week price range (NZ$) 2.64-4.25	

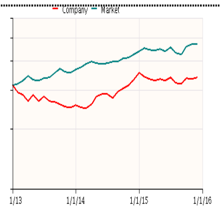


Synlait Milk

With SML's $500m build phase completing, focus will shift to its execution of a strategy focused on building sales of nutritionals to deliver a growing and more stable earnings profile. SML's efforts over the last five years have been remarkable with it financing a significant build phase, building milk collection over 60m kgMS and developing relationships and sales with target Tier 1 customers and a range of smaller players. SML is well positioned, but there remains a lot of work to do. Signs of positive nutritionals sales volumes in FY16 are encouraging and will bring further capex (wet-mix capacity; canning extension) into focus while also highlighting the gross margin expansion that is possible from a faster rate of sustainable nutritionals volume growth. Our rating is NEUTRAL on valuation with upside clearly existing if FY16 nutritionals growth continues and is sustainable.

2016 P/E: 19.7 2017 P/E: 14.8

NZX Code:	**SML**
Share Price:	**$2.93**
12mth Target:	**$2.70**
Projected return (%)	
Capital gain	-7.8%
Dividend yield (Net)	0%
Total return	**-7.8%**
Rating: NEUTRAL	
52-week price range (NZ$) 2.04-3.69	

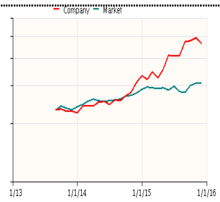


TrustPower

An outline for a mooted de-merger proposal has been raised by TPW: The proposal would see TPW split into two entities: a "NewCo" entity would own, operate and develop all NZ & Australian wind & solar assets, while the "TPWCore" would retain all other activities including retail, hydro generation, irrigation, etc., and retain the "Trustpower" brand. NewCo would enter into PPAs to sell its NZ wind generation to TPWCore. At this stage the outline is rudimentary. More detailed information is due to be released to the market in early 2016.

2016P/E: 20.9 2017 P/E: 19.7

NZX Code:	**TPW**
Share Price:	**$7.53**
12mth Target:	**$7.77**
Projected return (%)	
Capital gain	3.2%
Dividend yield (Net)	5.5%
Total return	**8.7%**
Rating: NEUTRAL	
52-week price range (NZ$) 7.19-8.39	



Z Energy

NZ's antitrust regulator and ZEL have agreed to extend the decision deadline to 29 April 2016. A delay seemed highly likely after the ComCom flagged in November that it might need an extension "due to the complexity of the merger and a number of outstanding issues". Importantly, Chevron has also agreed to extend the sale and purchase agreement by 90 days to 1 June 2016, with no other changes to the terms of the deal. Although the market may dislike the length of delay, we don't read any change in approval likelihood, nor see any diminishment of the potential prize if the deal proceeds.

2016P/E: 32.8 2017 P/E: 17.9

NZX Code:	**ZEL**
Share Price:	**$6.70**
12mth Target:	**$6.40**
Projected return (%)	
Capital gain	-4.5%
Dividend yield (Net)	4.3%
Total return	**-0.2%**
Rating: NEUTRAL	
52-week price range (NZ$) 4.50-6.80	

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

Graham Nelson
Director, Wealth Management Adviser AFA

First NZ Capital
D +64 4 496 5318 | **M** +64 21 447 242
Email: graham.nelson@fnzc.co.nz

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

NZ LISTED COMPANIES 21st December 2015	Ticker	Mrkt Cap	Price 21/12/2015	Price 30/03/2015	Target Price	Price Earnings (x)		Gross Yield (%)	
Source: First NZ Capital, CSFB		(NZ$)	(NZ$)	(NZ$)	(NZ$)	FY15	FY16	FY15	FY16
OIL & GAS & CONSUMABLE FUELS									
NZ Refining Company	NZR	1,132	$3.62	$2.60	$3.69	7.4	7.8	6.2%	11.7%
Z Energy	ZEL	2,660	$6.65	$5.00	$6.40	22.0	32.5	5.1%	5.2%
INDUSTRIALS									
Capital Goods									
Fletcher Building	FBU	4,910	$7.03	$8.50	R	15.2	13.5	5.1%	6.2%
Opus International Consultants	OIC	191	$1.29	$1.40	$1.95	8.8	7.4	9.4%	9.7%
Methven	MVN	82	$1.13	$1.15	$1.25	11.1	11.1	9.8%	9.9%
Metro Performance Glass	MPG	313	$1.69	$1.81	$2.20	15.5	14.4	3.0%	7.3%
Steel & Tube Holdings	STU	201	$2.22	$2.85	$2.60	8.9	9.4	11.9%	11.9%
Agriculture									
Fonterra Shareholders' Fund	FSF	591	$5.92	$5.60	$6.12	20.3	12.1	4.2%	6.3%
PGG Wrightson	PGW	309	$0.41	$0.49	$0.50	8.9	9.3	13.6%	13.6%
Scales Corporation	SCL	335	$2.40		$2.75	9.3	11.5	9.5%	7.5%
Airlines									
Air New Zealand	AIR	3,242	$2.89	$2.70	$2.50	9.5	5.9	7.7%	9.1%
Road Rail & Air									
Freightways	FRE	950	$6.14	$6.22	$6.30	19.1	17.2	5.6%	5.8%
Mainfreight	MFT	1,546	$15.53	$16.63	$17.50	18.4	17.9	3.0%	3.2%
Airwork Holdings	AWK	197	$3.92	$3.07	$4.30	12.7	9.1	5.7%	6.4%
Transport Infrastructure									
Auckland International Airport	AIA	6,287	$5.28	$4.54	$4.00	35.6	33.2	3.8%	4.1%
Port of Tauranga	POT	2,588	$19.01	$17.10	$17.80	32.7	32.6	3.8%	3.9%
Infratil	IFT	1,790	$3.19	$3.18	$3.37	154.6	30.2	14.8%	6.0%
CONSUMER DISCRETIONARY									
Hotels, Restaurants & Leisure									
Sky City Entertainment Group	SKC	2,526	$4.26	$4.05	$3.90	18.7	15.8	5.0%	5.0%
Restaurant Brands New Zealand	RBD	427	$4.36	$4.03	$3.83	18.9	17.0	6.1%	6.8%
Media									
Sky Network Television	SKT	1,689	$4.34	$5.90	$5.49	9.8	10.4	9.6%	9.6%
Retailing									
The Warehouse Group	WHS	902	$2.60	$2.86	$2.40	16.9	15.9	8.5%	8.0%
Briscoe Group	BGR	620	$2.85	$2.87	$3.05	16.1	15.0	6.8%	7.1%
Hallenstein Glasson Holdings	HLG	200	$3.38	$3.45	$4.10	11.6	11.3	12.0%	12.3%
Kathmandu Holdings	KMD	322	$1.60	$1.39	$1.90	15.4	12.2	10.4%	6.5%
Michael Hill International	MHI	368	$0.96	$1.20	$1.40	12.4	10.3	5.2%	6.8%
CONSUMER STAPLES									
a2 Milk	ATM	1063	$1.47		$1.18	n/a	94.8	0.0%	0.0%
Delegat's Group	DGL	566	$5.60	$4.56	$5.50	16.5	14.5	2.7%	3.2%
Sanford	SAN	524	$5.60	$4.92	$5.45	18.0	14.0	5.7%	6.0%
Synlait Milk	SML	454	$3.10	$2.65	$3.19	37.1	16.4	0.0%	0.0%
HEALTH & AGED CARE									
Ebos Group	EBO	2,085	$13.78	$10.49	$12.00	19.6	17.7	3.8%	4.2%
Fisher & Paykel Healthcare Corporati	FPH	4,771	$8.48	$6.50	$8.60	41.8	34.0	2.3%	3.1%
Pacific Edge Biotechnology	PEB	169	$0.45		$0.60	-12.8	-14.7	0.0%	0.0%
Metlifecare	MET	949	$4.46		$5.05	17.7	17.5	1.0%	0.8%
Orion Health Group	OHE	493	$3.07		$4.75	-8.0	-14.8	0.0%	0.0%
Ryman Healthcare	RYM	4,160	$8.32	$7.84	$8.25	30.5	26.4	1.6%	1.9%
Summerset Group Holdings	SUM	881	$4.00	$3.31	$4.35	21.7	18.4	0.8%	0.9%
FINANCIAL									
Diversified Financials									
NZX	NZX	277	$1.05	$1.11	$1.13	19.4	20.3	7.9%	7.9%
Coates Plc (x GPG)	COA	767	$0.55	$0.49	$0.65	24.0	12.7	0.0%	0.0%
Hellaby Holdings	HBY	283	$2.95	$3.28	$3.75	10.3	11.4	10.1%	9.2%
Heartland New Zealand	HNZ	625	$1.32	$1.28	$1.38	12.8	11.9	7.9%	8.7%
Property									
Argosy Property	ARG	919	$1.14	$1.14	$1.14	18.9	18.2	7.9%	7.9%
Goodman Property Trust	GMT	1,591	$1.25	$1.20	$1.18	17.8	16.0	7.7%	7.9%
Kiwi Income Property Trust	KPG	1,717	$1.35	$1.29	$1.35	19.0	20.5	7.2%	7.3%
Precinct Properties New Zealand	PCT	1,502	$1.24	$1.18	$1.15	20.0	20.8	6.5%	6.5%
Property For Industry	PFI	721	$1.61	$1.57	$1.46	21.3	21.4	6.8%	6.9%
Stride Property	STR	787	$2.16	$1.94	$2.05	20.0	19.4	7.1%	7.4%
Vital Healthcare Property Trust	VHP	639	$1.85	$1.68	$1.53	19.8	17.4	6.4%	6.6%
INFORMATION TECHNOLOGY									
Diligent Board Member Services	DIL	537	$6.16	$5.62	$6.10	43.3	32.8	0.0%	0.0%
EROAD	ERD	135	$2.25	$4.15	$3.75	167.9	214.3	0.0%	0.0%
Trade Me Group	TME	1,589	$4.00	$3.77	$3.50	19.8	19.4	5.6%	5.7%
Xero	XRO	2,446	$17.90	$24.50	$20.50	-35.5	-30.9	0.0%	0.0%
TELECOMMUNICATION SERVICES									
Chorus	CNU	1,467	$3.70	$2.89	$3.97	16.1	13.5	0.0%	6.8%
Spark New Zealand	SPK	5,782	$3.16	$2.96	$2.94	15.4	16.5	8.8%	11.0%
UTILITIES									
Contact Energy	CEN	3,419	$4.72	$5.95	$6.26	21.5	21.6	21.1%	7.4%
Genesis Energy	GNE	1,900	$1.90	$2.32	$1.83	20.7	23.4	11.7%	10.7%
Meridian Energy	MEL	5,895	$2.30	$2.53	$2.19	28.2	27.7	10.8%	8.5%
Mighty River Power	MRP	3,787	$2.75	$3.16	$2.89	26.1	21.8	10.9%	7.1%
Trustpower	TPW	2,349	$7.44	$8.10	$7.77	18.9	21.5	6.6%	7.4%
Vector	VCT	3,186	$3.20	$3.04	$2.90	21.8	20.1	6.7%	6.8%
MARKET AVERAGE (excluding ATM & XRO)						**23.2**	**19.7**	**6.6%**	**6.6%**

New Zealand Listed Companies – Gross Dividend Yields

COMPANY	Rating	PRICE	PRICE	%	GROSS DIVIDEND YIELD						NET DEBT/
Source: FNZC, CS Group Estimates		17-Dec-15	15-Oct-15	CHANGE	FY-1	FY0	FY1	FY2	FY1	FY2	EQUITY
PGG Wrightson	N	$0.42	$0.43	(2.3%)	13.4%	13.4%	13.4%	13.4%	1.2	1.3	18.5%
Hallenstein Glasson	O	$3.37	$3.50	(3.7%)	10.0%	12.0%	12.3%	12.0%	1.0	1.0	-23.1%
Steel & Tube	N	$2.20	$2.70	(18.5%)	12.0%	12.0%	12.3%	13.6%	1.4	1.4	26.3%
Spark	N	$3.15	$3.09	1.9%	8.8%	11.0%	10.3%	10.3%	0.8	0.9	23.4%
Katmandu	N	$1.54	$1.49	3.4%	10.8%	10.8%	6.8%	7.8%	1.7	1.7	16.0%
Genesis Energy	N	$1.91	$1.80	6.1%	11.6%	10.6%	11.0%	10.5%	0.4	0.5	25.5%
Methven	N	$1.10	$1.04	5.8%	10.1%	10.1%	11.3%	11.9%	1.2	1.3	22.6%
Opus	O	$1.21	$1.18	2.5%	10.2%	10.0%	10.3%	10.9%	1.9	2.0	2.8%
Sky Network TV	O	$4.27	$5.11	(16.4%)	9.8%	9.8%	9.8%	9.8%	1.3	1.0	15.1%
Scales Corporation	O	$2.42	$2.03	19.2%	5.7%	9.5%	7.5%	8.6%	1.6	1.6	8.1%
Hellaby	O	$2.94	$2.98	(1.3%)	10.2%	9.2%	9.9%	10.0%	1.3	1.3	13.9%
Air New Zealand	U	$2.87	$2.78	3.2%	7.7%	9.2%	6.9%	6.6%	2.3	2.2	13.2%
Heartland	O	$1.32	$1.19	10.9%	7.9%	8.7%	9.5%	10.0%	1.4	1.3	83.2%
Tower	N	$1.89	$1.90	(0.5%)	7.9%	8.7%	8.8%	9.1%	1.0	1.1	-44.5%
The Warehouse	U	$2.59	$2.58	0.4%	10.2%	8.6%	8.0%	8.6%	1.1	1.1	21.0%
NZX	O	$1.01	$0.95	6.3%	8.3%	8.3%	8.3%	8.3%	0.9	1.2	-12.3%
Meridan Energy	N	$2.38	$2.12	12.3%	10.5%	8.2%	8.8%	7.9%	0.5	0.6	15.4%
NPT	U	$0.66	$0.62	6.5%	7.9%	7.9%	8.1%	8.3%	1.1	1.0	24.6%
Goodman Property Trust	N	$1.26	$1.18	6.8%	7.7%	7.9%	7.9%	8.0%	1.1	1.1	32.4%
Argosy Property	O	$1.15	$1.07	7.5%	7.8%	7.8%	8.0%	8.1%	1.0	1.0	38.5%
Augusta Capital	N	$1.00	$0.98	2.0%	7.1%	7.5%	7.6%	7.8%	1.2	1.1	20.3%
Metro Performance Glass	O	$1.64	$1.41	16.3%	3.0%	7.5%	9.2%	11.4%	1.3	1.3	18.6%
Stride Property	N	$2.15	$1.98	8.6%	7.2%	7.4%	7.8%	7.9%	1.0	1.0	40.6%
Contact Energy	O	$4.68	$4.90	(4.5%)	21.3%	7.4%	11.8%	11.4%	0.6	0.6	26.7%
Trustpower	N	$7.46	$7.26	2.8%	6.6%	7.4%	7.5%	7.4%	0.8	1.0	36.9%
Kiwi Property Group	N	$1.37	$1.30	5.4%	7.1%	7.2%	7.4%	7.6%	1.1	1.0	28.6%
Briscoe Group	N	$2.83	$2.80	1.1%	6.9%	7.2%	7.5%	7.7%	1.3	1.3	-38.6%
Mighty River Power	N	$2.72	$2.49	9.2%	11.0%	7.1%	9.0%	9.3%	0.7	0.7	18.0%
Airwork Holdings	O	$3.78	$3.40	11.2%	5.9%	7.1%	9.7%	10.8%	1.9	1.8	45.3%
Vector	U	$3.18	$3.18	0.0%	6.8%	6.9%	7.0%	7.1%	1.1	1.1	48.7%
Restaurant Brands	U	$4.31	$3.95	9.1%	6.1%	6.9%	7.7%	8.3%	1.2	1.2	15.8%
Michael Hill	O	$0.95	$1.05	(9.5%)	5.3%	6.9%	7.5%	10.6%	1.4	1.4	10.9%
Fletcher Building	R	$6.90	$7.12	(3.1%)	6.4%	6.8%	7.4%	8.0%	1.6	1.7	20.1%
Property for Industry	U	$1.62	$1.49	8.7%	6.7%	6.7%	6.8%	6.9%	1.0	1.0	35.4%
Chorus	N	$3.75	$2.54	47.6%	0.0%	6.7%	7.4%	8.1%	1.7	1.5	41.3%
Precinct Properties	N	$1.23	$1.18	4.2%	6.6%	6.6%	6.6%	6.6%	1.1	1.1	15.4%
Vital Healthcare Prop Trust	U	$1.87	$1.71	9.4%	6.4%	6.5%	6.7%	6.8%	1.3	1.2	35.7%
Fonterra Shareholders	N	$5.78	$5.48	5.5%	4.3%	6.4%	6.8%	7.5%	1.4	1.4	31.1%
Nuplex	O	$4.48	$4.21	6.4%	6.0%	6.3%	6.5%	6.7%	1.5	1.6	12.1%
NZ Refining Company	N	$3.61	$3.34	8.1%	0.0%	6.2%	11.8%	15.0%	1.5	0.9	14.9%
Infratil	N	$3.14	$2.99	5.0%	15.0%	6.1%	6.7%	6.7%	0.8	1.0	29.5%
Sanford	N	$5.65	$5.17	9.3%	5.7%	5.9%	6.4%	7.1%	1.7	1.7	20.9%
Freightways	N	$6.23	$5.41	15.2%	5.5%	5.7%	7.2%	8.3%	1.2	1.1	29.2%
Trademe	N	$4.17	$3.70	12.7%	5.3%	5.4%	5.5%	5.9%	1.3	1.2	13.4%
Z Energy	N	$6.61	$6.34	4.3%	5.1%	5.5%	6.3%	6.3%	1.2	1.3	19.0%
Sky City Entertainment	U	$4.32	$3.99	8.3%	4.9%	4.9%	5.8%	5.8%	1.4	1.5	33.5%
EBOS	O	$13.76	$13.30	3.5%	3.8%	4.2%	4.7%	4.9%	1.5	1.5	10.6%
Auckland Int Airport	U	$5.28	$4.91	7.5%	3.8%	4.1%	4.4%	4.7%	1.0	1.0	34.7%
Port of Tauranga	N	$19.05	$16.80	13.4%	3.8%	3.9%	4.3%	4.8%	1.1	1.1	25.2%
Delegat's Group	N	$5.55	$5.00	11.0%	2.8%	3.3%	3.8%	4.3%	3.3	3.8	40.4%
Mainfreight	O	$15.55	$14.90	4.4%	3.0%	3.2%	3.7%	4.7%	2.4	2.3	19.8%
F&P Healthcare	U	$8.41	$7.35	14.4%	2.3%	3.1%	3.6%	4.5%	1.4	1.3	7.7%
Ryman Healthcare	N	$8.28	$7.37	12.3%	1.6%	1.9%	2.1%	2.5%	2.0	2.0	10.2%
Metlifecare	O	$4.42	$4.25	4.0%	1.0%	0.9%	0.9%	1.0%	6.7	6.7	2.7%
Summerset	O	$4.02	$3.80	5.8%	0.9%	0.8%	0.9%	1.1%	5.8	5.8	14.8%
a2 Milk	U	$1.10	$0.78	41.0%	0.0%	0.0%	0.0%	0.0%	0.0	0.0	-31.8%
Diligent	N	$6.04	$5.64	7.1%	0.0%	0.0%	0.0%	0.0%	0.0	0.0	-67.2%
EROAD	O	$2.35	$2.55	(7.8%)	0.0%	0.0%	0.0%	0.0%	0.0	0.0	-33.5%
Coats Group	N	$0.56	$0.68	(17.6%)	0.0%	0.0%	0.0%	0.0%	0.0	0.0	-12.9%
Orion	O	$3.10	$3.50	(11.4%)	0.0%	0.0%	0.0%	0.0%	0.0	0.0	-24.6%
Synlait Milk	N	$2.85	$2.41	18.3%	0.0%	0.0%	0.0%	0.0%	0.0	0.0	38.9%
Vista Group	N	$5.74	$5.12	12.1%	0.0%	0.0%	2.8%	3.6%	1.9	1.9	-20.1%
MEDIAN					**6.4%**	**6.9%**	**7.4%**	**7.8%**	**1.2**	**1.2**	**19.0%**

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

2. FY0 represents the current financial year

3. Property stock gross yields reflect returns under the PIE regime assuming a 33% unitholder

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

5. FY0 represents the current financial year

Westpac Banking Corporation (WBC.AX)

OUTPERFORM Price: A$32.00 Target Price: A$35.00

WBC's recent profit result included a modest rise in net interest margin, modestly better loan growth than its competitors and a modest decline in cost to income ratio. Relative to the other banks WBC has a high proportion of its loan book exposed to residential mortgages and less to institutional and commercial loans which remain highly competitive. Residential mortgage interest rates have been increased so as to offset the decline in return on equity caused by holding more equity capital for regulatory purposes. Like its competitors WBC has to further increase its equity capital ratios, which is likely to be achieved by retaining profit, completion of asset sales and dividend reinvestment plans.

WBC.AX Year to 31 Dec		2015A	2016F	2017F	2018F
Adjusted Earnings	A$m	8012	8299	8612	8757
Earnings /share (Adjust)	A$	2.50	2.57	2.64	2.68
EPS Growth	%	1.7	3.0	2.6	1.7
Price / Earnings Ratio	x	12.8	12.4	12.1	11.9
Net Div / Share	A$	1.87	1.91	1.95	1.99
Net Dividend Yield	%	5.9	6.0	6.1	6.2

Boral (BLD.AX)

OUTPERFORM Price: A$5.60 Target Price: A$6.40

BLD's key division is its concrete, cement, aggregate and asphalt business in Australia. This division has significant upside from the upcoming multi-year infrastructure spend which should benefit both volumes and prices/margins. BLD's plasterboard joint venture with USG is performing extremely well due to USG's patented technology which is lighter, stronger, less water absorbent and easier to install than traditional plaster board. The US business (bricks, stone and roof tiles) broke even at the last financial period helped by US housing starts increasing to over 1 million annually.

As house construction continues to steadily improve plant utilisation and hence profitability will continue to improve and price increases should be possible. While property development remains a volatile income stream there are many years of profits remaining in this division.

BLD.AX Year to 31 June		2015A	2016F	2017F	2018F
Adjusted Earnings	A$m	4415	4417	4791	5092
Earnings /share (Adjust)	Ac	31.60	33.05	39.52	44.72
EPS Growth	%	44.9	4.6	19.6	13.2
Price / Earnings Ratio	x	17.2	16.4	13.8	12.2
Net Div / Share	Ac	18.0	21.0	29.0	34.0
Net Dividend Yield	%	3.3	3.9	5.3	6.3

Macquarie Group (MQG.AX)

OUTPERFORM Price: A$82.82 Target Price: A$90.00

First Half 2016 Net Profit is up 58% at A$1,070m. Patrick Upfold (CFO) said "Against the currencies in which we transact, the Aussie dollar has fallen roughly 20% since first half of last year and therefore we've estimated that about one quarter of the uplift in our profit can be attributed to the foreign currency movement." On the trading side, volatility in Asia, particularly China but also in Europe, off the back of the uncertainty brought about by the Greek financial crisis saw a significant step-up in client-related activity in associated trading on the institutional side. Asian investors also responded to that volatility.

MQG.AX Year to 31 Mar		2015A	2016F	2017F	2018F
Adjusted Earnings	A$m	1604	2107	2169	2282
Earnings /share (Adjust)	A$	5.02	6.37	6.47	6.71
EPS Growth	%	30.9	26.7	1.6	3.9
Price / Earnings Ratio	x	16.5	13.0	12.8	12.3
Net Div / Share	A$	3.30	3.90	4.35	4.50
Net Dividend Yield	%	4.0	4.7	5.3	5.4

AGL Energy (AGL.AX)

OUTPERFORM Price: A$17.47 Target Price: A$18.40

AGL remains attractively priced, has a conservatively under-geared balance sheet, is generating plenty of excess cash and is forecast to grow profits strongly given the rise in electricity prices. AGL serves its customers throughout eastern Australia with their energy requirements, including gas, electricity, solar PV and related products and services. AGL has a diverse electricity generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass. AGL trades on a Price to Earnings ratio of 15.7, with a dividend yield of 3.6%.

Caltex Australia (CTX.AX)

OUTPERFORM Price: A$36.90 Target Price: A$40.00

CTX's Balance sheet remains hugely underleveraged In the absence of capital management/M&A, Caltex would be net cash by end-16. Even just taking that up to 1x would give ~$1.1bn of headroom. Having watched the significant share price falls of others (particularly in our sector) we do support balance sheet prudence, and a sustainable dividend, but there is a big gap between now and even the bottom end of prudence. We fully expect this to be addressed.

This stock is still the one to own, according to our analysts. They are rather partial to stocks boasting highly predictable, FCF generative businesses like Supply & Marketing, upside risks from (albeit lower quality) refining earnings and have enormous balance sheet capacity for accretive buybacks and M&A.

Australian Listed Companies - Earnings Forecast

Australian Forecasts 21st December 2015 Source: CSFB estimates	Ticker	Market Cap (A$m)	Price 21-Dec-15 (A$)	Price 12-Oct-15 (A$)	Price 30-Mar-15 (A$)	Target Price (A$)	Price Earnings (x)		Net Yield (%)	
							FY15	FY16	FY15	FY16
BANKS										
ANZ Banking Group	ANZ	76,984	A$26.48	A$28.46	A$36.80	A$30.00	11.5	10.5	6.2%	6.7%
Commonwealth Bank Australia	CBA	139,284	A$81.57	A$75.53	A$94.34	A$84.00	17.4	15.6	4.5%	4.9%
National Australia Bank	NAB	75,579	A$28.78	A$31.70	A$38.83	A$33.00	11.5	12.8	6.6%	6.9%
Westpac Bank	WBC	106,020	A$32.00	A$30.44	A$39.80	A$35.00	12.4	11.7	6.2%	6.3%
Insurance										
AMP	AMP	16,356	A$5.53	A$5.81	A$6.51	A$6.35	21.5	17.1	4.2%	4.2%
QBE Insurance Group	QBE	11,716	A$11.91	A$13.09	A$12.82	A$10.05	-40.7	15.7	3.3%	3.5%
Suncorp Group	SUN	14,770	A$11.48	A$12.69	A$13.74	A$12.00	28.6	12.1	6.5%	9.1%
MATERIALS										
Chemicals										
Incitec Pivot	IPL	6,411	A$3.80	A$4.02	A$4.07	A$3.81	20.7	17.5	2.4%	2.8%
Orica	ORI	5,574	A$15.06	A$16.92	A$20.07	A$16.91	9.2	9.8	6.2%	6.4%
Materials & Mining										
BHP Billiton	BHP	61,456	A$16.87	A$25.60		A$14.38	5.3	4.6	9.6%	10.0%
Newcrest Mining	NCM	9,505	A$12.40	A$14.49	A$13.65	A$11.10	21.3	22	1.0%	0.0%
Rio Tinto	RIO	51,103	A$42.46	A$55.18	A$56.55	A$32.36	5.5	6.1	6.3%	7.1%
ENERGY										
Origin Energy	ORG	7,820	A$4.47	A$6.50	A$11.71	A$6.10	6.5	7	11.2%	11.2%
Santos	STO	6,109	A$3.46	A$5.97	A$7.53	A$5.00	6.7	6.4	8.7%	8.7%
Woodside Petroleum	WPL	15,817	A$26.76	A$32.61	A$35.04	A$22.80	9.3	6.6	13.0%	13.3%
HEALTHCARE										
CSL	CSL	34,438	A$103.53	A$91.20	A$91.85	A$76.43	30.7	26.8	1.4%	1.5%
Ramsay Health Care	RHC	13,176	A$65.20	A$60.15	A$66.63	A$70.15	45.4	38.2	1.1%	1.3%
CONSUMER STAPLES										
Woolworths	WOW	29,956	A$23.57	A$26.73	A$29.62	A$26.22	12.4	12	5.6%	5.8%
INFORMATION TECHNOLOGY										
Computershare	CPU	4,494	A$11.35	A$10.63	A$12.80	A$8.60	14.8	13.5	3.1%	3.4%
TELECOMMUNICATION SERVICES										
Telstra	TLS	66,997	A$5.48	A$5.64	A$6.38	A$5.25	18.4	17	5.1%	5.4%
UTILITIES										
AGL Energy	AGK	11,787	A$17.47	A$16.42	A$15.31	A$18.40	15.7	16.6	3.6%	3.6%
Market Average							**17.8**	**17.5**	**5.1%**	**5.4%**

UK Investment Trusts – *Current Sector Recommendations*

Share Price 17-Dec-15 GBP pence	Share Price 1-Oct-15 GBP pence	Share Price 2-Jul-15 GBP pence	Net Asset Value	(Disc) Premium	*View	Investment Trust Company	Net Yield %	12 Month % Discount Average	12 Month % Discount High	12 Month % Discount Low	1 Year % Return pa Price	1 Year % Return pa NAV	3 Year % Return pa Price	3 Year % Return pa NAV	5 Year % Return pa Price	5 Year % Return pa NAV
						Global Equity Funds										
641.5	602.4	639	607.7	5.6%	→	Bankers	2.5	-2.2	-6.6	1.7	27.8	19.0	21.7	16.1	15.9	9.3
450	456.5	506	505.9	-11.1%	↑	British Empire & Securities	2.2	-10.7	-12.2	-7.9	4.6	5.3	8.4	7.1	4.0	3.1
2,357	2,189	2,460	2,805	-16.0%	→	Caledonia Investments	2.1	-15.6	-22.2	-11.2	20.6	17.4	25.9	17.3	10.5	7.2
1,025	985	1,068	1,091	-6.0%	↑	JP Morgan Overseas	1.6	-6.8	-10.6	-4.0	17.1	16.9	18.8	17.9	8.4	8.8
421.9	375	427	458.6	-8.0%	↑	Monks Investment	1.0	-11.2	-14.9	-7.3	22.5	20.0	18.3	15.8	7.6	6.3
1,653	1,504	1,575	1,547	6.9%	↑	RIT Capital Partners	1.8	-0.7	-5.6	6.9	30.1	22.5	19.7	15.5	10.5	7.7
						European Funds										
716.2	668	807	736.1	-2.7%	NR	The European Trust	1.9	-5.4	-9.8	-0.1	12.3	5.8	20.0	13.1	11.9	6.6
282.2	237.3	244	294.2	-4.1%	↑	JP Morgan European Smaller	1.2	-10.0	-15.0	-4.7	59.3	47.2	34.6	29.1	16.2	12.6
251.3	232	250	254.1	-4.3%	NR	BlackRock Greater European	2.0	-4.0	-6.3	-0.6	23.1	19.9	17.5	15.0	10.7	8.3
						Asia/Pacific Funds (including Japan)										
292.7			312.6	-6.3%	↑	JP Morgan Fleming Japan	1.0	-10.0	-15.4	-5.6	43.4	40.7	29.8	27.4	15.5	12.3
282.1	268	323	274.9	2.6%	↑	Henderson Far East Income	6.6	2.3	-3.6	6.2	4.1	-0.6	8.6	1.6	4.4	-0.7
						Global Emerging Markets Funds										
534	527.5	593	601.4	-11.2%	↑	JPM Fleming Emerging Markets	1.1	-10.4	-12.2	-7.7	4.9	5.8	6.7	5.7	1.5	1.6
405.6	398.5	519	457.8	-11.4%	↑	Templeton Emerging Markets	1.9	-10.4	-13.8	-7.2	-15.6	-14.2	-2.4	-3.2	-5.0	-5.0
						Far East Exc Japan										
236	222	272	262.8	-10.2%	↑	Edinburgh Dragon	1.2	-10.7	-15.3	-6.1	-1.1	-0.7	4.7	4.0	2.7	2.4
501	505.5	518	552.5	-9.3%	NR	JP Morgan India	0.0	-10.5	-14.6	-6.7	7.7	12.3	15.8	15.5	3.1	4.6
262.5	244	280	289.4	-9.3%	↑	Schroder AsiaPacific	1.0	-9.6	-12.3	-6.0	8.8	8.3	10.0	8.6	8.0	6.9
						Other Funds										
811	747.2	811	907.1	-10.6%	↑	North American Income Trust	3.7	-7.6	-11.3	-3.5	12.7	11.8	16.8	14.5	11.8	9.7
279.5	258	275	290.5	-3.8%	↑	JPMorgan American	1.3	-2.6	-7.2	3.7	12.7	20.0	23.0	23.4	16.5	14.9
177	289	204.5	190.8	-7.2%	↑	BlackRock World Mining	9.0	-7.5	-13.5	2.0	-30.3	-34.7	-21.9	-27.8	-18.1	-22.9
627.4	540	585	628.6	-0.2%	↑	Polar Capital Technology	0.0	-1.8	-6.7	5.0	27.1	27.2	26.3	25.0	15.8	15.0
487	470.9	492	623.7	-21.9%	↑	SVG Capital	0.0	-18.7	-28.2	-11.7	27.8	31.5	27.7	24.7	21.9	20.5
291.2	292.2	295	311.4	-6.5%	→	TR Property Trust	2.5	-0.3	-6.0	3.5	25.8	29.7	32.4	23.1	20.2	14.9
1,918	1,681	1,984	1,989	-3.6%	↑	Worldwide Healthcare Trust	0.7	-3.8	-8.5	0.8	23.7	30.3	39.4	37.9	26.7	24.7

1yr 3yr & 5yr Performance figures to 30th November 2015 - All in NZ Dollars - Exchange Rate: UK£/NZ$ 0.4492 US$/NZ$ 0.6695

NOTE: *VI NOTE: *VIEW – First NZ Capital Limited

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

Punters corner - *If you are into the horses…*

Chunky's tip this month

For all you real punters out there I hear **MONGOLIAN EMPIRE** at Ellerslie is worth backing on the 26th December (Race 4). The race starts at 2:25pm.
The jockey is Opie Bossom, and Mongolian Empire won first up on 3rd December.
This race is a step up, but this is a talented horse.

Also watch out for **COLDPLAY**, who is running in Race 7 at Ellerslie on Boxing Day. Coldplay will also be ridden by Opie Bossom. Coldplay has 2 wins and a 3rd in its last 4 races. Watch out for this horse over the summer.

NZ Daily Fixed Interest Rate Sheet

PRICES AS AT 21ST DECEMBER 2015 NOTE: Indicative pricing only

Secondary market	Code	Rating	Type	Maturity/ Reset Date	Coupon	Yield	Margin to SWAP	Price /$100	Coupon Freq
Fletcher Building	FBI100	NR	Cap	15/03/2017	7.50%	**4.40%**	164	$105.71	2
Vector	VCT070	BB+	Cap	15/06/2017	7.00%	**4.30%**	153	$103.99	2
Trustpower	TPW100	NR	Snr	15/12/2017	7.10%	**4.20%**	140	$105.65	4
Fletcher Building	FBI110	NR	Cap	15/03/2018	7.15%	**4.50%**	168	$107.50	2
Z Energy	ZEL020	NR	Snr	15/08/2018	7.25%	**4.20%**	133	$110.16	4
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	**4.55%**	160	$104.01	2
Contact Energy Limited	CEN020	BBB	Snr	15/05/2019	5.80%	**4.05%**	108	$106.14	4
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	**5.00%**	201	$108.10	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	**4.60%**	157	$108.32	4
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	**4.47%**	140	$118.19	4
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	**4.17%**	100	$109.16	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	**4.50%**	129	$109.62	4
Trustpower	TPW120	NR	Snr	15/12/2021	5.63%	**4.50%**	121	$106.04	4
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	**5.20%**	185	$109.21	4

Floating Rate / Perpetual Bonds	Code	Rating	Type	Reset Date	Coupon	Price /$100	Margin to SWAP	Maturity	Coupon Freq
Credit Agricole S.A.	CASHA	BBB-	Tier I	19/12/2017	5.04%	**88.75**	350	Perpetual	4
Genesis Power Limited	GPLFA	BB-	Cap Bond	15/07/2018	6.19%	**103.50**	200	Perpetual	4
Infratil	IFTHA	NR	Perp	15/11/2014	4.53%	**74.00**	380	Perpetual	4
Quayside Holdings Ltd	QHLHA	NR	Perp Pref	12/03/2017	5.88%	**103.20**	170	Perpetual	4
Rabobank Nederland	RBOHA	A-	Tier I	8/10/2014	3.71%	**94.90**	360	Perpetual	4
Rabobank Nederland	RCSHA	A-	Tier I	18/06/2019	8.34%	**106.00**	340	Perpetual	4
Works Infrastructure Finance	WKSHA	NR	RPS	15/06/2015	7.95%	**104.70**	340	Perpetual	4

Wishing you all a very Merry Christmas, and a relaxing & enjoyable festive season.