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Volume 25

Investment Strategies

JUNE 2018

My thoughts on the Royal Wedding can be summed up as "stunning". These two have, in one swift action, moved the Royal Family into the 21st Century. I loved the wedding coverage…

NZ Business Confidence

New Zealand businesses remained pessimistic about the country's economic fortunes as negative sentiment following the change in government continued into the new year and as profitability remains weak. "*Business confidence had fallen sharply in the December 2017 quarter in the wake of the new Labour-led government taking office, and this pessimism has carried over into the first quarter of 2018,*" said NZIER.

Changes in labour relations law is of key concern, particularly amongst the smaller businesses.

NZX50 Gross Index (1 year)

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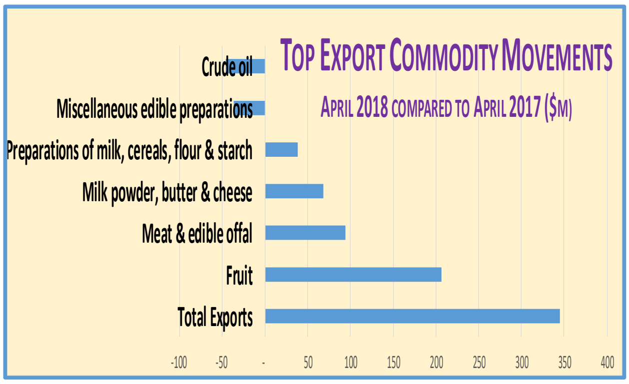
STATISTICS NZ DATA

Next Census due: 2018

Population

Estimated population at 31 Dec 2017:	4,844,200
Births Sept 2017 year:	58,494
Deaths Sept 2017 year:	33,240
Net migration April 2018 year:	67,000

(Down 5.2% since election)



RRP $5.00

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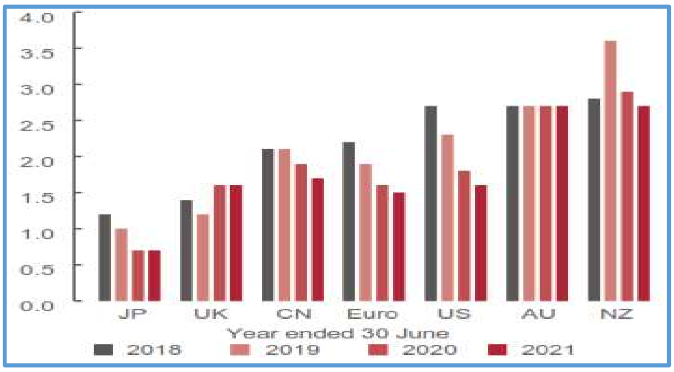
'Culture eats strategy for lunch'
Peter Drucker

NEW ZEALAND ISSUES

BUDGET 2018 - THE OUTLOOK IS POSITIVE

The Treasury forecasts economic growth of about 3.0% per year on average over the period to June 2022. The New Zealand economy is forecast to grow at a rate faster than that expected for our major trading partners.

**TRADING PARTNER GROWTH FORECAST
ANNUAL AVERAGE % CHANGE**



SOURCE: Stats NZ, Treasury

"THE SPRAY & WALK AWAY" BUDGET - AN OPPORTUNITY LOST

SOURCE: Newsroom Pro

Grant Robertson's first budget did exactly what he said it would do on the tin, but it was also the biggest missed opportunity in a generation.

It's hard to accuse politicians of wrongdoing when they deliver exactly what they promised to the letter and the number. The new Labour-led Government promised billions in catch-up spending on hospital spending, new teachers and thousands of new state houses, while at the same time running Budget surpluses and reducing net debt. Budget 2018 ticked those boxes easily.

The trouble is when they could have done so much better if they had only chosen to ignore the fear of a ghost and broken just one promise to properly achieve a transformation that is desperately needed and often talked about by this same Government.

Big projects put off - The pressure to meet the 20% debt target was evident in some of the decisions not to invest. The Government put off a decision on spending $1bn on a new prison at Waikeria. Instead, it will house 600 prisoners in temporary buildings. It's essentially a kick for touch in the politically sensitive area of law and order, where the Government faces the unpleasant choices of either building big, new expensive prisons, or dialling back on the 'tough on crime' moves on bail and sentencing laws.

Also, the Airforce's long-hoped-for and multi-billion plan to replace its ageing Orion marine surveillance aircraft with variants of the Boeing 737 were put off again. It won't lose votes for Labour, but it may put yet more pressure on our relations with Australia, which regularly complains we spend less than we should on defence and that we effectively freeload off Australian's much heavier spending.

2018 BUDGET: DEPARTMENTAL WINNERS & LOSERS

$000	2018	2017	$△	%△
Ministry of Social Development	27,057,227	25,266,871	1,790,356	7.1%
Ministry of Health	18,225,363	16,544,093	1,681,270	10.2%
Inland Revenue Department	7,223,137	5,917,107	1,306,030	22.1%
Ministry of Business, innovation & Employment	2,777,622	1,860,451	917,171	49.3%
Ministry of Education	15,704,401	15,005,812	698,589	4.7%
The Treasury	5,996,792	5,303,414	693,378	13.1%
NZ Defence Force	3,440,090	3,148,981	291,109	9.2%
Department of Corrections	1,965,723	1,794,038	171,685	9.6%
Ministry of Foreign Affairs & Trade	1,317,981	1,191,259	126,722	10.6%
NZ Police	1,873,571	1,775,307	98,264	5.5%
Oranga Tamariki - Ministry for Children	951,862	884,301	67,561	7.6%
Ministry of Defence	314,564	251,668	62,896	25.0%
Land Information NZ	598,244	550,426	47,818	8.7%
Department of Conservation	491,055	447,962	43,093	9.6%
Ministry of Culture & Heritage	411,926	389,564	22,362	5.7%
Government Communication Security Services	153,278	138,595	14,683	10.6%
NZ Security Intelligence Service	81,835	68,611	13,224	19.3%
NZ Customs Service	230,633	219,293	11,340	5.2%
Ministry of Justice	1,656,441	1,652,026	4,415	0.3%
Office of the Ombudsman	21,661	18,591	3,070	16.5%
Crown Law Office	70,936	68,800	2,136	3.1%
Parliamentary Commissioner for the Enviroment	3,770	3,386	384	11.3%
Ministry for Women	5,441	5,340	101	1.9%
Parliamentary Counsel Office	23,253	23,253	0	0.0%
Ministry for Pacific Peoples	10,449	10,917	(468)	(4.3%)
Controller & Auditor-General	94,303	95,240	(937)	(1.0%)
Office of the Clerk (Parliament)	22,627	23,639	(1,012)	(4.3%)
Serious Fraud Office	9,754	11,170	(1,416)	(12.7%)
Education Review Office	30,127	33,720	(3,593)	(10.7%)
State Services Commission	60,018	64,817	(4,799)	(7.4%)
Te Puni Kokori	316,421	328,737	(12,316)	(3.7%)
Parliamentary Services	155,747	172,322	(16,575)	(9.6%)
Department of Internal Affairs	665,981	710,829	(44,848)	(6.3%)
Statistics New Zealand	154,612	208,960	(54,348)	(26.0%)
Department of the Prime Minister & Cabinet	76,694	136,825	(60,131)	(43.9%)
Ministry for Primary Industries	883,887	1,014,418	(130,531)	(12.9%)
Ministry for the Environment	813,295	955,231	(141,936)	(14.9%)
Ministry of Transport	5,373,509	5,619,053	(245,544)	(4.4%)
Pike River Recovery Agency	17,122			308.0%

WINSTON GETS HIS UTU

Mark my words – The Western Bay of Plenty won't get government support for the much needed roading infrastructure that is essential if we are to relieve the gridlock on Tauranga roads. Walking away from roading infrastructure suits the Greens ideology and any opportunity for Winston to "punish Tauranga" for deserting him as their MP will be grabbed with glee. Winston is notorious for holding his grudges, and he will be loving "sticking it" to Simon Bridges and the National Party. Peters has a long memory, and often not in a positive way.

PEAK COW

Environment Minister **David Parker** spelled out in more detail on the 6th May Q+A interview about how he expects cow numbers to fall. "*In some areas, the number of cows per hectare is higher than the environment can sustain. That won't be done through a raw cap on cow numbers; it will be done on nutrient limits, the amount of nutrient that can be lost from a farm to a waterway, because it's not just a dairy cow issue*," Parker said.

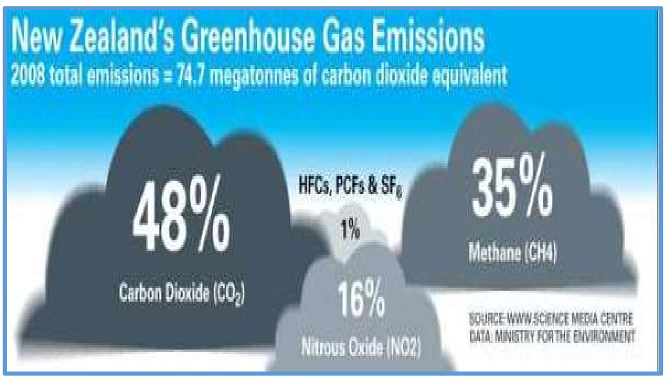
National Leader Simon Bridges said in response that the suggestion of reducing cow numbers through nitrate limits was a "*real assault on the regions. We saw it in oil and gas, no analysis, no plan. Now we're seeing it here. I have always been of the view that this Government would come for farmers over time. You've seen talk about an ETS tax, Mycoplasma bovis and the discussion about that on this station and now you're seeing this. What I would say is that there seems to be a lack of any sort of comprehension that when the farmers sneeze, we all catch a cold. Whether we're in rural or urban areas, we're all in this together. They've been making a lot of environmental gains, but just culling cows when you haven't got a plan around that and you don't have other viable industries coming up to take the slack is a very bad idea indeed*."

When asked what the economic impact for some, particularly dairying regions would be, Minister Parker said, '*We haven't done an analysis of what the economic effects would be. But it's very, very difficult to model…. I think one of the answers to this in south Canterbury, for example, lies in land use change towards more cropping, more horticulture, which are high-value land uses*.' The Minister stressed, '*We're actually not going to subsidise land use change*.'

Once again, this Labour/NZ First Government is shooting from the hip, with no idea of the effects of their policy changes.

Auckland's wastewater is a much bigger problem that dairy effluent, but on this issue it is just too hard (a multi-billion dollar cost) so they won't tackle it. Much easier to put a target on the back of dairy farmers, who won't vote for them anyway.

CLIMATE CHANGE

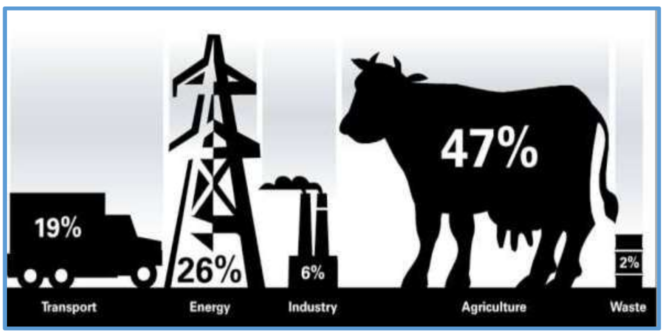


Climate-related changes to our oceans are threats to marine life, commercial and recreational fishing, and other cultural and recreational practices. Sea surge from storm effects (rather than rising sea levels) are threatening public and private coastal communities, infrastructure, cultural sites, and marine habitats.

- Changes to New Zealand's marine environment include:
  - ⇒ the acidity of the sub Antarctic ocean off the Otago coast has increased since 1998
  - ⇒ the average sea-surface temperature around New Zealand increased 0.7 degrees Celsius from 1909 to 2009, similar to worldwide increases (Mullan et al, 2010).
  - ⇒ coastal sea levels have risen by up to 22cm, depending on location, over the last century, consistent with global trends.

  Note: This is 22 cm (less than 1 foot) in the past century.
- The decreasing volumes of our glaciers affect ecological and hydropower resources, and cultural and tourism activities. From 1977 to 2016, it is estimated our glaciers lost almost 25% (13.3 cubic kilometres) of their ice volume.
- Since the 1972/73 measurement season, soils at one-fifth of sites around New Zealand have been getting drier. The frequency and intensity of drought in drought-prone regions are expected to increase with climate change, with important implications for our primary industries.
- We do not yet have a detailed understanding of how the changing climate will add to the pressures faced by already vulnerable native flora and fauna. However, emerging evidence suggests it is already affecting some species and their ecosystems:
  - ⇒ the sex ratios of North Brother Island tuatara are changing – there are now more male offspring in response to warmer nest temperatures
  - ⇒ the numbers of invasive wasps have increased around the Nelson area because of increasing spring temperatures.

EMISSIONS



In 2015, the energy sector produced 87% of all CO_2 emissions.

- Road vehicle emissions were up 80% from 1990 and made up 37% of all CO_2 emissions in 2015.
- Manufacturing and construction emissions were up 43% from 1990 and made up 19% of all CO_2 emissions in 2015.

- Electricity generation and heating made up only 11% of all CO_2 emissions in 2015. This contrasts with most countries where electricity generation is the main source of CO_2.
- CH_4 (Methane) from livestock digestion increased 5% from 1990 and made up 35% of all emissions in 2015. This was 82% of all CH_4 emissions and 73% of all agricultural emissions.

  Note: Unlike CO2, CH4 is a short-lived climate pollutant.

- Of all N_2O emissions, 94% came from agricultural soils in 2015, mainly due to nitrogen fertiliser. Overall, N_2O emissions increased 48% from 1990 and now make up 21% of all agricultural emissions to 2015.
- Net uptake of CO_2 from the atmosphere by land use, land use change, and forestry decreased 21% from 1990 to 2015 due to higher harvesting rates of planted forests.

VEHICLE EMISSIONS

New Zealand has one of the oldest, most emissions-intensive and unsafe car fleets in the developed world.

The national fleet of cars now has an average age of 14.2 years, nearly twice that of the UK where the average age is 7.7 years. Average carbon emissions/km travelled stopped falling around 2012. Eight of ten New Zealand's most popular new vehicle registrations are now either double cab utes or SUVs. Most astonishingly, used car importers appear to be using a loophole designed for classic car enthusiasts to import many of these old high emitter vehicles.

One in five vehicles is now over 20 years old. These cars tend to be less safe and have lower emissions standards than newer vehicles. They are often driven by younger, inexperienced drivers, increasing their risk of death or serious injury in an accident.

The link between ageing vehicles and road fatalities is well-known, but very little has been done in New Zealand to combat it.

New Zealand faces two main difficulties when it comes to improving the age and safety of its fleet. The first is we are heavily reliant on countries like Japan (where cars are manufactured and sold new) to improve their vehicle standards first. The other challenge is that our Government does not want to introduce standards that make purchasing a newer model so expensive that drivers will simply hold on to their older model.

NEW ZEALAND IMMRATION

New Zealand's annual net migration slowed in March as continued high immigration was offset by more Kiwis and non-citizens leaving. Annual net migration was at 68,000 in the year to March, from 71,900 in the year to March 2017, Statistics New Zealand said.

There was a 0.1% drop in non-New Zealanders immigrating in the March year to 98,800, compared to the February year, and a 2% lift in the number of non-New Zealanders leaving to 29,700, leading to overall net migration of non-New Zealanders of 69,100. A net 1,100 Kiwis left in the latest year, reducing total net migration to 68,000.

Increasing numbers of migrants came on work visas in the latest year, up 6% to 46,300, with residence visa numbers down 13% to 15,000 and student visas dropping 0.1% to 23,800. China continued to be the biggest source of migrants on residence visas, though that dipped 17% to 2,800 in the year, while the United Kingdom was the biggest source of work-visa migrants, up 1.1% to 7,400.

Despite the decrease in residence visas granted, Chinese migration remained the largest on a net basis, with 8,500 of net arrivals coming from China, though that was down 16% on a year earlier. India was the second-largest source at a net 6,900, with India's net migration also down 14% from a year earlier.

Short-term visitor arrivals, which include tourists, people visiting family and friends and people travelling for work, reached 3.8 million in the March year, up 8% from a year earlier.

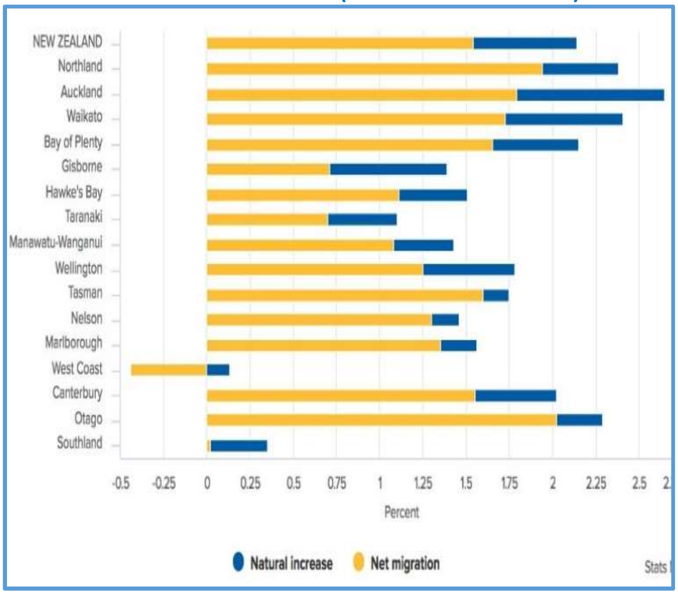
So much for Labour Party Campaign promise of reducing net immigration by 20-30,000. No sign of that happening any time soon.

NEW ZEALAND'S POPULATION

New Zealand's population grew by over 430,000 to 4.9m in the last five years, mostly from net migration, but also from relatively high birth rates in Auckland and the upper North Island. Auckland's population grew 215,000 over a time when the Government was coping with external crises, like the GFC and several major earthquakes, and this didn't help the funding of the City Rail Link. We now know that capital infrastructure should also have gone into our hospital and mental health services. In fact, the then Health Minister was prudent in requiring DHBs to run operational surpluses.

REGIONAL POPULATION CHANGE

NATURAL & NET IMMIGRATION (YEAR ENDED 30 JUNE 2017)



SOURCE: Stats NZ

LABOUR ENQUIRES – What is the cost – All hui, no doey

1. 31 October 2017	Review of Whanau Ora.
2. 3 November 2017	Investigation into circumstances around former Waikato DHB boss Nigel Murray.
3. 5 November 2017	Govt reviews six contracts for new charter schools.
4. 5 November 2017	Govt review to look at how to control prison population.
5. 17 November 2017	Youth advisory group on education.
6. 21 November 2017	Review of Christchurch Regeneration Anchor Projects.
7. 23 November 2017	Tax Working Group.
8. 25 November 2017	Housing stocktake report.
9. 5 December 2017	New Ministerial Advisory Group on Health.
10. 7 December 2017	Crown Irrigation Review.
11. 7 December 2017	Investigation into potentially contaminated water.
12. 13 December 2017	Government inquiry into fuel pipe outage at Marsden Point.
13. 13 December 2017	KiwiFund member's bill to establish an independent working group.
14. 14 December 2017	Review into NCEA system.
15. 15 December 2017	Digital Advisory Group.
16. 18 December 2017	Climate Commission.
17. 18 December 2017	Continue to review New Zealand's copyright law.
18. 18 December 2017	Government plans review of kauri dieback programme
19. 19 December 2017	Independent Expert Advisory panel to review Reserve Bank Act.
20. 19 December 2017	New Chief Technology Officer role created.
21. December 2017	Review of the Credit Contracts and Consumer Finance A
22. 10 January 2018	Local Government rates inquiry.
23. 15 January 2018	Primary Growth Partnership review.
24. 19 January 2018	Review of Waste Minimisation Act.
25. 23 January 2018	Mental Health Inquiry.
26. 23 January 2018	Joint Working Group on Pay Equity Principles reconvened.
27. 29 January 2018	Film Industry Working Group.
28. 31 January 2018	Pike River Recovery Agency.
29. 31 January 2018	Small Business Advisory Group.
30. 1 February 2018	State Care Abuse Royal Commission.
31. 2 February 2018	NZ aid spending review planned.
32. 8 February 2018	Review of Electricity Sector.
33. 9 February 2018	Working group formed to tackle Auckland housing crisis.
34. 13 February 2018	Independent review into National Bowel Screening programme.
35. 15 February 2018	Review of the Dairy Industry Restructuring Act.
36. 16 February 2018	Review into whistleblower laws.
37. 16 February 2018	Justice Minister Andrew Little takes on abortion law reform.
38. 21 February 2018	Review into culture at the Human Rights Commission.
39. 21 February 2018	Three Year Review into Education System.
40. 22 February 2018	World Digital Rights Working Group.
41. 23 February 2018	Upper North Island Supply Chain strategy development. (Ports review)
42. 25 February 2018	Public Media Advisory Group.
43. 1 March 2018	Independent Ministerial Advisor to speed up EQC claims.
44. 2 March 2018	Australia-New Zealand review into how to work better together.
45. 2 March 2018	Joint NZ-AUS project to boost trans-Tasman exports.
46. 7 March 2018	Bid to host International Working Group on Women in Sport in 2022.
47. 7 March 2018	Comprehensive review of Charities Act.
48. 8 March 2018	Working Group to develop solutions to freedom camping.
49. 8 March 2018	Review of New Zealand's insurance laws.
50. 13 March 2018	Shane Jones reveals the panel who will help steer the $3b provincial growth fund.
51. 15 March 2018	Review to weigh up tobacco tax.
52. 16 March 2018	A broader digital economy and inclusion network.
53. 17 March 2018	Andrew Little announces a review into the Family Court.
54. 17 March 2018	Review of legal aid is planned.
55. 19 March 2018	Hui to help shape Crown/Maori Relations.
56. 19 March 2018	Review of the Residential Tenancies Act.
57. 19 March 2018	A new Future Technology Leadership Group.
58. 20 March 2018	Review of the Threat Management Plan (TMP) for Hector and Maui dolphins.
59. 20 March 2018	Independent inquiry into EQC.
60. 21 March 2018	Review the Defence Capability plan.
61. 26 March 2018	Set up a Criminal Cases Review Commission.
62. 26 March 2018	Creation of a committee for monetary policy decisions.
63. 26 March 2018	Ardern urges DHB's to establish 'independent panel' to reach settlement.
64. 29 March 2018	Govt to hold road safety summit.
65. 4 April 2018	Vehicle recall monitoring group.
66. 5 April 2018	Early Learning Strategic Plan Ministerial Advisory Group.
67. 5 April 2018	Early Learning Strategic Plan Reference Group.
68. 9 April 2018	Review of a new trade policy.
69. 9 April 2018	MBIE future of work.
70. 11 April 2018	Operation Burnham Inquiry.
71. 12 April 2018	Refresh of the Cyber Security Strategy and Action Plan.
72. 12 April 2018	Australian racing expert to review NZ racing industry.
73. 16 April 2018	Establishment of IGIS Reference Group.
74. 17 April 2018	Interim Climate Change Committee Announced.
75. 18 April 2018	Criminal Justice Summit.

AND ON AND ON IT GOES …..

IS INCREASED GOVERNMENT DEBT AN OPTION?

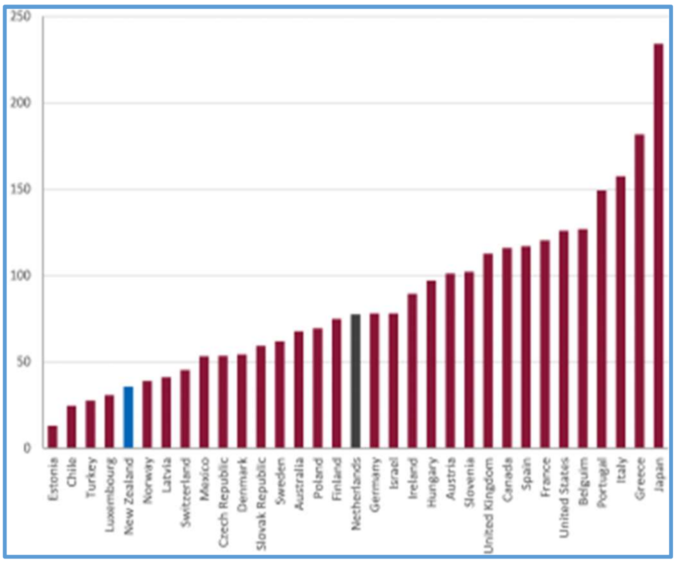
The bottom line is that Auckland's population explosion was exasperated by decades of infrastructure under-spending. There is now a shortage of at least 50,000 houses, effective public transport, several mental health wards and at least one major prison. A significant increase in demand for mental health services from the existing population (a phenomenon seen globally) added to the pressure on public services over the last five years. At least $50bn of infrastructure spending is needed in the next decade, including at least $14bn in health.

So far this year, the New Zealand Government has borrowed $1.15 billion through the issue of bonds ranging from seven years to 20 years at a weighted average 2.74%. Global and local investors bid over $3bn in these bond issues. It is now actually cheaper for the New Zealand Government to borrow than the US Government. Ageing investors globally are crying out for bonds issued by healthy governments with healthy economies. They would have no problem whatsoever in gobbling up tens of billions worth of New Zealand Government bonds if it was clear the money was going to be invested in the concrete and steel to make a young and fast-growing economy grow even faster.

The current Labour/NZ First/Greens Government has got itself into a bind, by over-promising in the 2017 election campaign (including massive bribes to students) and a promise to constrain government debt.

Household debt and bank balance sheets are also in a much healthier state than many believe. The interest costs of mortgages represent just 8% of disposable income now, which is well down on the 14% seen in 2008. New Zealand's banks are much better capitalised and loan to value ratios have also been pushed sharply lower by the Reserve Bank's interventions over the last five years.

Government Debt as a percentage of GDP



Source: OECD

What is driving the rise in the tax take

Rising wages that take people into higher tax brackets, a growing population fuelling economic activity, and a series of new revenue-gathering crackdowns are forecast to yield the government $5.7 billion more tax revenue over the five years to June 2022 than was expected just six months ago, Patrick Smellie reports.

Higher personal and corporate tax takes in the current fiscal year are "expected to persist", the Treasury's Budget and Fiscal Update says, meaning a substantial increase from the forecasts in the December Half-Year Fiscal and Economic Update.

Tax paid by wage and salary earners is expected to grow by a total of $9.9 billion between now and the 2022 fiscal year, while collecting GST on low-value imported items, which the government announced will happen from October next year, is expected to raise $53 million in the nine months to June 2020, rising to $87 million in 2021/22 to yield $218 million in extra GST over the next five years.

The corporate tax rate rises steadily by between $500 million and $1 billion a year over the next five years, to yield an extra $3.5 billion over five years from this year.

The total increase in the tax take is forecast to be $23.4 billion higher than it was last year, with core Crown revenue sitting at a projected 28.3 percent of gross domestic product by June 2022.

Removing the ability of landlords to offset losses on rental properties against other sources of income is forecast to raise $190 million a year by 2021/22 and to produce $325 million in extra tax over five years. A fresh round of tax compliance activity, for which there is new funding of $26.5 million over five years is expected to produce an extra $50 million a year in tax that would previously have gone unpaid.

All up, GST on imported goods, new loss ring-fencing rules and anti-avoidance activity are projected to be worth $320.7 million by 2021/22 and to yield an extra $699.8 million, although those improvements are offset by $1.1 billion of forecast deductions against research and development expenditure under the new R&D tax credit system, which will come into effect from April 2019.

Meanwhile, Racing Minister Winston Peters announced a change to the tax treatment of bloodstock to remove what he said were impediments to new breeders entering the market.

The Budget estimates tax deductions made available by the policy will cost the government $4.8 million in tax revenue over the next four years by allowing deductions for the costs of “high quality horses acquired with the intention to breed”.

“The previous rules around tax write-downs did not serve their original purpose of promoting new investment as they favoured established breeding businesses rather than attracting new entrants,” Peters said.

To qualify, a horse “must be a standout yearling”, with the new rules applying to yearlings acquired from premier bloodstock sales from 2019 onwards.

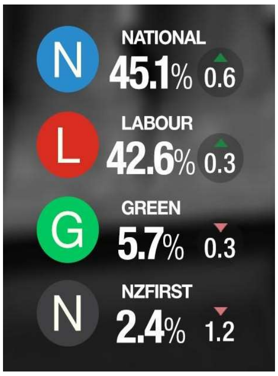
Peak lobby group Business NZ criticised the decision to single out bloodstock for full tax deductibility.

“Full capital tax deductibility helps to increase investment in technology, capital and grow productivity, which is important for all businesses. Business believes capital deductibility should be available to all businesses and industries, not just racing,” said chief executive Kirk Hope.

Source: Newsroom Pro

Newshub Reid Research Political Poll

27-MAY-2018



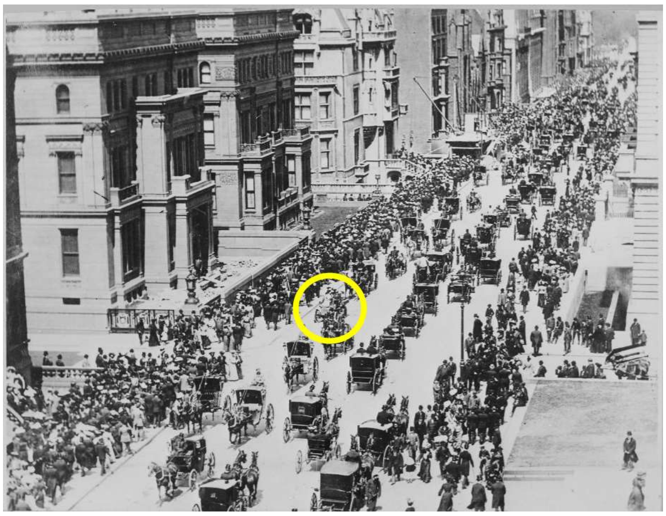
The April TV One Opinion Poll signalled that the honeymoon was over for this Labour/NZ First Government, and the May TV3-Reid Poll confirms this. The government has had no lift as a result of the Budget, and even the positive spin that accompanied PM Ardern’s European visit in April hasn’t had a lasting effect for Ardern. Winston Peters has destroyed his brand, and on current polling NZ First won’t be back in Parliament in 2020. The public see Peters as a destroyer who is only interested in the baubles of power.

It is very early days into this administration and talks of 2020 Coalition Partners is very premature. The National Party is playing the “Long Game” and Simon Bridges is making a good impression as he undertakes his “getting to know me” roadshow.

The Advance of Technology

For those who question how fast we are moving towards Artificial Intelligence and automation, I ask you to look at the following two photos. The first (taken in 1905) show New York with just one car in the frame. Within a decade the Horse and Carriage had basically disappeared, and the age of the automobile had arrived.

1905 – SPOT THE CAR

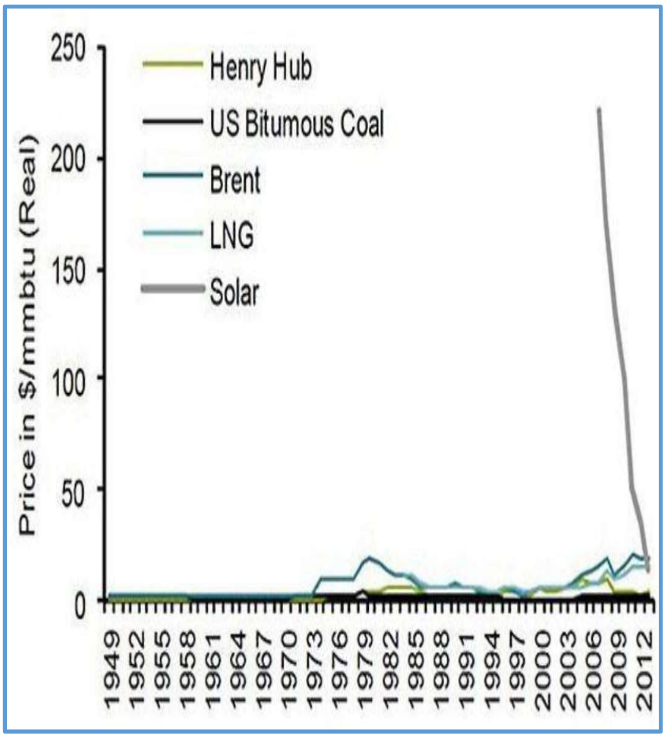


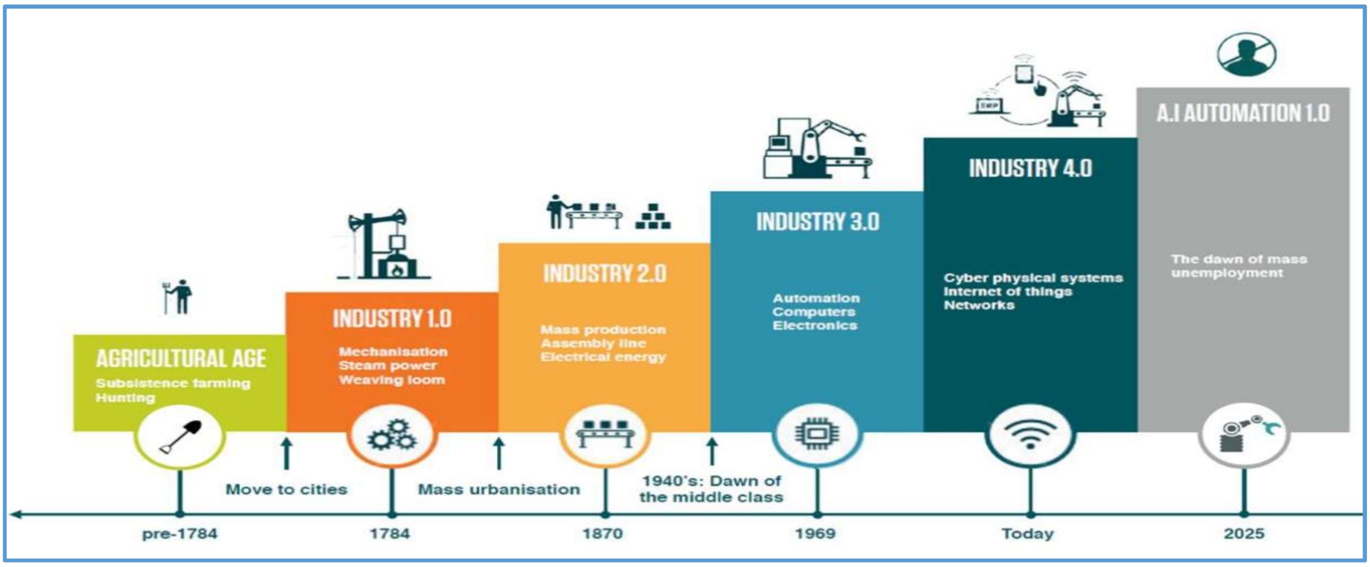
1913 – SPOT THE HORSE

Automation, including Artificial Intelligence is Upon us – so I urge local and central government politicians to think carefully before they commit millions and millions of dollars into 20th century thinking of heavy infrastructure (such as rail) instead of planning for a 21st century solution.

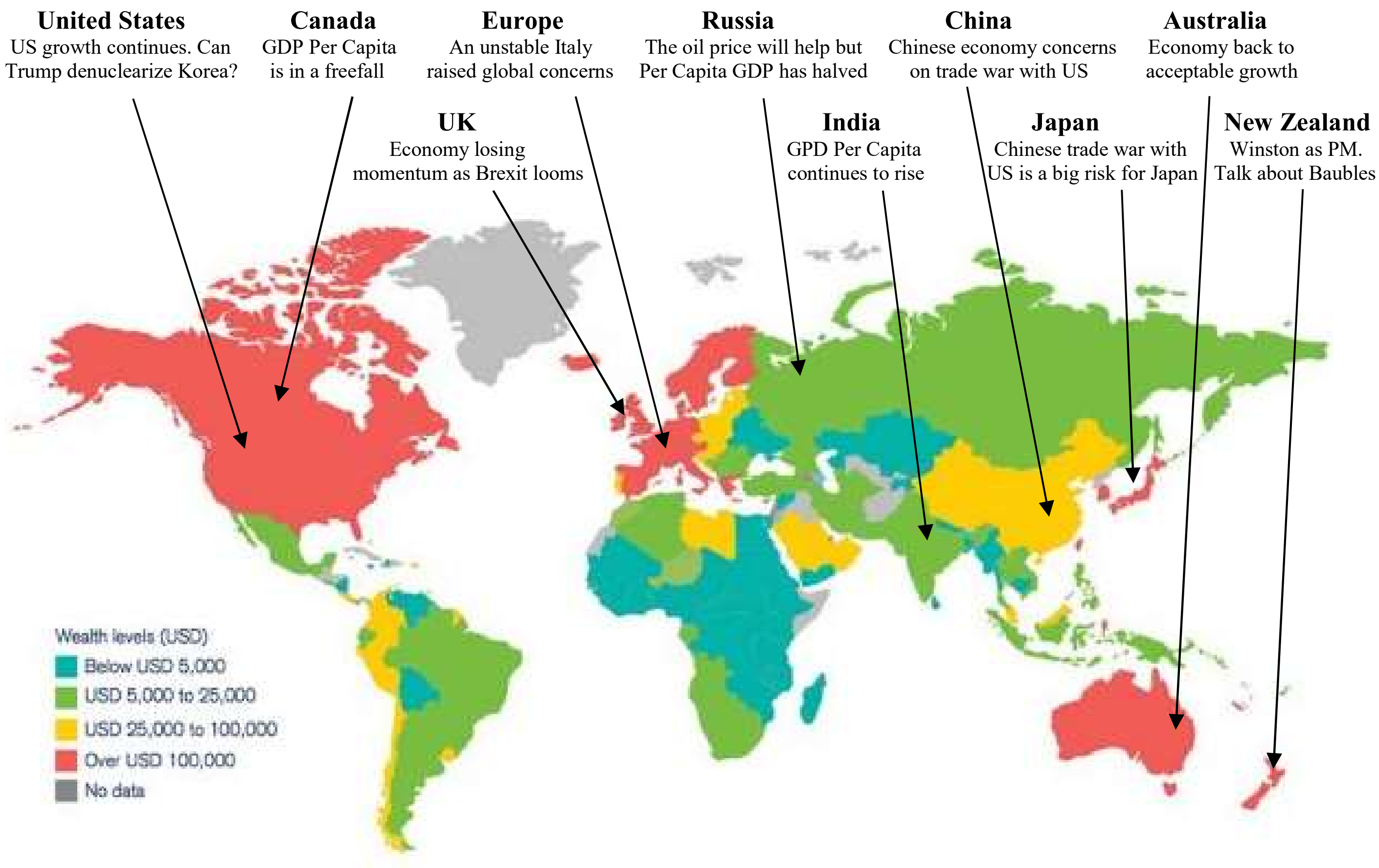
The Cost of Electricity

When you look at the cost of energy (graph below) you can see that solar energy cost of production is now falling so fast that within the next decade the cost of electricity is likely to be virtually (or actually) free. This will revolutionise our society, and totally alter our 20th century thinking. With the price of electricity falling (thanks to the lowering cost of solar – just one example), we need to realign our thinking on energy infrastructure. Our electricity companies need to diversify, if they are to survive. I think Trustpower is leading the way in this by recognising that it is their billing system that might hold the key to their long-term sustainability.





The World At A Glance – including World wealth levels 2017



The Global Economic Outlook

1,300 Business leaders (CEO's) around the globe have said the rise of economic nationalism triggered by Brexit, Donald Trump and populist politics poses the greatest threat to their growth. If world trade doors continue to close, there will be an inevitable impact on global growth. This persistent retrenchment is of huge concern to the business leaders, according to a survey conducted by KPMG.

The warnings come after China and the US stepped back from a potential trade war that could have had damaging repercussions for the global economy.

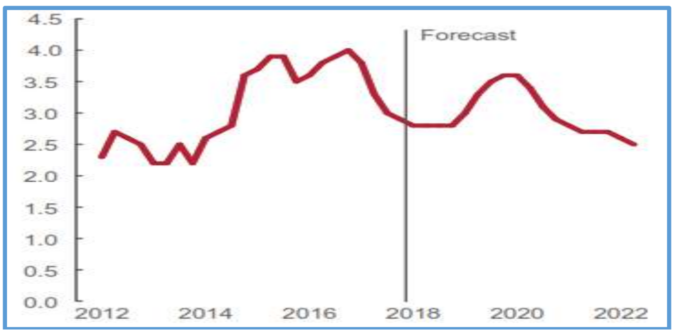
Washington agreed to put "on hold" proposed tariffs on Chinese imports, as the two sides said they had reached "a consensus on taking effective measures" to cut the US trade deficit in goods with China.

New Zealand's Economic Outlook

The IMF (International Monetary Fund) has recently given New Zealand's economic outlook an optimistic opinion. It expects economic growth to remain at 3%, saying the Crown books offer enough headroom to meet the needs of an expanding population. The IMF said increased government spending will offset slower residential investment and drought affected agricultural exports. It said that infrastructure spending will be able to be ramped up thanks to a bigger-than-expected tax take.

In contrast to the IMF view, the reality is that an economic correction (or slowdown) appears to be underway. Latest forecasts see New Zealand's economic growth slowing to 2.4%pa by the end of this year and slipping below 2.0%pa during 2019. A range of factors have combined to drive the slowdown, many of which can be sheeted back to government policy. Weaker population growth will also mitigate some of the demand pressures in the Auckland housing market, but the region's housing undersupply and affordability issues are likely to remain critical.

New Zealand's GDP Annual Growth Rate



Source: Stats NZ, Treasury

United States Economic Outlook

US President Donald Trump said he's moving ahead with plans to impose tariffs on US$50 billion (NZ$72 billion) of Chinese imports and curb investment in sensitive technology, ratcheting up pressure on Beijing days before the next round of trade negotiations.

In a statement Tuesday, the White House said a final list of targeted imports will be released by June 15 and the tariffs will be imposed "shortly thereafter." It's the most specific the administration has been about the timing for the duties to take effect.

The administration also said new restrictions on Chinese investment and enhanced export controls will be announced by June 30 and then implemented shortly after.

China's role in the showdown and the complications behind its trade disputes with America also reared their heads. Trump befuddled friends and critics alike by ordering his Commerce Department to back off sanctions imposed on China's ZTE that have pushed the Chinese telecommunications technology giant to the brink of collapse.

Australian Economic Outlook

This year, rising non-mining business investment and public infrastructure spending should support Australian growth. Moreover, resilient global demand and increased exports of liquified natural gas are expected to boost overseas sales. However, Australia's bulky external debt leaves it exposed to potential capital outflows, while high levels of household debt represent a risk to financial stability. Expect GDP to expand 2.7% in 2018, and 2.7% again in 2019.

Australia GDP Annual Growth Rate

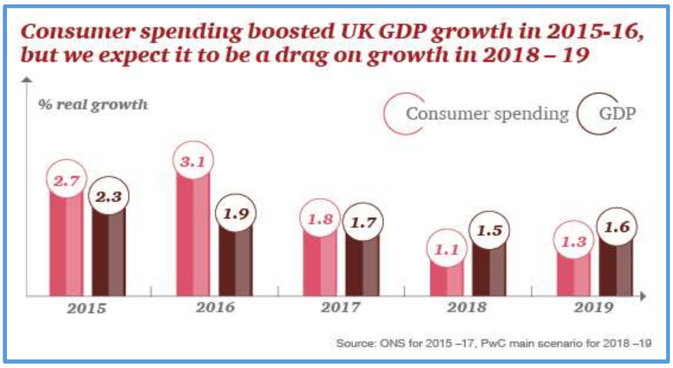
Australia continues to pick up its population growth, matching New Zealand's population growth in 2017.

Australia	2013	2014	2015	2016	2017
Population (million)	23.3	23.6	23.9	24.3	24.8
Annual Growth		1.3%	1.3%	1.7%	2.1%

New Zealand	2013	2014	2015	2016	2017
Population (million)	4.5	4.6	4.6	4.7	4.8
Annual Growth		2.2%	0.0%	2.2%	2.1%

United Kingdom Economic Outlook

Britain's economy is surging ahead, rebounding rapidly from a slow start to the year according to an index of economic indicators by experts at Goldman Sachs.



GDP growth could hit 0.5pc in the second quarter, the investment bank believes, shrugging off a 0.1pc slump in the first quarter. This indicates the slowdown was caused by "erratic and idiosyncratic" factors including the snow, said Goldman Sachs. They believe there could be an extra recovery on top of that as corporate investment growth and exports pick up.

The stronger global and Eurozone economies, and the competitive value of the pound particularly against the euro, should also boost exports, which will offer some support for overall UK GDP growth.

European Economic Outlook

The Eurozone economy appears to have hit a speed bump in the first quarter, with monthly indicators pointing to a deceleration in activity after a robust spell of growth in 2017. Industrial production plummeted in February, and economic sentiment dropped in March.

On the political front, wrangling over the 2021–2027 EU budget is set to begin, and the European Commission will present its draft proposal on 2 May. The budget will likely contain some cuts to spending programs and larger national contributions, in part due to the UK's exit from the bloc, which is set for March 2019.

Italy's political crisis has spooked global markets

Italy is embroiled in a power struggle between Eurosceptic populists - winners of the March election - and pro-EU establishment politicians. It took weeks of negotiations for a populist coalition to take shape, but the president has controversially vetoed it, so Italy is now back to square one. Now the country faces an interim government - not yet in office - before fresh elections.

New Zealand Free Trade with the EU

New Zealand's long pursuit of a free trade deal with the European Union has moved closer to reality, with the EU's Foreign Affairs Council approving the launch of negotiations. European Commission president Jean-Claude Juncker said the talks with New Zealand and Australia would follow successful agreements with

Canada, Japan, and other countries "committed to open and rules-based global trade".

EU Trade Commissioner Cecilia Malmström said the EU was already close with Australia and New Zealand in terms of shared values and an open outlook. "Together, we will now negotiate win-win trade deals that create new opportunities for our businesses, as well as safeguard high standards in key areas such as sustainable development… "Starting these talks between like-minded partners sends a strong signal at a time where many are taking the easy road of protectionism."

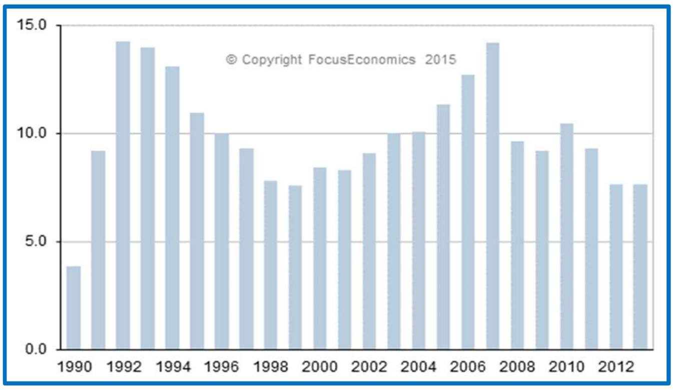
The EU is currently New Zealand's third-largest trading partner, with two-way trade excluding the UK (which will soon leave the union) worth about $16 billion a year.

Chinese Economic Outlook

Early data for the second quarter suggests that economic activity is losing some steam, following stronger-than-expected growth in the first quarter. A weakening property sector and reduced fiscal incentives to buy cars are putting downward pressure on retail sales. Moreover, investment in fixed assets is suffering from the ongoing financial deleveraging and the government's campaign to curb housing prices in tier-one cities. On the upside, manufacturing output continues to perform well on the back of solid external demand. While momentum appears to be fading, strong import growth suggests that domestic demand remains strong overall and that the country should still post a solid growth rate in Q2. Meanwhile, in a joint statement on 19 May, China and the United States decided to put the proposed tariffs on hold and continue working on a new trade framework.

The economy is successfully transitioning towards a model less reliant on credit and investment to sustain its elevated growth. That said, trade tensions between China and the U.S., fears of abrupt financial deleveraging and a cooling housing market threaten to derail an otherwise stellar growth trajectory. Their economy is forecast to grow at 6.5% in 2018, and 6.3% in 2019.

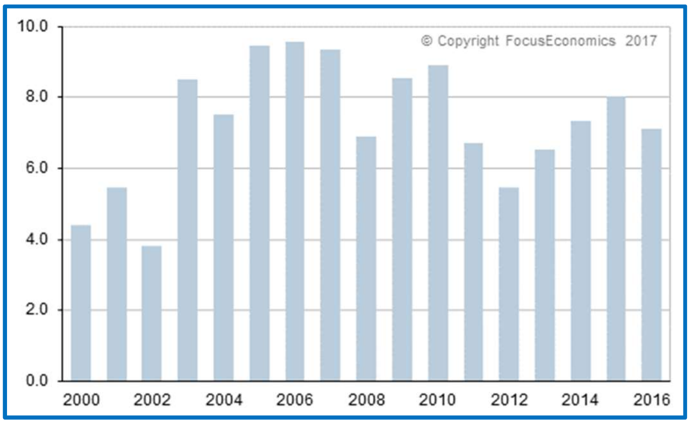
China	2013	2014	2015	2016	2017
GDP Annual Growth	7.8	7.3	6.9	6.7	6.8



Indian Economic Outlook

A normalization in cash conditions following the demonetization of late 2016 and the fading of disruptions from last year's launch of the Goods and Services Tax should facilitate the economic recovery this year. A FY 2018 budget skewed to benefit rural incomes should also boost private consumption. Nonetheless, risks of fiscal slippage and concerns over India's banking sector cloud prospects. Expect GDP growth of 7.3% in FY 2018, which is unchanged from last month's estimate, and 7.4% in FY 2019.

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 $80 a barrel for the first time in four years.

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.

There are, without question, solid reasons for the oil price rises. The global economy has been performing more strongly than expected, with almost every region doing its bit to push up demand. Donald Trump's tax cuts in the US and the reluctance of the Bank of Japan and the European Central Bank to tighten policy mean there is no immediate threat of recession.

US shale oil is highly profitable at $80 a barrel, so production is bound to expand, and increase supply

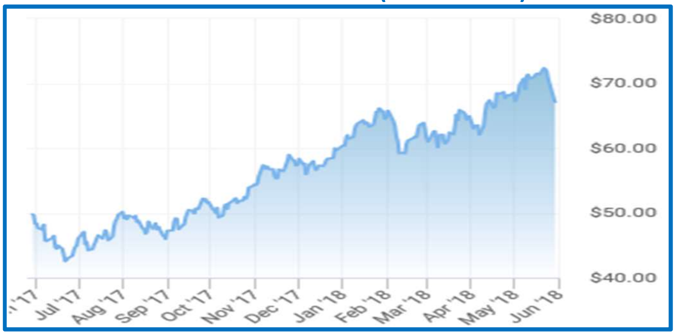
On the other side of the equation, supply has been kept in check. Part of this – the Opec production curbs – was planned. Other aspects of it – the chaos in Venezuela and Donald Trump's decision to pull out of the Iran nuclear deal – were not.

As a result, there is no longer an oil glut as there was in the middle of the decade. If Iran is frozen out of the global oil market, other suppliers will eventually take up the slack. But it will take time for OPEC members to ratchet up supply – even assuming that they decide to do so. The same applies to shale-oil producers in the US. Prices are going up because traders are speculating that demand for oil will exceed supply – and for now that looks like a reasonable assumption.

But push things forward six or nine months and things look a bit different. Although the global economy seems healthy enough, it has eased back since hitting a peak in the final months of 2017 and early 2018. Europe had a weaker-than-expected first quarter; China is clearly slowing down.

In the US, it is a different story. There, the economy is operating at close to full employment, investment is up and consumers are spending freely. But, in a classic case of the law of unintended consequences, any benefits Americans enjoy from Trump's tax cuts are soon going to be gobbled up by the higher fuel prices caused by the president's get-tough approach towards Iran.

OIL: WEST TEXAS CRUDE (1 YEAR CHART)



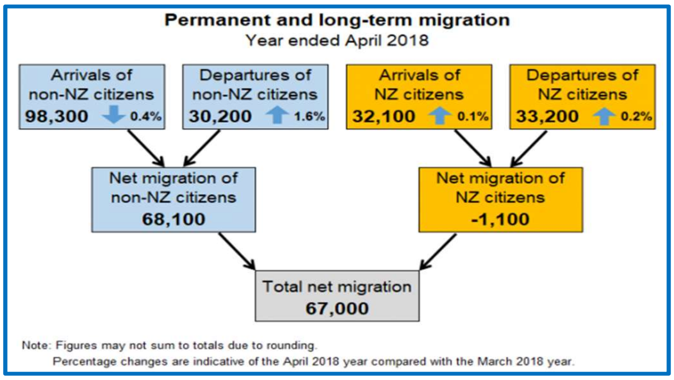
CURRENCY

There has been a compelling case for a higher US dollar for some time on the back of rising US interest rates and a firmer growth outlook. It's taken a while for markets to come to the same view, but in recent weeks they have fallen into line and the US dollar has appreciated sharply. We expect the NZD/USD to fall further over the course of the year.

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

SOURCE: Westpac

NEW ZEALAND MIGRATION



SOURCE: Stats NZs

TAURANGA CITY REMAINS AN ECONOMIC POWERHOUSE

Infometrics reports that the Tauranga City economy grew a whopping 4.4% in the year to March 2018. This growth was well above the national average of 2.7% and helped drive Bay of Plenty GDP growth up to 4.1%pa. This strong performance is not out of the ordinary for the City which has been growing by more than 4.0%pa for three and a half years.

Most of the indicators we monitor were in positive territory. This suggests that growth in the Tauranga economy is likely to be broadly based across several industries.

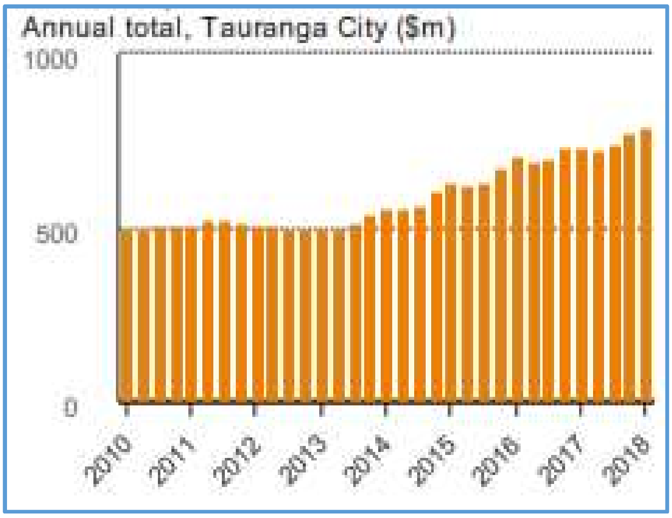
The strong economic performance has flowed through to the labour market. The number of Jobseeker Support recipients in the March 2018 year was down 1.8% from March 2017. Tauranga City's unemployment rate dropped to 4.4%, below the national average of 4.6%.

Spending indicators for Tauranga City were strong for the March 2018 year, suggesting that households are confident in their employment and financial positions. Retail trading activity was up 5.2% for the City in the year to March, compared to 4.5% growth nationally. On top of this growth, both car and commercial vehicle sales increased over the past year, climbing 4.8% and 10% respectively over the period.

The lift in spending has helped drive redevelopment of retail spaces, with plans in the pipeline to replace the Farmers building and expansion work on the Bayfair shopping centre now confirmed. These two large projects will be cherries on top of the 97% lift in non-residential consents measured in the year to March 2018.

Strong population growth has helped drive the increase in spending activity in Tauranga City. Net international migration dropped slightly between March 2017 and 2018 which means that population growth is likely to have slowed slightly over the past year. With migration expected to keep tracking downwards, the additional spending growth we've seen from more people moving to the City might be pared back.

TAURANGA'S TOURISM SPEND



SOURCE: Infometrics Quarterly Monitor, March 2018

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

PRIMARY INDUSTRY EXPORT REVENUE 2004-2020F

Units - NZ$m	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Dairy	6,092	5,982	6,986	7,848	10,359	11,036	10,312	12,912	13,379	13,139	17,791	14,050	13,289	14,638	16,710	16,840	17,060
Meat & wool	6,848	6,761	6,659	6,776	6,939	7,824	7,111	7,836	7,781	7,793	8,163	9,001	9,201	8,356	9,160	8,910	9,100
Forestry	3,294	3,242	3,249	3,648	3,295	3,615	3,921	4,588	4,332	4,527	5,199	4,683	5,140	5,482	6,090	6,000	6,010
Horticulture	2,212	2,270	2,325	2,649	2,896	3,338	3,279	3,383	3,560	3,547	3,807	4,187	5,002	5,152	5,370	5,560	5,760
Seafood	1,257	1,266	1,278	1,312	1,272	1,460	1,405	1,563	1,545	1,546	1,500	1,562	1,768	1,744	1,850	1,940	2,010
Arable	94	90	108	110	142	157	146	157	182	229	232	181	210	197	240	230	235
Other primary sector[3]	1,114	1,299	1,336	1,489	1,525	1,587	1,542	1,676	1,773	1,936	1,908	2,314	2,612	2,532	2,810	2,780	2,860
Primary industries	**20,910**	**20,909**	**21,942**	**23,831**	**26,427**	**29,017**	**27,716**	**32,114**	**32,553**	**32,717**	**38,600**	**35,978**	**37,223**	**38,101**	**42,230**	**42,260**	**43,035**

SOURCE: Ministry of Primary Industries

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

NZ Farm Sales slip

New Zealand farm sales fell 11% in the March quarter from a year earlier, as the mycoplasma bovis cattle disease outbreak weighed on purchasing intentions and spanned a period where smaller plots of rural land were captured by the regime to screen foreign buyers.

Some 388 farms were sold at a median price of $27,428 per hectare in the three months ended March 31, down from 438 farms at a median price of $27,509/ha in 2017, Real Estate Institute of New Zealand figures show. Fewer dairy and grazing farms accounted for the drop, with gains in finishing farm sales coinciding with strong prices for beef and lamb meat.

The outbreak of mycoplasma bovis last year prompted the Ministry for Primary Industries to order several dozen farms be locked down, and about 22,000 livestock will be slaughtered to control the spread of the disease.

Today's figures show dairy-heavy regions Waikato, Northland and Taranaki posted the biggest declines in farm sales, although Canterbury and West Coast registered gains, as did horticulture-focused Bay of Plenty.

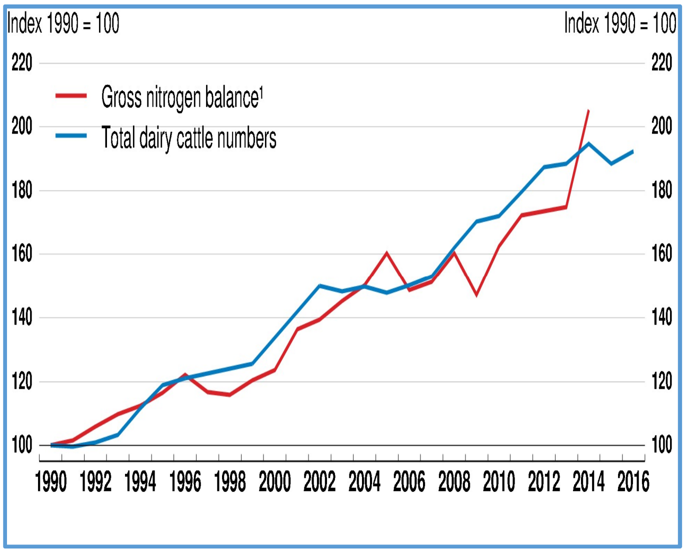
Farm sales during the latest March quarter fell under a ministerial directive to the Overseas Investment Office for all land purchases over five hectares to come in the screening regime, whereas in the prior period only farms deemed to be large fell under the agency's scrutiny.

MYCOPLASMA BOVIS

In early May MPI found mycoplasma bovis in the Waikato and the scale of the crisis became something talked about in macroeconomic and fiscal terms. The decision has now been made to try to eradicate it with culling. The problem is that testing is not reliable, so total farm culling is required. This is horrendous for the individual farmers (and their families) affected.

Call me a cynic but culling 152,000 dairy cows fits well with the Labour/Greens view about "Peak Cow".

IS POLLUTION FROM DAIRY FARMING REDUCING WATER QUALITY ?



NOTE: Kg of nitrogen per hectare of total agricultural land. The gross nitrogen balance calculates the difference between the nitrogen inputs entering a farming system (i.e. mainly livestock manure and fertilisers) and the nitrogen outputs leaving the system (i.e. the uptake of nitrogen for crop and pasture production).

Source: OECD/Eurostat Agri-Environmental Indicators Database; OECD Aglink database, www.agri-outlook.org; Statistics New Zealand; UK-Milk Development Council - LTO NEDERLAND.

'We should always measure a government's environmental rhetoric against its environmental record'
Sir John Key

New Zealand Equities

FNZC's NZ Equity Recommendations

Underperform			Neutral			Outperform		
SML	AIA	GNE	AIR	ARV	ARG	ATM	AFT	MET
THL	FPH	GTK	CNU	EBO	KPG	CEN	AUG	NZR
	MFT	HBL	CVT	ERD	NZX	FBU	IPL	
	RYM	MCY	DGL	FRE	OCA	GXH	MHJ	
		POT	FSF	GMT	SKL	MPG	SAN	
		SPK	KMD	IFT	SUM	MVN	SCL	
			NZM	MEL	VCT	NPT	SPG	
			OHE	PCT	VGL	NZK	TLT	
			PFI	PGW	ZEL	PEB	TRA	
			RBD	SKC				
			SKT	STU				
			TPW	TGH				
			WHS	TME				

FNZC Equity Focus List – New Zealand

Stock Name	Stock Code	Current Price $	Target Price $	Target Gross Return %	Stock Performance %			
					Fortnight	Month	Quarter	Year
NZX50 Index	NZX50	8,657	9,000	4.0%	1.3	3.4	6.5	17.4
A2 Milk Company	ATM	11.30	12.75	12.8%	-13.2	-8.5	22.3	221.9
Freightways	FRE	7.65	7.25	0.4%	1.5	0.0	4.3	8.1
Kathmandu	KMD	2.65	2.35	-4.5%	-1.5	4.3	13.7	47.4
Michael Hill International	MHJ	1.00	1.45	52.5%	-5.7	-11.5	-12.3	-11.6
New Zealand Refining	NZR	2.39	3.02	35.2%	1.3	0.0	5.6	6.9
Sanford	SAN	7.85	8.50	12.3%	0.0	4.2	-0.3	14.3
Skellerup Holdings	SKL	1.99	1.90	2.7%	9.9	11.8	9.4	37.3

Source: FNZC, IRESS

Stock Code	PE Ratio x		EV/EBITDA x		Net Div Yield %		Gross Div Yield %		Return on Equity %
	FY0	FY1	FY0	FY1	FY0	FY1	FY0	FY1	
NZX50	24.9	23.4	12.0	10.9	3.6	4.0	4.8	5.3	
ATM	49.2	35.0	32.6	24.3	0.0	0.0	0.0	0.0	42.2
FRE	19.6	17.8	12.3	11.3	4.0	4.7	5.6	6.6	23.8
KMD	12.6	11.8	7.4	6.6	4.9	5.1	6.8	7.1	11.7
MHJ	10.4	10.0	5.9	5.2	5.4	5.4	7.5	7.5	17.3
NZR	9.8	12.2	4.2	4.5	6.4	8.4	8.9	11.7	9.3
SAN	15.8	14.7	9.7	9.2	2.9	2.9	4.1	4.1	7.8
SKL	14.6	13.5	8.9	8.4	5.7	6.2	7.3	7.7	15.5

Stock Code	Date Added to Focus List	Price When Added to Focus List $	NZSX 50 Index When Added	Return Since Added to Focus List	Index Return Since Added	Over / (Under) Performance
ATM	22/12/2016	2.14	6,852	428.0%	26.3%	401.7%
FRE	18/05/2018	7.65	8,657	0.0%	0.0%	0.0%
KMD	4/01/2018	2.40	8,444	10.4%	2.5%	7.9%
MHJ	30/11/2017	1.33	8,187	-22.8%	5.7%	-28.5%
NZR	19/03/2018	2.32	8,492	3.0%	1.9%	1.1%
SAN	22/09/2017	7.38	7,815	9.0%	10.8%	-1.8%
SKL	17/04/2018	1.78	8,345	11.8%	3.7%	8.0%

Source: FNZC, IRESS

Focus List Purpose and Construction

The Focus List is not designed to represent a NZ 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. Hence, the stocks on the Focus List could become highly concentrated in a particular sector or provide exposure to a narrow theme which is of attraction at the time. An investor with a very high risk tolerance and probably a short term time horizon may be quite comfortable with a portfolio which comprises the current Focus List. However, the average equity investor and those with a different tolerance to risk, time horizon and financial circumstances probably would not.

The performance horizon for the stocks selected is short – that is, 3 to 6 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. Clients who actively trade stocks may be interested in the investment ideas which are presented on a fortnightly basis.

How are stocks selected? A quantitative screen based off 3 month earnings momentum, 3-month price momentum and return on equity provides an initial ranking for all the New Zealand stocks researched by our analysts.

The second selection criteria is that the stocks must be rated either neutral or outperform (underperform, not covered and restricted stocks cannot be selected).

Recent research on the potential stocks is then reviewed and the stock valuation relative to the New Zealand market is examined.

The final criteria is that the Focus List must contain at least one top 10 stock (this is because there is a tendency to end up with smaller, less liquid stocks).

To make sure that the stocks selected for the Focus List are value adding, cumulative performance relative to the NZX50 index on an equally weighted basis is monitored. Cumulative performance can be extremely volatile.

Cumulative performance since inception (21 October 2009) of the Focus List is currently ahead of the New Zealand equity market (as measured by the NZX 50 Gross index) by around 13.3%pa.

Freightways (FRE)

NEUTRAL

CURRENT PRICE: $7.90 **FNZC 1-YR TARGET:** $7.25

FRE has been added to the NZ Focus List. Examining our quantitative screen, FRE has positive (albeit modest) earnings momentum and a high return on equity. The high return on equity reflects the capital light nature of FRE's business, due largely to the use of owner operator drivers and property premises being leased. A large part of the rationale for adding FRE to the Focus List is that, on a relative valuation multiple basis, it appears to offer good value. Over the next two years, we forecast FRE's earnings will grow by 10%pa. In part this relies on the NZ economy continuing to perform reasonably well, as in an economic downturn we would expect FRE to underperform the broader NZ equity market. Factors which will help support the expected earnings growth include: repricing by NZ Post (FRE's main express package competitor), differentiated pricing structures for different service levels (this will take a number of years to evolve), operating efficiency in the relatively fast growing business to consumer (B2C) service and, hopefully, no repeat of the decline seen in the LitSupport business, which forms part of the Information Management division. Disappointingly, the new sorting facilities in Christchurch and Auckland don't appear to have generated any efficiencies to date. Similarly, the new aircraft freighters have not generated any benefits. In both cases the investment is needed to support growth and the lack of any other benefits may reflect start-up issues/costs. The delay in recouping higher fuel costs will also be a drag on earnings in the short term. In the medium/long term, increased capacity utilisation of FRE's Sydney document storage facility (currently at 60% utilisation) will result in improved margins (unfortunately the growth in demand for storage capacity is low, given the increased use of digital data storage). On a 3-5 year view the Express Package division faces downward pressure from the expected growth of Amazon's and Alibaba's business in New Zealand. Both companies are expected to build large market shares, which should give them significant bargaining power when negotiating freight contracts.

FRE Year to 30 June		2017A	2018F	2019F	2020F
Adjusted NPAT	NZ$m	56	60	66	72
Earnings /share	NZc	36.5	38.7	42.5	46.8
PE Ratio	x	20.4	19.2	17.5	15.9
Cash/Share	NZc	39.4	50.3	53.1	57.8
Dividend/share	NZc	27.8	30.5	35.8	40.5
Imputation	%	100	100	100	100
Net Div. Yield	%	3.7	4.1	4.8	5.4
Gross Div. Yield	%	5.2	5.7	6.7	7.6

Source: Company data; NZX; First NZ Capital Estimates

Sanford (SAN.NZ)

NEUTRAL

CURRENT PRICE: $7.70 **FNZC 1-YR TARGET:** $8.50

SAN's strategy to shift toward higher returning product mix continues to pay dividends but was offset by higher than expected commissioning cost for the San Granit and also weaker than normal catch volume in certain fisheries. The intended increase in minimum wage to $20/hour by the NZ Government by the year 2020 is a risk that may hold back SAN's progress towards its financial goals.

SAN's long-term prospects look favourable but not without some short-term volatility. As a major aquaculture operator and owner of fish quota in NZ, SAN is a beneficiary of on-going growth in global demand for protein and potential increase in seafood prices. SAN operates a vertically integrated quota based wild-catch fishery business in NZ's marine territorial zone and is a leading NZ aquaculture operator in green-lipped mussels and king salmon.

SAN Year to 30 Sept		2017A	2018F	2019F	2020F
Adjusted NPAT	NZ$m	40	47	50	55
Earnings /share	NZc	42.5	49.8	53.6	58.2
PE Ratio	x	17.8	15.2	14.1	13.0
Cash/Share	NZc	47.4	65.4	72.9	78.1
Dividend/share	NZc	23.0	23.0	23.0	23.0
Imputation	%	100	100	100	100
Net Div. Yield	%	3.0	3.0	3.0	3.0
Gross Div. Yield	%	4.3	4.3	4.3	4.3

Source: Company data; NZX; First NZ Capital Estimates

SAN is now focussed on maximising return by optimising the use of the company's resources, rather than the hunter-gatherer approach predominant in most fishing companies. This includes the creation of business-to-business and consumer-facing brands for certain products. SAN's goal is to achieve $1/ kg of EBIT over the medium term, compared with a $0.50/kg recorded in 2017.

Ryman Healthcare (RYM.NZ)

UNDERPERFORM

CURRENT PRICE: $11.56 **FNZC 1-YR TARGET:** $9.13

Free cash flow and inventory levels in focus

RYM Year to 31 March		2018A	2019F	2020F	2021F
Adjusted NPAT	NZ$m	144	150	156	167
Earnings /share	NZc	28.8	30.0	31.1	33.4
PE Ratio	x	40.0	38.5	37.0	34.4
Cash/Share	NZc	0.7	1.1	1.3	1.6
Dividend/share	NZc	20.4	23.0	26.5	31.0
Imputation	%	0	0	0	0
Net Div. Yield	%	1.8	2.0	2.3	2.7
Gross Div. Yield	%	1.8	2.0	2.3	2.7

Source: Company data; NZX; First NZ Capital Estimates

- RYM produced a strong result at book value level with upwards revisions to long-term house price growth and still favourable conditions driving $352m FY18 fair value movement (NTA up to $1.92 bn). Some improvements in disclosure have still allowed 2 key insights, requiring more information. A major lift in receivables - over the last 4 years, sales on an accrual basis is >$250 m ahead of cash, propelled RYM's underlying profit contribution.
- RYM's reported resales inventory (new sales not disclosed; neither is buybacks) is understated by significant contracted, but unoccupied and yet to settle, inventory. We estimate unsettled inventory closer to 10% of RYM's unit base (vs. 0.8% available resale stock disclosed) across new and resales.
- Despite ~$2 bn balance sheet value, RYM's free cash flow from completed villages was $32m over FY17 + FY18, after taking into account $62 m of project capex over the last 2 years and $89 m village upgrade capex. We have only had visibility on maintenance capex for 2 years and RYM note that project capex will be down from FY19 while village upgrade capex includes remediation investment of a one-off nature that RYM expect to come down too (we question whether in a large portfolio such work will come up periodically). With so little detail provided on this capex, we need to see evidence of lower capex in FY19/20 given the concern new visibility on free cash flow raises. While RYM produces solid resales/DMF cash flow, there is virtually no cash from care after expensed overheads and village deficits (including R&M) while the resale/DMF cash has been almost completely consumed by village upgrade and project capex in the last 2 years.
- Low free cash flow adds to financial risk given the development and operating business is highly leveraged to residents (buyback risk) and banks (core debt building; development slow down risk) with the same property macro drivers. With dividends at nearly $100 m core debt is building up with it unclear what cash contribution development makes net of capitalized interest and fixed development overheads. Net debt was $1.06 bn at FY18.

STOCKS TO WATCH NEW ZEALAND

NOTE: THESE ARE ALL ONE YEAR GRAPHS

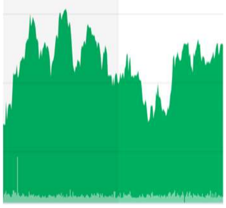
Prices as at 29th May 2018

AFT Pharmaceuticals

AFT's FY18 result highlights were strong growth in the Australian OTC sales channel driven by increased Maxigesic sales, following the codeine restriction, and also growth in other OTC products. A higher OTC sales mix resulted in a higher-than-expected gross profit margin. However, delays launching in international markets, a subdued NZ growth performance and higher-than-forecast operating costs meant an operating loss of $8.6m was bigger than FNZC's $6.3m forecast.

20018 P/E: n/a 2019 P/E: 199.6

NZX Code:	**AFT**
Share Price:	**$2.36**
12mth Target:	**$2.86**
Projected return (%)	
Capital gain	21.2%
Dividend yield (Net)	0.0%
Total return	**21.2%**
Rating:	**NEUTRAL**
52-week price range:	2.16-2.85



Air New Zealand

Brent crude oil up ~20% since 1H18 from US$66 to US$79. This price increase has coincided with a strengthening in the USD vs NZD from 0.73 to 0.69 (a 6% move), combining to deliver a 28% increase in Brent crude oil in NZD terms. Taking into account the airline's current hedging position for FY18, FNZC expects limited impact on FY18 earnings from this move in oil price and currency. However, the persistence of the oil price increase suggests negative earnings revisions for FY19 where hedging cover is less comprehensive.

2018 P/E: 9.5 2019 P/E: 11.1

NZX Code:	**AIR**
Share Price:	**$3.30**
12mth Target:	**$2.98**
Projected return (%)	
Capital gain	-9.7%
Dividend yield (Net)	6.6%
Total return	**-3.1%**
Rating:	**UNDERPERFORM**
52-week price range:	2.84-3.82

Auckland International Airport

The Commerce Commission has released its draft review of AIA's pricing decisions and expected performance for the PSE3 period. The Commission concluded that it has no significant concerns regarding AIA's forecasts including passenger growth, operating costs and RAB capex that underpin its targeted return in PSE3. The final report from the Commerce Commission expected in September 2018. FNZC identifies only modest forecast and valuation risk from the Commerce Commission's review, with the differential between AIA's targeted return and the Commission's benchmark return equating to only $47m of negative cash flow risk across the PSE3 period.

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

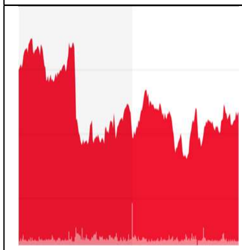
NZX Code:	**AIA**
Share Price:	**$6.55**
12mth Target:	**$5.25**
Projected return (%)	
Capital gain	-19.70%
Dividend yield (Net)	3.6%
Total return	**-16.1%**
Rating:	**UNDERPERFORM**
52-week price range:	6.02-7.36

The a2 Milk Company

ATM recently said it expected full-year revenues to rise more than 63% after a surge in the first nine months of the financial year. Revenue for the 12 months to June 30 is expected to be between $900m and $920m compared to $549.5m in the previous year. A2 Milk said revenue for the nine months ended March 31 was $660m, up about 70% from last year. ATM says that it is the only company engaged in sourcing, processing and marketing of solely A1 protein free dairy and nutritional products in global markets, saying @This contrasts significantly with likely new entrants".

20018 P/E: n/a 2019 P/E: 40.6

NZX Code:	**ATM**
Share Price:	**$10.40**
12mth Target:	**$12.75**
Projected return (%)	
Capital gain	20.9%
Dividend yield (Net)	0.0%
Total return	**20.9%**
Rating:	**OUTPERFORM**
52-wk price range:	3.28-14.62

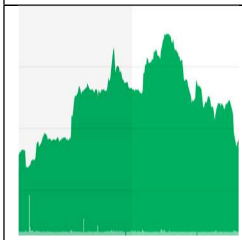


Chorus

Copper will be deregulated in areas where fibre has been built and it is proposed that CNU is subject to a copper price freeze in other areas. In urban areas the pace with which end users move to fibre will influence the value attributable to CNU's urban copper network, in conjunction with the pricing /investment/decommissioning decisions CNU makes. In rural areas CNU will be constrained by its telecommunications service obligations (TSO), and competition from fixed wireless is likely to influence its pricing and investment decisions there. Together all these factors combine to see us retain a cautious approach.

20018 P/E: 20.5 2019 P/E: 37.2

NZX Code:	**CNU**
Share Price:	**$4.08**
12mth Target:	**$4.12**
Projected return (%)	
Capital gain	1.1%
Dividend yield (Net)	5.3%
Total return	**6.4%**
Rating:	**NEUTRAL**
52-week price range:	3.67-4.77

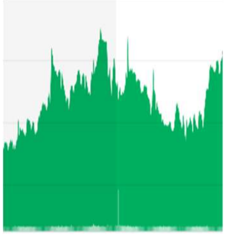


Comvita

CVT continues to disappoint. The takeover due diligence has floundered, and so the share price has retreats substantially. Risks include agricultural risk, food safety, China regulation, and discretionary spending. This is a company that continues to promise plenty but continues to struggle to convert into bottom line profits. At best - HOLD.

20018 P/E: 36.6 2019 P/E: 15.5

NZX Code:	**CVT**
Share Price:	**$5.92**
12mth Target:	**$7.15**
Projected return (%)	
Capital gain	20.8%
Dividend yield (Net)	2.9%
Total return	**23.7%**
Rating:	**NEUTRAL**
52-week price range:	5.14-9.21



Contact Energy

FNZC's spot-discounted cash flow (DCF) estimate rises to $6.26/share (from $5.56) on roll-forward, strong outlook for further cost reductions and a cap on capital expenditure. They have raised their DCF-based one-year target price similarly, to $6.50/share (from $5.85). Low 2H17 hydro hasn't stopped CEN delivering on investor expectations for improving cashflows and yield.

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

NZX Code:	**CEN**
Share Price:	**$5.68**
12mth Target:	**$6.50**
Projected return (%)	
Capital gain	14.8%
Dividend yield (Net)	5.9%
Total return	**20.7%**
Rating:	**OUTPERFORM**
52-week price range:	5.08-5.85

EROAD

ERD's NZ operation is delivering strong unit and revenue growth. With a reasonable pipeline and momentum in the business, this should continue in the near term. ERD is gaining traction in the US with ELD sales. However, FNZC still await evidence if it can execute with larger fleets and materially grow its user base. ERD expects to update the market on its strategic review into its US operations at its ASM on 2 August 2018. ERD will release 1Q19 Unit sales in early-July 2018.

2018 P/E: n/a 2019 P/E: 29.0

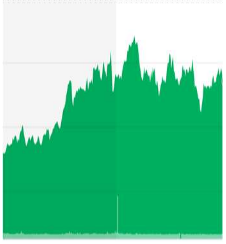
NZX Code:	**ERD**
Share Price:	**$3.55**
12mth Target:	**$3.60**
Projected return (%)	
Capital gain	0.8%
Dividend yield (Net)	0.0%
Total return	**0.8%**
Rating: NEUTRAL	
52-wk price range: 1.61 - 3.99	

Fletcher Building

FBU CEO Ross Taylor said "The completion of the entitlement offer means we can now significantly reduce group debt and improve the capital structure of Fletcher Building," This comes as a relief for the embattled construction firm that has been reeling from deep losses in major projects. Massive cost overruns at its building and interiors business led to the company's breach of its lending arrangements. Under its new deal with lenders, New Zealand's biggest builder will pay an additional 1.25% interest on its borrowings until June 30, 2019. Fletcher said it will also use proceeds from the disposal of assets and use the $725 million that it recently raised through an entitlement equity offering to repay debt (from to $1.27bn to $925m).

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

NZX Code:	**FBU**
Share Price:	**$6.70**
12mth Target:	**$8.40**
Projected return (%)	
Capital gain	25.7%
Dividend yield (Net)	1.6%
Total return	**27.3%**
Rating: OUTPERFORM	
52-week price range: 5.49-8.14	



Fisher & Paykel Healthcare

Over the past five years, FPH has delivered shareholders an exceptional investment return of 41%pa. This was underpinned by strong growth in its hospital focused respiratory and acute care (RAC) business and its homecare obstructive sleep apnea (OSA) business. Over that time, the OSA business has grown US mask market share from 7% to 13%, driven by technologically superior masks. However, given the typical 3-year product cycle for a mask, a new release is somewhat overdue. FPH's competitors, Resmed and Phillips, are exploiting this gap with new mask releases of their own.

2018 P/E: 38.8 2019 P/E: 34.2

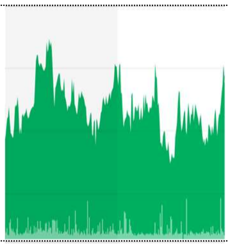
NZX Code:	**FPH**
Share Price:	**$12.95**
12mth Target:	**$12.00**
Projected return (%)	
Capital gain	-7.6%
Dividend yield (Net)	1.9%
Total return	**-5.7%**
Rating: UNDERPERFORM	
52-wk price range: .10.06-14.49	

Fonterra Shareholder Fund

Key concerns with FSF's investment case - inconsistency between the growth strategy and capital structure (inability to raise equity from farmers or retain earnings); poor track record in adding value from what investment has been made; and an inability to move earnings over 10 years—with the added issue that earnings are inherently volatile and neither FSF nor the market can forecast. With FSF consistently investing $800+ m with significant growth capex (and indicating it will continue to) FNZC forecasts have factored in earnings growth that has been elusive and had them questioning whether they have been too positive despite a cautious overall bias.

2018 P/E: 18.1 2019 P/E: 10.3

NZX Code:	**FSF**
Share Price:	**$5.23**
12mth Target:	**$5.09**
Projected return (%)	
Capital gain	-2.3%
Dividend yield (Net)	6.2%
Total return	**3.9%**
Rating: UNDERPERFORM	
52-week price range: 5.21-6.66	

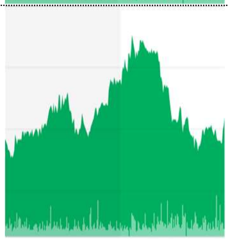


Freightways

On a relative valuation multiple basis, FRE appears to offer good value. Over the next two years, NZFC forecasts FRE's earnings will grow by 10%pa. In part this relies on the NZ economy continuing to perform reasonably well, as in an economic downturn they would expect FRE to underperform the broader NZ equity market.

2018 P/E: 19.6 2019 P/E: 17.8

NZX Code:	**FRE**
Share Price:	**$7.90**
12mth Target:	**$7.25**
Projected return (%)	
Capital gain	-8.2%
Dividend yield (Net)	4.7%
Total return	**-3.5%**
Rating: NEUTRAL	
52-week price range: 7.26-8.19	

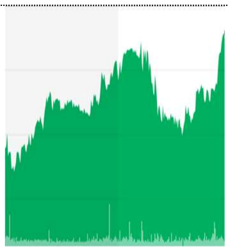


Heartland Bank

HBL's lower share price now represents a more balanced risk/reward proposition, providing an opportunity to gain exposure to a solid earnings growth story. The challenge for HBL remains the need to lift its return on equity closer to that of the Australian banks (11% versus 13%) in order to justify its current valuation premium. This might be achieved through growth of its relatively capital light reverse mortgage business, while maintaining the group's low bad debt profile.

2018 P/E: 15.1 2019 P/E: 141

NZX Code:	**HBL**
Share Price:	**$1.81**
12mth Target:	**$1.83**
Projected return (%)	
Capital gain	1.1%
Dividend yield (Net)	5.3%
Total return	**6.4%**
Rating: NEUTRAL	
52-week price range: 1.66-2.14	

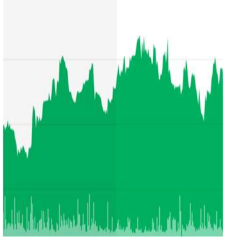


Infratil

The energy utility provider posted a 6.3% increase in FY underlying EBITDAF to $552.4m (up from $382.70m previous). However, FY net surplus of $60.5m was down 8.5%. IFT declared a final dividend of 10.75 cents per share. The company sees 2019 underlying EBITDAF of $500m to $540m. FNZC likes IFT's investment strategy, opportunities and history of execution - but investors will recognise that the portfolio is now in a capital investment phase and may require many years to realise gains.

2018 P/E: 33.0 2019 P/E: 23.3

NZX Code:	**IFT**
Share Price:	**$3.40**
12mth Target:	**$3.20**
Projected return (%)	
Capital gain	-6.0%
Dividend yield (Net)	5.6%
Total return	**-0.4%**
Rating: NEUTRAL	
52-week price range: 2.89-3.41	



Metlifecare

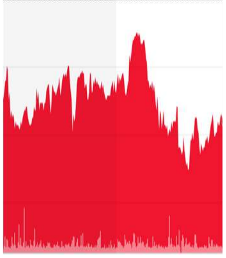
FNZC believes MET has an attractively positioned village portfolio with the positives accentuated over the last three years by a very strong property market which has enabled MET to experience considerable fair value uplift in the absence of development and has seen growth in its operating cash flows from both a maturing of the resale profile in some villages and attractive realisation of capital gains on unit price growth. There are limits to how long unit price led growth will play out for, and MET has only recently settled on a new strategy which means that it is in the early stages of execution.

2018 P/E: 19.4 2019 P/E: 17.3

NZX Code:	**MET**
Share Price:	**$5.93**
12mth Target:	**$7.64**
Projected return (%)	
Capital gain	28.4%
Dividend yield (Net)	2.2%
Total return	**30.6%**

Rating: OUTPERFORM

52-week price range: 5.23-6.30



NZ Refining

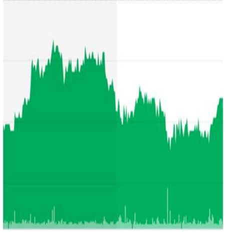
NZR's earnings are significantly influenced by refining margins and the value of the NZ dollar, both of which can fluctuate significantly. While the value of the NZ dollar is very hard to forecast, the outlook for the refining margin appears relatively favourable with demand for petroleum products in Asia-Pacific expected to outpace refinery capacity growth. The two near term risks for NZR are the inquiry into the Wiri pipeline rupture and the planned 61-day $85 million maintenance shutdown that started on 20 April. FNZC would be surprised if these events caused any material adverse impact on NZR.

2018 P/E: 9.9 2019 P/E: 12.4

NZX Code:	**NZR**
Share Price:	**$2.42**
12mth Target:	**$3.02**
Projected return (%)	
Capital gain	24.3%
Dividend yield (Net)	6.6%
Total return	**30.9%**

Rating: OUTPERFORM

52-week price range: 2.28-2.67



NZX

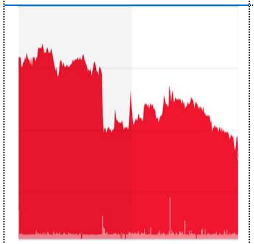
NZX has the potential for continued earnings growth over the next few years from incremental growth in its core operations, continued growth from Dairy and its Funds business, as well as cost management. In the medium term, NZX faces risks as new avenues to raise and trade securities arise and from competition from other exchanges. FNZC awaits NZX's 1H18 result in late August 2018. This will provide a basis to better assess NZX's revenue progress and cost base.

2018 P/E: 17.5 2019 P/E: 16.3

NZX Code:	**NZX**
Share Price:	**$1.12**
12mth Target:	**$1.16**
Projected return (%)	
Capital gain	3.6%
Dividend yield (Net)	5.8%
Total return	**9.4%**

Rating: NEUTRAL

52-week price range: 1.041.24



Pacific Edge

FNZC estimates a value of $0.38 per share requires PEB to grow operating earnings (EBIT) to ~$49 million in 10 years' time. These outcomes appear reasonable given PEB's projection for price and growth in commercial tests by 4,098 in FY18 and 7,500 in FY19. FY19 includes a partial contribution from Kaiser Permanente and having Local Coverage Determination (LCD) from CMS, which presumably represent relatively large contract wins.

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

NZX Code:	**PEB**
Share Price:	**$0.28**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	72.4%
Dividend yield (Net)	0.0%
Total return	**72.4%**

Rating: OUTPERFORM

52-week price range: 0.28-0.53

PGG Wrightson

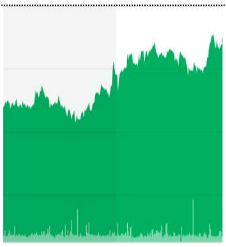
PGW rises as much as 6% to $0.71 on news that Elders will pay about NZ$600m for this Agribusiness. This is its highest share price since October 2009. FNZC likes PGW's growth strategy which focuses on improving existing business through share gain in segments where PGW is under-represented and on segments and geographies with structural growth opportunities.

2018 P/E: 13.2 2019 P/E: 12.5

NZX Code:	**PGW**
Share Price:	**$0.68**
12mth Target:	**$0.61**
Projected return (%)	
Capital gain	-11.6%
Dividend yield (Net)	6.2%
Total return	**-5.4%**

Rating: NEUTRAL

52-week price range: 0.55-0.69



Port of Tauranga

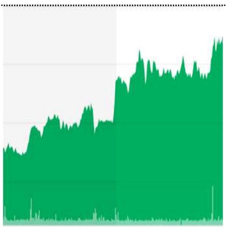
POT has a proven strategy that has seen incredible gains in shareholder wealth over many years. One of the first tasks for management under the port reforms of 1989 was to break the draconian union structure at POT. Achieving this ensured that POT became the most efficient port operator in Australasia. This Labour/NZ First Government's policy of re-unionisation puts all of POT's culture and performance at risk. That said, I have faith that Mark Cairns (POT's CEO) will overcome this risk and continue POT's share market outperformance.

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

NZX Code:	**POT**
Share Price:	**$5.20**
12mth Target:	**$3.80**
Projected return (%)	
Capital gain	-26.6%
Dividend yield (Net)	2.6%
Total return	**-24.0%**

Rating: ~~UNDERPERFORM~~

52-week price range: 3.70-5.27



Ryman Healthcare

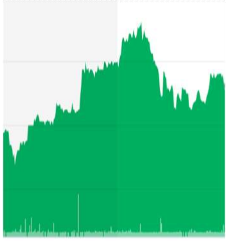
RYM produced a strong result at book value level with upwards revisions to long-term house price growth and still favourable conditions driving $352 m FY18 fair value movement (NTA up to $1.92 bn). Some improvements in disclosure have still allowed 2 key insights, requiring more information. A major lift in receivables - over the last 4 years, sales on an accrual basis is >$250 m ahead of cash, propelled RYM's underlying profit contribution. RYM's reported resales inventory (new sales not disclosed; neither is buybacks) is understated by significant contracted, but unoccupied and yet to settle, inventory. FNZC estimate unsettled inventory closer to 10% of RYM's unit base (vs. 0.8% available resale stock disclosed) across new and resales.

2018 P/E: 40.0 2019 P/E: 38.5

NZX Code:	**RYM**
Share Price:	**$11.56**
12mth Target:	**$9.13**
Projected return (%)	
Capital gain	-21.0%
Dividend yield (Net)	2.0%
Total return	**-19.0%**

Rating: UNDERPERFORM

52-week price range: 8.19-11.70



Sanford

Aquaculture continues to be the key driver of earnings growth. However, given a strong contribution of price/mix factors to revenue growth and operating efficiencies from the San Granit vessel, FNZC would have expected SAN to deliver strong operating leverage in 1H18. However, EBIT margins contracted ~50 bp to 13.0% from 13.5%. Inconsistent signals between EBIT margins and EBIT/kg (+$0.02 to $0.54/kg) appear to (in part) reflect an inventory drawdown (adds $0.01/kg). However, the other factors driving this difference remain unclear.

2018 P/E: 16.0 2019 P/E: 14.5

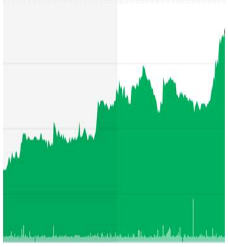
NZX Code:	**SAN**
Share Price:	**$7.70**
12mth Target:	**$8.28**
Projected return (%)	
Capital gain	10.6%
Dividend yield (Net)	2.9%
Total return	**9.1%**
Rating: NEUTRAL	
52-week price range: 6.70-8.50	

Scales Corporation

SCL has sold its coolstore operations for $151.4m. SCL Chair Tim Goodacre said "as highlighted in our annual results announcements, Scales is refreshing its strategy, adopting a greater focus on pure agribusinesses that play well to our strengths. We have identified our strengths as (1) operating fully-vertically integrated agriculture businesses, (2) participating in businesses with an export focus, and (3) adding value through connections to the China market. SCL will use the funds to pursue other business opportunities in NZ agribusiness.

2018 P/E: 16.1 2019 P/E: 15.1

NZX Code:	**SCL**
Share Price:	**$4.69**
12mth Target:	**$5.00**
Projected return (%)	
Capital gain	7.5%
Dividend yield (Net)	4.3%
Total return	**10.4%**
Rating: OUTPERFORM	
52-week price range: 3.30-5.00	

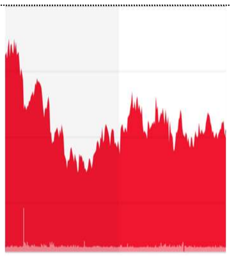


Skellerup Holdings

SKL announced a strong 1H18 profit, which resulted in forecast earnings being upgraded 11%-13% in each of the next two years. The strong profit reflected a 31% increase in the profitability of the diverse Industrial division, driven by increased revenue and higher margins. Factors that impact SKL's profitability include the value of the NZ dollar, the price of rubber and the state of the dairy industry. In aggregate, these factors are all currently supportive of higher profits. While only 7% of SKL's revenue is exposed to the mining/oil industry, this represents high margin business.

2018 P/E: 14.2 2018 P/E: 13.1

NZX Code:	**SKL**
Share Price:	**$2.04**
12mth Target:	**$1.90**
Projected return (%)	
Capital gain	-6.9%
Dividend yield (Net)	5.9%
Total return	**-1.0%**
Rating: NEUTRAL	
52-week price range: 1.58-2.05	

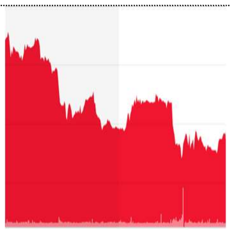


Sky City Entertainment

SKC released a trading update for the period till 28 April 2018, with non-IB revenue growth of +2.1% in 2H18 to date broadly in line with FNZC forecasts. SKC Auckland delivered mixed main gaming floor performance in the period, with better-than-expected EGM revenue growth of +3-4% offset by a decline in Local Table revenue. With capital investment in the NZICC and Adelaide redevelopment projects continuing to ramp up, and potential for additional property acquisitions within the Federal St precinct, SKC has outlined potential divestment options for non-core or capital-intensive assets within its portfolio.

2018 P/E: 16.7 2018 P/E: 16.2

NZX Code:	**SKC**
Share Price:	**$3.93**
12mth Target:	**$3.75**
Projected return (%)	
Capital gain	-4.3%
Dividend yield (Net)	5.0%
Total return	**0.7%**
Rating: NEUTRAL	
52-week price range: 3.66-4.53	

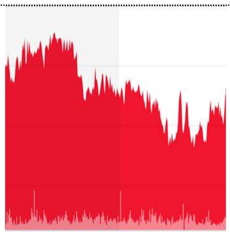


Sky Network Television

Following changes in SKT's pricing structure and strategy update, FNZC reviews forecasts in detail, smoothing out the negative impact on earnings of recent price changes. In assuming SKT retains a key aggregation role, they highlight the market retains a positive view on SKT's longer-term role, albeit one in which SKT faces considerable negative earnings pressure, appropriately reflecting an insufficient basis to assume a return to pricing power on either sub packages or on content, for now at least. Earnings momentum will remain negative with SKT unlikely to have done enough in its pricing changes to date, and still needing to roll out skinnier bundles and better platforms at lower price points to stem sub loss to competing content offerings.

2018 P/E: 7.8 2019 P/E: 9.3

NZX Code:	**SKT**
Share Price:	**$2.40**
12mth Target:	**$2.28**
Projected return (%)	
Capital gain	-3.4%
Dividend yield (Net)	6.2%
Total return	**2.8%**
Rating: NEUTRAL	
52-week price range: 2.06-3.72	



Spark NZ

SPK recently provided an FY18 guidance update having decided to bring forward change costs associated with Project Quantum labour cost savings from FY19 to FY18. While this will see increased costs of change in FY18 (~NZ$50m vs. ~NZ$25m previously – SPK is now normalising the costs) SPK does not expect additional in-year benefits in FY18 and the rest of its FY18 guidance is unchanged. This indicates no quantum change in outlook but FY19 will benefit.

2018 P/E: 15.7 2019 P/E: 14.7

NZX Code:	**SPK**
Share Price:	**$3.63**
12mth Target:	**$3.21**
Projected return (%)	
Capital gain	-11.4%
Dividend yield (Net)	7.1%
Total return	**-4.3%**
Rating: UNDERPERFORM	
52-week price range: 3.28-3.96	

Summerset Group

FNZC remains cautious on the retirement village sector due to the emerging weakness in the NZ housing market, resulting in longer sales periods and softer house prices (Auckland house prices fell 2% in the past year). FNZC takes some comfort from SUM having less future development upside incorporated in its share price than Ryman Healthcare (RYM).

2018 P/E: 34.1 2019 P/E: 28.2

NZX Code:	**SUM**
Share Price:	**$7.21**
12mth Target:	**$7.44**
Projected return (%)	
Capital gain	3.3%
Dividend yield (Net)	2.2%
Total return	**5.5%**
Rating: NEUTRAL	
52-week price range: 4.60-7.35	

Synlait Milk

The upside for SML in earnings if current dynamics continue to play out is not insignificant but we still need to moderate our enthusiasm for a number of factors which in the nearer term include a lack of customer diversity and some uncertainty on the prospects for SML's customers in a changing regulatory landscape in China. In the medium to longer term, we also need to consider the sustainability of margins as SML's customers start to de-risk their business and look for lower margins in return for providing greater volume certainty – currently there is a capital investment risk premium inherent in SML's margins.

2018 P/E: 24.6 2019 P/E: 21.8

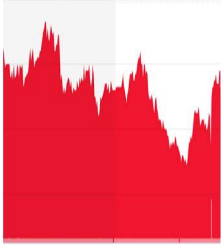
NZX Code:	**SML**
Share Price:	**$10.50**
12mth Target:	**$6.64**
Projected return (%)	
Capital gain	-36.9%
Dividend yield (Net)	0%
Total return	**-36.9%**
Rating: UNDERPERFORM	
52-week price range: 3.88-10.77	

Tegel

Shareholder receive a Takeover notice received with a 50% premium draft offer. Bounty Holdings New Zealand Limited (Bounty) is entitled to make an offer to acquire all shares outstanding between 11 May and 28 May. The draft offer price is $1.23 (vs. $0.82 close price on 24 April) with a further $0.041 dividend permitted without an adjustment. Key conditions include Overseas Investment Office (OIO) approval, and FY18 (1H19) results/guidance not being 10% less than the bottom-end of previous guidance. Exposure to OIO approval is reduced by a series of sale-and-leaseback arrangements and potential remedies exist (if required, such as divestment).

2018 P/E: 11.6 2019 P/E: 13.6

NZX Code:	**TGH**
Share Price:	**$1.15**
12mth Target:	**$1.18**
Projected return (%)	
Capital gain	2.6%
Dividend yield (Net)	5.9%
Total return	**8.5%**
Rating: NEUTRAL	
52-week price range: 0.81-1.45	



Tilt Renewables

The sale of 19.99% of TECT's 26.8% holding to Mercury NZ for $2.30 has raised $143.8m for TECT. Controlling shareholder Infratil missed an opportunity by underestimating TECT's ability to find an alternative buyer at such a premium. TLT recently reported a A$103.8m FY18 EBITDAF that was 1.5% below FNZC's A$105.4m forecast, primarily on overhead and development costs A$1.5m (+7%) above FNZC forecasts. FY18 has been marked by 8% below-mean wind conditions: they estimate EBITDAF would have been $4.2m (4%) higher at A$108m, if normalised for mean output. NPAT was reported as a ($2.8m) loss, in line with FNZC's ($2.2m) forecast.

2018 P/E: n/a 2019 P/E: 76.6

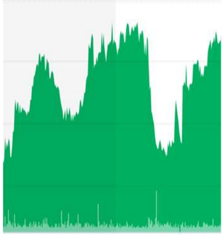
NZX Code:	**TLT**
Share Price:	**$2.05**
12mth Target:	**$2.23**
Projected return (%)	
Capital gain	9.3%
Dividend yield (Net)	4.6%
Total return	**13.9%**
Rating: OUTPERFORM	
52-week price range: 1.78-2.23	

Tourism Holdings

THL is currently trading at ~2.4x Entrprise Value to funds employed. Given the existing returns in the business have been achieved against a relatively favourable visitor arrivals growth backdrop, we await a period of sustained excess returns before factoring in the upside implicit in the current share price.

2018 P/E: 18.0 2019 P/E: 16.2

NZX Code:	**THL**
Share Price:	**$6.74**
12mth Target:	**$5.23**
Projected return (%)	
Capital gain	-22.5%
Dividend yield (Net)	3.8%
Total return	**-18.7%**
Rating: UNDERPERFORM	
52-week price range: 3.71-6.80	



Trustpower

Sound retail performance and a well-executed strategy - it might be the best game in town but FNZC still sees evidence that TPW's top-of-market netback may gradually normalise. FY18 result benefitted from continuation of unusual hydrology: $267m EBITDAF (in line vs FNZC's forecast $267m, pcp $218m), Underlying NPAT $135m vs FNZC's $138m, Net Debt $470m vs $444m (miss mainly due to GSP sale gain tax) and fully-imputed final 17cps dividend (flat vs pcp, but disappointing against FNZC's 21cps which assumed a lift on the strong result).

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

NZX Code:	**TPW**
Share Price:	**$5.93**
12mth Target:	**$5.45**
Projected return (%)	
Capital gain	-8.1%
Dividend yield (Net)	6.4%
Total return	**-1.7%**
Rating: UNDERPERFORM	
52-week price range: 5.05-6.05	

Vector

Despite recent strong electricity and gas trading metrics, the well-flagged lower gas distribution and trading earnings are expected to result in a relatively flat earnings profile over the next two years. Any incremental growth is likely to be driven through VCT's other businesses. Earnings momentum is expected to return in 2020 when VCT's regulated electricity network earnings are reset, currently expected to result in a $20 million annual uplift.

2018 P/E: 25.1 2019 P/E: 25.8

NZX Code:	**VCT**
Share Price:	**$3.37**
12mth Target:	**$3.60**
Projected return (%)	
Capital gain	7.1%
Dividend yield (Net)	5.1%
Total return	**12.2%**
Rating: NEUTRAL	
52-week price range: 3.11-3.51	

Z Energy

Z is still finding small gains in tough fuel market. Gross fuel margins were roughly in line for retail (27.7cpl vs. FNZC's 27.4cpl, pcp 28.2cpl) and commercial (9.1cpl vs. 9.3cpl, pcp 9.3cpl) to achieve $685m fuel GM vs. FNZC's $687m across the previously disclosed 4,144ml marketing volume. Refining gross margin was ahead at $86 (+12% vs. FNZC's estimate of $77m). FY19 cost guidance of $412m implies $401mn ongoing cost some ~$14m or 6% above FNZC's prior forecast. Z has re-entered supermarket docket schemes a ~150mlpa deal with Foodstuffs unseats Mobil after September.

2018 P/E: 14.0 2019 P/E: 12.3

NZX Code:	**ZEL**
Share Price:	**$7.40**
12mth Target:	**$7.55**
Projected return (%)	
Capital gain	2.0%
Dividend yield (Net)	7.5%
Total return	**9.5%**
Rating: NEUTRAL	
52-week price range: 6.81-8.04	

NZ LISTED COMPANIES 28th May 2018	Ticker	Mrkt Cap	Price 28-May-18	Target Price	Price Earnings (x)		Net Yield (%)	
Source: First NZ Capital, CSFB		(NZ$m)	(NZ$)	(NZ$)	FY18	FY19	FY18	FY19
HOTELS, RESTUARANTS & TOURISM								
Restaurant Brands New Zealand	RBD	961	7.77	7.22	23.7	21.0	3.6%	3.7%
Sky City Entertainment Group	SKC	2,728	4.01	3.75	16.6	16.1	5.0%	5.0%
Tourism Holdings	THL	799	6.49	5.23	19.8	17.7	3.5%	4.2%
MEDIA & INTERNET								
NZME Limited	NZM	167	0.85	0.82	6.7	7.8	8.8%	7.6%
Sky Network Television	SKT	942	2.42	2.29	8.6	12.2	6.2%	6.2%
Trade Me Group	TME	1,906	4.8	4.50	19.8	18.2	4.3%	4.9%
RETAIL								
The Warehouse Group	WHS	711	2.05	2.00	13.5	9.8	6.3%	7.8%
Kathmandu	KMD	570	2.53	2.35	12.0	11.3	5.1%	5.3%
Michael Hill International	MHJ	337	0.95	1.36	9.8	9.5	5.7%	5.7%
Turners Automotive	TRA	246	2.9	3.6	9.9	9.6	5.2%	5.5%
CONSUMER STAPLES								
Comvita	CVT	263	5.77	7.15	31.1	13.1	1.40%	3.40%
Delegat Group	DGL	871	8.61	7.6	20.5	17.9	1.6%	1.8%
Fonterra Shareholders' Fund	FSF	715	5.4	5.09	18.3	10.4	3.7%	6.7%
Green Cross Health	GXH	240	1.68	2.22	12.7	12	4.2%	4.2%
New Zealand King Salmon Co	NZK	320	2.31	2.37	21.7	22.3	3.0%	2.9%
PGG Wrightson	PGW	506	0.67	0.61	14.5	13.7	5.7%	5.7%
Sanford	SAN	735	7.85	8.28	16.1	14.6	2.9%	2.9%
Scales Corporation	SCL	681	4.87	5.00	17.4	16.2	3.9%	4.3%
Synlait Milk	SML	1,821	10.16	6.64	24.7	21.8	0.0%	0.0%
Tegel	TGH	399	1.12	1.18	11.6	13.6	6.40%	5.90%
The a2 Milk Company	ATM	7,936	10.87	12.75	44.8	31.8	0.0%	0.0%
ENERGY								
NZ Refining	NZR	763	2.44	3.02	10.0	12.6	6.2%	8.2%
Z Energy	ZEL	2,980	7.45	7.55	14.1	12.3	4.3%	7.4%
FINANCIALS								
Heartland Bank	HBL	1,014	1.81	1.83	14.8	13.9	5.2%	5.5%
HEALTH CARE								
AFT Pharmaceuticals	AFT	230	2.36	2.86	-18.0	188.4	0.0%	0.0%
Ebos Group	EBO	2,738	17.95	18.45	18.6	17.6	3.8%	4.0%
Fisher & Paykel Healthcare	FPH	7,559	13.23	12.00	39.5	35.4	1.7%	1.9%
Orion Health	OHE	129	0.66	1.01	-4.1	-17.8	0.00%	0.00%
Pacific Edge	PEB	149	0.32	0.50	-10.3	-65.9	0.0%	0.0%
HEALTHCARE PROVIDERS								
Arvida	ARV	517	1.25	1.22	15.1	12.6	3.8%	4.8%
Metlifecare	MET	1,277	5.99	7.64	20.1	17.9	1.7%	2.1%
Oceania Healthcare	OCA	622	1.02	1.06	12.2	12.1	4.5%	4.9%
Ryman Healthcare	RYM	5,760	11.52	9.13	40	38.5	1.8%	2.0%
Summerset Group Holdings	SUM	1,636	7.28	7.44	38.4	31.8	1.90%	2.20%
INDUSTRIALS								
Metro Performance Glass	MPG	167	0.90	0.83	9.1	8.1	8.2%	8.4%
Methven	MVN	75	1.02	1.25	10.9	9.3	7.40%	7.80%
Skellerup Holdings	SKL	389	2.02	1.90	15.3	14.1	5.40%	5.90%
Steel & Tube	STU	147	1.62	2.00	8.1	7.9	8.6%	8.6%
LOGISTICS & TRANSPORTATION								
Air New Zealand	AIR	3,705	3.3	2.98	9.4	11	6.70%	6.70%
Auckland Airport	AIA	7,883	6.56	5.25	29.8	28.9	3.4%	3.4%
Freightways	FRE	1,218	7.85	7.25	20.3	18.5	3.9%	4.6%
Mainfreight	MFT	2,593	25.75	21.6	23.1	19.8	1.70%	2.10%
Port of Tauranga	POT	3,490	5.13	3.80	36.7	34.2	2.5%	2.7%
INFORMATION TECHNOLOGY								
EROAD	ERD	244	3.59	3.60	n.m.	27.4	0.0%	0.0%
Gentrack Group	GTK	624	7.46	6.10	33.8	28.2	2.5%	3.0%
Vista Group International	VGL	568	3.43	2.95	31.5	24.3	1.5%	2.1%
Xero	XRO	5,968	39.5	35.19	-213	n.m.	0.0%	0.0%
REAL ESTATE								
Argosy Property	ARG	893	1.08	1.09	16.3	16.0	5.7%	5.8%
Augusta Capital	AUG	92	1.05	1.14	15.9	14.1	5.4%	5.7%
Goodman Property Trust	GMT	1,829	1.42	1.30	18.1	17.8	4.7%	4.7%
Kiwi Property Group	KPG	1,960	1.38	1.39	18.9	19.6	5.0%	5.0%
Investore Property	IPL	385	1.47	1.48	18.7	17.6	5.1%	5.4%
NPT	NPT	94	0.58	0.69	15.5	16	6.2%	6.2%
Precinct Properties NZ	PCT	1,562	1.29	1.32	20.4	19.7	4.5%	4.7%
Property for Industry	PFI	835	1.68	1.64	19.9	19.3	4.5%	4.6%
Stride Property Group	SPG	646	1.77	1.90	16.8	17.2	5.6%	5.6%
TELECOMMUNICATION SERVICES								
Chorus	CNU	1,753	4.08	4.12	20.3	36.9	5.4%	5.4%
Spark NZ	SPK	6,369	3.47	3.21	15.5	14.5	7.2%	7.2%
UTILITIES								
Contact Energy	CEN	4,033	5.63	6.50	26.5	20.8	5.7%	7.2%
Genesis Energy	GNE	2,420	2.40	2.16	23.1	20.6	7.1%	7.5%
Infratil	IFT	1,893	3.39	3.20	34.9	24.7	4.9%	5.2%
Mercury NZ	MCY	4,430	3.23	3.07	25.3	28.1	5.2%	5.2%
Meridian Energy	MEL	7,843	3.06	2.83	38.4	34	6.3%	6.3%
TILT Renewables	TLT	588	2.05	2.06	-211.9	84.2	1.6%	3.9%
TrustPower	TPW	1,853	5.92	5.45	13.7	16.8	5.7%	6.5%
Vector	VCT	3,350	3.35	3.60	25.5	26.2	4.9%	5.1%
Market Average*					**20.1**	**18.5**	**4.2%**	**4.5%**

**PE ratios exclude: AFT, ERD, FBU, OHE, PEB, TLT, XRO*

Index / Stock Name	Stock Code	Current Price $	Target Price $	Target Gross Return %	Gross Stock Performance %			
					Fortnight	Month	Quarter	Year
ASX100 Index	ASX100	15,398			-0.3	3.5	9.0	9.0
Computershare	CPU	18.07	18.50	4.6%	2.9	6.9	-0.7	34.1
Caltex Australia	CTX	30.10	40.80	39.5%	-1.7	-5.3	-9.6	8.2
Crown Resorts	CWN	13.51	13.10	1.4%	2.4	4.7	5.8	35.4
Cleanaway Waste Management	CWY	1.58	1.45	-6.8%	-5.4	2.6	3.3	45.2
Clydesdale Bank	CYB	5.32	6.00	13.4%	-3.4	-0.4	2.3	18.9
Domino's Pizza Enterprises	DMP	44.69	42.47	-2.3%	5.5	14.1	10.2	-17.9
Iluka Resources	ILU	11.77	11.10	-4.1%	3.5	1.0	24.6	69.9
Lend Lease Group	LLC	18.25	19.30	9.5%	0.6	2.3	8.6	28.5
Magellan Financial Group	MFG	23.47	28.00	23.7%	-1.6	0.9	-5.1	5.3
Origin Energy	ORG	9.94	9.65	-2.9%	0.9	6.0	9.4	42.4
Rio Tinto	RIO	84.60	82.00	2.0%	4.3	5.1	8.4	29.6
Sydney Airport	SYD	7.04	6.80	1.9%	-2.1	7.3	11.4	21.3

Source: IRESS, Credit Suisse, FNZC

Stock Code	PE Ratio x		EV/EBITDA x		Net Div Yield %		Return on Equity %
	FY0	FY1	FY0	FY1	FY0	FY1	
CPU	21.6	18.9	13.7	12.3	2.2	2.3	25.8
CTX	12.6	14.0	7.3	8.0	4.0	3.6	19.0
CWN	26.3	21.0	11.4	11.0	4.4	4.4	7.7
CWY	29.2	24.2	11.0	10.2	1.4	1.8	4.0
CYB	11.4	9.4	-13.8	-11.6	0.7	4.1	7.9
DMP	28.8	23.4	15.5	13.1	2.6	3.0	38.5
ILU	15.8	17.6	9.2	9.2	1.6	2.8	30.0
LLC	13.7	12.1	9.4	9.1	3.8	4.4	12.7
MFG	16.8	14.1	12.5	10.3	4.4	5.2	37.2
ORG	18.5	13.1	8.5	7.4	0.0	2.3	7.7
RIO	11.7	13.5	5.9	6.8	5.1	4.4	21.6
SYD	39.7	35.7	18.8	17.8	5.3	5.9	1.7

Source: IRESS, Credit Suisse, FNZC

FNZC's Australian Focus List Changes

SYDNEY AIRPORT (SYD)

SYD has been added to the Australian Focus List. SYD currently displays modest earnings momentum. Importantly, SYD currently appears to offer good value relative the broader Australian equity market on a relative valuation multiple basis. Furthermore, the SYD share price has underperformed that of other global airports. It is hard to discern any particular reason for this, other than SYD's high level of debt (SYD's ratio of net debt/EBITDA is approximately twice that of Auckland International Airport (AIA), while EBITDA/interest is half that of AIA).

Consequently, SYD's share price has around 20% more leverage to changes in the value of its assets than AIA's share price does. Currently, SYD's earnings are unlikely to be materially affected by higher interest rates, as much of it is at fixed interest rates. SYD is a monopoly asset and thus faces regulation on its aeronautical activities and the risk of regulation on non-aeronautical activities (in particular car parking). The Australian Consumer Competition Commission (ACCC) is currently conducting a review. The arrival of a new CEO, who has an increased focus on providing a good service to airlines and passengers, should help to ameliorate the increased regulatory risk.

As in the past, the success of SYD will be very much driven by the growth of international passengers using the airport (70% of EBITDA comes from international traffic). Solid growth in international passenger numbers is expected to continue, driven by passengers from Asia, in particular China. Possible Chinese travel restrictions are a risk, as is the adverse impact of the higher oil price on the cost of air travel.

Outside of passenger growth, we note that international aeronautical charges are set to grow by 4% in 2018 and 3% in 2019 under terms already agreed. Furthermore, the recent completion of investments in retail and property should result in commercial revenue per passenger increasing by 3-4%.

MAGELLAN FINANCIAL GROUP (MFG)

MFG has been added to the Australian Focus List. MFG appears to offer good value (based on consensus earnings) and has some support from a FY19 forecast cash dividend yield of 5.2%. MFG's 1H18 revenue was above expectations. However, higher costs associated with higher marketing and US distribution costs resulted in a profit which was only in line with expectations. With $67 billion of funds under management, MFG has initiated a soft close on a number of institutional products. However, there is capacity for existing clients to increase the level of funds managed by MFG and its US mutual funds remain open. MFG's Global Equity Fund has modestly outperformed its benchmark over five years and more recently has comfortably outperformed. The smaller Global Equity High Conviction Fund has generated strong performance, outperforming the MSCI World Index by 2.8%pa over three years. MFG's global equity funds represent 75% of total funds under management. MFG also has 15% of its fund under management exposed to global infrastructure where it has achieved very strong outperformance over many years. Future earnings are expected to benefit from the $1.6 billion Magellan Global Trust capital raising, positive institutional funds flow, a normalisation of performance fees and accretive acquisitions (Airlie and Frontier - which both act as distribution channels). We are attracted to MFG's positive earnings momentum and good return on equity. Being a fund manager, MFG's share price is likely to underperform in an equity market downturn. However, with no equity market downturn expected for the next 12 months or more, the operating environment should remain supportive.

FNZC's Australian Equity Recommendations

Underperform			Neutral			Outperform
ASX	WPL	CBA	AMC	MPL	AMP	AGL
APA		IAG	ALL	VCX	BXB	AZJ
TWE		ORI	ANZ		CSL	FMG
		SHL	BHP		CTX	QAN
			CPU		GPT	SCG
			IPL		JHX	WES
			NCM		LLC	
			OSH		MGR	
			QBE		MQG	
			RHC		NAB	
			S32		ORG	
			SYD		RIO	
			WBC		SGP	
			WOW		STO	
					SUN	
					TCL	

Global Equities – Investment Trust Recommendations

Category	Investment Trust	Comment
International	The Bankers ITC	Attractive way for investors to gain a diversified exposure to global markets and companies with an emphasis on dividend growth.
	Monks ITC	A diversified portfolio of growth companies with the "potential to deliver superior operational performance".
America	JP Morgan American	A core holding for investors looking for more than just a benchmarked US play and providing access to enormous research resources.
Japan	Schroder Japan Growth	A well-defined bottom-up investment approach Company providing attractive, low beta exposure to quality, reasonably priced companies.
Europe	JPM European (Growth)	A blue-chip product for retail investors offering a diversified portfolio of Continental European growth and value stocks.
Asia	Schroder AsiaPacific	An experienced, well-resourced team and has a good track record generated from a stock-picking approach.
	Edinburgh Dragon	One of the largest, most liquid Far East ex Japan investment trusts with conservative and strong management.
Emerging Markets	JPMorgan Emerging Markets	Performance driven through stock selection rather than macro exposure.
	Templeton Emerging Markets	Less risky diversified exposure to emerging markets.
Special Situations	Worldwide Healthcare	A diversified portfolio of large cap pharmaceutical companies, and large to mid-cap healthcare companies.

FNZC's Preferred Global Technology Companies

Internet	Price	Target Price
Alphabet (GOOGL.US)	1,040.75	1,350.00
Electronic Arts (EA.US)	119.83	143.00
Tencent (0700.HK)	315.45	432.04
IT Services		
Capgemini (CAPP.FR)	114.00	125.00
Payments		
PayPal (PYPL.US)	74.81	85.00
Global Payments (GPN.US)	113.33	125.00
First Data (FDC.US)	18.24	23.00
Semicap		
ASML (ASML.NL)	157.50	194.00
Lam Research (LRCX.US)	190.39	278.00

Software	Price	Target Price
Microsft (MSFT.US)	95.00	115.00
Salesforce.com (CRM.US)	123.11	135.00
Oracle (ORCL.US)	45.95	60.00
Dassault Systems (DAST.FR)	107.25	110.00
Sophos (SOPH.LN)	6.83	9.80
Datacentre		
Equinix (EQIX.US)	423.03	525.00
Semiconductors		
STMicroelectronics (STM.FR)	21.73	30.86
Samsung (SMSN.LN)	2,650,000	3,700,000
Nidec (6594.JP)	17,145	19,000
Micron Technology (MU.US)	46.79	70.00
Texas Instruments (TXN.US)	103.40	125.00

BBB to BBB-

Issuer	NZDX Code	Coupon	Maturity/ Reset Date	Cpn Freq	Credit Rating	Type	Min. size	Offer yield	Price/ $100	Indicative volume
Z Energy	ZEL020	7.250%	15/08/2018	4	NR (BBB-)	Snr Sec	5,000	3.25%	101.12	146,000
Contact Energy	CEN020	5.800%	15/05/2019	4	BBB	Snr Unsec	5,000	2.88%	102.99	5,000
ASB Bank Ltd (sub)	ABB030	6.650%	15/06/2019	4	BBB+	Tier 2	5,000	3.61%	104.48	654,000
Z Energy	ZEL030	6.500%	15/11/2019	4	NR (BBB-)	Snr Sec	5,000	3.42%	104.63	18,000
Christchurch Intl. Airport	CIA1010	5.150%	6/12/2019	2	BBB+	Snr Unsec	5,000	2.96%	103.13	20,000
University of Canterbury	UOC010	5.770%	15/12/2019	2	NR (BBB+)	Snr Unsec	5,000	3.76%	105.62	10,000
GMT Bond Issuer Ltd	GMB020	6.200%	16/12/2020	2	BBB+	Snr Sec	5,000	3.11%	110.33	50,000
Bank of NZ (Sub)	BNZ090	5.314%	17/12/2020	4	BBB+	Tier 2	1,000	3.83%	104.66	120,000
Sky Network TV	SKT020	6.250%	31/03/2021	4	NR (BBB-)	Snr Unsec	5,000	4.76%	104.95	30,000
Chorus Ltd	CNU010	4.120%	6/05/2021	4	BBB	Snr Unsec	5,000	3.38%	102.33	1,000,000
Wellington Intl. Airport	WIA020	6.250%	15/05/2021	2	BBB+	Snr Unsec	10,000	3.34%	108.38	155,000
Kiwi Income Property Trust	KPG010	6.150%	20/08/2021	2	BBB+	Snr Sec	5,000	3.43%	109.90	500,000
Westpac Banking Corp (sub)	WBC010	4.695%	1/09/2021	4	BBB+	Tier 2	5,000	3.82%	102.61	500,000
Christchurch Intl. Airport	CIA1020	6.250%	4/10/2021	2	BBB+	Snr Unsec	5,000	3.45%	109.72	65,000
Z Energy	ZEL040	4.010%	1/11/2021	4	NR (BBB-)	Snr Sec	5,000	-	-	0
Contact Energy	CEN030	4.400%	15/11/2021	4	BBB	Snr Unsec	5,000	3.40%	103.42	40,000
ASB Bank Ltd (sub)	ABB050	5.250%	15/12/2021	4	BBB+	Tier 2	5,000	3.86%	105.68	500,000
Trustpower	TPW140	5.630%	15/12/2021	4	NR (BBB-)	Snr Unsec	5,000	3.65%	107.73	162,000
Precinct Properties	PCT010	5.540%	17/12/2021	2	NR (BBB+)	Snr Sec	5,000	3.74%	108.44	20,000
Genesis Energy	GNE030	4.140%	18/03/2022	2	BBB+	Snr Unsec	5,000	3.62%	102.63	8,000
GMT Bond Issuer Ltd	GMB030	5.000%	23/06/2022	2	BBB+	Snr Sec	5,000	3.58%	107.48	17,000
Heartland	HBL010	4.500%	21/09/2022	4	BBB	Snr Sec	5,000	3.74%	103.87	500,000
Skycity Ent. Group	SKC040	4.650%	28/09/2022	4	BBB-	Snr Unsec	5,000	3.85%	103.97	50,000
Contact Energy	CEN040	4.630%	15/11/2022	4	BBB	Snr Unsec	5,000	-	-	0
Trustpower	TPW150	4.010%	15/12/2022	4	NR (BBB-)	Snr Unsec	5,000	3.81%	101.64	998,000
Meridian Energy	MEL030	4.530%	14/03/2023	2	BBB+	Snr Unsec	5,000	3.63%	104.88	45,000
Wellington Intl. Airport	WIA030	4.250%	12/05/2023	2	BBB+	Snr Unsec	10,000	-	-	0
Summerset	SUM010	4.780%	11/07/2023	4	NR (BBB-)	Snr Sec	5,000	3.82%	105.07	200,000
GMT Bond Issuer Ltd	GMB050	4.000%	1/09/2023	2	BBB+	Snr Sec	5,000	-	-	0
Kiwi Income Property Trust	KPG020	4.000%	7/09/2023	2	BBB+	Snr Sec	5,000	3.82%	101.75	69,000
Z Energy	ZEL050	4.320%	1/11/2023	4	NR (BBB-)	Snr Sec	5,000	-	-	0
Meridian Energy	MEL040	4.880%	20/03/2024	2	BBB+	Snr Unsec	5,000	3.87%	106.15	79,000
Investore Property Ltd	IPL010	4.400%	18/04/2024	4	NR(BBB)	Snr Sec	5,000	4.11%	102.02	1,000,000
GMT Bond Issuer Ltd	GMB040	4.540%	31/05/2024	2	BBB+	Snr Sec	5,000	3.98%	102.94	500,000
Wellington Intl. Airport	WIA040	4.000%	5/08/2024	2	BBB+	Snr Unsec	10,000	3.89%	101.84	793,000
Precinct Properties	PCT020	4.420%	27/11/2024	2	NR (BBB+)	Snr Sec	5,000	4.17%	101.44	1,000,000
PFI	PFI010	4.590%	28/11/2024	4	NR (BBB)	Snr Sec	5,000	-	-	0
Kiwi Income Property Trust	KPG030	4.330%	19/12/2024	2	BBB+	Snr Sec	5,000	4.07%	103.41	261,000
Wellington Intl. Airport	WIA050	5.000%	16/06/2025	2	BBB+	Snr Unsec	10,000	4.07%	107.93	1,000,000

BB+ to BB-

Issuer	NZDX Code	Coupon	Maturity/ Reset Date	Cpn Freq	Credit Rating	Type	Min. size	Offer yield	Price/ $100	Indicative volume
Infratil	IFT180	6.850%	15/11/2018	4	NR (BB-)	Snr Unsec	5,000	3.90%	101.61	466,000
Fletcher Building Industries Ltd	FBI120	5.400%	15/03/2019	2	NR (BB-)	Cap Note	2,000	-	-	0
Fletcher Building Industries Ltd	FBI130	6.450%	15/03/2019	2	NR (BB-)	Cap Note	2,000	-	-	0
NZ Post Group Finance	NZP010	6.350%	15/11/2019	2	BB+	Deep Sub	5,000	3.83%	103.80	511,000
Kiwi Capital Funding	KCF010	6.610%	15/07/2019	2	BB+	Tier 2	5,000	3.73%	105.61	255,000
Trustpower	TPW160	6.750%	15/09/2019	4	NR (BB+)	Sub	5,000	3.70%	105.23	43,000
Infratil	IFT200	6.750%	15/11/2019	4	NR (BB-)	Snr Unsec	5,000	3.87%	104.34	7,000
Mercury NZ	MCY010	6.900%	11/07/2019	4	BB+	Cap	5,000	3.95%	104.13	40,000
Infratil	IFT090	8.500%	15/02/2020	4	NR (BB-)	Snr Unsec	5,000	-	-	0
Fletcher Building Industries Ltd	FBI140	5.800%	15/03/2020	2	NR (BB-)	Cap Note	2,000	-	-	0
The Warehouse	WHS020	5.300%	15/06/2020	2	NR (BB-)	Snr Unsec	5,000	3.74%	105.45	200,000
Fletcher Building Industries Ltd	FBI150	4.750%	15/03/2021	2	NR (BB-)	Cap Note	2,000	-	-	0
Infratil	IFT220	4.900%	15/06/2021	4	NR (BB-)	Snr Unsec	5,000	-	-	0
Fletcher Building Industries Ltd	FBI160	5.000%	15/03/2022	2	NR (BB-)	Cap Note	2,000	-	-	0
Genesis Energy	GNE040	5.700%	9/06/2022	4	BB+	Hybrid	5,000	4.05%	107.37	1,000,000
Vector	VCT080	5.700%	15/06/2022	2	BB+	Cap Bond	5,000	4.01%	108.84	250,000
Infratil	IFT190	6.850%	15/06/2022	4	NR (BB-)	Snr Unsec	5,000	-	-	0
Infratil	IFT240	5.650%	15/12/2022	4	NR (BB-)	Snr Unsec	5,000	-	-	0
Infratil	IFT210	5.250%	15/09/2023	4	NR (BB-)	Snr Unsec	5,000	-	-	0
Infratil	IFT230	5.500%	15/06/2024	4	NR (BB-)	Snr Unsec	5,000	-	-	0
Infratil	IFT250	6.150%	15/06/2025	4	NR (BB-)	Snr Unsec	5,000	5.01%	108.00	130,000

Limitations and Disclaimer