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

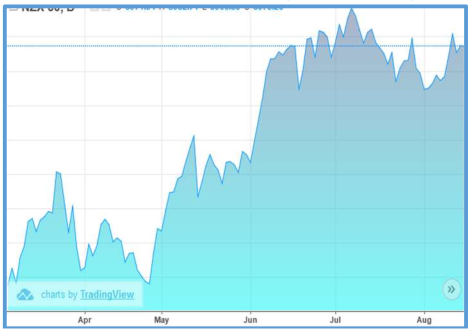
Volume 27

AUGUST 2018

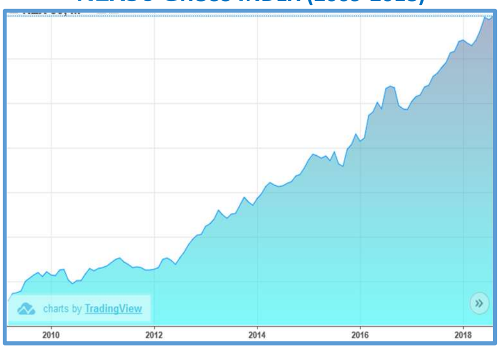
The precise timing of the next major downturn in financial markets is unknown. When it occurs (and it will eventually), the best places to be invested are likely to be cash, hedge funds that are positioned to profit from the fall in financial markets and gold.

Acknowledging that there are relatively few signs of a downturn, we do see the risk of a downturn rising. As such, it may be wise to reduce your NZ equities exposure. This is because we suspect inflation may emerge earlier than expected, NZ economic growth is waning and the NZ equity market's valuation appears to be a little more stretched than other equity markets.

NZX50 Gross Index (Year to Date)



NZX50 Gross Index (2009-2018)



RRP $5.00

Website:
vond.co.nz

CONTENTS **PAGE**

STATISTICS NZ DATA

Population

Estimated population at 30 June 2018:	4,885,300
Births June 2018 year:	60,393
Deaths June 2018 year:	33,567
Net migration July 2018 year:	63,779

Employment

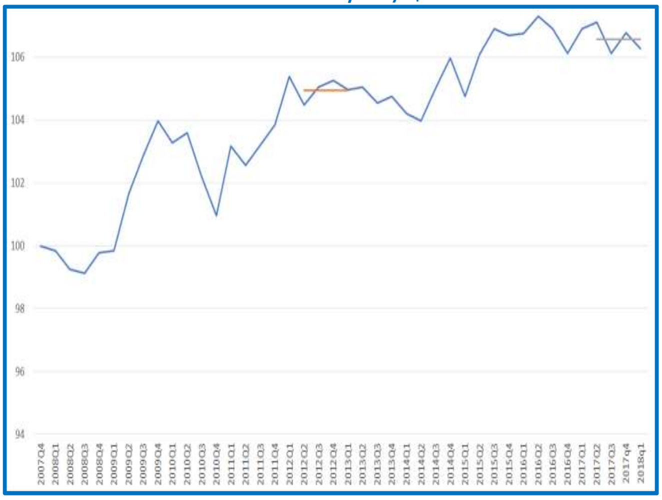
Total employed June 2018 quarter:	2,631,000
Unemployment rate June 2018 quarter:	4.5%
Ave weekly earnings March 2018 quarter:	$1,204.85
Wage inflation June 2018 quarter:	1.9%
Cost Price Index June 2018 quarter:	1.5%
The size of the NZ Economy 31 March 2018:	**$286 bn**
⇒ **Households**	**$165 bn**
⇒ **Government**	**$50 bn**
⇒ **Investments**	**$70 bn**
GDP per capita year ended March 2018:	**$56,820**
GDP Growth (volume) March 2018 year:	**2.7%**
Bay of Plenty GDP Growth March 2018 year:	4.1%
Tauranga City GDP Growth March 2018 year:	4.4%
Visitor arrivals Annual June 2018 +3.8%	**3,790,000**

"The way to get started is to quit talking and begin doing."

Walt Disney

PRODUCTIVITY IN NEW ZEALAND

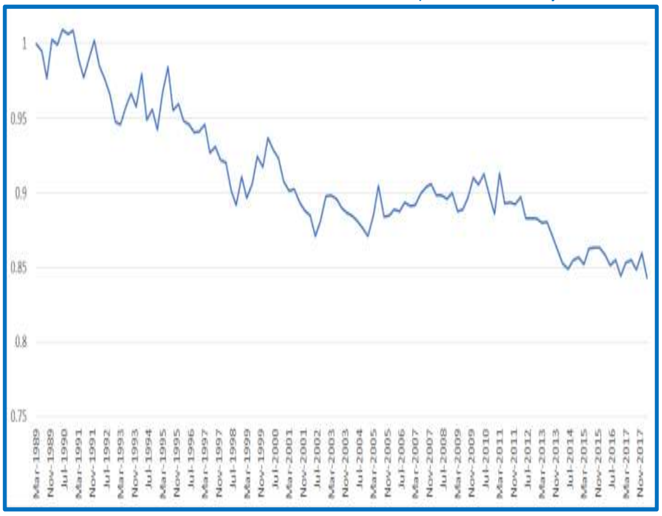
REAL GDP PER HOUR WORKED FOR NEW ZEALAND
AVERAGE MEASURE, 2007Q4=100



New Zealand's productivity per hour worked has stalled in the last 12 months, after a sustained period of growth since 2008.

In comparison with Australia, our track record has been ugly (see graph below). That said the rate of decline has significantly eased in the last decade. Australia is a good comparison for New Zealand because in many respects the OECD economy with most in common with us (distance, resource dependence, Anglo institutions) is Australia. It is also the most common exit option for New Zealanders.

NEW ZEALAND VERSUS AUSTRALIA
REAL GDP PER HOUR WORKED (BASE 1989Q1=1)

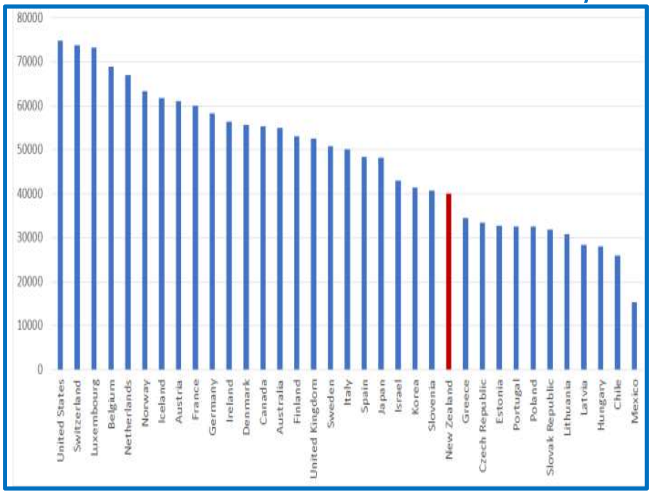


In 1989, when this chart starts, New Zealand was already behind Australia. Since then, we've lost another 15%, about 0.5% per annum.

A LOW WAGE, LOW PRODUCTIVITY (ADVANCED) ECONOMY

What do the numbers look like if we actually do an apples for apples comparison, using total compensation of employees data for each OECD country.

OECD'S ANNUAL AVERAGE COMPENSATION PER EMPLOYEE, 2017



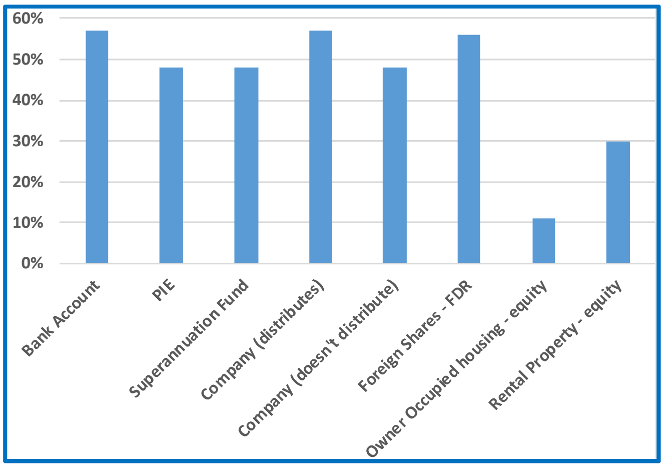
On this measure, New Zealand comes 24th in the OECD, with the usual bunch behind us – perpetual failures like Portugal and Mexico on the one hand, and the rapidly emerging former communist countries on the other. On this estimate (imprecise) Slovenia is now very slightly above New Zealand. By advanced country standards, we are now a low wage (low total employee compensation) country.

MARGINAL EFFECTIVE TAX RATES ON SAVINGS

Currently, savings in New Zealand are taxed on a "Taxed/Taxed-Exempt" basis, whereas most other OECD countries provide more favourable tax treatments to encourage savings (OECD, 2015b). In contrast to savings and business assets, housing is taxed relatively lightly in New Zealand (See Chart).

NOTE: "Taxed/Taxed-Exempt" means that contributions to savings schemes are made out of after-tax income and that the returns on savings are taxed while withdrawals are exempt from tax. Australia and Turkey are the only other two OECD countries that use this approach.

MARGINAL EFFECTIVE TAX RATES ON SAVINGS IN NZ



Source: Tax Working Group (2018), New Zealand Productivity Commission
Notes: Marginal effective tax rates measure the tax rate on real, pre-tax income from investments that earn the same rate of return. The figures in the graph are based on the assumption that the risk-free return is 3%, inflation is 2%, the real capital gain on rental property is 1% per year, and the statutory marginal tax rate is 33%. "PIE" stands for "portfolio investment entity", which have a maximum tax rate of 28%.

"Success is a lousy teacher. It seduces smart people into thinking they can't lose."
Bill Gates

SIR JOHN KEY – RISKS TO OUR ECONOMY

Sir John Key, at the National Party's Annual Conference, spoke about the risks to the New Zealand economy, while at the same time praising Simon Bridges for pushing his agenda of New Team, New Ideas. He noted that the New Zealand economy is ultimately fuelled by exports but currently it feels most like an economic boom with our domestic economy remaining to hum. The previous National Government's record immigration, and a housing boom, have driven the domestic economy for several years, and this has created a greater differentiation between the wealthy and the poorest in our society, widening the inequality gap.

Sir John said the problem for economies like New Zealand (and even Australia) is our small population size and distance to markets limits how far New Zealand's domestic economy can drive growth. After a few years of growth above 3% New Zealand has inevitably hit capacity. This has resulted in skilled labour shortages and it has become increasingly hard to maintain infrastructure momentum. The current Labour/NZ First/Greens Government was not prepared for government, and their indecisiveness (and the 130 odd taskforces and enquiries has slowed our economy brutally – and business has become increasingly frustrated and pessimistic.

New Zealand's biggest risk right now is if this slowdown is multiplied with an external shock. These seem to cycle in around a 10-year timeframe. In 2008 we had the Global Financial Crisis (GFC), and in the 1997 Asian Financial Crisis. Before that it was the stock market crash of 1987. We have become accustomed to taking a big hit and resetting our economic course.

To date, there has been no external shock - yet. China's economy has been wobbly this year and could slow further if a trade war with the US escalates to tariffs on all its exports. This represents a real threat to the New Zealand economy which has become very reliant on a vibrant Chinese economy to stimulate consumer demand. If a trade war causes global commodity prices to keep falling then New Zealand could find itself facing a sharper downturn than expected.

The question is whether this current government can be innovative enough to cope with such a shock. The positives are that they do have money in the bank, so have the ability to boost the economy, albeit probably by increased government spending. That's just taking a bit longer to deliver than it might have of it had been delivered via the National Government's proposed tax cut.

It is worth noting that US economic growth just hit an annualised rate of 4.1%, driven by Donald Trump's economic strategy. He has super-charged the US economy with massive tax cuts. China has also started to stimulate its economy.

CHRIS LIDDELL – OUR MAN IN THE WHITE HOUSE

Donald Trump thinks kindly of New Zealand, and a lot of that thanks needs to go to New Zealander Chris Liddell.

Mr Trump has signed a new law allowing Kiwis better business access to the United States. The signing of the Knowledge Innovators and Worthy Investors Act (which just happens to spell KIWI when abbreviated) gives New Zealanders access to US Business visas that allows an individual to enter and work inside of the US based on an investment.

The new law gained bipartisan support from both Republicans and Democrats in US Congress and will make bilateral commerce even easier between two countries that "already enjoy a strong economic relationship," according to US Ambassador to NZ Scott Brown.

Chris Liddell is a New Zealand-born US-citizen businessman and philanthropist, who currently serves as White House Deputy Chief of Staff for Policy Coordination in the administration of U.S. President Donald Trump. Earlier in the administration he served as Assistant to the President for Strategic Initiatives. He has served as Chief Financial Officer (CFO) of General Motors, CFO of Microsoft, and CFO of International Paper.

I met Chris at a Bluegreens Meeting (November 2016) at Premier House (when John Key was our Prime Minister). Chris is a strong supporter of National Party's Bluegreens and Predator Free 2050. He offered a lot of sage advice on leveraging the US philanthropic community to help New Zealand's environment.

WHAT A NO-DEAL BREXIT MIGHT MEAN

Leaving the EU without reaching a formal agreement with Brussels may have serious consequences for the UK. The UK Government has stepped up preparations for a no-deal Brexit as the possibility of Britain crashing out of the EU without a formal agreement looms large.

Negotiators on both sides of the Channel are hoping to secure a withdrawal treaty by the time leaders meet for an EU summit in mid-October. However, Theresa May's Brexit plan, agreed by cabinet ministers at Chequers last month, has so far received a lukewarm response from Brussels.

What do the Government and Brexiteers say?

The Government is largely sticking to the prime minister's Brexit mantra - that no deal is better than a bad deal – but denies that it is actively seeking such an outcome. There are, however, many senior Leave supporters who think that no deal would be perfectly acceptable as long as sufficient preparations have been made. Backbench Brexiteers have sought to present a so-called "cliff edge" Brexit as an opportunity rather than a threat.

What about critics of a no-deal scenario?

Critics argue that leaving without an agreement would have disastrous consequences for businesses, create chaos at the borders, drive up food prices and lead to a shortage of essential goods. Businesses leaders have also voiced their fears, with Amazon UK chief Doug Gurr predicting that Britain will descend into "civil unrest" within weeks if it leaves the EU with no trade deal in place.

What do we know for sure?

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

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

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

What does this mean for trade?

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

However, the British Government has authorised preparations to begin free-trade negotiations with New Zealand, Australia and the United States, which is a significant step. It has also signalled it wants to make preparations to join the Comprehensive and Progressive Trans Pacific Partnership with 11 countries, including New Zealand, which is yet to enter into force. Whether Britain's preparations turn into full negotiations are still dependent on the final terms of its Brexit agreement with the EU.

POLLUTED WATERWAYS IS NEW ZEALAND'S NUCLEAR MOMENT

– NOT CLOSING OIL & GAS EXPLORATION

Farmers have faced a decade of vitriol from a media frenzy of deception and miscomprehension of the issues around water quality and nutrient loss (too often called 'dirty dairying'). Both Central and Local Government are quick to blame farmers, when much of the true responsibility should be laid fairly at our Urban dwellers.

Farmers have individually spent hundreds of thousands of dollars on riparian fencing and planting to improve water quality, while city and district councils have tended to sit on their hands when it comes to overflowing waste and stormwater issues.

Yes, we need to call out any dairy polluters. I have recently received a Bay of Plenty Regional Council 2017/2018 monitoring report "Compliance snapshot Report – Dairy effluent" which shows that only 74% of farms checked at their first visit complied with their consent conditions. 14% of farms (38 out of 271 inspected) had serious non-compliance noted at their first visit. For me, this is totally unacceptable, and this group is letting down the 86% of dairy farmers that are working hard to ensure sustainability in farming. Be sure, I will ensure that this is rectified.

BUT… it is time for our major cities (and in particular but not exclusively Auckland) to step up and address this issue with genuine vigour. For too long our urban infrastructure (storm and wastewater pipes) has been neglected to the stage that the system can now be considered completely broken, and all because of the cost to the ratepayers that elect their decision-makers.

Agriculture has to do better, but our urban authorities have not only to do much better – but they also have to take responsibility for this issue. And Central Government has to champion, and help fund this if necessary.

It is no longer acceptable for this 'clean-green country' to espouse its 100% Pure image, unless we all take responsibility for this. Closing Auckland beaches regularly, because of sewerage overflow into our waterways must stop. This is more important than Auckland getting trams!

FINANCE MINISTER POSITIVE ON THE NZ ECONOMY

This is what Grant Robertson said – "In terms of current indicators there are also good signs:

- Our terms of trade are near a record high
- Our stock market is up around its record high
- Building consents in the June quarter were up 7.5%, pointing to robust residential investment in new housing.
- Business investment was up 5.5% in the latest GDP data.

This has led to solid employment growth, with 94,000 more people employed in the year to the end of June. Unemployment sits at 4.5%, with projections of it heading towards 4% over the next few years.

And we are seeing wages start to rise as working Kiwis share more in the benefits of economic growth.

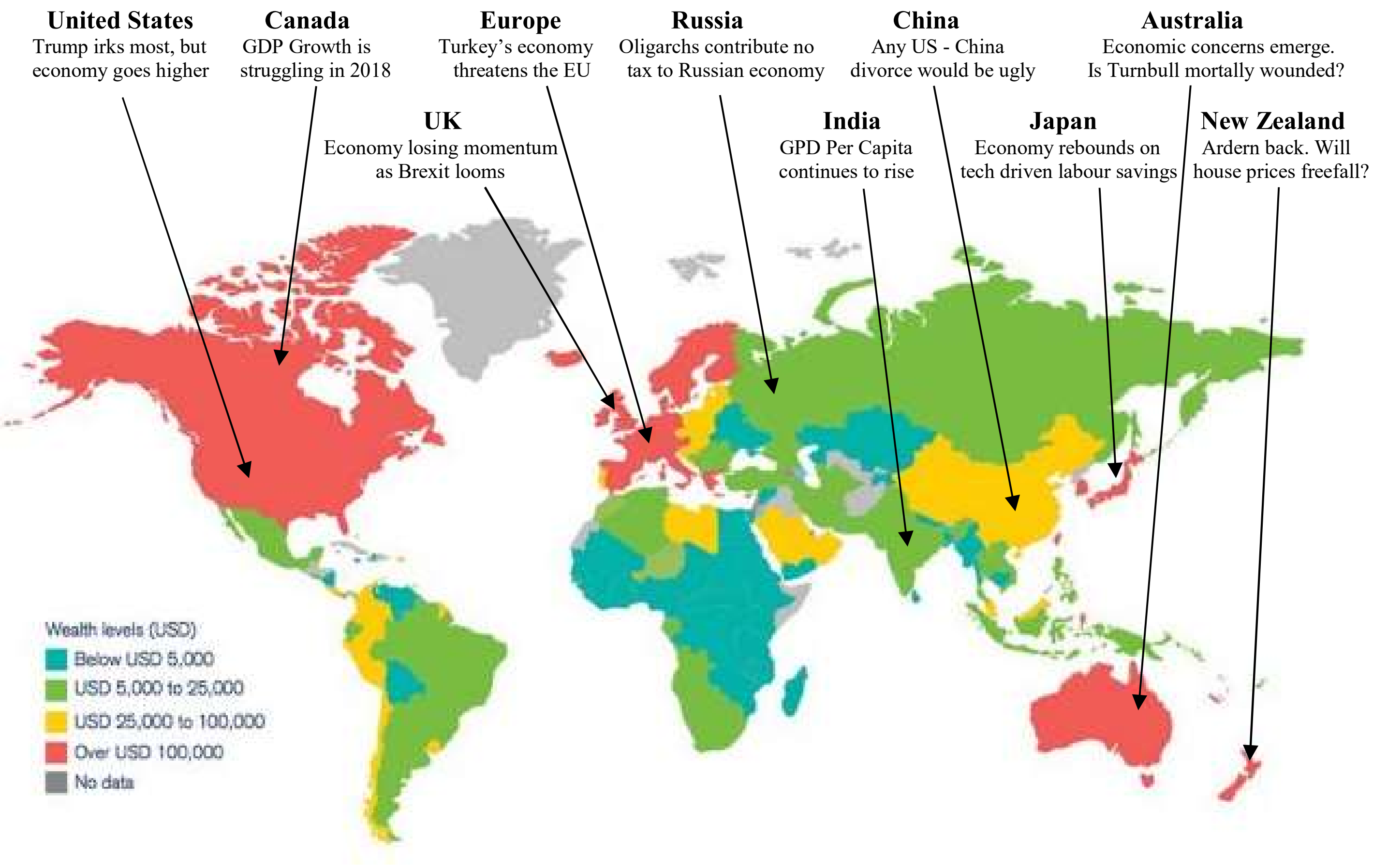
That is where we are now. That is not to say that everything is perfect or there are not challenges and risks that we must face up to.

In KPMG's 2018 New Zealand CEO Outlook Survey CEOs are optimistic about the economic environment in New Zealand, but their number one concern is geopolitical volatility.

That concern about the international picture is something I share and which the Government will continue to monitor. It is important not to overdramatise the situation. Global growth is projected to be 3.9% this year. But there are issues well beyond New Zealand's control that we need to be mindful of. Tit-for-tat tariff restrictions, some slowdown in the Chinese economy and various international tensions are risks that, if they develop further, will affect New Zealand.

Overall, the markets for New Zealand exports continue to grow. The Government is committed to expanding them and we were very pleased to recently get a free trade deal with the European Union across the start line. There is every reason to be optimistic about New Zealand's future economic prospects, and this Government is committed to working alongside the business community to develop them." Yeah Right….

THE WORLD AT A GLANCE *– including World wealth levels 2017*



THE GLOBAL ECONOMIC OUTLOOK

While estimating the impact on economic growth is fraught with difficulty, UBS estimate a full trade war would adversely impact global economic growth by 1.1%, the US by 2.5% and China by 2.3%. Furthermore, equity market declines of 20% plus would not be surprising. Given the high cost associated with a full-blown trade war, don't expect it to get that far. In the meantime, it is a case of monitoring progress. Certainly, while Trump's approval rating is on the rise, some further escalation seems likely.

Trade tensions between the US and China reflect the ongoing sparring for geopolitical and military supremacy at a time when the US's relative global power has been in decline for many years.

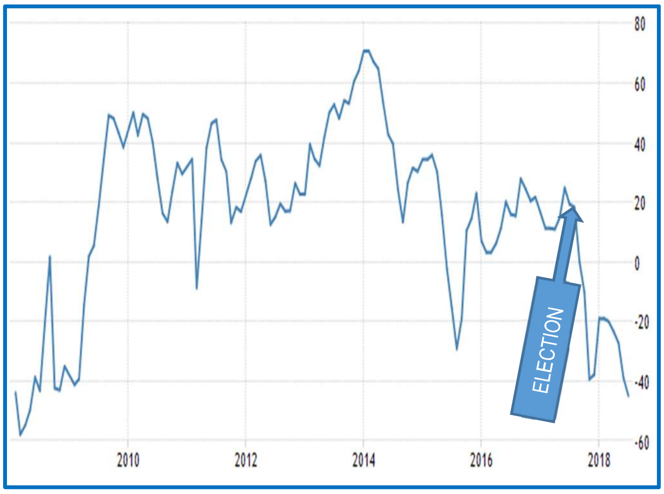
STOP PRESS: China has just said that it will hold a fresh round of trade talks with the United States in Washington later in August, offering a glimmer of hope for progress in resolving a conflict that has set world markets on edge.

New Zealand's Economic Outlook

The ANZ business outlook for July showed a net 45% of businesses were pessimistic about the general outlook for the economy, the most downbeat reading in the monthly survey since May 2008, when New Zealand was in recession and the global financial crisis was building.

To have lower business confidence than when the economy was in recession is some achievement.

NZ's Business Confidence – 10 year graph



Source: ANZ Bank

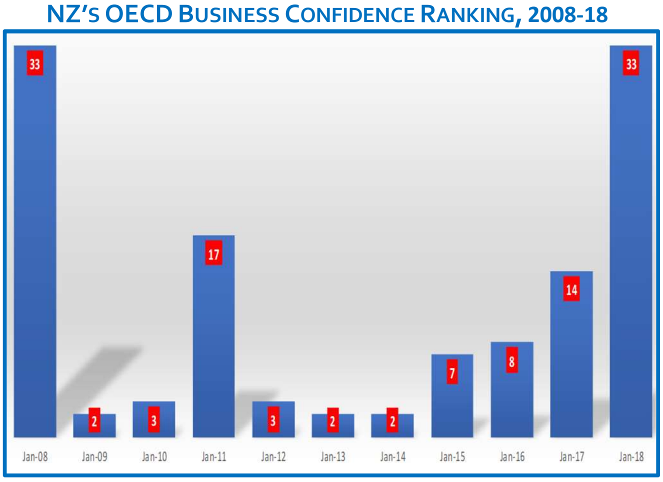
New Zealand has also tumbled from top to bottom of the OECD business confidence rankings with the most recent data revealing New Zealand has the second lowest level of business confidence in the developed world.

NZ Economic Outlook (continued)

Given the high level of political uncertainty around the world it is a shocking revelation that New Zealand – typically a haven of political and economic stability – has the second lowest level of business confidence in the OECD. In 2014 New Zealand was the second highest in the OECD with 33 of the 35 countries beneath us. Now everyone except South Korea is ahead of us. To have fallen so far in such a short space of time is a damning reflection of this Government's economic management.

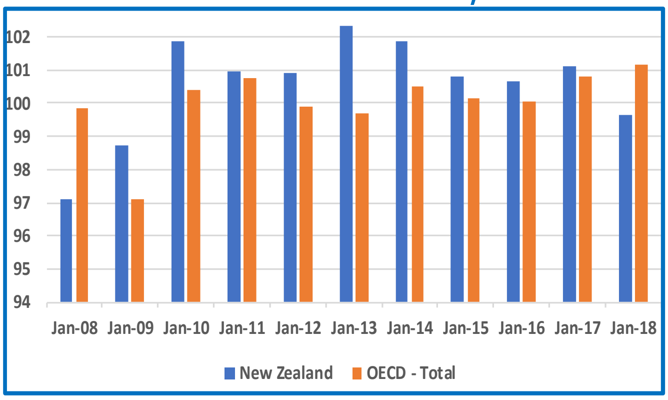
And New Zealanders are once again voting with their feet – Latest migration statistics show a renewed outflow of Kiwis to Australia.

NZ's OECD Business Confidence Ranking, 2008-18



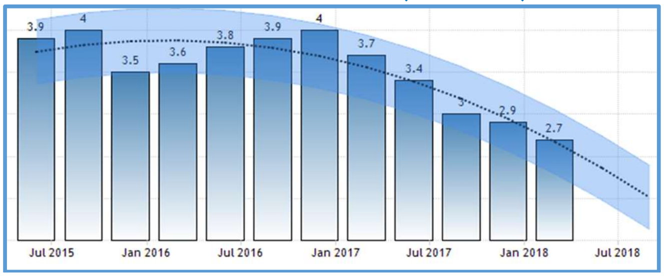
NOTE: In 2008 NZ was 33rd of 35 in the OECD for Biz confidence. National turned that around, only to see it back to 33rd again under Labour/NZ First.

OECD Business Confidence Index, 2008-18



Source: OECD Data

NZ's Real GDP Growth (annual %)



AUSTRALIAN ECONOMIC OUTLOOK

Hedge funds have found a new way to profit from the sorry state of Australia's housing market: playing off how much poorer consumers feel as their home values decline. Managers including Totus Capital and Sydney's Regal Funds Management are heaping bearish wagers on companies from JB Hi-Fi to Harvey Norman Holdings, betting discretionary retail stocks will wobble as the country's decades-long property boom goes into reverse and people shop less.

It's a twist to the infamous "widow maker" trade, where hedge funds took large losses over the past few years betting against Australian banks after prematurely predicting house prices would crash. This time, the theory is that rather than default on their mortgages, homeowners stung by 10 straight months of nationwide price declines will curtail spending - what economists refer to as the wealth effect.

OECD POPULATION GROWTH
AS AT JUNE 2018 – ANNUAL %

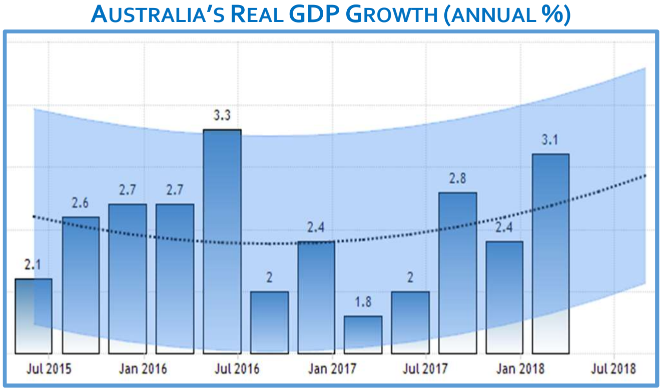
1	Luxembourg	2.2%
2	New Zealand	2.1%
3	Israel	2.0%
4	Turkey	1.6%
5	Australia	1.5%
6	Iceland	1.4%
7	Mexico	1.3%
8	Sweden	1.3%
9	Canada	1.2%
10	Austria	1.1%

NOTE: New Zealand had the 2nd highest population growth in the OECD in 2017-18.

Latest data shows that Australia's economy is also not in fantastic shape, with house prices falling at the same time as a major drought and rising energy costs.

However, Australia grew much faster in the past year than expected, and Philip Lowe (Australia's Central Bank Chief) was brave enough to give credit where it's due - to immigration. Australia's population has hit 25 million, three decades sooner than the government had forecast. Sure, it's not much compared with the size of some Asian cities or US states of California and Texas, but this population boom has had a huge effect on the Australian economy and life in cities, where most Australians reside. Contrary to popular imagery, the country is one of the most urbanized on the planet. The bulk of the transformation can be attributed to immigration.

AUSTRALIA'S REAL GDP GROWTH (ANNUAL %)



UNITED STATES ECONOMIC OUTLOOK

President Donald Trump said negotiations with Mexico on a new NAFTA are "coming along nicely," while telling Canada it will have to wait to re-enter the talks to modernize the three-nation trade pact - hinting at his preference for bilateral negotiations.

"Autoworkers and farmers must be taken care of or there will be no deal," Trump tweeted, adding that incoming Mexican president Andres Obrador "has been an absolute gentleman."

Trump had harsher words for Canada, the other partner in the North American Free Trade Agreement. "Canada must wait. Their Tariffs and Trade Barriers are far too high. Will tax cars if we can't make a deal!" he said. Relations with Canada have been tense since June's G7 meeting in Quebec, when Trump renounced support for the summit's communique and took parting shots at Canadian Prime Minister Justin Trudeau for promising to stand up to U.S. tariffs.

UNITED STATES GDP ANNUAL GROWTH RATE

Turning to China - nothing destroys wealth like divorce. That's a warning China and the U.S. should keep in mind as they intensify their trade war. If they continue down the road they're on, an economic separation between the world's two largest economies is a very real possibility. And the costs would likely exceed any marital spat in history.

Sure, there's always a chance that Donald Trump and Xi Jinping could renew their friendship and hash out a deal. But if they follow through on their threats - which they so far have - practically all products traded between the two countries would face punitive tariffs. Meanwhile, Washington is finalising tighter restrictions on foreign investment, obviously aimed at blocking Chinese firms from U.S. acquisitions.

Add in China's existing barriers to foreign business, which could well increase amid the dispute, and what you get is something that was unthinkable only a few months ago. China and the U.S. could dissolve the bonds of trade and investment that have made them highly intertwined and interdependent for so many years.

Some might say the marriage was an unhappy one to begin with. Many Americans see China as an unreliable partner who cheats and steals. And many Chinese policymakers - who have lately embarked on a grand quest to replace foreign products and technology with local substitutes - think close ties with the U.S. have outlived their usefulness.

But both countries will undoubtedly find that breaking up is hard to do. Open access to the US market has been a cornerstone of China's growth since the 1980s. It's true that China's domestic market is now so large that exports are less critical, but the US economy is still US$7 trillion larger than China's - a difference equivalent to the national output of Brazil, France and India combined. No ambitious Chinese company could claim to be truly global without a US presence. That's why Chinese automaker Zhejiang Geely Holding Group recently opened a Volvo factory in South Carolina, even though it has ample opportunities to sell sedans at home.

A good chunk of what China exports to the US is assembled locally, with the purpose of shipping finished products (such as iPhones) to American consumers. Restricted access to the US would force Chinese and foreign companies to reorder their supply chains in a host of sectors, from electronics to clothing to toys, dealing a serious blow to Chinese manufacturing. It would also dent China's hopes of becoming a global hub for cutting-edge products. Without competitive access to the American market, at least some of the capacity that could've been built in China would have to be located elsewhere.

The costs would be high for the US too. It is projected that by 2030, China will account for 22% of global consumer spending by the middle class, compared to just 7% for the US. Those new Chinese shoppers might be lost to European, Japanese or local brands if US companies face stiffer barriers to doing business in China than they already do.

United Kingdom Economic Outlook

The U.K. economy bounced back from its turgid start to the year in the second quarter but the dominant services sector lost momentum toward the end of the period.

Gross domestic product increased 0.4 percent between April and June, in line with the median forecast in a Bloomberg survey, figures from the Office for National Statistics Friday showed.

In June alone, output gained just 0.1%, its weakest performance since March. While manufacturing and construction posted reasonable gains, services output was entirely unchanged with hotels and restaurants and business services and finance both recording declines.

United Kingdom GDP Quarterly Growth Rate

With an annualized expansion of 1.5% in the 2nd quarter, growth is back to the rate the Bank of England estimates to be the economy's speed limit. Still, the slowdown in June may give ammunition to those who say the Bank Governor acted too early when they recently raised the benchmark interest rate to the highest since 2009.

A big question mark over the UKs economy, and BOE action, remains Brexit, with a lack of clarity over the U.K.'s future relationship with the European Union putting investment decisions at risk. Investors are betting the BOE won't act again before Britain quits the EU in March 2019.

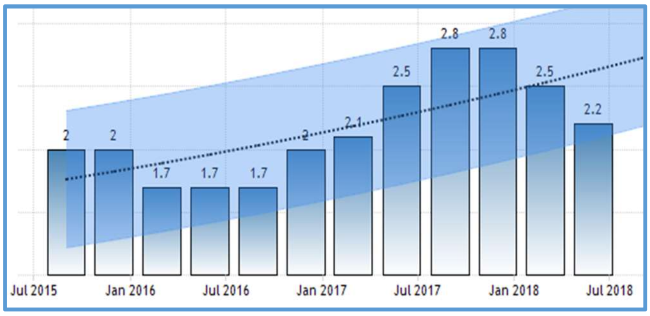
European Economic Outlook

Turkey's currency and economic outlook have deteriorated so much that bankers and traders are starting to talk about the need for an International Monetary Fund rescue - a taboo topic until recently.

What's gone wrong with Turkey's economy?

For much of Erdogan's almost 16 years in office, Turkey enjoyed China-like levels of growth. But unlike China, an exporting powerhouse with a current-account surplus, Turkey runs one of the world's largest deficits because its expansion was fuelled by foreign debt. That all seemed fine when the world's central banks were pumping cash into markets to help pull economies out of a crisis. But not anymore, as global interest rates rise and investors, less enamoured with emerging markets, pull funds back to developed economies. Turkey buried much of the tens of billions it received from abroad in construction projects and shopping malls, which pushed up short-term growth. But that did little to improve productivity, or output per worker, the main source of long-term economic growth and higher living standards.

Euro Zone GDP Quarterly Growth Rate

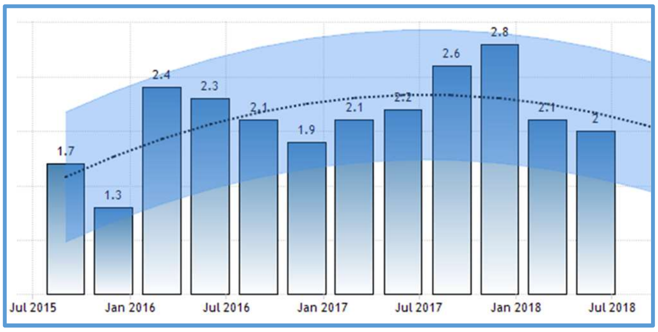


Germany's Economic Outlook

Germany remains the 'backbone' of the EU, so what happens there really matters. German economic growth is projected to remain solid, backed by robust world trade, investment and a booming labour market. Consumption growth has slowed somewhat, as higher inflation has curbed real wage growth. Low interest rates, high capacity utilisation and growing housing demand are supporting strong residential and business investment. The current account surplus is projected to fall somewhat on the back of strong domestic demand that fuels imports.

Germany's economic performance has been impressive, with growth rising to 2.5% in 2017. The current upswing presents a golden opportunity for bolder action to address the country's medium-term challenges and shape a brighter future, said the IMF in its latest annual assessment of the economy. Business investment is expected to be dynamic. With strong job growth and unemployment falling to new post-reunification lows, rising wages should provide a boost to private consumption. Higher wage growth and stronger imports would also help bring down Germany's large current account surplus, which stood at 8¼% of GDP in 2017.

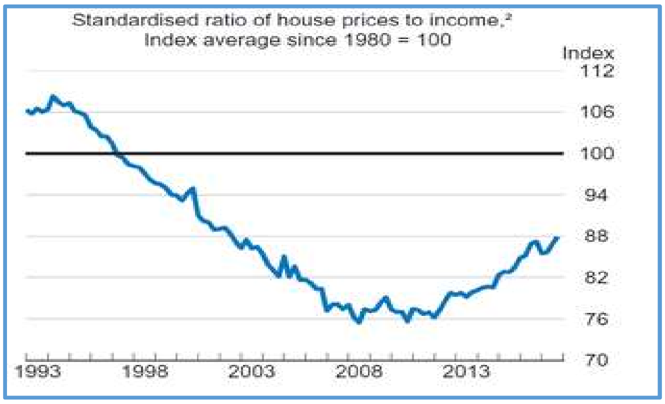
German GDP Annual Growth Rate



However, strong policies are needed to curb financial excesses in the housing market. Rising wages, large immigration flows, and low interest rates are driving up the demand for housing. House prices in Germany's major cities such as Munich, Hamburg and Frankfurt, have risen much faster than in other European Union cities. Lowering the burden on new construction can ease supply constraints, and strengthening the prudential toolkit can help preserve financial stability.

German House Prices

RISING BUT REMAIN BELOW LONG-RUN AVERAGES



Chinese Economic Outlook

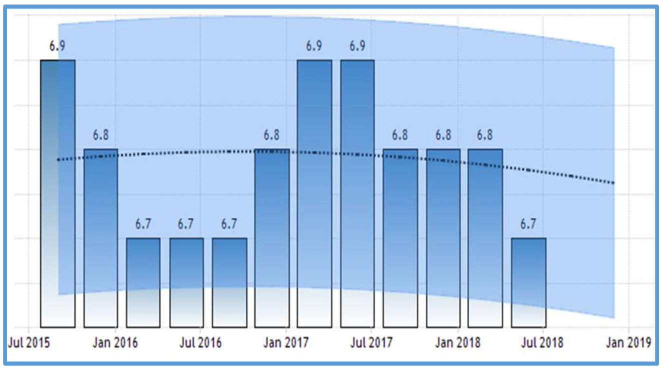
It's not just Trade but Interest Rates are also dragging China's Yuan down. It's hard to separate the yuan's swoon from the trade tiff between the U.S. and China, but a narrowing interest-rate gap between the two is also crucial. Victory in a trade war is all about resolve — and the United States should take care not to underestimate China's resolve.

China has begun to look to its domestic market as an alternative source for its trade with the US. China furniture exporters sold US$29.2 billion in goods to the U.S. last year. The $200 billion round of tariff proposals will have the biggest impact on their industry, according to Deutsche Bank AG. They face levies of 10% or even 25%. That's spurred furniture makers to seek sales closer to home. Although the domestic market is new to Chinese manufacturing exporters and competition is very fierce, at least the demand is there. The market is huge, and customers are paying more for good products.

With trade tensions between the U.S. and China seeming to worsen by the day, mainland companies selling everything from handbags to fresh food to Christmas lights are boosting their attempts to cultivate local demand.

Chinese shoppers still vastly underperform as engines of growth compared with their counterparts in the U.S., where personal consumption accounted for about 70% of GDP last year. Addressing that imbalance is an important part of President Xi Jinping's plan to restructure the world's second-biggest economy. It's not always easy to get mainland customers to mimic America's consumerist habits. SDIC Zhonglu Fruit Juice Co. accounted for about 20% of China's 654,000 tons of apple juice concentrate exports last year. Customers include Coca-Cola, Nestlé, and Kraft Heinz, and most of its output has been exported to the U.S. and other developed markets. The Trump administration's latest tariff list includes all types of juice. So SDIC Zhonglu is trying to win over Chinese parents, who traditionally haven't given the drink to kids. "We are studying and launching new products to create more juice demand among Chinese consumers," the company said in a statement. "The China-U.S. trade war is speeding up our shift in market structure and product structure."

Chinese GDP Annual Growth Rate



INDIAN ECONOMIC OUTLOOK

Prime Minister Narendra Modi may be unpopular among Indian citizens lined up in front of empty ATM machines lately, but his policies seem to have helped the Indian economy regain momentum and be on track to beat China's economy.

The Indian economy is expected to grow at an annual rate of 7.4% in 2018 and 7.8% in 2019, according to a recently released IMF Economic Outlook. India's projected 2018-19 growth rates are well above China's 6.6% and 6.4% over the same period.

INDIA'S GDP ANNUAL GROWTH RATE

COMMODITIES

The big story in the financial markets in 2018 has been the sharp rise in oil prices, which recently hit US$80 a barrel for the first time in four years. It is interesting that it is currently around the same level as it was in 2009.

But if oil analysts are right and the cost of crude is set to carry on rising, hitting $100 a barrel over the coming months, the big story of 2019 is going to be how oil came down to earth with a bump.

OIL: WEST TEXAS CRUDE (2009-2018)

CURRENCY

There has been a compelling case for a higher US dollar for some time on the back of rising US interest rates and a SD to fall further over the course of the year.

The Reserve Bank of New Zealand surprised financial markets with a more benign inflation outlook than expected. This resulted in the probable timing of any interest rate increase being pushed out to 2020. This resulted in the NZ dollar falling around 3% to US$0.658. This follows a series of falls, which started in mid-April when the NZ dollar was worth US$0.735. The 11% fall in the value of the NZ dollar over a few months feels quite dramatic. However, in a longer-term historical perspective the change appears less dramatic. As shown in the following chart the NZ dollar has varied between US$0.40 and nearly US$0.90 over the past 28 years.

NZD/USD CROSS RATE (1990-2018)

SOURCE: Bloomberg

It is worth noting that a reasonable proportion of the recent weakness can be put down to strength in the US dollar (the US dollar index, DXY, has increased 7% since mid-April).

NZD/AUD & NZD/USD CROSS RATE (1 YEAR)

SOURCE: Westpac

What to Expect in the Short Term

While the NZ dollar doesn't normally fall as rapidly as we have seen recently, it is certainly not a rare occurrence. The following chart shows that in most cases after a rapid decline the NZ dollar realises a recovery. The exceptions are the Asian Financial Crisis (97-98), the early stages of the Dot-Com Crash in 2000, the Global Financial Crisis (2008) and 2014-15. With the exception of 2014-15, all of the periods where there was no correction reflect periods of major disturbance in global financial markets. 2014-15 is the exception and coincides with the RBNZ unwinding its poorly timed pre-emptive Official Cash Rate (OCR) increases. This time around, if the RBNZ is wrong, it is more likely to be from keeping monetary policy too loose for too long.

'If you don't have a strong economy, all the rest becomes just words.'

Hon Amy Adams

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

DAIRY EFFLUENT COMPLIANCE 2016-17

The Forest & Bird Table below is comprised of inaccurate data, and highlights why we need to base our decisions on good science. I am sure that there are issues with Regional Councils Compliance performance but this analysis just doesn't cut it.

REGION	DAIRY FARMS	MONITORED	SNCs	RATE OF SNCs
Northland	919	100%	168	18.0%
Auckland	295	23%	3	4.4%
Waikato	4,520*	26%	104	9.0%*
Bay of Plenty	660	52%	5	1.4%
Gisborne	5	100%	0	–
Hawke's Bay	80	100%	2	2.5%
Taranaki	1,721	100%	17	1.0%
Manawatū/Wanganui	938	58%	26	4.8%
Wellington	163	100%	3	1.8%
Tasman	139	100%	4	2.9%
Nelson	3	0%	0	–
Marlborough	52	100%	5	9.6%
West Coast	383	77%	1	0.3%
Canterbury	1,309	60%	36	4.6%
Otago	474	100%	13	2.7%
Southland	900*	not provided	38	4.0%*
TOTAL	**12,561**		**425**	

NOTE: Figures from Forest & Bird Monitoring Report 2016-17
Number of dairy farms, percent of farms monitored, number of serious non-compliant (SNC) farms, rate of SNC by region 2016-17. Figures with a symbol (*) indicate an approximate figure because the exact value was unknown or not provided.

FONTERRA

Fonterra has lowered its forecast milk price from $6.75 to $6.70, but it has also told both farmers and investors that it will be unlikely to pay a second half dividend. Fonterra's decision will carve about $20,000 from the average dairy farmer's income for 2017-2018, $75m in total. When you consider that the value of NZ's milk production is $12.5 billion in total, this might not seem significant, but it's a confidence knock for a sector that's been struggling to find real leadership over the past decade.

Fonterra's surprise move is simply because it can't afford to meet the guidance it gave. An industry leader says "It's not about dividend or the balance sheet or poor performance, it's because Fonterra's totally contrived milk price, set by its milk price manual, is crippling the co-operative. It's unaffordable. The problem is the milk price manual - it artificially inflates the milk price. They're a co-operative so they're indifferent to whether they pay dividend or milk price. It's an artificial construct."

Fonterra's leadership issues start with its Board. Firstly, there are too many (11 in total) for recognised good governance. Secondly the past chair, John Wilson remains on the Board despite standing down as Chair. He has been on the Board for 17 years, and was Chair from 2001 to 2018.

The new Chair, John Monaghan has already been a Board member for 10 years. This doesn't seem like a constructive and revitalised Board structure to me.

NEW RYEGRASS COULD END UP AS GM TEST CASE

AgResearch says its new **genetically edited** ryegrass, under trial in the US, could end up as the first test case for an agricultural crop under the country's stringent GM regulations.

The high metabolisable energy (HME) ryegrass has shown in the Crown research institute's laboratories to grow up to 50% faster than conventional ryegrass, to store more energy, have more drought resistance, and to produce up to 23% less methane (the largest contributor to New Zealand's greenhouse gas emissions from livestock).

The long-running research into the ryegrass has hit a new milestone with a full growing trial under way at a GM research facility in the US mid-west (the exact location is kept secret).

It is easier to get approval to field test genetically-modified organisms (actually gene edited) tested outside the lab in the US, which already has a number of GM crops in use. Only two GM field tests are under way in New Zealand after gaining approval from the Environmental Protection Authority (EPA) under the Hazardous Substances and New Organisms Act – one by CRI Scion on radiata pine and one by AgResearch at Ruakura on transgenic cows, sheep and goats.

No GM organism has yet gained approval for commercial release. AgResearch principal scientist Dr Greg Bryan says "To date, there haven't been any technologies compelling enough to go through that process. Potentially this could be the one technology where that might be different in that it has the potential to reduce the environmental impacts of our agriculture by reducing methane emissions and nitrogen going into the environment – so nitrate leaching and nitrous oxide emissions – while at the same time maintaining our productivity."

"When we get to the point where there is a discussion in New Zealand those are the sorts of things we need to discuss – do the costs of having this outweigh the benefits or the other way around."

He has previously indicated the potential value to GDP could be in the range of $2 bn to $5 bn, depending on farmers' adoption rate.

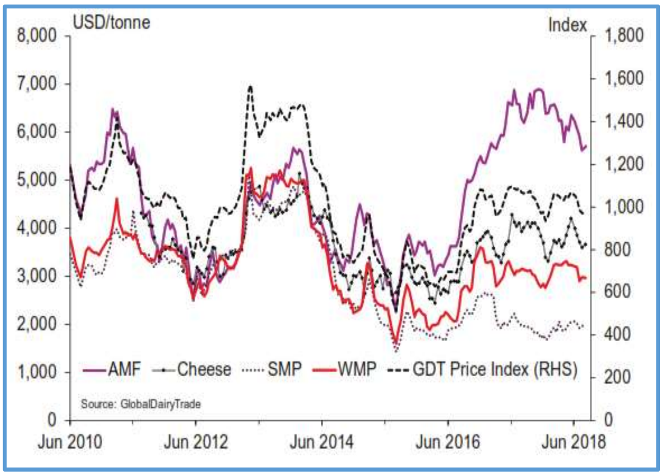
As I have said before – do not confuse Genetic Modification with Gene Editing. There is a huge difference, and we need the debate – and soon.

"We need to restart the debate on genetic modification now the science was as settled as it will be."
Sir Peter Gluckman - Former Prime Minister's Chief Science Adviser

DAIRY

	Current price level compared to 10 year average	Next 6 months
Trend	Average	→

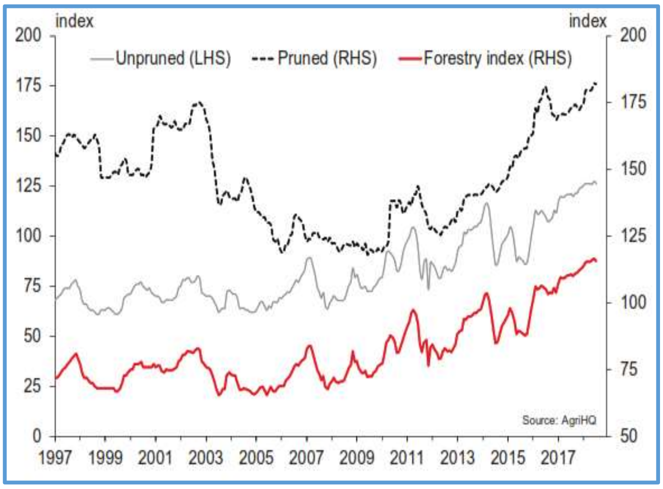
Dairy prices are currently pretty stable in the GlobalDairyTrade auction platform. While there have been mixed results for the individual products on offer, the headline index remains flat. On the face of it, this was a relatively firm result given the seasonal lift in volumes now coming through the GlobalDairyTrade platform. In Westpac's milk price modelling, they have been allowing for a little further softening in prices to come through in August. They see a touch of upside risk to their $6.40 milk price forecast.



FORESTRY

	Current price level compared to 10 year average	Next 6 months
Trend	High	↘

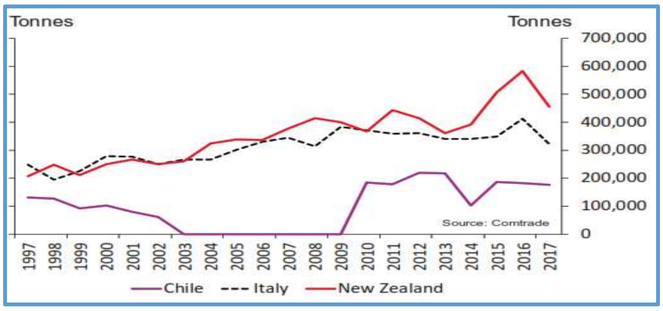
The ongoing strength in log prices to date, given the recent slowing of growth in China, has been a surprise. However, in recent weeks anecdotes of a softening in Chinese demand are starting to appear. Locally there have been reports of stocks building at mills. Given these developments, and our ongoing view that Chinese growth will prove disappointing for many in the coming months, we continue to expect some softening in prices ahead.



KIWIFRUIT

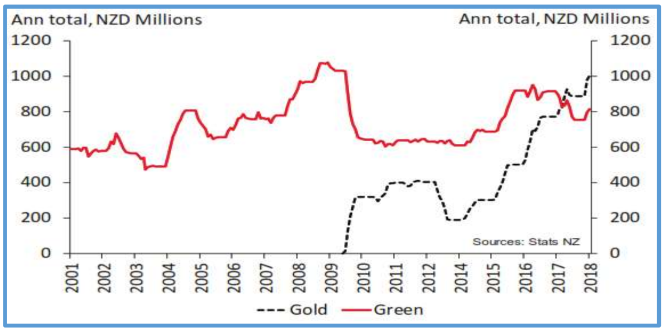
The Bay of Plenty is the lynchpin of New Zealand's Kiwifruit industry, with almost 80% of New Zealand's kiwifruit plantings in this region (85% green and 72% of gold). New Zealand is also a significant player in international kiwifruit markets, producing around 35% of all traded kiwifruit (by volume) and 46% by value.

Kiwifruit Export Volumes



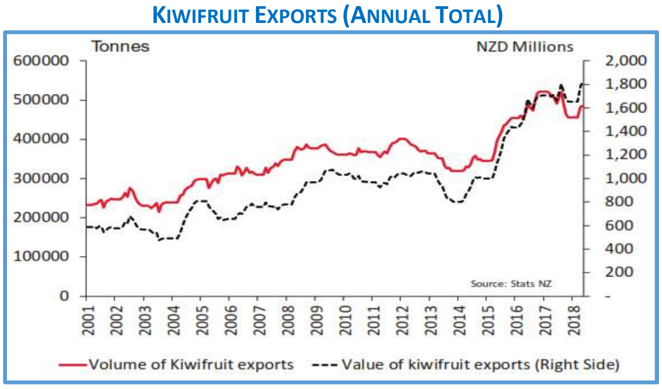
In the year to May 2018, NZ kiwifruit exports were worth $1.8bn, 6.6% higher than a year earlier. Export growth in recent years has largely been driven by a lift in the value of gold kiwifruit exports. Gold sales to China have grown particularly strongly, but the fruit has also proved popular in the likes of Japan and the EU. Production of gold kiwifruit is set to grow further in the coming years as current plantings mature and further plantings are added. This, along with a slower growth outlook in China, will probably prove a headwind for further growth in prices.

Kiwifruit Exports – New Zealand



This year Gold3 licences sold for $253,000-$260,000 per hectare. The high capital required to enter the industry may in part be driving increased corporate and large-scale investment in the sector. An example was a high-profile sale recently in the Bay of Plenty where three North Island Iwi joined forces to purchase orchards which are expected to yield up to 1.3 million trays of kiwifruit annually (almost 1% of annual Zespri production).

Kiwifruit Exports (Annual Total)



WHAT REAL POVERTY LOOKS LIKE

These photos, taken during the 1930's Depression, show what poverty really looks like. Maree and I have just come back from the Philippines – where there is real poverty. The average wage is just NZ$9 per day and yet we only saw one beggar in our whole time there. Poverty is real, but even the poor have a happy disposition.

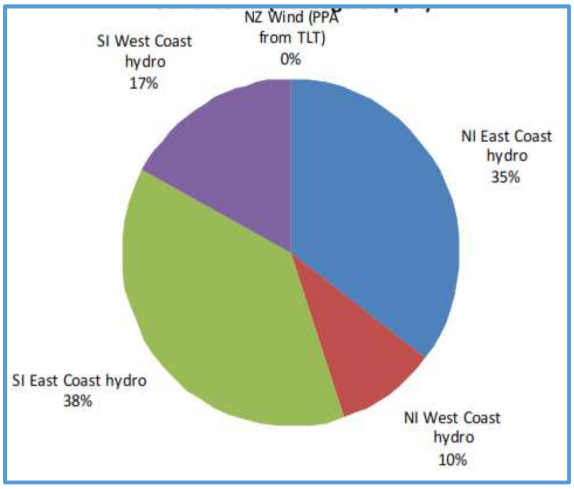
NEW ZEALAND EQUITIES

TRUSTPOWER

Retail prices remain constrained by competition

FNZC expects retail margins to narrow over time (in real terms) – whatever the outcome of regulatory reviews, or if the long-run price path falls. Retail competition remains relentless, and they do not believe mass-market load can offer more than a short-lived buffer for generators if there was a sustained decline in electricity spot prices.

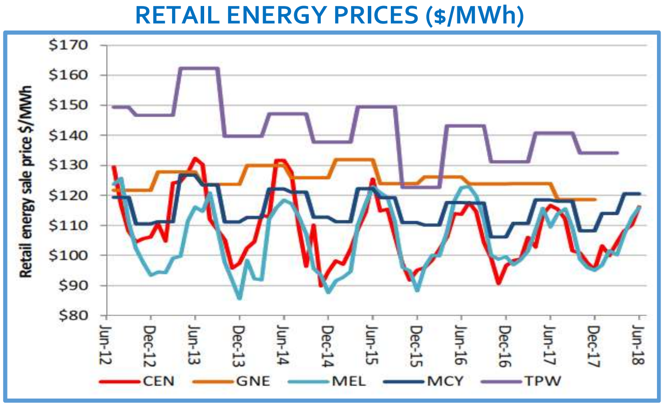
GENERATION (Average Output)



FNZC forecasts adopt a two-period outlook for retail prices – in the short-term inertia prevails, but by the 2025 long-term pressure is expected to have driven retail pricing to smaller margins across the board. In general, they model the next seven years residential price movements at 50% of delta in next-year ahead LWAP. Commercial and industrial prices are modelled as reflecting a three-year contract maturity, with one-third of each company's book re-signed at a 5% margin above three-year ahead LWAP. TPW is treated as a special case – its TECT dividend relationship is assumed to provide a roughly $25m p.a. retail margin uplift above a competitive margin.

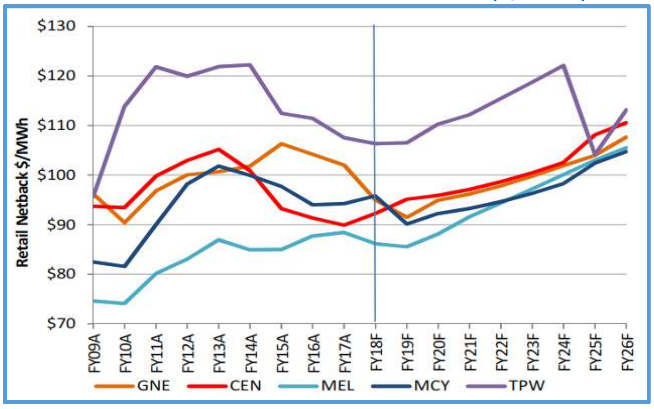
Some evidence for the gradual decline of retail margins can be seen from the company operating data (Next graph). FNZC valuations seek to ensure current retail outperformance or underperformance isn't valued beyond the first ten years in their DCF models. For Meridian Energy (MEL), which has the lowest forecast retail prices prior to FY25, the 5% margin reset is a material improvement. For other majors this isn't a large change from FNZC's FY24 forecast, but still a major decline against current retail margins.

RETAIL ENERGY PRICES ($/MWh)



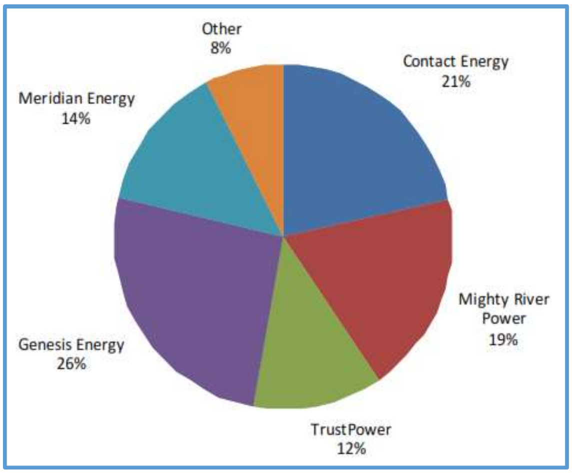
FNZC's assumed retail netback track is shown in the next graph. This still increases in nominal terms, assuming an $80/MWh price path, but doesn't keep pace with inflation, (Note: Netback seems the best of the available metrics to track the effective sale price of electricity to customers over time, being the sum of all electricity revenue less all costs, apart from energy purchase cost)

FNZC RETAIL NETBACK ESTMATES ($/MWh)

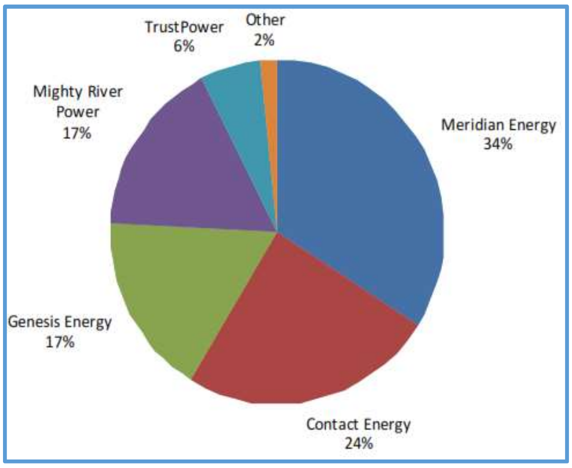


For now, FNZC retains a status quo outlook. But they reckon regulatory and pricing risks are skewed to the downside. Their sector forecasts, valuations and ratings continue to be based on a status quo outlook (i.e. $80/MWh long-run prices, current market design and high dividends pay-outs). Even on these settings FNZC struggles to reach valuations near trading levels seen for GNE, MCY, MEL and TPW. In their view the market doesn't yet seem to be reflecting the adverse risk of regulatory intervention or lower cost new renewables, and may be over-valuing the marginal value uplift available from electricity demand growth. FNZC retains its Underperform rating for GNE, MCY and TPW, and now add MEL to that group. They retain their Outperform rating for CEN which remains attractive on a status quo outlook, and also attractive on a relative basis if lower long-run prices eventuate.

NZ RETAIL ELECTRICITY MARKET SHARE



NZ GENERATION MARKET SHARE



	Last	Base Scenario DCF	Tiwai Exit Scenario DCF	Low Price $70/MWh DCF	Tiwai Exit 15% risk-weighted spot DCF	Premium to spot DCF	FNZC 1yr Target Price	FY19 Dividend Yield (net)	FY19 EV/ EBITDAF	P/FCF [FY18-FY19]
CEN	**$5.74**	$5.95	$5.63	$4.88	**$5.90**	-2.7%	**$6.40**	5.9%	10.5x	8.3x
GNE	**$2.51**	$2.36	$2.09	$1.74	**$2.32**	8.2%	**$2.38**	7.0%	10.7x	12.8x
MEL	**$3.12**	$2.72	$2.72	$2.46	**$2.72**	14.6%	**$2.78**	6.2%	13.2x	19.6x
MCY	**$3.35**	$2.96	$2.77	$2.47	**$2.93**	14.4%	**$3.10**	5.0%	11.8x	17.6x
TPW	**$5.91**	$5.28	$4.83	$4.82	**$5.21**	13.4%	**$5.27**	7.8%	10.6x	15.1x

'The only way to do great work is to love what you do.'

Steve Jobs

STOCKS TO WATCH

NEW ZEALAND NOTE: THESE ARE ALL ONE YEAR GRAPHS

Prices as at 17th August 2018

Air New Zealand

The second half sequential slow-down in yield growth largely reflected a negative mix effect as AIR added material new capacity to longer sector-length/leisure markets in the period. Second half capacity growth was more than matched in each key market by demand growth driving improved load factor performance vs PCP. Importantly, this operating momentum was sustained in an environment of rising fuel costs. Risks include competition, fuel, FX, and underlying demand.

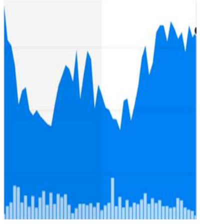
20018 P/E: 9.5 2019 P/E: 11.6

NZX Code:	**AIR**
Share Price:	**$3.37**
12mth Target:	**$2.90**
Projected return (%)	
Capital gain	-13.9%
Dividend yield (Net)	6.5%
Total return	**-7.4%**

Rating: UNDERPERFORM

52-week price range:2.86-3.61

Auckland International Airport



FNZC expects Aeronautical revenue close to their forecasts following pre-released FY18 traffic data that highlighted in-line PAX volume (excl. restatement of transit data) and slightly weaker MCTOW vs forecasts. Any earnings surprise from the retail and property segment is likely to be modest. Its monopolistic positioning means that I personally like this stock, and would retain it as a core portfolio stock.

20018 P/E: 28.1 2019 P/E: 27.3

NZX Code:	**AIA**
Share Price:	**$6.87**
12mth Target:	**$5.25**
Projected return (%)	
Capital gain	-23.5%
Dividend yield (Net)	3.6%
Total return	**-19.9%**

Rating: UNDERPERFORM

52-week price range:6.02-7.06

The a2 Milk Company

ATM has done an excellent job of managing demand for its A1 protein-free products. The result is a business approaching $1bn revenue, with free cash flow that can support growth and potential capital returns in the future. Reasons for optimism include supply diversification, expanded distribution and China growth. But risks remain. FNZC are positive on prospects, but believe more compelling value is required for an investment view to match.

20018 P/E: 42.3 2019 P/E: 30.8

NZX Code:	**ATM**
Share Price:	**$10.85**
12mth Target:	**$11.90**
Projected return (%)	
Capital gain	9.7%
Dividend yield (Net)	0.2%
Total return	**9.9%**

Rating: NEUTRAL

52-wk price range: 4.90-14.62

Chorus

CNU published FY18 connection numbers that marked an improvement on FY17 and beat FNZC forecasts - this provides some upside potential to forecast EBITDA. However, rate of line loss in Q4 suggests ongoing cause for concern and indicates that revisions to FY19 connection numbers is unlikely. Ongoing strong demand for fibre means it is likely we will need to revise our FY19 capex numbers up slightly.

20018 P/E: 25.3 2019 P/E: 19.8

NZX Code:	**CNU**
Share Price:	**$4.40**
12mth Target:	**$4.12**
Projected return (%)	
Capital gain	-6.4%
Dividend yield (Net)	5.9%
Total return	**-0.5%**

Rating: OUTPERFORM

52-week price range: 3.67-4.74

Contact Energy

FY18 result was in line. Heavily affected by the below-mean southern inflows and their adverse timing with lake-driven spot pricing, CEN reported Underlying NPAT $130m (-2% vs. our $133mn, pcp $142mn), and FY18 dividends totalling 32cps for FY18 (inline vs. our 32cps, +23% vs pcp). FY19 will hit the reset button. With a new year of mean hydrology the best assumption, and divestment of both CEN's Ahuroa gas storage facility and Rockgas LPG business (-$32m p.a.).

20019 P/E: 25.1 2020 P/E: 24.6

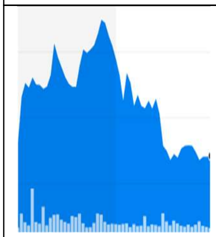
NZX Code:	**CEN**
Share Price:	**$5.80**
12mth Target:	**$6.15**
Projected return (%)	
Capital gain	6.0%
Dividend yield (Net)	6.3%
Total return	**12.3%**

Rating: NEUTRAL

FROM OUTPERFORM

52-week price range: 5.15-5.96

Comvita



CVT has a target of reaching $400m of revenue by FY21. Critical to success will be its ability to execute on products from its non-honey ingredient platforms (Olive Leaf, Marine and Omega, Berries, Propolis, etc.) and to re-establish momentum in the business following 2016 changes to cross-border ecommerce regulations and consecutive poor honey seasons in 2016/17 and 2017/18. I remain cautious.

2018 P/E: 20.0 2019 P/E: 18.9

NZX Code:	**CVT**
Share Price:	**$5.68**
12mth Target:	**$7.15**
Projected return (%)	
Capital gain	25.9%
Dividend yield (Net)	3.8%
Total return	**29.7%**

Rating: NEUTRAL

52-wk price range: 5.6 -9.21

Ebos Group

EBO has distinguished itself as a best-in-class operator in wholesale pharmaceutical supply and continues to grow despite a range of known challenges: pressure on underlying healthcare growth, ethical drug price reductions, competition in pharmaceutical supply and the availability of suitably accretive acquisition targets. While all of these issues remain, so too does our view that none are sufficiently acute to disturb the company's fortunes near term.

2018 P/E: 20.9 2019 P/E: 19.8

NZX Code:	**EBO**
Share Price:	**$20.50**
12mth Target:	**$19.75**
Projected return (%)	
Capital gain	-3.7%
Dividend yield (Net)	3.8%
Total return	**0.1%**

Rating: NEUTRAL

52-wk price range: 17.00 -20.90

Fletcher Building

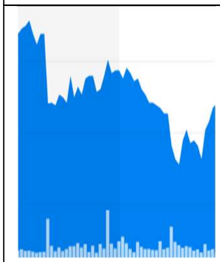
FBU is emerging from a major reset of the business, which saw it record up to $1bn in contract losses. It raised $750m of equity to address funding issues, and announced the simplification of the business around NZ/Australia with divestment of $1bn of international assets underway. The turning around the Australian business will require investment in a business generating poor returns and is not without risk. The core NZ business has performed well but risk remains.

2018 P/E: n/a 2019 P/E: 10.4

NZX Code:	**FBU**
Share Price:	**$6.90**
12mth Target:	**$6.08**
Projected return (%)	
Capital gain	-11.9%
Dividend yield (Net)	4.7%
Total return	**-7.2%**

Rating: UNDERPERFORM

52-week price range: 5.49-8.14

	**Freightways** Normalised EBITDA of NZ$107.7m was up +6.7% on pcp and in line with FNZC forecasts. After adjusting for surcharges, they estimate that Express Package delivered underlying revenue growth of +4.7% in 2H18 with volume growth of around +3.2% representing a modest decline from recent periods. Express Package EBITDA increased +5.9% in 2H18 vs pcp, with underlying margin expanding +20bp despite the dilution impact of FRE's fuel surcharge lagging an increasing diesel pump price by two months. 2019 P/E: 19.1 2020 P/E: 17.3	**NZX Code:** **FRE** **Share Price:** **$7.58** **12mth Target:** **$7.35** **Projected return (%)** Capital gain -3.0% Dividend yield (Net) 4.3% **Total return** **1.3%** **Rating: NEUTRAL** 52-week price range: 7.26-8.40
	**Heartland Bank** HBL's medium-term growth outlook remains positive but with a note of caution. After several strong years of car sales growth, 2018 activity appears relatively flat. This may put extra pressure on other parts of HBL's operations to provide growth. FNZC expects the reverse mortgage business to continue to be a key driver of earnings growth and return. The question then becomes whether business and agri growth can deliver the required growth and improve returns. 2019 P/E: 12.7 2020 P/E: 12.0	**NZX Code:** **HBL** **Share Price:** **$1.72** **12mth Target:** **$1.69** **Projected return (%)** Capital gain -1.7% Dividend yield (Net) 5.6% **Total return** **3.9%** **Rating: UNDERPERFORM** 52-week price range: 1.68-2.14
	**Metlifecare** FNZC sees limited scope for surprise with a subdued Auckland housing market and relatively modest new unit delivery unlikely to drive significant NTA uplift. They forecast a recovery in resales volume in 2H18 (FY18 total 343 units after 151 units in buyback impacted 1H18). Commentary on the outlook for new sales in FY19 will be of interest, with 2H18 delivery weighted to the end of the period likely to drive inventory ahead of slower new unit delivery in FY19. 2018 P/E: 19.4 2019 P/E: 17.3	**NZX Code:** **MET** **Share Price:** **$6.11** **12mth Target:** **$7.64** **Projected return (%)** Capital gain 25.0% Dividend yield (Net) 2.2% **Total return** **27.2%** **Rating: OUTPERFORM** 52-week price range: 5.52-6.39
	**Michael Hill International** Despite announcing the exit from the United States and repositioning of Emma & Roe, these two businesses present margin risk in the short-term with the potential to surprise to the downside on reported sales weakness. Underlying profitability is 1H focused given it includes the key Christmas trading period, as such, full year profits have largely been established. 2018 P/E: 12.9 2019 P/E: 9.8	**NZX Code:** **MHJ** **Share Price:** **$1.04** **12mth Target:** **$1.42** **Projected return (%)** Capital gain 36.5% Dividend yield (Net) 5.3% **Total return** **41.8%** **Rating: OUTPERFORM** 52-week price range: 0.94-1.45
	**NZ Refining** Spoiling the relief of shut completion, FNZC's forecast 2H18 gross refining margins fall by US$1.7 per barrel, with a recent slip in Asian spot refining margins likely due to strong global refinery run rates and crude supply uncertainty. Forward curves indicate this will persist, reducing our net profit forecast by a further NZ$28m. Forward curves indicate this will persist, reducing FNZC's net profit forecast by a further NZ$28 million. They now model NZ$152m FY18 earnings (-24%) and NZ$28m net profit (-56%). 2018 P/E: 27.0 2019 P/E: 11.7	**NZX Code:** **NZR** **Share Price:** **$2.51** **12mth Target:** **$2.86** **Projected return (%)** Capital gain 20.3% Dividend yield (Net) 11.5% **Total return** **31.8%** **Rating: OUTPERFORM** 52-week price range: 2.28-2.67
	**Pacific Edge** PEB has developed a suite of molecular diagnostic tests to detect and monitor bladder cancer. In a relatively early stage of its commercialisation process, a number of key drivers remain subjective. Downside risks include a lack of uptake by potential key customers and/or a lack of support from Urological practices. In addition, there is the potential for other types of gene expression tests to compete or impact prices. As a company with limited commercial track record, limited sales and uncertainty as to its earnings outlook, there is a large forecasting risk associated with PEB. Upside risk is really around the commercial uptake of Cxbladder and the price key users negotiate. 2018 P/E: n/a 2019 P/E: n/a	**NZX Code:** **PEB** **Share Price:** **$0.35** **12mth Target:** **$0.50** **Projected return (%)** Capital gain 42.9% Dividend yield (Net) 0.0% **Total return** **42.9%** **Rating: OUTPERFORM** 52-week price range: 0.19-0.49
	**Port of Tauranga** Preliminary trade data indicates container volume around 2% below FNZC's forecast in FY18. They expect log volume close to 6.5m tonnes following a stronger than expected 2H18. FNZC remains comfortable with their forecast for FY18 NPAT towards the top of POT's $92-96m guidance range. Keep the faith. The falling share price can be seen as a buying opportunity. Projections are for strong container growth over the next few years. 2018 P/E: 35.0 2019 P/E: 32.0	**NZX Code:** **POT** **Share Price:** **$4.80** **12mth Target:** **$3.80** **Projected return (%)** Capital gain -20.8% Dividend yield (Net) 2.6% **Total return** **-18.2%** **Rating: ~~UNDERPERFORM~~** 52-week price range: 3.70-5.27

"I find that the harder I work, the more luck I seem to have."

Thomas Jefferson

Scales Corporation

SCL has achieved a gross pick +14% to 5.1m TCEs. On the assumption packout rates revert to long-run averages FNZC estimates +8.5% growth in Mr Apple export volumes, although earnings upside risk is limited by relatively low operating leverage to volume and harmonised export data. This suggests pricing is currently tracking broadly in-line with the pcp and below FNZC's forecast of +2%. Tighter cost management presents an opportunity for SCL in FY18.

2018 P/E: 16.6 2019 P/E: 15.5

NZX Code:	**SCL**
Share Price:	**$4.71**
12mth Target:	**$5.00**
Projected return (%)	
Capital gain	6.2%
Dividend yield (Net)	4.3%
Total return	**10.5%**

Rating: OUTPERFORM

52-week price range: 3.30-5.00

SkyCity Entertainment Group

Normalised EBITDA increased +5.5% in FY18 to $338.2m. Improved EGM growth and strong International Business (IB) performance were key drivers of the 2H18 results that were ahead of expectations. SKC guided to modest EBITDA growth in FY19, with further growth for SKC Auckland and IB offset by higher corporate costs. Minor positive revisions to operating earnings forecasts contribute to FNZC's 12month target price increasing from $3.75 to $3.85 per share.

2019 P/E: 16.5 2020 P/E: 16.7

NZX Code:	**SKC**
Share Price:	**$4.19**
12mth Target:	**$3.85**
Projected return (%)	
Capital gain	-8.1%
Dividend yield (Net)	4.9%
Total return	**-3.2%**

Rating: NEUTRAL

52-week price range: 3.66-4.20

Summerset Group

SUM delivered a solid result with embedded value and NTA uplift benefiting from the regional lag in house price growth. Inventory is trending up but remains at reasonable levels. Core operating cash flow remains low and SUM has grown quickly off a small regional base. The capital intensive nature of building up a land bank and the working capital for growing development delivery on sites with more density means SUM has seen rapid growth in its development debt, and has managed this risk well.

2018 P/E: 43.0 2019 P/E: 26.5

NZX Code:	**SUM**
Share Price:	**$7.50**
12mth Target:	**$7.63**
Projected return (%)	
Capital gain	-0.8%
Dividend yield (Net)	2.2%
Total return	**1.4%**

Rating: NEUTRAL

52-week price range: 4.60-8.00

Synlait Milk

FY16 was a watershed year for SML and SML consolidated that increase in profitability in FY17. SML completed its recent expansionary capital expenditure phase (total investment to date of ~$500m with ~$100m more to invest across both Dunsandel and Auckland) and enjoyed its 1st year of material success in its nutritionals strategy on the back of A2's infant formula (IF) success. The momentum in SML's business looks set to continue to track up in FY18 and FNZC has increased confidence in the ability for SML, at least in the nearer-term to sustain current margins on increasing volumes. The upside for SML in earnings, if current dynamics continue to play out, is not insignificant.

2018 P/E: 27.3 2019 P/E: 23.7

NZX Code:	**SML**
Share Price:	**$11.06**
12mth Target:	**$7.34**
Projected return (%)	
Capital gain	-33.6%
Dividend yield (Net)	0%
Total return	**-33.6%**

Rating: UNDERPERFORM

52-week price range: 4.70-11.65

Trustpower

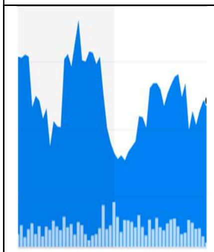
With multi-utility products now forming a well-established (and still differentiated) core of TPW's offering, management will now focus on rolling out fibre across existing electricity-only and dual-fuel customers. That transition has been expected for some time, and should take advantage of greater scale efficiencies and address some remaining regional churn for TPW, (e.g. South Island customers). This course seems in line with FNZC's modelling. I personally like TPWs business model & yield. Hold.

2018 P/E: 13.7 2019 P/E: 16.7

NZX Code:	**TPW**
Share Price:	**$5.87**
12mth Target:	**$5.45**
Projected return (%)	
Capital gain	-7.2%
Dividend yield (Net)	7.0%
Total return	**-0.2%**

Rating: ~~UNDERPERFORM~~

52-week price range: 5.11-6.05



Z Energy

There are two conflicting issues influencing ZEL's value proposition. On the positive side, ZEL has a strong dividend profile following the integration of the Caltex distribution network and subsequent debt reduction. ZEL is expected to significantly lift its dividend from 32 cents in 2018 to 52.5 cents (gross yield of 10.2%) in 2019 and 57.4 cents (11.2%) in 2020. On the negative side, is the risk of regulatory intervention from the Government's review into retail fuel prices which is scheduled to commence in early 2019. ZEL is increasingly exposed to the fuel.

2019 P/E: 13.4 2020 P/E: 11.6

NZX Code:	**ZEL**
Share Price:	**$7.35**
12mth Target:	**$7.15**
Projected return (%)	
Capital gain	-2.7%
Dividend yield (Net)	7.5%
Total return	**4.8%**

Rating: NEUTRAL

52-week price range: 6.81-8.04

NZ EQUITIES – GROSS DIVIDEND YIELDS

PRICES AS AT 16TH AUGUST 2018

COMPANY	RATING	PRICE 16-Aug-18	GROSS DIVIDEND YIELD				DIVIDEND COVER				NET DEBT/ EQUITY
			FY-1	FY0	FY1	FY2	FY-1	FY0	FY1	FY2	CURRENT
Metro Performance Glass	N	$0.83	12.4%	12.7%	12.0%	9.7%	1.3	1.5	1.4	1.4	49.7%
NZME	N	$0.84	15.7%	12.4%	10.7%	9.9%	1.4	1.7	1.7	1.6	28.0%
Trustpower	U	$5.83	7.0%	11.0%	9.8%	9.5%	1.3	0.8	0.9	0.8	34.3%
Z Energy	N	$7.37	6.1%	9.9%	10.8%	11.0%	1.6	1	1.1	1.1	66.1%
Air New Zealand	U	$3.32	8.8%	9.2%	9.2%	9.2%	1.6	1.6	1.3	1.5	41.6%
Tegel	U	$1.14	9.2%	9.2%	7.6%	7.8%	1.3	1.3	1.3	1.3	28.1%
Asset Plus Limited	O	$0.60	9.0%	9.0%	9.0%	9.0%	1	1	1	1	5.3%
The Warehouse	N	$2.02	11.0%	8.9%	11.0%	11.7%	1.2	1.2	1.3	1.3	33.9%
Argosy Property	N	$1.10	8.5%	8.5%	8.6%	8.7%	1.1	1.1	1.1	1.1	60.3%
Methven	O	$1.03	8.1%	8.4%	9.0%	10.1%	1.3	1.2	1.4	1.4	52.2%
Spark	U	$3.88	8.3%	8.3%	8.3%	8.9%	0.9	0.9	1	1	77.1%
Sky Network Television	N	$2.52	15.4%	8.3%	8.3%	8.3%	1.1	2.1	1.7	1.5	16.1%
Contact Energy	N	$5.74	7.7%	8.1%	8.6%	8.3%	0.6	0.6	0.6	0.6	39.8%
Augusta Capital	O	$1.11	7.6%	8.1%	8.1%	8.1%	1.2	1.2	1	1.2	-5.8%
Genesis Energy	U	$2.55	8.6%	8.0%	7.8%	9.5%	0.4	0.4	0.3	0.4	60.6%
Stride	O	$1.87	7.9%	7.9%	7.9%	7.9%	1.1	1	1.1	1.1	48.3%
Heartland Bank	U	$1.72	7.3%	7.7%	8.1%	8.3%	1.4	1.4	1.4	1.5	572.7%
Meridian Energy	U	$3.13	7.4%	7.6%	7.5%	5.9%	0.5	0.4	0.5	0.6	27.3%
Kiwi Property Group	N	$1.37	7.5%	7.6%	7.6%	7.6%	1.1	1	1	1.1	42.9%
Turners Limited	O	$3.01	7.2%	7.5%	7.9%	8.5%	2.1	1.8	1.8	1.8	95.5%
Green Cross Health	O	$1.32	7.4%	7.4%	7.9%	8.8%	1.9	2.1	2	1.9	27.7%
Investore Property	N	$1.55	7.2%	7.2%	7.3%	7.5%	1.1	1.1	1.1	1.1	71.2%
Chorus	N	$4.31	6.8%	7.1%	7.1%	7.1%	1.3	0.9	0.5	0.5	187.7%
Vector	N	$3.26	6.8%	7.0%	7.2%	7.5%	0.9	0.8	0.8	0.8	103.6%
Goodman Property Trust	N	$1.47	6.8%	6.8%	6.8%	6.9%	1.2	1.2	1.2	1.2	21.3%
Skellerup	N	$2.09	6.3%	6.7%	7.1%	7.7%	1.2	1.2	1.2	1.2	18.9%
Michael Hill	O	$1.04	6.7%	6.7%	6.7%	7.0%	1.8	1.5	1.9	2	34.9%
Property For Industry	N	$1.73	6.4%	6.5%	6.6%	6.9%	1.1	1.1	1.1	1.1	45.6%
Precinct Properties	N	$1.39	6.0%	6.2%	6.4%	6.5%	1.1	1.1	1.1	1.1	40.7%
Freightways	N	$7.55	5.5%	6.1%	6.9%	7.6%	1.3	1.2	1.2	1.2	54.7%
Trademe	N	$4.72	5.4%	6.1%	7.0%	7.4%	1.3	1.2	1.1	1.1	8.7%
Sky City	N	$4.17	5.9%	5.9%	5.9%	5.9%	1.2	1.2	1.2	1.3	58.6%
Kathmandu	N	$3.14	5.8%	5.8%	6.0%	7.1%	1.4	1.6	1.7	1.5	15.6%
Scales Corporation	O	$4.65	5.4%	5.7%	6.3%	6.7%	1.3	1.5	1.4	1.4	7.6%
Restaurant Brands	N	$7.69	5.1%	5.2%	5.5%	5.8%	1.2	1.2	1.4	1.5	66.9%
Seeka	N	$6.40	4.8%	4.9%	5.7%	6.0%	1.9	2	2	2	122.0%
Tourism Holdings	U	$6.03	4.5%	4.6%	5.4%	6.7%	1.2	1.4	1.3	1.2	71.7%
Arvida	N	$1.34	4.2%	4.5%	5.2%	6.2%	1.8	1.7	1.7	1.7	23.7%
Auckland Airport	U	$6.74	4.2%	4.5%	4.6%	4.6%	1	1	1	1	47.6%
Oceania Healthcare	O	$1.12	4.2%	4.2%	4.4%	4.7%	1.6	1.8	1.8	1.8	54.1%
Sanford	N	$7.73	4.1%	4.1%	4.1%	4.1%	1.8	2.1	2.3	2.5	27.1%
Fonterra	U	$4.89	8.2%	4.1%	6.1%	6.5%	1.1	1.4	1.3	1.4	92.2%
Tower	O	$0.75	0.0%	3.9%	7.4%	8.1%		-0.3	1.3	1.3	-53.2%
Ebos	N	$20.41	3.4%	3.7%	3.9%	4.6%	1.4	1.4	1.4	1.4	37.9%
Port of Tauranga	U	$4.80	3.2%	3.6%	4.0%	4.2%	1.1	1.1	1.1	1.1	38.7%
Gentrack	U	$6.90	2.6%	3.6%	4.2%	5.0%	1.3	1.1	1.2	1.2	63.2%
Mainfreight	U	$27.95	2.2%	2.7%	3.1%	3.6%	2.5	2.4	2.3	2.2	27.5%
New Zealand King Salmon	O	$2.90	2.4%	2.6%	2.7%	3.2%	1.7	2	2	2	4.1%
Fisher & Paykel Healthcare	U	$14.79	2.0%	2.2%	2.8%	3.6%	1.6	1.5	1.4	1.2	-1.7%
Comvita	N	$5.66	0.5%	2.0%	4.8%	5.5%	-6.4	2.2	2.2	2.2	35.2%
Summerset Group	N	$7.60	1.4%	2.0%	2.4%	2.8%	1.3	1.2	1.2	1.1	43.9%
Delegat's Group	N	$9.90	1.8%	2.0%	2.2%	2.6%	2.9	3	3.1	3	88.1%
Ryman Healthcare	U	$12.81	1.6%	1.8%	2.1%	2.4%	1.4	1.3	1.2	1.1	51.8%
Metlifecare Limited	O	$6.05	1.3%	1.7%	2.1%	2.4%	2.8	2.9	2.7	2.7	9.9%
Vista Group	N	$4.10	0.9%	1.5%	2.1%	2.6%	2.2	2.1	2	2	-13.9%
AFT Pharmaceuticals	N	$2.30	0.0%	0.0%	0.0%	0.0%	0	0	0	0	-1600.0%
a2 Milk	N	$11.09	0.0%	0.0%	0.0%	1.8%	0	0	0	2.3	-60.5%
Eroad	N	$3.50	0.0%	0.0%	0.0%	0.0%	0	0	0	0	3.5%
Fletcher Building	U	$6.75	8.0%	0.0%	6.6%	7.4%	1.2	0	1.4	1.3	30.7%
New Zealand Refining Co	O	$2.50	10.0%	0.0%	11.5%	17.6%	1.4	0	1	0.7	29.5%
Pacific Edge	O	$0.33	0.0%	0.0%	0.0%	0.0%	0	0	0	0	-52.4%
Synlait Milk	U	$11.19	0.0%	0.0%	0.0%	0.0%	0	0	0	0	11.3%
MEDIAN			**6.1%**	**6.0%**	**6.7%**	**7.0%**	**1.3**	**1.2**	**1.2**	**1.2**	**36.5%**

Limitations and Disclaimer

FNZC AUSTRALIAN EQUITY FOCUS LIST PRICES AS AT 13TH AUGUST 2018 SOURCE: FNZC, IRESS, CS

Stock Name	ASX Code	Current Price A$	Target Price A$	Target Gross Return	Gross Performance		Date Added to F/List	Price when Added A$	ASX100 Index when Added	Return since Added	Index Return since Added	+/- Performance
					Qtr	Year						
ASX100 Index	ASX100	16,027			3.4%	13.9%						
Atlas Arteria	ALX	A$6.55	A$7.00	6.4%	10.2%	25.4%	18/07/18	A$6.55	15,980	3.8%	0.3%	3.5%
Caltex Australia	CTX	A$33.07	A$40.80	30.3%	8.6%	10.2%	2/02/17	A$28.45	13,658	22.3%	17.3%	5.0%
Cleanaway Waste Management	CWY	A$1.87	A$1.45	0.7%	11.0%	48.9%	12/04/17	A$1.44	14,759	30.0%	8.6%	21.4%
Clydesdale Bank	CYB	A$6.11	A$6.90	25.5%	6.8%	29.8%	11/05/17	A$5.14	14,419	19.2%	11.2%	8.0%
Computershare	CPU	A$18.10	A$18.50	30.2%	2.7%	30.0%	2/02/17	A$12.92	13,658	44.3%	17.3%	27.0%
Crown Resorts	CWN	A$14.19	A$13.10	4.4%	6.0%	28.6%	27/11/17	A$12.53	14,993	15.6%	6.9%	8.7%
Domino's Pizza Enterprises	DMP	A$52.42	A$36.76	-33.5%	22.7%	3.9%	9/02/18	A$49.06	14,650	8.0%	9.4%	-1.4%
Iluka Resources	ILU	A$10.71	A$12.30	26.3%	-11.1%	21.5%	11/08/17	A$9.07	14,073	21.5%	13.9%	7.6%
Lendlease Group	LLC	A$21.15	A$19.30	32.1%	16.6%	35.7%	16/10/16	A$13.10	12,106	73.7%	32.4%	41.3%
Magellan Financial Group	MFG	A$27.96	A$29.00	19.1%	14.7%	11.3%	22/05/18	A$23.47	15,398	19.1%	4.1%	15.0%
Oil Search	OSH	A$8.92	A$7.55	-18.1%	4.9%	40.9%	13/08/15	A$8.92	16,027	0.0%	0.0%	0.0%
Origin Energy	ORG	A$9.70	A$10.50	11.2%	-1.5%	41.0%	21/02/18	A$9.32	14,959	4.1%	7.1%	-3.1%
Sydney Airport	SYD	A$7.17	A$6.75	-4.3%	3.0%	12.0%	22/05/18	A$7.04	15,398	4.5%	4.1%	0.4%

Focus List Purpose and Construction

Stocks on the Focus List are selected from Australia's 100 largest companies. The Focus List is not designed to represent an Australian share portfolio and therefore should not be treated or construed as a portfolio. The key reason is that diversification is not taken into account - with the stocks being selected individually, and no consideration being given to the other stocks on the Focus List.

The performance horizon for the stocks selected is short – that is, three to six months. Individual stocks may be on the Focus List for slightly shorter or longer periods. The Focus List should therefore generally only be used as a source of ideas for potential inclusion in an existing portfolio.

ASX Code	PE Ratio x		EC/EBITDA x		Net Div Yield		Return on Equity
	FY0	FY1	FY0	FY1	FY0	FY1	
ALX	118.8	34.1	34.3	22.0	3.5%	5.3%	1.8%
CTX	13.8	15.4	7.9	8.7	3.6%	3.3%	19.0%
CWY	34.5	28.6	12.8	11.9	1.1%	1.3%	4.0%
CYB	13.3	9.7	-12.9	-6.4	0.6%	3.6%	7.9%
CPU	20.7	18.1	13.3	11.9	2.3%	2.4%	25.6%
CWN	27.6	22.7	12.0	11.5	4.2%	4.2%	7.7%
DMP	34.1	29.8	18.4	16.7	2.2%	2.4%	48.5%
ILU	11.9	11.4	7.2	6.5	2.1%	4.5%	34.2%
LLC	15.9	14.0	10.7	10.3	3.3%	3.8%	12.7%
MFG	16.3	14.9	12.0	10.9	5.5%	5.9%	42.9%
OSH	21.6	17.5	11.2	9.4	2.3%	2.8%	8.8%
ORG	17.9	11.2	8.3	6.7	0.0%	2.7%	7.7%
SYD	40.7	36.5	19.1	17.9	5.2%	5.5%	1.7%

NZ FIXED INTEREST

Hybrid 3 Year Reset Securities

QHLHA – Quayside Holdings Limited Perpetual Preference Shares

- Credit rating: Not rated
- Dividend rate: 4.32% until 12 March 2020
- Dividend reset: 3-year swap + 1.7%.
- Issuer call option: anytime
- Holder put option: if dividends are not paid or if Quayside ceases to be a majority shareholder of Port of Tauranga.

Analytics as at 15 August 2018

- Assumed redemption date: Perpetual
- Estimated yield into perpetuity: 4.7%pa

FNZC View: They do not expect the QHLHA security to ever be redeemed and consequently it does not have the redemption upside potential that some other hybrid securities have. At the current price, the QHLHA shares appear to offer poor value when compared to other hybrid securities.