Bay Brokers Limited

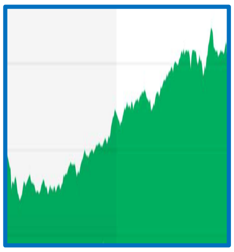
Ph: 07-578 7453 Mobile: 021-762 440 Email: andrew@vond.co.nz

INVESTMENT STRATEGIES

Volume 38

OCTOBER 2019

NZ50 GROSS INDEX – 1-YEAR



Rioting in Hong Kong; impeachment talk in the US; British democracy a total joke; and we have a government that loves platitudes but doesn't know how to act.

All is not well, and yet "*Are we heading for a recession?*" I still don't think so.

So, with interest rate heading to zero, our retirees are just going to have to learn to be wiser investors. Stay away from the loan shark companies, but get some good advice – otherwise you are likely to end up impoverished. It is in your hands.

It is not easy, because our sharemarket continues to defy the pundits – but if you invest for yield; and in strong companies and in companies that you understand exactly what they do – then it is not all doom and gloom.

CONTENTS	**PAGE**

STATISTICS NZ DATA

Estimated population at 6-Ocpt-2019:	**4,935,031**
Births less Deaths Jun-19 year:	26,600
Net long-term migration Jun-19 year:	49,400
Visitor arrivals Annual July 2019 (↑104,400)	**3,894,860**
Employment	
Total employed Mar-19: (↓0.3% Mar Q)	2,658,000
Unemployment rate Jun-19 quarter:(↓0.3%)	3.9%
Consumer Price Index Jun-19 year: (↑0.2%)	1.7%
The size of the NZ Economy Jun-19 year:	**$300 bn**
GDP per person Dec-18 year:	**$58,778**
GDP per capita Jun-19 year:	**0.8%**
GDP Growth (volume) Jun-19 year: ↓	**2.1%**

STATS NZ DATA

INVESTMENT SPENDING DECREASES

Investment in fixed assets dropped 1.0% in the June 2019 quarter, following 2.7% growth in the March 2019 quarter. This was largely due to lower investment in non-residential building, which fell 3.7%. The fall was partially offset by a 2.1% increase in investment in plant, machinery, and equipment.

IMPORTS/EXPORTS OF GOODS AND SERVICES DOWN

Exports of goods and services fell 1.8% in the June 2019 quarter, following a strong 2.7% growth in the previous quarter. The main drivers of the fall were exports of dairy products and exports of meat products, falling 8.9% and 2.6%, respectively. An increase in exports of coal, crude petroleum and ores, and gases partially countered the fall, rising 20%.

Imports of goods and services fell 0.3%. This is largely due to falls in fuel imports and imports of passenger motor cars.

GDP PER CAPITA RISES 0.2 PERCENT

GDP per capita increased 0.2% in the June 2019 quarter, following an increase of 0.1% in the March 2019 quarter. For the June 2019 year, GDP per capita was up 0.8%.

WEBSITE:
vond.co.nz

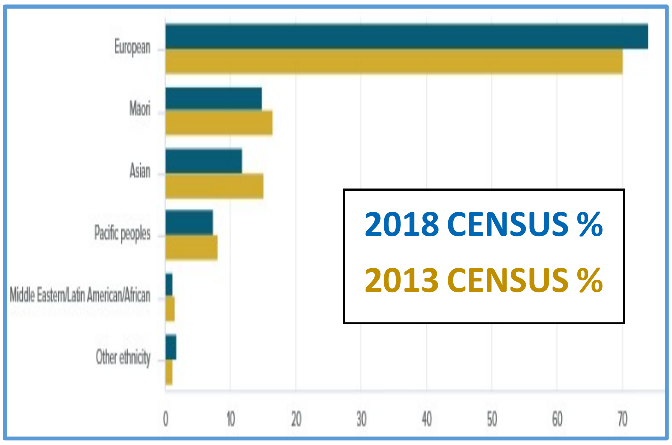
NZ AS A VILLAGE OF 100 PEOPLE CENSUS 2018

WHERE NZERS WERE BORN

Data from the 2018 census - Birthplaces of normally resident people in NZ was:

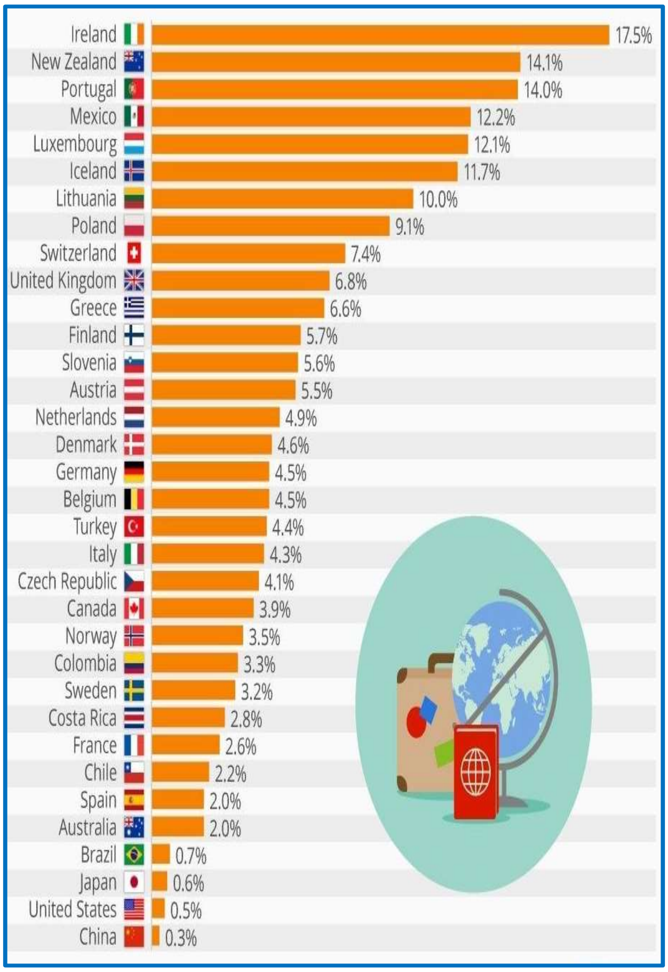
1. New Zealand 72.6%
2. England 4.5%
3. China 2.9%
4. India 2.5%
5. Australia 1.6%
6. South Africa 1.5%
7. Philippines 1.5%
8. Fiji 1.3%
9. Samoa 1.2%
10. South Korea 0.7%

ETHNIC GROUP COUNT - CENSUS 2018 v 2013



COUNTRIES WITH THE MOST PEOPLE LIVING OVERSEAS

PERCENTAGE OF NATIVE-BORN POPULATION LIVING ABROAD IN 2014



SOURCE: OECD

WESTERN BAY OF PLENTY POPULATION GROWTH

Around 30,000 people were added to the population of Tauranga and the Western Bay in the last 5 years, according to the 2018 census data. Unfortunately, the rate of house building hasn't kept pace with this growth, with dwellings only increasing by 2.6% a year (against a population growth of 3.6%). In the Western Bay it was an increase of 1.9% in new housing, versus a population increase of 3.3%.

UNINHABITED DWELLINGS

The big concern is the number of uninhabited dwellings in this country. According to the latest Census data released by Statistics NZ, there were 1,855,929 dwellings throughout New Zealand in the 2018 Census, with 191,646 (10.3%) of them unoccupied.

In 2013 that figure was 10.6%. Most major centres recorded a fall in the percentage of unoccupied homes between the 2013 and 2018 censuses, including Whangarei, Hamilton, Tauranga, Napier, Hastings, Wellington, Nelson, Christchurch, Queenstown-Lakes and Dunedin. However, Auckland went against the trend.

Not surprisingly the areas around the country with the greatest percentages of unoccupied dwellings were those with large numbers of holiday homes, including Great Barrier Island 50.9%, Waiheke 35.5%, Thames-Coromandel 49.4%, Taupo 31.9%, Ruapehu 33.4%, MacKenzie District 42.2% and Queenstown-Lakes 28.3%.

With 39,393 uninhabited dwellings in Auckland, the housing crisis could be easily resolved if, like some other countries (ie Canada), we placed uninhabited dwelling tax. We would need to think this through carefully (for unintended consequences), but it seems like it could be a sensible solution.

Percentage of Dwellings Unoccupied in 2018 Census Compared to 2013 Census

Territorial authority and Auckland local board area	Occupied Dwellings 2018	Unoccupied Dwellings 2018	Total Dwellings 2018	% Unoccupied 2018	% Unoccupied 2013
Far North District	23,055	6,417	29,472	21.8%	20.6%
Whangarei District	33,009	4,878	37,887	12.9%	14.6%
Kaipara District	8,844	3,186	12,030	26.5%	27.1%
Auckland	498,789	39,393	538,182	7.3%	6.6%
Thames-Coromandel District	12,924	12,600	25,524	49.4%	49.9%
Hauraki District	7,914	1,314	9,228	14.2%	15.0%
Waikato District	25,026	2,649	27,675	9.6%	9.8%
Matamata-Piako District	12,921	924	13,845	6.7%	6.9%
Hamilton City	55,068	3,096	58,161	5.3%	5.4%
Waipa District	19,581	1,254	20,835	6.0%	6.2%
Otorohanga District	3,519	723	4,242	17.0%	17.9%
South Waikato District	8,538	1,134	9,675	11.7%	10.9%
Waitomo District	3,411	831	4,239	19.6%	20.0%
Taupo District	14,094	6,588	20,682	31.9%	31.8%
Western Bay of Plenty District	18,603	3,441	22,041	15.6%	15.7%
Tauranga City	50,739	4,884	55,626	8.8%	9.0%
Rotorua District	25,236	3,228	28,464	11.3%	11.2%
Whakatane District	12,564	1,626	14,190	11.5%	11.6%
Kawerau District	2,511	222	2,733	8.1%	11.4%
Opotiki District	3,261	972	4,230	23.0%	22.8%

BONUS BONDS A HUGE RORT BY ANZ BANK

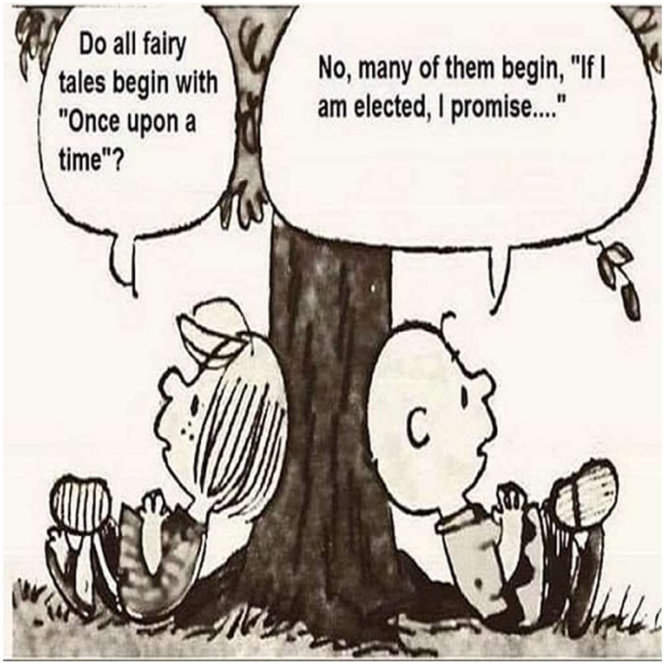
ANZ-managed Bonus Bonds are in the sights of the Financial Markets Authority, as it looks at legacy products that may no longer be suitable for investors.

An ANZ staffer had written to the bank's chief executive and board concerned about the product and calling it the "biggest rort in financial services in New Zealand". You simply must know that our $40 million fee under Bonus Bonds is widely viewed both within and outside ANZ as the biggest ongoing financial services rort in New Zealand."

There is around $3.25 billion invested in Bonus Bonds which is managed by ANZ Investment Services - a subsidiary of ANZ bank. In the year to March 31, 2019, ANZ earned $40.8 million in fees and charges down from $43.8m in the prior year. So, in 2018, Prizes accounted for $45.8m and ANZ received $40.8m in fees and charge! Plainly inequitable – I would say gouging....

Total investment income has declined from $124.0m to $101.0m since the March 2014 year, and prizes from $54.8m to $45.9m.

	Bonus Bonds ($000)	Investment income ($000)	Fees & expenses ($000)	Prizes ($000)	Prizes as % of FUM	Odds of winning a prize
2018	3,355,294	100,984	43,837	45,871	1.34%	1 in 26,875
2017	3,458,292	111,502	45,137	49,308	1.39%	1 in 25,003
2016	3,213,541	125,596	42,001	55,615	1.69%	1 in 19,731
2015	3,139,885	137,287	41,084	60,289	1.88%	1 in 17,447
2014	3,187,478	123,984	41,485	54,789	1.69%	1 in 20,111



A CLIMATE EMERGENCY – NOT

In August, Bay of Plenty Regional Council voted to declare a "climate emergency" (I was the sole voter against this ridiculous action), and as a result staff were asked to develop a Climate Action Plan.

When asked about this, our CEO's response was to state that in future councillor lunches would be 100% vegetarian! If this is the best that staff can do to save our planet, then we might as well cut our throats now.

As an organisation we operate to dual head office, with (as an example) the CEO's PA working 3 days in Whakatane, and driving (burning emissions) to Tauranga for the other 2 days. This just proves to me that our Regional Council isn't serious about this "climate emergency". What a joke!!!

While I didn't agree with declaring this emergency, I say if you do believe in it, then you should back up your weasel words with concrete actions. ACTION not WORDS has been my mantra at our Regional Council for the whole time I have been on council (9 years). We are great at the hui, but often very poor at the doey.

Our Regional Council has a core responsibility to ensure that we have a sustainable environment, but the problem is that they seem to be forever taking an overly precautionary approach. It has developed a reputation for saying No, rather than trying to be unashamedly business friendly.

I have a strong belief that if you want a sustainable environment, you need to have a strong economy, that will pay for our desired sustainability. If we look at the third-world – their environmental track record is almost entirely substandard environmentally. This current coalition government seems to want to send us back into the third-world. We have to push back – we need a strong agricultural sector, that can then look after our natural resources. I actively farmed for 17 years, and can assure you that most farmers are active environmentalists – they understand that they need a sustainable environment for their own economic sustainability.

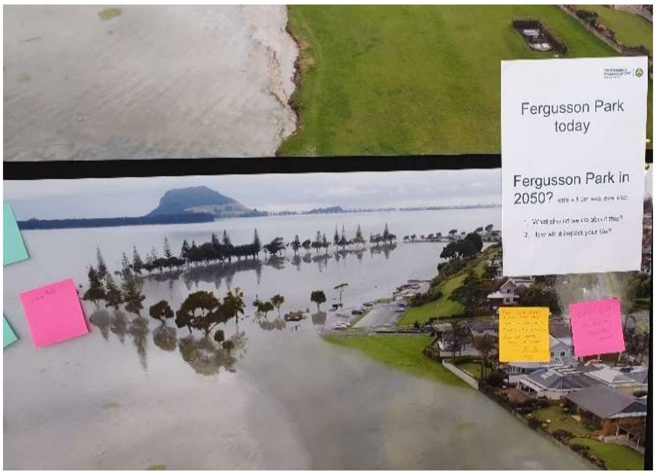
Bay of Plenty Regional Council, like so much of local government New Zealand wide, has lurched to the left, and I have to admit that it is getting very lonely on the centre-right. We haven't just lurched left – we have lurched "looney-left"; and I can't see this changing any time soon.

BOPRC STAFF ARE PLAINLY ALARMIST

I was at an expo for New Migrants recently, and our Civil Defence Emergency Group (manned by BOPRC staff) had a stand. Included is the photo below, which states "Ferguson Park in 2050? With a 1.5m sea level rise". This is hugely irresponsible by Bay of Plenty Regional Council staff.

We have only averaged 1.9mm annual sea level rise in Tauranga since 1976, and NIWA admitted that this is probably only tidal "noise". And yet our staff are telling our new migrants to expect 1.5 metres of sea level rise within the next 30 years. This assumes a 50mm annual rise – which is totally alarmist (and not scientifically robust).

Our children are committing suicide in unprecedented numbers, and this alarmist talk must be a huge contributor. We need to get some balance, and stop this alarmist claptrap.



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

Walt Disney

OUR POLITICAL CLIMATE

This is Labour's answer to National's Attack Ads….

JACINDA ARDERN KEEPS DIGGING

Are we witnessing the beginning of the end of the Ardern Administration?

On the 5th and 6th of August Newshub reported directly to the PM's Office that a violent sexual crime had been reported to the Labour Party by the alleged victim of the assault. That should have been enough for the Prime Minister to request full details from the Labour Party about the sexual assault allegation, and to then make the call she finally made to Nigel Haworth which precipitated his resignation as Party President. Labour's answer is to leak the name of the complainant – that is plainly disgraceful.

ARDEN'S RIDICULOUS UN CLIMATE/TRADE DEAL

New Zealand will lead five-way trade talks with Norway, Iceland, Costa Rica and Fiji, to try to use trade to combat climate change, by slashing fossil-fuel subsidies and abolishing tariffs on environmental goods. This proposal was announced at the UN meeting in New York by our Prime Minister.

This is just a joke – you only have to look at the five countries taking part. What proportion of total greenhouse gas emissions do they represent?

- Norway 0.10%
- Iceland 0.01%
- Costa Rica 0.03%
- New Zealand 0.17%
- Fiji 0.01%

These five countries are responsible for just 0.32% of global emissions – and that is why this proposed trade deal is such a joke!

GOVT ABANDONS ELECTRIC VEHICLE TARGET

There are 15,473 vehicles in the government fleet, and electric vehicles have been trickling in at an arthritic snail's pace. In the third quarter of the 2018/2019 financial year, there were 71 EVs. The next quarter, that number rose to 73 and has now reached 78.

TALE OF TWO LEADERS

SOURCE: KATE HAWKESBY

What we are seeing emerge, I think, is a tale of two leaders. We are seeing the contrast between the rise of Bridges and the fall of Ardern. One started atop the world, all smiles, hope optimism and empathy. She even had a 'mania' attached to the end of her name by an enchanted media.

The other: Subterranean, invisible, unknown, constantly undermined by those around him, always looking down the barrel of potential coups. Over the course of the past two years, their trajectories have been quite different.

Ardern is charismatic, she smiles a lot, she nods a lot, she says inspirational things and you want to believe her. But slowly it's being undone. The Empress has no clothes. She lacks commercial and interpersonal acumen. She is not a natural leader, she's indecisive and farms things out; too many reports, reviews, committees, working groups. I lost count of the number of them when they hit 200.

She's no CEO but she would make a great Head of Marketing and Communications – a lot of talk – a lot of PR, no substance. Not transformational, not open honest and transparent, not decisive, not even aware of what's going on within her own party. Would be a great Minister of Tourism.

On the other hand, we have Simon Bridges. Backed into a corner by conspirators sharpening their knives and people taking odds on his demise, he's had to claw and dig his way into the fight. Today he's looking more comfortable, self-assured, and actually self-effacing in respect to his weaknesses. Yes, he knows he will never grace the cover of Vogue and yes, he talks with a fierce Kiwi twang, but he's getting clearer on what leadership looks like. And that's the difference.

MOOD OF THE BOARDROOM RATINGS 2019

The Herald has published the ratings of Government Ministers from its annual Mood of the Boardoom. The scores are out of 5, so 2.5 or higher indicates a positive score. The ratings in order are:

1. Kris Faafoi 3.58
2. Grant Robertson 3.52 (-0.10)
3. Andrew Little 3.14 (+0.26)
4. David Parker 3.08 (+0.02)
5. James Shaw 3.05
6. Jacinda Ardern 2.93 (-0.37)
7. Winston Peters 2.92 (-0.28)
8. Stuart Nash 2.49
9. Megan Woods 2.44 (+0.01)

10. Shane Jones 2.43 (-0.12)
11. Carmel Sepuloni 2.40 (nc)
12. Chris Hipkins 2.34 (+0.08)
13. David Clark 2.33 (-0.14)
14. Eugenie Sage 2.29
15. Nanaia Mahuta 2.10 (-0.18)
16. Julie Anne Genter 2.09
17. Jenny Salesa 2.01 (-0.38)
18. Kelvin Davis 1.96 (+0.12)
19. Iain Lees-Galloway 1.69 (-0.73)
20. Phil Twyford 1.61 (-1.16)

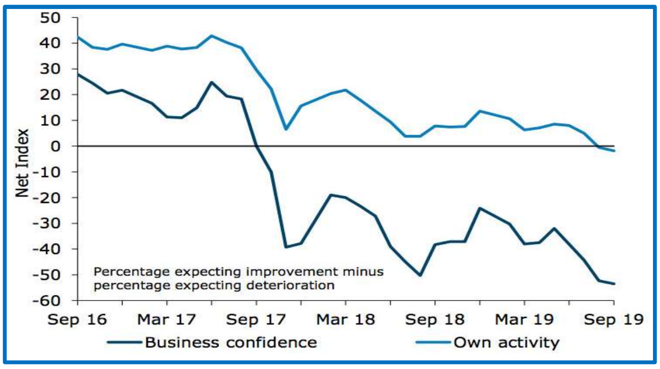
The biggest drops in the last 12 months are:

1. Phil Twyford -1.16
2. Iain Lees-Galloway -0.73
3. Jenny Salesa -0.38
4. Jacinda Ardern -0.37

CONFIDENCE CONTINUES TO SLUMP

Ardern should be concerned that her junior minister Kris Faafoi, is ranked her Government's top performer. While Faafoi has done a perfectly adequate job, what does his ranking suggest about the competence of the rest? According to polling firm, CT New Zealand, only 9% of New Zealanders are very confident that Ardern's team could competently manage a major economic downturn if — as seems likely — one is on its way from abroad. Nothing better explains the degree of economic disquiet.

ANZ BUSINESS CONFIDENCE INDEX



COAL USE INCREASING UNDER LABOUR

"The Coalition Government should be embarrassed that electricity generation using natural gas is declining, while generation using coal is increasing," National's Energy and Resources spokesperson Jonathan Young says.

"The Ministry of Business, Innovation and Employment (MBIE) released their quarterly energy report, which shows a 19% reduction in electricity produced by natural gas, but a whopping 62% increase in electricity produced by coal over the last year. This makes New Zealand the only country in the world that is transitioning out of gas and into coal."

"MBIE advised the Minister of Energy on 10 April 2018 that gas reserves were at the lowest reserve to production level since 2003, and no new discoveries had been made since 2005. Two days later, Prime Minister Jacinda Ardern announced a ban on future exploration permits.

New Zealand is now paying the price for this reckless, ideological decision as our dependence on coal has actually increased."

The Government refused to consult with the sector on the oil and gas ban, rejected advice from officials, and didn't request any analysis from the Ministry for the Environment or the Treasury.

"National believes it is important to have a plan to reduce emissions. However, it makes sense to use natural gas as part of the energy mix as we transition to a lower emissions economy. We believe in science-based, practical solutions rather than costly and ineffective virtue-signaling," Jonathan Young said.

ELECTRICITY MADNESS

Megan Wood is to outlaw "discounts for prompt payment" of electricity account. This is just further tinkering, and will cost the majority of consumers with higher prices. This, when the price of wholesale electricity has risen 60% in the last 12-months.

GENTER NEEDS TO GO

Julie Anne Genter, as Associate Transport Minister, continues to bully Labour into a transport infrastructure non-spend, that is costing New Zealanders in both safety and efficiency – all for a misplaced ideology that is "anti-cars".

Ministry staff say that Genter continues to tell senior management to go back and change their approach to research, when the answers to their research don't meet her objectives. Unfortunately, Phil Twyford and Jacinda Ardern are both far too weak to reign Genter in.

Genter still refuses to release her letter to Twyford, in which she threatened to resign and pull the coalition down, if he didn't oppose the Wellington Mt Victoria tunnel project. Now, she has been interfering in the Transport Ministry's handling of submissions on her infamous car-feebate proposal (the policy which imposes levies or offers subsidies on imported vehicles, depending on their emissions, at first point of sale).

The Ministry of Transport has been forced to apologise to National Leader Simon Bridges for having blocked more than 1,000 submissions opposing the clean car fee-bate scheme from a website run by National Party and says their views will be taken into account.

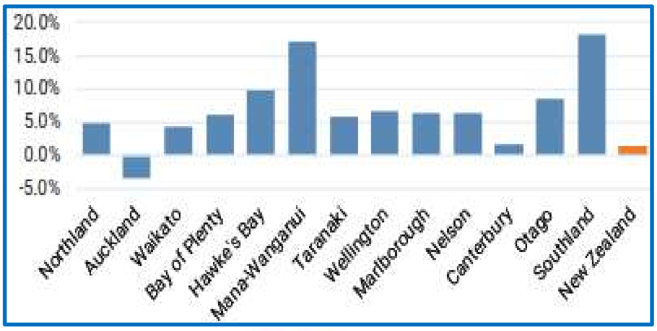
Genter's latest plan is to introduce "a scrappage scheme", which is still being hammered out. She says the general thrust is that people are incentivised to scrap their old vehicles with the offer of public transport vouchers, credits to buy a cleaner car, or a new vehicle like an e-bike.

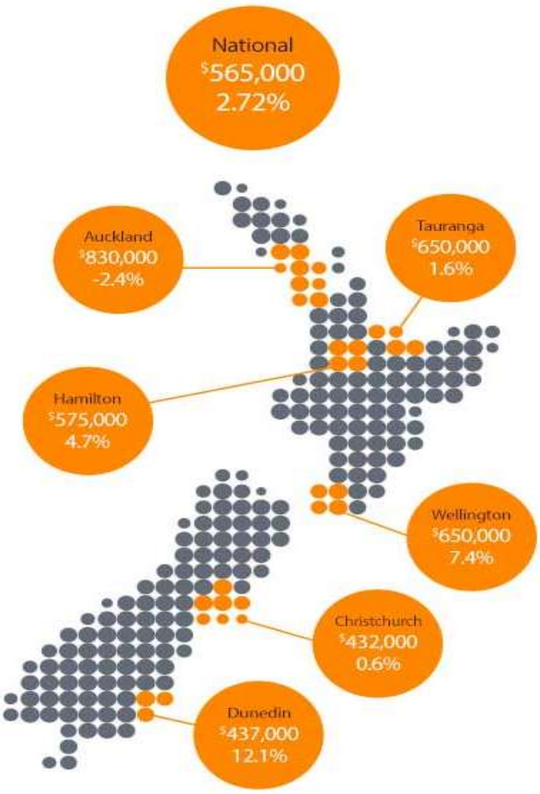
Genter is anti-business, and anti-NZ Inc… she must go.

HOUSE PRICE INFLATION

Regionally, there is a significant disparity in house prices growth. Auckland region has so far seen negative house price inflation. Manawatu-Whanganui and Southland have seen strong house price gains, while Waikato and Canterbury house price inflation has been muted.

HOUSE PRICE INFLATION BY REGION





For households, housing has increasingly become more expensive as a proportion of their incomes (see the following chart). This has particularly been the case since the early 2000s, with a sharp upward trend in the house price to income ratio. This trend was interrupted by the recession post-global financial crisis, but has continued apace since 2011.

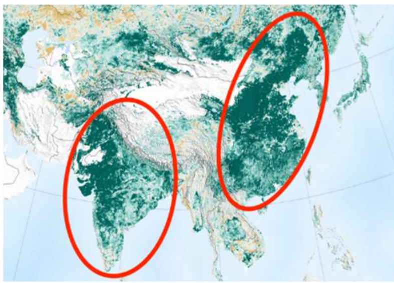
HOUSE PRICE TO INCOME RATIO

Source: OECD

As a consequence of the growing gap between house prices and incomes, New Zealand now ranks as one of the least affordable housing markets amongst developed countries, with the median house price now around 6.5 times higher than the median household income.

MEDIAN HOUSE PRICE TO MEDIAN HOUSEHOLD INCOME

NASA SAYS EARTH IS GREENER TODAY THAN 20 YEARS AGO THANKS TO CHINA, INDIA



What prompted the change? Well, it appears China and India can take the majority of the credit.

In contrast to the perception of China and India's willingness to overexploit land, water and resources for economic gain, the countries are responsible for the largest greening of the planet in the past two decades. These two most populous countries have implemented ambitious tree planting programs and scaled up their implementation and technology around agriculture.

Both China and India went through phases of large-scale deforestation in the 1970s and 80s, clearing old growth forests for urban development, farming and agriculture. However, it is clear that when presented with a problem, humans are incredibly adept at finding a solution. When the focus shifted in the 90s to reducing air and soil pollution and combating climate change the two countries made tremendous shifts in their overall land use.

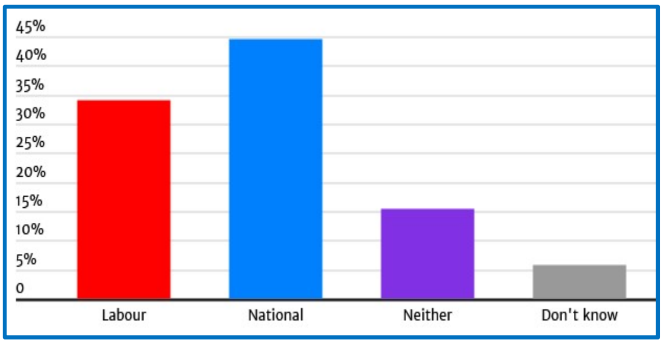
UNDERSTANDING NZ FIRST VOTER PREFERENCES

Source: Stuff

Stuff has reported on the analysis of NZ First voter preferences, from the 2017 elections until today. There are some interesting insights here (especially in light of the recent questioning of Winston's administration and donations practices). Remember that, while these are insights, NZ First only achieved 7.2% of the country's total vote.

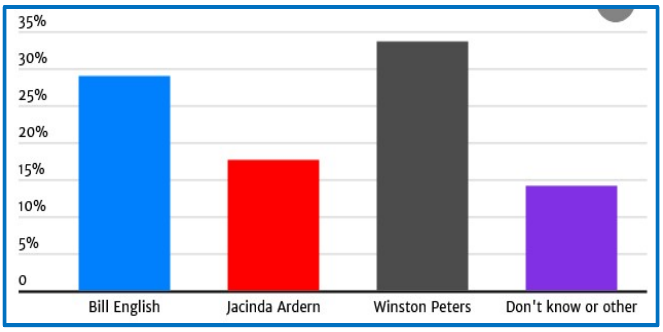
On Election Day, NZ First voters would have preferred National to be in Government than Labour by a large margin, newly released survey results say.

WHO NZ FIRST VOTERS WANTED IN GOVT ON 2017 ELECTION DAY



NZ First voters also said they would rather have then-leader of the National Party, Bill English, as Prime Minister, rather than Labour leader Jacinda Ardern, 29% to 17.7%.

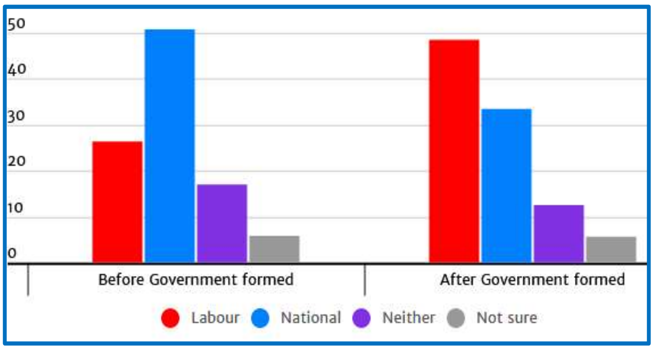
WHO NZ FIRST VOTERS WANTED TO BE PM



There is an interesting twist to the data though, because the survey period stretched across the time before and after Government formation, and it can be split off to see how voters reacted to the change.

NZ First voters prior to Peters choosing Labour were much more supportive of National, with roughly twice as many picking National to Labour. That flips after the Government is formed, with 48% supporting Labour and just 33% supporting National.

WHO NZ FIRST VOTERS WANTED IN GOVT BEFORE & AFTER THE GOVT WAS ACTUALLY FORMED

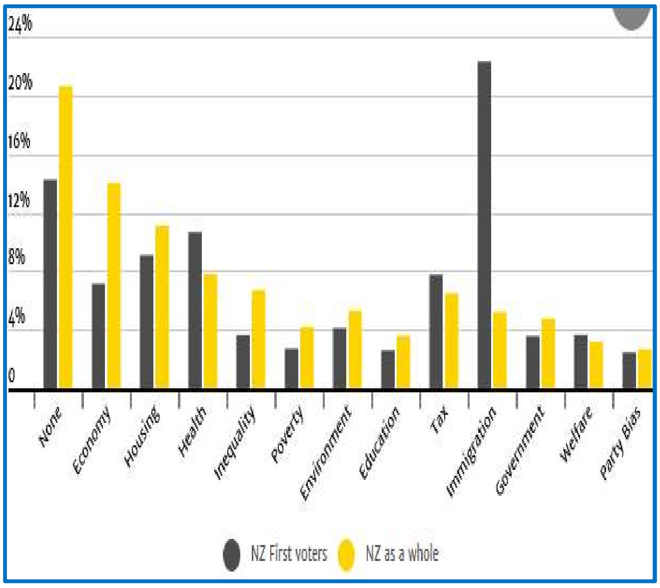


In general, NZ First voters viewed themselves as more centrist than the rest of the population.

Perhaps unsurprisingly, NZ First voters rated "immigration" as the most pressing issue of the election in far greater numbers than the rest of the population, with over a fifth of them rating it as the number one issue, compared to just over 5% of the general population.

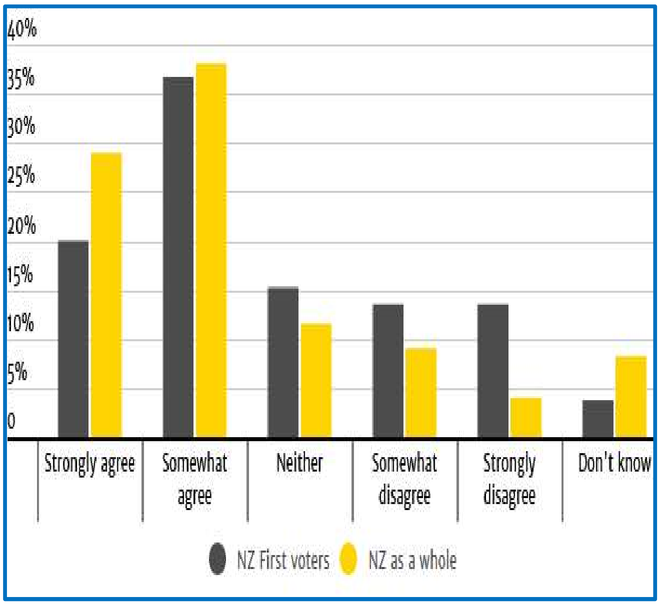
Health and housing were the other pressing issues named by large amounts of NZ First votes, but were also named by many other voters.

WHAT NZ FIRST VOTERS SAW AS THE MOST IMPORTANT ISSUE



NZ First were one of the main reasons the Zero Carbon Act was massively delayed, and are now understood to be stalling efforts to get agriculture into the Emissions Trading Scheme.

WHETHER NZ FIRST VOTERS THINK CLIMATE CHANGE POLICIES ARE NEEDED TO REDUCE EMISSIONS



As I say – only 7% of the vote, but the comparisons with all New Zealand voters is interesting too.

STEVEN JOYCE ON OUR ECONOMY - *former National Government Finance Minister* **SOURCE:** Stuff

Stats NZ recently confirmed that New Zealand is now running at little more than half speed. From growing at rates of 3½ to 4% three years ago our economy at the end of June was only 2.1% larger than it was the previous June. That's a problem firstly because our population is growing at about 1.6% a year, so if our economy grows at 2% then the amount of additional wellbeing per person (to coin a phrase) is three fifths of not very much.

The second problem is that our terms of trade (the prices of our exports versus our imports) are still very strong so we should still be cranking along. It's a problem if we are slowing down when the world really wants to buy what we are selling. What happens if the world actually falls out of bed?

The government has been quick to blame the world economy for our lower growth rate this week, but our terms of trade put the lie to that.

The third problem is that there is no sign of anything on the horizon that will lead to much of an upturn, and in fact all the signs are that we are going to slow further. Our businesses are in a funk because of what is known as regulatory overhang. In short, they are too fearful to invest because the government is making lots of rule changes that could mean they don't get much of a return for the risk they take.

The government for its part seems inclined to shrug its shoulders and say "nothing to see here". They observe we are still growing (slightly) faster than Australia so what's the problem? That story is likely to change in the next six months as Australia's tax cuts come through and their housing market picks up. Anyway, weren't we trying to grow a lot faster than Australia so we could close the income gap with our cousins across the Tasman – what happened to that ambition?

The Government's water quality and methane emissions targets are creating uncertainty in the agriculture sector.

The fourth problem is that lower growth means less to go around. If we were still growing as fast as we were then in real terms our economy would be around $5 billion bigger this year than it is. That means more money for higher pay and more jobs, and of course about 30% of it goes into the government coffers – which would pay for a lot more cancer drugs, teachers or electric vehicle subsidies.

So, what to do? Well if I could offer some gratuitous advice to the Finance Minister - I think he should be working on baking a bigger cake, and I think the recipe is pretty straightforward. It's time to rein in some of his ministerial colleagues who are wreaking havoc with business confidence.

For example, he should suggest the Minister of Immigration sort out his portfolio so that horticulturists can find seasonal workers and the international education sector can get up off its knees. He should tell the Minister for the Environment to come up with a more reasonable plan for water quality improvements and methane emissions reductions so farmers step back from the cliff edge, and the Minister of Education to stop stuffing about with the apprenticeship system.

Our Reserve Bank's focus on capital requirements is another risk.

He should encourage the Reserve Bank Governor Adrian Orr to be less heroic on bank capital requirements, persuade his colleagues to do a backtrack on gas exploration now it is proven the ban is simply value destroying and does nothing for climate change, overrule the Greens to permit some gold mining, and stop taxing tourists more so the tourism sector starts growing again. He should cancel the return to industry-wide pay bargaining given that NZ First are never going to vote for it anyway, tell the Transport Minister to get on with building at least some of the stalled roading projects, particularly given that light rail is years away, and reverse at least one of the petrol tax increases.

Then he could watch the economy recover and start thinking about how he's going to allocate the increased government revenues. And New Zealand will be in much better shape if the world economy does get worse.

Unfortunately, none of that is likely to happen this year, which means as a country we will be poorer and there will be less rather than more to go around. The Government has outsourced economic policy to the Reserve Bank Governor so interest rates will keep dropping, which brings its own risks, and the government will simply cross its fingers and hope the world keeps growing.

It's a massive missed opportunity. Our country should be doing so much better.

"It is remarkable how quickly Grant Robertson has turned into Steven Joyce: overconfident to the point of dismissing any kind of criticism." – A Director, Mood of the Boardroom Survey

THE MOOD OF THE BOARDROOM SURVEY

SOURCE: Fran O'Sullivan, Head of Business, NZME

CEOs see Ardern as a great global cheerleader but ineffectual in NZ, writes Fran O'Sullivan. This survey shows lowest global confidence rating since GFC. Uncertainty is seen by company heads as being the biggest dampener on business confidence.

A Wellbeing Budget which didn't scare the horses - neither did the canning of the capital gains tax - but the New Zealand business community is still not comfortable with the policy changes and policy direction from the Labour-NZ First Coalition Government after its second year in office, according to responses in this survey of BusinessNZ's membership.

BusinessNZ asked 17 questions from the NZ Herald's 2019 Mood of the Boardroom CEOs survey to its membership and collected 150 responses from a wide range of companies including those from the construction, manufacturing, agriculture and tech sectors. This research found that 46% of companies put the uncertainty caused by the Government's policies as being the biggest dampener on business confidence for the general business community. In their own organisations, it ranked as the biggest concern too (38%).

The level and quality of government spending was another concern for the general business community, according to almost 30 per cent of respondents. "*Businesses need reassurance that the Government's policies won't lead to lower economic and business growth*," said BusinessNZ chief executive Kirk Hope. The overall policy direction and policy surprises like the oil and gas exploration ban are contributing to this lower business confidence, he added. "*Business really wants positive policies that can support a growing economy*," he said.

CORPORATE TAX RATE

NZ businesses want parity with Australian corporate tax. BusinessNZ asked respondents about New Zealand's relatively high headline corporate tax rate in the OECD, where it ranks seventh highest which it said made it insufficiently competitive to attract foreign investment. Half of those surveyed said they were concerned about this. Peter Brown, managing director of Miscanthus New Zealand said: "*It is becoming more attractive for Kiwi investors to invest overseas, thus starving smaller New Zealand businesses of development capital*."

US TRADE

Donald Trump's twitter feed gives an intriguing insight into the latest twists and turns in the trade war he is waging with China. But despite the entertainment value, the trade war is no laughing matter. The latest estimate, by JP Morgan Chase, is that the average cost to US households will be about US$1,000 (NZ$1,585) a year after the next round of tariffs on Chinese goods is imposed. The Fed chairman, Jerome Powell, is also reported to have linked the deterioration in the outlook for global growth and weak US manufacturing and capital spending to US trade policies.

Back here in New Zealand, CEOs responding to the 2019 Herald survey say the trade war between the two elephants of global trade is the biggest international issue affecting business confidence. They rate the trade war's severity at 7.65/10.

"*We are part of the global system, what occurs elsewhere impacts on us in New Zealand*," says independent director Cathy Quinn. "*No one believes that we are economically isolated or insulated from global events*."

Other concerns such as growing protectionism where new trade wars are erupting such as that between Japan and South Korea; uncertainties about the Chinese economy and resurgent fears about the prospect of an international recession have combined to send NZ CEO's confidence in the global economy to a record low on a weighted average basis of 1.7/5 in the Herald survey — the lowest seen since the global financial crisis.

New Zealand's two-way trade with the US has consistently been growing over the past 10 years. Trade with the US is underpinning a crucial change in the New Zealand economy to high-value goods and services that deliver high-paying jobs. The most recent trade data shows that in many of our highest-value sectors the US is NZ's number one market.

THE US IS NZ's:

- 3rd largest export market ($9.24b) — behind China ($18.95b) and Australia ($14.08b)
- 2nd largest market for services ($3.6b) — behind Australia ($5.19b) and ahead of China ($3.3b)
- #1 market for intellectual property exports/charges ($243m) — ahead of Australia ($184m) and UK ($57.89m)

"We desperately need more infrastructure capital. New Zealand has the balance sheet to do so."
Mark Cairns (Port of Tauranga CEO) to 'The Mood of the Boardroom' survey

GLOBAL POLITICS GETS VERY INTERESTING

DON'T WRITE BORIS OFF YET

Britain's Supreme Court ruled unanimously that Boris Johnson, had acted unlawfully when he advised the Queen to prorogue Parliament, concluding it was *"without reasonable justification."* Mr. Johnson faced calls to resign from other party leaders, but said that only a general election could provide a way out of the Brexit fog.

"*Let's be absolutely clear that we respect the judiciary in our country and we respect the court. I disagree profoundly with what they had to say*," Johnson said.

JOHNSON CONTINUES TO PUSH FOR 31st OCT BREXIT

I wouldn't bet on Johnson caving in to pressure any time soon. He told the BBC: *"There will have to be custom checks away from the border. We think those checks can be absolutely minimal and non-intrusive; and won't involve new infrastructure*."

Boris Johnson has struck a secret deal with the Democratic Unionist party (DUP) involving radical proposals for a Belfast-Dublin "bilateral lock" on post-Brexit arrangements on the island of Ireland.

The PM's final Brexit offer has Northern Ireland staying under EU single market regulations for agri-food and manufactured goods until at least 2025, at which point its assembly in Stormont will decide whether to continue alignment with EU or UK standards.

Johnson set up a high-stakes fortnight of talks with a threat that he will press ahead with a no-deal exit if the EU27 fails to engage with his plans. No 10 is hoping the proposals will be enough to entice the EU back into negotiations ahead of the crunch EU summit on 17 October.

The proposal that Ireland would have "two borders for four years" once the transition period ends after 2020 is likely to receive a frosty welcome in EU capitals, and in Dublin. However, DUP sources have confirmed that the party is largely "content" with the proposals, which are believed to still include a lot of elements of the backstop – a major concession for the party.

WHAT IS IN THE PROPOSALS?

Johnson's plan will replace the Irish border "backstop" in the current Brexit agreement. The backstop is the controversial "insurance policy" that is meant to keep a free-flowing border on the island of Ireland but which critics - including the PM - fear could trap the UK in EU trading rules indefinitely.

Under Mr Johnson's proposals, which he calls a "broad landing zone" for a new deal with the EU:

- Northern Ireland would leave the EU's customs union alongside the rest of the UK, at the start of 2021
- But Northern Ireland would, with the consent of politicians in the Northern Ireland Assembly, continue to apply EU legislation relating to agricultural and other products - what he calls an "all-island regulatory zone"
- This arrangement could, in theory, continue indefinitely, but the consent of Northern Ireland's politicians would have to be sought every four years
- Customs checks on goods traded between the UK and EU would be "decentralised", with paperwork submitted electronically and only a "very small number" of physical checks
- These checks should take place away from the border itself, at business premises or at "other points in the supply chain"

The government is also promising a "New Deal for Northern Ireland", with financial commitments to help manage the changes.

STOP PRESS - NZ FIRST PRESIDENT RESIGNS ON "MORAL" GROUNDS

SOURCE: Stuff

NZ First Party President Lester Gray has quit the party, citing his refusal to sign off financial reports for 'moral' reasons.

A resignation letter reveals Gray took his stand against signing the party's 2019 reports with a claim he has been kept in the dark over party expenditure and donations, leaving him unable to put his name to them with confidence.

The shock departure raises concerns about the internal financial arrangements of one of the government's crucial coalition partners as election season looms in 2020.

Gray's resignation comes two weeks before the NZ First annual conference in Christchurch and nominations for the president and board have been announced.

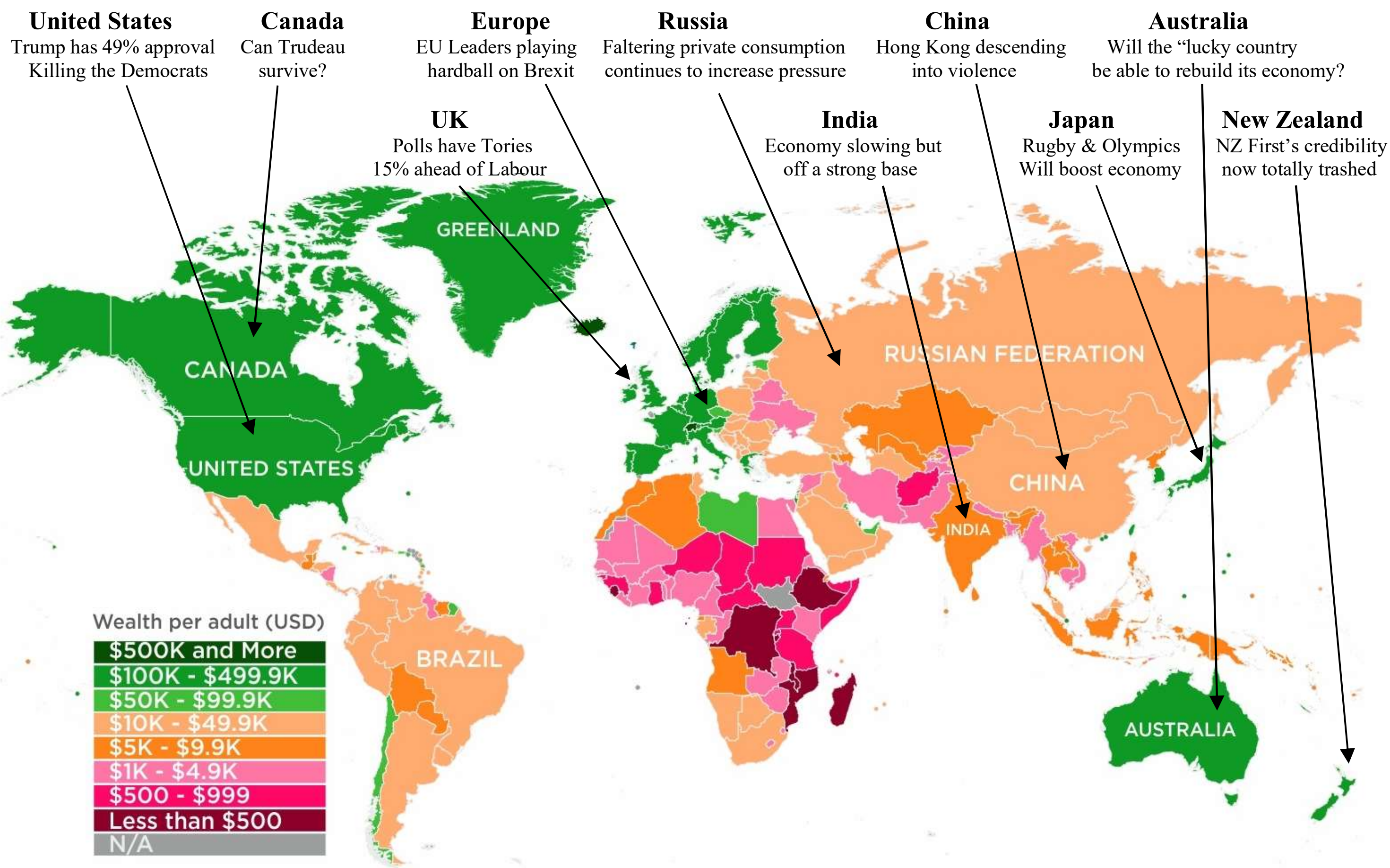
In Gray's resignation letter, obtained by *Stuff*, he raises issues around communication with senior party officials and uncertainty over financial dealings. "*I refuse to sign off the 2019 Financial Reports with the information I have been provided*," he wrote. "*As President, the limited exposure I have had to Party donations and expenditure leaves me in a vulnerable position. This type of operation does not align with my moral and business practice values, and I am therefore not able to support the Party any longer*."

Gray also stated there was "*insufficient communication and support from senior members of the Party for me to effectively function as the President*".

Winston – you have done it again….

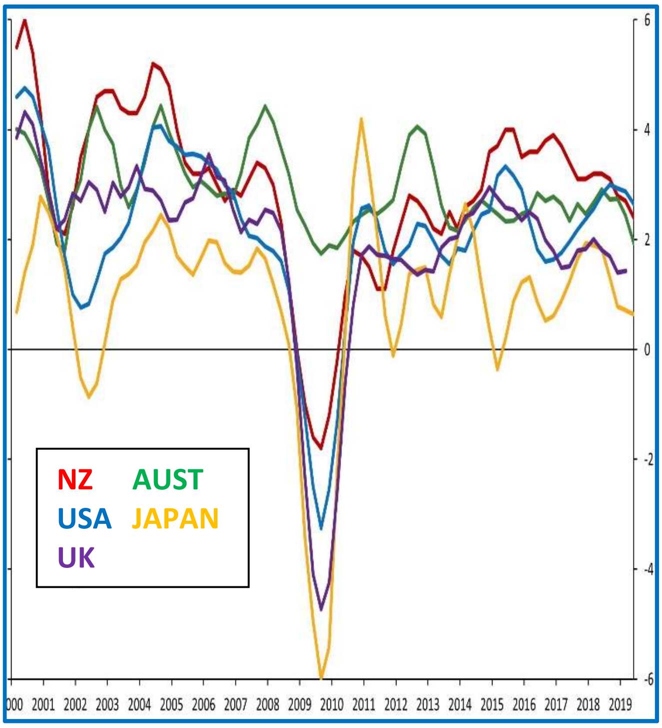
I STRONGLY RECOMMEND THAT YOU "GET OFF THE BEATEN TRACK" IN JAPAN (I DID SO IN THE 80'S).
TOKYO IS NOT JAPAN. PLEASE SUPPORT JAPAN CUSTOM TOURS – YOU WON'T REGRET IT.

THE WORLD AT A GLANCE – World Wealth Map, 2018



Trade tensions continue to ratchet up, and now look likely to persist past the 2020 US election period. In response, economists have revised down their GDP growth forecasts for both China and the US.

REAL GROSS DOMESTIC PRODUCT SINCE 2000

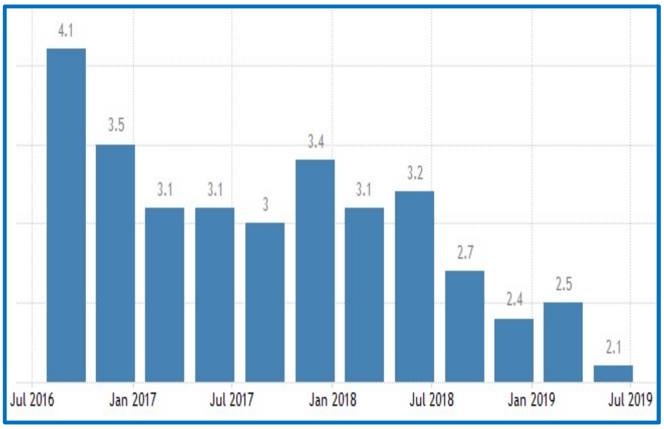


SOURCE: Reserve Bank

Central banks have responded to recent developments by aggressively cutting interest rates and the trend looks likely to continue heading south. Lower interest rates stoke asset price growth and bolster the growth outlook. However, this now familiar cycle can't continue indefinitely.

NEW ZEALAND'S ECONOMIC OUTLOOK

NEW ZEALAND - ANNUAL GDP GROWTH RATE



The economy in New Zealand advanced 2.1% year-on-year in the second quarter of 2019, easing from a 2.5 expansion in the previous period. It was the weakest growth rate since the last quarter of 2013, amid a slowdown in the services sector (2.4% vs 2.6% in Q1), namely wholesale trade (1.3% vs 2.7%), information & telecommunications (0.4% vs 1.4%) and health care & social assistance (3.3% vs 4.5%); and in the goods-producing industries (1.1% vs 3.1% in Q1), in particular manufacturing (-0.7% vs 1.9%), and construction (3.8% vs 5.6%). In contrast, primary activities expanded 2.7%, faster than a 1.4% rise in the prior quarter, boosted by mining (16% vs 3.1%).

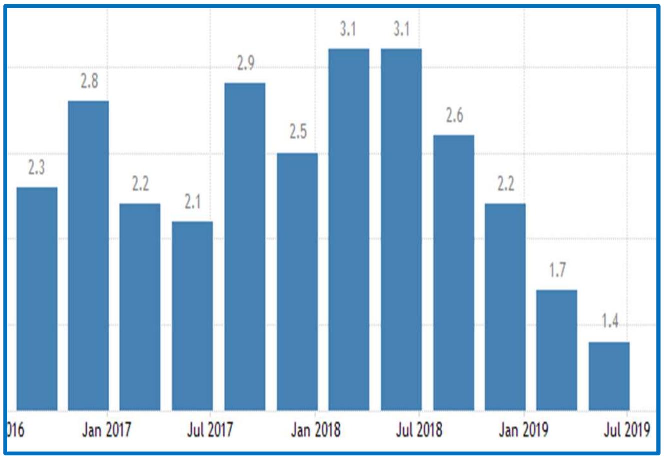
The IMF recently stated that New Zealand's economic expansion is still solid. Despite the loss of momentum in economic activity and a cooling in housing markets, output has remained close to potential, and the unemployment rate has remained at historical lows. Broader price and wage pressures have not yet emerged even though the economy has operated close to capacity for some time. The external position was weaker than implied by medium-term fundamentals and policy settings. Economic growth is expected to remain close to that of potential output, but risks to the growth outlook are tilted to the downside.

New Zealand's expansion lost momentum in 2017-18, as some key drivers started to weaken. Despite the long expansion, inflation remains weak, reflecting imported disinflation as well as strong net inward migration, which has boosted labour supply. Downside risks to the growth outlook have increased, reflecting higher global risks, prospects for a weaker fiscal impulse given recent implementation lags, and the housing market cooling morphing into an actual downturn.

AUSTRALIAN ECONOMIC OUTLOOK

Does this sound familiar - Wages are stagnant. Wealth is falling. House prices are down. Consumers aren't spending. Businesses aren't investing. Interest rates are at record lows and may be heading for zero. The federal government and Reserve Bank seem locked in an arm wrestle over whether fiscal or monetary policy should be used to generate more stimulus. Unemployment has stopped going down. Overseas, storm clouds are darkening.

AUSTRALIA - ANNUAL GDP GROWTH RATE



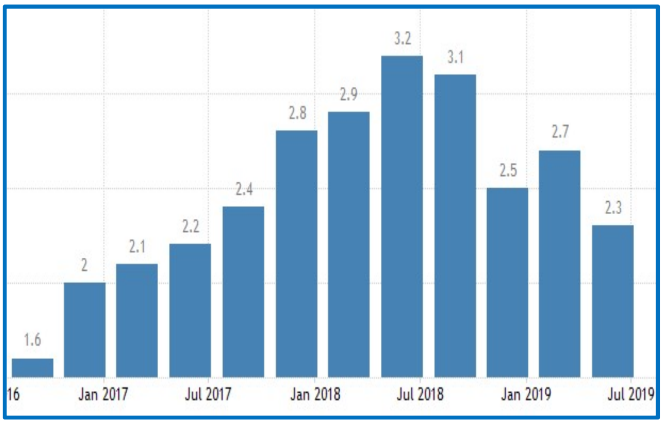
At its 1st October monetary policy meeting, the Reserve Bank of Australia trimmed the cash rate from 1.0% to 0.75%, marking an all-time low. The RBA's dovish tone signalled that further monetary policy easing could be on the cards in the coming months. The decision to cut rates was taken to support employment and income growth, and to bring inflation closer to the Bank's 2.0%–3.0% target range. The unemployment rate has inched up to a one-year high of 5.3% in August - above the 4.5% level the RBA considers to be conducive to faster wage growth and inflation. Moreover, growth in H1 was lower than expected - restrained by falling housing prices, slow disposable income growth and lacklustre investment.

Though the last national accounts showed the Australian economy grew by 1.8% in the year to March, things feel worse than that. If the economy is not actually tanking, it is certainly anaemic. Has Australia entered a new, post-growth phase?

UNITED STATES ECONOMIC OUTLOOK

Washington economic policymakers seem to have put off their vacations this summer. July and August saw three major policy moves, with offsetting impacts on the economic outlook. Any of the three would require a major revision to the forecast, so it should be no surprise that current forecast looks a bit different from recent forecasts. And of course, unexpected policy changes have made financial markets even more volatile.

UNITED STATES ANNUAL GDP GROWTH

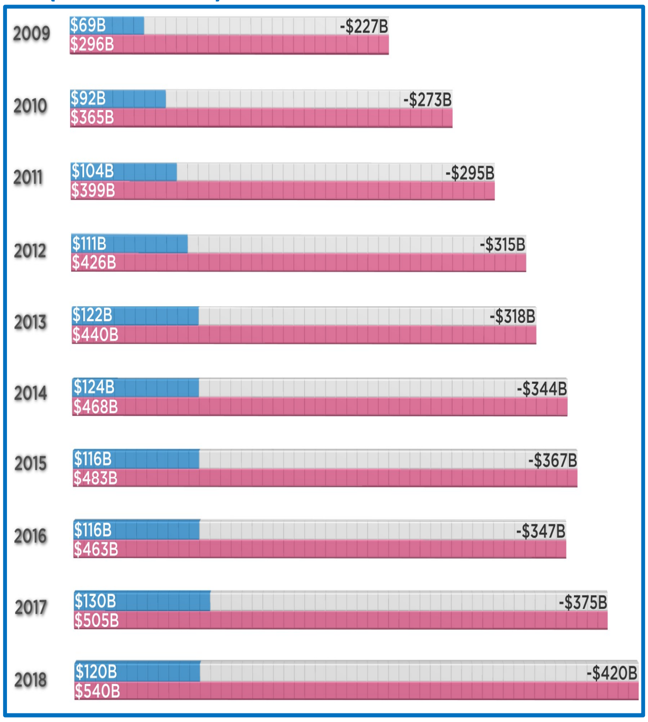


The trade war has heated up. The administration's decision to apply tariffs to remaining Chinese goods that were not yet subject to tariffs was answered by an initial depreciation of the yuan, which was answered by the United States declaring China a currency manipulator.

Since 2010, the United States and China have had the world's largest economies by GDP. But one interesting difference is that the U.S. is the world's biggest importer, while China is the world's biggest exporter. The U.S. is currently China's biggest trade partner, but recent talks about tariffs have highlighted the imbalance of imports and exports between the two countries. As economic tensions continue to rise, here is a look at how the trade deficit between the U.S. and China has changed over the past ten years.

This is why Trump is so determined on this issue…

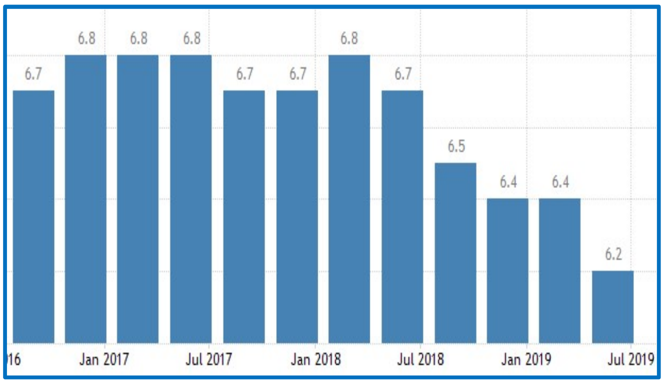
CHART OF THE US TRADE DEFICIT WITH CHINA
(2009 TO 2018) – BLUE = EXPORTS PINK = IMPORTS



CHINESE ECONOMIC OUTLOOK

October 1st was an important national day for China – the 70th anniversary of the day Mao Zedong declared the founding of the People's Republic in Tiananmen Square in Beijing. For Xi Jinping, China's president, it was a chance both to emphasise his claim to Mao's mantle as China's undisputed leader, making a speech from the very same spot, and to flaunt the strength of the country he rules. But as Beijing settled in for an evening of fireworks and song, Hong Kong was counting the cost of yet another day of street battles between protesters and the police, which ended with the first casualty from the firing of a live bullet at a protester. This Hong Kong protest shows no sign of ending any time soon, and it is taking its toll on the government administration.

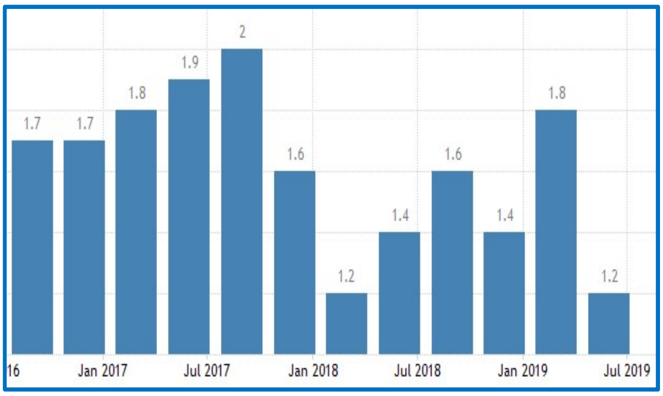
CHINA - ANNUAL GDP GROWTH RATE



UNITED KINGDOM ECONOMIC OUTLOOK

The UK economy is expected to return to growth in Q3, but the outlook beyond that is largely dependent on whether and how the UK leaves the EU on 31st October. Underlying economic momentum is likely to be meek regardless, held back by soft business investment and a downbeat global economy. More positively, however, higher wages and an expansionary fiscal stance should prop up activity.

UK Annual GDP Growth Rate

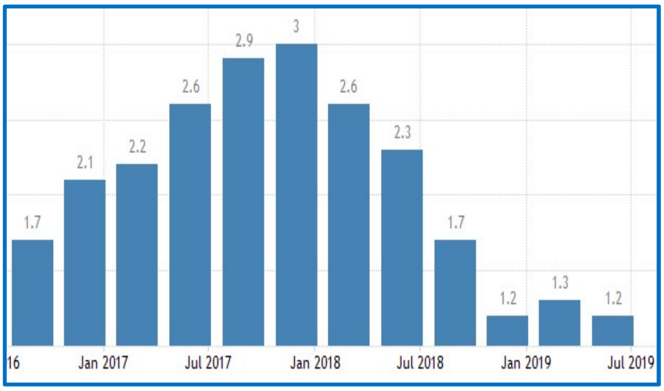


European Economic Outlook

Headwinds from slowing global growth, trade war uncertainties and issues in the manufacturing sector are seen dragging growth to an over five-year low in 2019. Next year, momentum is expected to be broadly unchanged. Slowing activity in China is expected to weigh on exports, while investment is seen staying soft. Risks linger from trade tensions, a no deal-Brexit and politics. Growth is seen at 1.1% in 2019 and 1.1% again in 2020, which is down 0.1 percentage points from last month's forecast.

The US has just announced plans to initiate US$7.5bn in tariffs against the EU.

EURO AREA - ANNUAL GDP GROWTH RATE

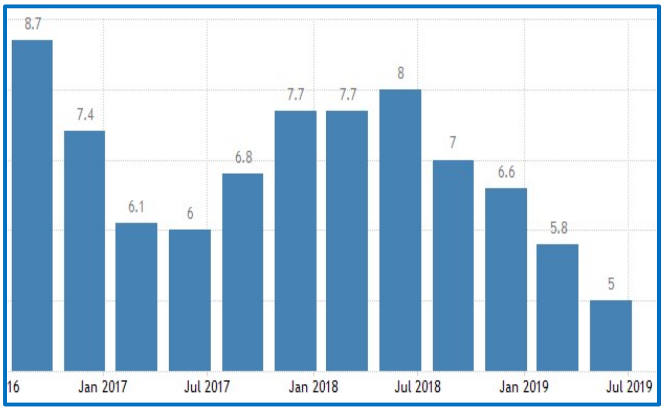


Indian Economic Outlook

India's government said it would cut corporate tax rates by 10 percentage points in a bid to boost business confidence and revive the economy. The country's main stockmarket soared on the news.

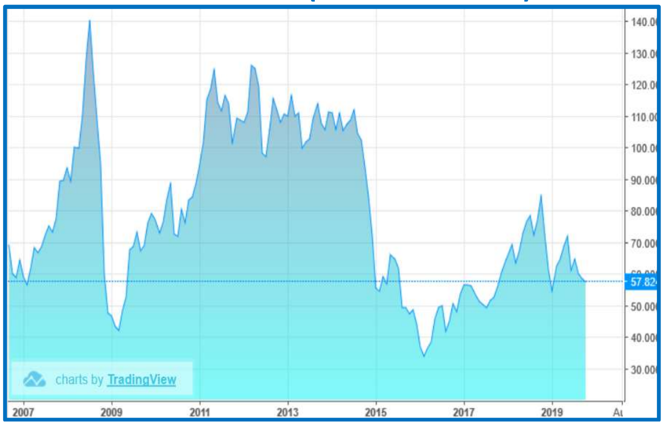
The economy is projected to slow in FY 2019 as non-bank financial lenders struggle, restraining the availability of new loans to consumers and businesses. Weak public finances, tense relations with Pakistan and a slowing global economy will also weigh on the outlook. More positively, a close-to-normal monsoon season and lower interest rates are seen supporting growth. Expect GDP growth of 6.5% in FY 2019, which is down 0.3 percentage points from last month's estimate, and 6.9% in FY 2020.

INDIA - ANNUAL GDP GROWTH RATE



COMMODITIES

OIL: Brent Oil (2007 to current)

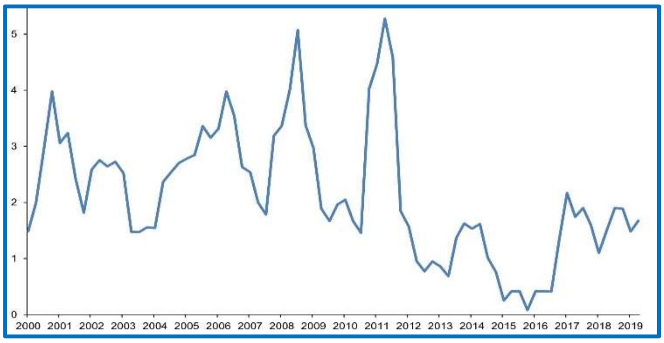


CURRENCIES

NZD/USD & NZD/AUD

Source: Westpac

NZ INFLATION



Source: StatsNZ, Reserve Bank

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

Year ended 30 June	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	2024F
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	16,655	18,120	18,620	18,940	19,240	19,510	19,780
Annual % Change		-1.8%	16.8%	12.3%	32.0%	6.5%	-6.6%	25.2%	3.6%	-1.8%	35.4%	-21.0%	-5.4%	10.1%	13.8%	8.8%	2.8%	1.7%	1.6%	1.4%	1.4%
Meat & wool	6,848	6,761	6,659	6,774	6,934	7,820	7,108	7,836	7,780	7,793	8,162	9,000	9,200	8,355	9,542	10,168	10,070	10,150	10,110	10,140	10,230
Annual % Change		-1.3%	-1.5%	1.7%	2.4%	12.8%	-9.1%	10.2%	-0.7%	0.2%	4.7%	10.3%	2.2%	-9.2%	14.2%	6.6%	-1.0%	0.8%	-0.4%	0.3%	0.9%
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	6,382	6,931	5,810	6,350	6,510	6,580	6,590
Annual % Change		-1.6%	0.2%	12.3%	-9.7%	9.7%	8.5%	17.0%	-5.6%	4.5%	14.9%	-9.9%	9.8%	6.7%	16.4%	8.6%	-16.2%	9.3%	2.5%	1.1%	0.2%
Horticulture	2,207	2,264	2,320	2,646	2,892	3,333	3,277	3,378	3,557	3,546	3,805	4,185	5,000	5,165	5,376	6,110	6,340	6,510	6,780	7,170	7,600
Annual % Change		2.6%	2.5%	14.0%	9.3%	15.3%	-1.7%	3.1%	5.3%	-0.3%	7.3%	10.0%	19.5%	3.3%	4.1%	13.7%	3.8%	2.7%	4.1%	5.8%	6.0%
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	1,777	1,963	2,070	2,180	2,250	2,310	2,330
Annual % Change		0.7%	1.0%	2.7%	-3.1%	14.8%	-3.8%	11.2%	-1.1%	0.0%	-2.9%	4.1%	13.2%	-1.4%	1.9%	10.4%	5.5%	5.3%	3.2%	2.7%	0.9%
Arable	94	90	108	110	142	157	146	157	182	229	232	181	210	197	243	236	240	245	250	255	260
Annual % Change		-3.9%	20.1%	1.1%	29.4%	10.5%	-6.9%	7.5%	16.3%	25.6%	1.2%	-21.6%	15.6%	-6.0%	23.2%	-2.7%	1.5%	2.1%	2.0%	2.0%	2.0%
Other primary sector[3]	1,178	1,360	1,392	1,546	1,578	1,622	1,574	1,720	1,820	2,015	2,002	2,417	2,714	2,638	2,706	2,852	3,000	3,090	3,190	3,290	3,400
Primary industries Total	***20,968***	***20,964***	***21,992***	***23,883***	***26,470***	***29,042***	***27,743***	***32,155***	***32,596***	***32,795***	***38,692***	***36,079***	***37,323***	***38,219***	***42,682***	***46,380***	***46,150***	***47,465***	***48,330***	***49,255***	***50,190***
Annual % Change		0.0%	4.9%	8.6%	10.8%	9.7%	-4.5%	15.9%	1.4%	0.6%	18.0%	-6.8%	3.4%	2.4%	11.7%	8.7%	-0.5%	2.8%	1.8%	1.9%	1.9%

Source: Forecast figures: Economic Data and Analysis, Ministry for Primary Indu Actual figures: Statistics New Zealand.

Notes: 1. Figures and forecasts current as at 10 September 2019. 2. Totals may not add due to rounding. 3. Other primary sector exports & foods include: live animals, honey, and processed foods such as chocolate and tomato sauce.

How much is farming worth to the nation?

- Income for 2018-19 was $46.4 billion, up 8.7%.
- Dairy worth $18.1b, up $1.47b
- Meat and wool, $10.1b
- Forestry, $6.9b
- Horticulture, $6.1b

Next year
- Total $46.1b
- Dairy $18.6b
- Meat and wool $10.07b
- Forestry $5.8b
- Horticulture $6.3b

2012
- Total $47.4b
- Dairy $18.9b
- Meat and wool $10.1b
- Forestry $6.3b
- Horticulture $6.5b

Dairy

- Dairy exports reached $18.1 billion for the year to June 2019, led by a 2.4% growth in milk production.
- For the year to June 2020, dairy exports are forecast to rise 2.8% to $18.6 billion, with rising prices offsetting a slight decline in milk production.

Meat and wool

- Meat and wool export revenue for the year to June 2019 increased by 6.6% to $10.2 billion due to high red meat prices.
- Slightly lower production in 2020 is expected to push meat and wool export revenue down 1.0% to $10.1 billion.

Forestry

- Forestry exports in the year to June 2019 will increase by 8.6% to $6.9 billion due to stronger harvest volumes and record prices.
- Exports for the year to June 2020 are expected to drop 16.2% to $5.8 billion due to sharply lower log prices in China.

Horticulture

- Horticulture exports increased 13.7% to $6.1 billion in the year to June 2019 due to good harvests for kiwifruit, wine grapes, and apples and pears.
- Harvest volumes for 2020 are expected to be slightly lower than 2019, but prices are expected to continue rising. As a result, export revenue is forecast to increase 3.8% in 2020 to $6.3 billion.

Seafood

- Seafood exports rose 10.4% to $2.0 billion in the year to June 2019 due to rising prices.
- In 2020, export revenue is forecast to rise, but at a slower rate of 5.5%, with strong prices and aquaculture expansion expected to offset the voluntary reduction in hoki catch. Prices are expected to continue rising.

Arable

- Exports for the year ending June 2019 fell 2.7% to $236 million due to lower harvest volumes.
- Production and exports are expected to slowly recover in the year ending June 2020, pushing export revenue up 1.5% to $240 million.

OTHER PRIMARY SECTOR EXPORTS

- Export revenue to increase to $2.9 billion in the year ending June 2019, up 5.4%, led by products such as beer and soft drinks.
- Exports of other primary sector products are expected to increase another 5.2% to $3.0 billion in 2020.

THE ZERO CARBON BILL IS A STRUGGLE

Climate Change Minister James Shaw is struggling to get the other parties of Government to agree on bringing farmers into the ETS. The Government's plan to make farmers pay for their emissions is on shaky ground after Labour, the Greens, and NZ First have failed to agree on proposals.

A draft scheme went to the Environment, Energy and Climate Cabinet Committee, but failed to make it through after ministers could not agree on it. It has now stalled at the Cabinet Committee stage, while ministers work to agree on a plan.

The news comes after Prime Minister Jacinda Ardern gave the keynote address to a climate change action summit at the United Nations in New York. Agriculture has been exempt from the emissions trading scheme (ETS) since it was created in 2008. The exemption is controversial as agriculture is New Zealand's largest emitter, responsible for nearly half of total emissions.

FONTERRA REPORTS $605m LOSS

Fonterra has posted a $605 million net loss, but says it has a new "back to basics" strategy. In principle Fonterra's new strategy of maximising the value of New Zealand milk could make its farmer-shareholders wealthier. But to do so the co-op and its farmers need to achieve two significant culture changes which they've barely begun.

Fonterra has a big problem with the provenance of milk. Farmers are being demonised by our Labour/NZ First/Greens Coalition Government as New Zealand's largest single source of greenhouse gases, and as major contributors to the pollution of our rivers and lakes. This is hugely damaging to Brand NZ (our Clean/Green brand), and our milk will quickly lose its reputation, and Fonterra the premium it hopes to earn from it, if this doesn't stop immediately.

Farmers argue that their greenhouse gases per litre of milk are among the lowest in the world, and their performance on water and other environmental measures is better than most.

Fonterra's key financial goals are to increase return on capital from 5.8% in past financial year to 10% in five-year's time; earnings per share from 17 cents to 40 cents; earnings before interest and tax from $819m to $1.1b; and net profit after tax from $269m to $800m. Yet over that time, it forecasts its gross profit margin will only edge ahead from 15% to 15.6%.

Fonterra's share of total NZ milk supply could fall if it fails to rebuild its rewards to, and loyalty from, its farmer-shareholders. They look ripe for picking off by competing processors. The bottom line is, if Fonterra is to deliver the better future it is promising from its new strategy it has to become a global leader in dairy farming sustainability and dairy nutrition innovation. Then it would truly create the wealth inherent in New Zealand milk.

TATUA DAIRY

In sharp contrast to Fonterra, the Tatua Co-Operative Dairy Company reported a record Group income of $364m (up from $349m in 2018), and earnings of $140m. Before retentions and tax, this equated to $9.66/kg (up from $8.62/kg in 2018).

Declaring its bumper milk price and group earnings, Tatua warned of uncertainty around emerging Government environmental policies having "real potential" to undermine investment confidence.

The Waikato cooperative exporter will pay its 107 supplying farms $8.50/kilogram milksolids cash for the 2018-2019 financial year - that's after retaining earnings for reinvestment of $1.16/kg. The previous year milk payout was $8.10/kg. Industry dominator Fonterra paid its farmers $6.35/kg and no dividend.

Tatua remained cautious regarding borrowings management, the company said. Gearing, debt dividend by debt plus equity, averaged 32% for the year, slightly lower than the previous year's average. Gearing at the end of the financial year was 27%.

The 100-plus year old cooperative at Tatuanui, north of Morrinsville, has 370 staff and exports specialist products to more than 60 countries. It processed more than 200 million litres of milk during the year.

BROWN MARMORATED STINK BUG

The Brown Marmorated Stink Bug is the kiwifruit industry's second-most unwanted biosecurity threat after fruit flies - and the risk of it entering New Zealand is considered extreme. The BMSB is able to hitchhike on inanimate objects such as cars and shipping containers.

The brown marmorated stink bug is an insect in the family Pentatomidae, native to China, Japan, the Korean Peninsula, and Taiwan.

NEW ZEALAND EQUITIES

The Market

New Zealand equities performed well in September. Risks to international markets have risen over recent months, with a backdrop of disconcerting liquidity events seen in the short-lived value to momentum snap back and funding shortfalls in the repo market may highlight underlying but previously unseen challenges.

Growing geopolitical tensions (e.g., the attacks on Saudi Aramco) have also emerged. So far, the impact of these events has quickly abated and markets are back near their highs. But the challenge is we don't know if these rumblings are temporary (as the market currently seems to price) or if they are precursors to more serious events. In light of this uncertainty, retain an overweight bias towards defensives where relative value and lower earnings risk are identified, but acknowledge that globally monetary policy remains aggressively accommodative which could still push markets higher.

Jarden's NZ Income Portfolios

From 1 October 2019 when the change is implemented, the NZ Income Portfolios will be structured as follows:

Ticker	Company Name	Core	Core Plus	Diversified	Sector
CEN	Contact Energy	12.5%	15.0%	15.0%	Utilities
FRE	Freightways	15.0%	12.5%	10.0%	Industrials
GMT	Goodman Property Trust	15.0%	15.0%	10.0%	Real Estate
HGH	Heartland Bank		5.0%	5.0%	Financials
IFT	Infratil	15.0%	7.5%	7.5%	Utilities
KMD	Kathmandu			5.0%	Consumer Discretionary
KPG	Kiwi Property Group			5.0%	Real Estate
OCA	Oceania Healthcare	5.0%	7.5%	7.5%	Health Care
SCL	Scales Corporation	7.5%	7.5%	7.5%	Consumer Staples
SKC	SkyCity Entertainment	10.0%	12.5%	10.0%	Consumer Discretionary
VCT	Vector	10.0%	10.0%	10.0%	Utilities
ZEL	Z Energy	10.0%	7.5%	7.5%	Energy
		100.0%	100.0%	100.0%	

The Core, Core Plus and Diversified portfolios are to be changed as follows:

- **Fletcher Building (FBU)** is to be removed from all three portfolios.
- **Scales Corporation (SCL)** is to be introduced into all three portfolios at a weighting of 7.5%.

While FBU produced a weak profit result relative to FY18, it was in line with guidance and there were no negative surprises. The share price reacted positively. However, the share price has also been aided by a rally in comparable Australian and US companies over the same period. Looking forward, the outlook for FBU's NZ business (which contributes 90% of earnings) appears reasonable, but negligible growth is expected. An improvement in the steel division, which has suffered from significant competition, may arise if the recent aggressive competition subsides.

However, whether this benefits profit depends on other divisions continuing to perform satisfactorily. The outlook for FBU's Australian business remains difficult, although there are tentative signs that the housing sector is recovering. Australia represents FBU's growth opportunity through the turnaround of this business, which has underwhelmed for many years. This will require substantial investment with the company guiding to $80-100 million in FY20, which accounts for around a third of FBU's total capital expenditure for the year. In addition, the market will clearly be focused on whether there are any further provisions relating to FBU's problematic construction projects. These projects are nearing completion, which is often the time when cost overruns must be realised. This was the case during the completion of the Justice Precinct in Christchurch in 2018. It is worth noting that FBU has a sound balance sheet now and therefore has capacity to absorb any further provisions. Given the strong recovery in FBU's share price in September, the Committee elected to remove the company from the portfolios.

The Committee decided to introduce Scales Corporation (SCL) into all three portfolios. SCL's 1H19 earnings of $50.4 million was above expectations, due to higher than expected apple volumes. This reflected Mr. Apple achieving flat export volumes, despite previous guidance of a 6% decline resulting from orchard development.

Partially offsetting the volume beat was a decline in SCL's 1H19 profit margins from 28.7% to 25.9%. This was due to higher costs as a result of smaller apples in the harvest and sourcing labour (the later remains challenging). SCL are attempting to offset higher costs through greater use of technology in pack houses and selling a greater proportion of premium apples. SCL's 1H19 profit result highlighted managements ongoing stance of under promising and over delivering. SCL maintained FY19 earnings guidance of $49-$55 million, which includes a $3 million inventory write-down. SCL's underlying business currently has a number of tailwinds – NZ dollar weakness, mix shift to premium apple varieties, expansion into inland Chinese cities and the expectation of more favourable apple selling conditions in Europe (this reflects the apple crop normalising from a very high level in 2018 and a decline in Polish production due to severe frosts). The key unknown is what SCL do with their $250-$300 million balance sheet capacity. Management have stated that they could quickly make bolt-on acquisitions in the areas where they currently operate or opt for a new business activity which would require a good understanding before doing so. SCL appear keen to capitalise on the "NZ Made" thematic in the Chinese market. SCL appears reasonable fully valued on a relative multiple basis, but offers a reasonably attractive 6.1% gross dividend yield. The Committee acknowledges that SCL operates in the horticulture industry, which has a reputation for volatility. However, its management team has a strong track record. Consequently, the Committee is comfortable introducing a moderate exposure to SCL into the portfolios.

NZ Property Play

Jarden estimates the sector's implied cap rate is 5.1%, pricing in 77bp of firming on average. The sector's 12M forward P/E is 26x, stable over September, but well above its five-year average of 19.2x. Despite this, the sector still offers relative value against bond yields with the net DPS yield-spread to the NZ10YGB now 50bp above its five-year average.

Sector preferences. They think industrial and office exposures will likely continue to outperform in the near term, on solid occupier markets and investor demand, while retail will lag on concerns around a softer outlook.

Sector preference remains PCT on its quality portfolio, comfortable balance sheet, and near-term growth in EPS/DPS/NTA. In retail, Jarden favours KPG > IPL on valuation, rental growth and its mixed-use strategy. Among diversified operators, we prefer SPG > ARG on valuation. Industrial exposures GMT and PFI remain at the largest premiums to NTA (~30% above), while APL is the only NZ LPV at a discount (8% below NTA).

Stock	Rating	Price 30 Sep	Target price	P/NTA	P/AFFO	Net div yield	Gross div yield	Committed Gearing
APL	Outperform	$0.64	$0.69	0.92x	16.9x	5.6%	7.8%	25.7%
ARG	Underperform	$1.47	$1.20	1.20x	24.3x	4.3%	6.0%	36.0%
AUG	Outperform	$1.53	$1.23	2.04x	21.2x	4.3%	5.9%	26.0%
GMT	-	$2.22	-	1.28x	34.7x	3.0%	4.2%	20.3%
IPL	Neutral	$1.90	$1.58	1.12x	25.2x	4.0%	5.6%	40.3%
KPG	Neutral	$1.67	$1.52	1.17x	25.3x	4.2%	5.9%	34.7%
PCT	Neutral	$1.87	$1.65	1.27x	27.9x	3.4%	4.7%	30.8%
PFI	Underperform	$2.40	$1.78	1.31x	28.9x	3.3%	4.5%	31.2%
SPG	Neutral	$2.32	$2.05	1.21x	25.8x	4.3%	5.9%	38.4%
VHP	Neutral	$2.72	$2.38	1.18x	25.3x	3.2%	4.5%	42.9%
Average				**1.24x**	**28.1x**	**3.6%**	**5.0%**	**32.6%**

Source: Company data, Jarden estimates. GMT metrics based on consensus Refinitiv data.

Arvida

Jarden believes ARV's recent acquisition of three villages from the Sanderson Group for $180m is an attractive transaction that is both value accretive and strategically sound. The purchase price is in-line with CBRE valuation and the balance of transaction funding from debt and equity maintains gearing at ~25%. However, reflecting the company's accelerated development pipeline, Jarden expects this to increase closer to ~30% by year end. While this acquisition is value accretive and provides ARV with appealing development potential, they believe this is adequately reflected in the share price following its ~10% gain since the announcement of the transaction.

2020 P/E: 13.0 2021 P/E: 12.4

NZX Code:	**ARV**
Share Price:	**$1.48**
12mth Target:	**$1.40**
Projected return (%)	
Capital gain	-5.4%
Dividend yield (Net)	4.0%
Total return	**-1.4%**

Rating: NEUTRAL

52-week price range: 1.20-1.49

a2 Milk Company

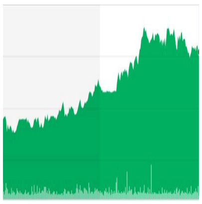
ATM has done an excellent job of creating and managing demand for its A1 protein free dairy products. The outcome is a business which has passed-through $1 billion in revenue with free cash flow that can support growth, upstream investment and potential capital returns. ATM delivered an in-line result in FY19. In addition, we believe leading indicators are signalling strong top-line momentum is likely to persist. ATM has signalled investment brand awareness and broader capabilities and capacity (likely to weigh on earnings). This investment is expected to support future growth. However, a number of factors make us cautious on the extent to which operating leverage will re-emerge (cost structure related to a direct China approach, difficulty assessing the required investment in organisation capabilities and associated paybacks, increased diversity across products and geographies, increased complexities related to evolving consumer behaviours and an increasingly multi-channel approach). At the current share price we perceive risk-reward as relatively balanced (given a strong top-line growth outlook but uncertainty about whether operating leverage will re-emerge).

2020 P/E: 28.4 2021 P/E: 22.7

NZX Code:	**ATM**
Share Price:	**$13.14**
12mth Target:	**$14.40**
Projected return (%)	
Capital gain	9.6%
Dividend yield (Net)	0.8%
Total return	**10.4%**

Rating: NEUTRAL

52-week price range: 8.67-18.04



Auckland International Airport

Investment View as at: *23 August 2019*

In AIA's result for FY19 it reported an increase in normalised net profit of +4.4% to $274.7m. Retail income increased +18.5% on 32 new retail concepts opened during the year and the full year impact of the expanded departures duty free stores that opened part way through FY18. Growth is forecast to moderate as AIA cycles these new offerings in the coming year. Whilst the International passenger spend rate growth of +6.6% was a solid improvement on the prior year (-1.8% albeit impacted by construction disruption), Jarden believes that AIA remains heavily reliant on minimum annual guarantee arrangements and is likely to see subdued growth in revenue per International passenger in the years ahead. Aeronautical income increased +3.8%, with International passenger growth of +3.0% and maximum certificated take-off weight growth of +1.6% partially offset by a reduction in aeronautical charges in the period. They observe a moderation in traffic and passenger growth relative to prior years which we forecast to continue over the near term. AIA provided guidance for normalised net profit of between $265-275m with lower aeronautical pricing to take effect from 1 July 2019 – **I continue to rate AIA as a core portfolio stock**

2020 P/E: 40.9 2021 P/E: 38.1

NZX Code:	**AIA**
Share Price:	**$9.18**
12mth Target: ↑	**$6.11**
Projected return (%)	
Capital gain	-33.4%
Dividend yield (Net)	2.5%
Total return	**-30.9%**

Rating: ~~UNDERPERFORM~~

My Rating: NEUTRAL

52-week price range: 6.75-9.90

Fletcher Building

Investment View as at: *22 August 2019*

FBU is emerging from a major reset of the business, which saw it record up to $1bn in onerous contract losses; raise $750m of equity to address balance sheet issues; announce the simplification of the business in NZ and Australia with divestment of $1bn of international assets (now completed); and acknowledge that turning around the underperforming Australian businesses requires investment into a business generating poor returns that is not without risk. Through this recent period, the core NZ business has performed well, but Jarden notes abnormally high earnings from the Residential & Development business in FY18 and FY19, and at least some potential for the Building Products and Distribution businesses to see some moderation in earnings if the robust NZ cycle turns. They take a positive view on an eventual turnaround in Australia, but highlight the difficult path ahead with market activity levels in decline. They factor in reversion to mid cycle activity levels in NZ. Even with a positive view on a structurally higher NZ construction sector, they are mindful of risks, which include FBU's significant operating leverage to the NZ cycle and a need to still execute on the Australian turnaround. We believe that FBU is still some time away from executing the turnaround and do not expect any material Mergers & Aquisitions until it is more progressed, with lessons here from the past too.

2020 P/E: 14.9 2021 P/E: 13.1

NZX Code:	**FBU**
Share Price:	**$4.77**
12mth Target:	**$4.97**
Projected return (%)	
Capital gain	4.2%
Dividend yield (Net)	4.7%
Total return	**8.9%**

Rating: NEUTRAL

52-week price range: 4.28-6.49

Fonterra Shareholder's Fund

FSF is on a long and challenging journey to redemption, and clearly there are no silver bullets in its turnaround. Like many companies that have operated in the absence of transparency, FSF's past market valuation is a poor basis for assessing the investment case today, particularly given the value destruction that has occurred through a series of poor investments that are now coming to the fore. While the crisis is forcing FSF into action and its intent and direction is good, Jarden has reduced their target price, lacking the basis to make a conviction call to action, and recognising the complexity of the task ahead. Key issues include too much debt, uncertainty on the outcomes from asset realisation (visibility is limited and performance weak in a number of non-core businesses currently), a lack of clarity on the sustainable base level of earnings of the Ingredients business, or the Group overhead and investment required in the longer-term, and long-term issues around FSF's competitiveness for milk, and ability to grow Ingredients earnings on a benign outlook for milk supply growth and surplus capacity already.

2020 P/E: 13.0 2021 P/E: 10.3

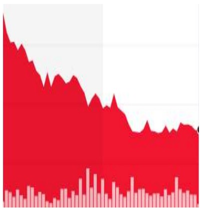
NZX Code:	**FSF**
Share Price:	**$4.00**
12mth Target: ↓	**$3.85**
Projected return (%)	
Capital gain	-3.8%
Dividend yield (Net)	3.9%
Total return	**0.2%**
Rating: NEUTRAL	
52-week price range: 3.15-5.00	

Kathmandu

NPAT of $56.8m was at the top end of guidance, and a solid result (+7.9% YoY) reflected the full-year impact from the Oboz acquisition as well as operating efficiencies. In line with past practice the company provided limited outlook for the year ahead, but it did note that it expects Oboz to continue delivering double-digit growth and that it should be able to largely offset the FX impact on gross margins in the core retail business. In addition the company provided a trading update for the year-to-date, with same store sales growing strongly (Group +6.1% / Australia +4.0% / NZ +11.7%).

2020 P/E: 11.3 2021 P/E: 10.8

NZX Code:	**KMD**
Share Price:	**$3.10**
12mth Target: ↓	**$2.90**
Projected return (%)	
Capital gain	-6.5%
Dividend yield (Net)	5.7%
Total return	**-0.8%**
Rating: NEUTRAL	
52-week price range: 2.00-3.37	



Metlifecare

NO UPDATE

While MET has delivered a FY19 result modestly ahead o[illegible]arket expectations, Jarden believes that, in the absence of mea[illegible]nent deliveries or improving house price dynamics, th[illegible]ock. Despite this, MET continues to ha[illegible]nk, strong operating cash flows and a well-p[illegible]y believe MET offers the most attractive valuation in the se[illegible]A) they also acknowledge it may take time for the valuation gap to be[illegible]osed.

2020 P/E: 10.5 2021 P/E: 9.5

NZX Code:	**MET**
Share Price:	**$4.40**
12mth Target:	**$6.90**
Projected return (%)	
Capital gain	56.8%
Dividend yield (Net)	2.4%
Total return	**59.2%**
Rating: OUTPERFORM	
52-week price range: 4.20-6.45	

Port of Tauranga

Investment View as at: *29 August 2019*

POT recently announced its FY19 results with normalised earnings (EBITDA) before associates increasing +11% to $170.4 million with Port Operations & Property up +10.5% to $165.8m. The key area of disappointment was in Associate Profits which were well down on FY18 on the back of losses in the Coda joint venture but this was offset by higher log volumes. Despite falling log prices at the tail end of FY19, log volumes reached a record level of 7.1m tonnes. POT is guiding to ~6 million tonnes in FY20 but note a very strong start to the year – that guidance should represent a floor to FY20 volumes. Jarden forecasts net profit of $103m in FY20 with the growth they factor in container volumes and an improvement in Associate earnings being offset by the drag associated with log volumes. With the Board remaining confident in POT's medium-term outlook, a special dividend of 2.5 cents per share for the next 4 years was announced. Jarden views POT as a high quality infrastructure asset that is very well positioned to benefit from structural change as New Zealand container trade progressively moves towards a hub and spoke model. They factor that into forecasts with allowance for a material lift in long-term share.

This should be a core portfolio stock.

2020 P/E: 42.6 2021 P/E: 38.2

NZX Code:	**POT**
Share Price:	**$6.60**
12mth Target:	**$4.40**
Projected return (%)	
Capital gain	-33.3%
Dividend yield (Net)	2.5%
Total return	**-30.8%**
Rating: ~~UNDERPERFORM~~	
My Rating: NEUTRAL	
52-week price range: 4.90-6.70	

Scales Corporation

In recent periods, there has been a compression in horticultural earnings (EBITDA) margins despite positive pricing catalysts (Europe pricing in FY18, China pricing in 1H19, etc.). One interpretation of this is that cost pressures are offsetting higher price achievement, with potential risk if production in catchments for key export markets normalises. We continue to believe caution is warranted given declining margins since FY15. However, largely 'look through' 1H19 margin compression given growing conditions that resulted in smaller sized apples. Some other factors are screening positively (NZDUSD depreciation, FY19 volumes/premium apple mix, soft 2019 crop in Europe, etc.). In addition, Jarden is positively disposed to the company, given its track record, particularly with regards orchard redevelopment. Accordingly, they rate SCL neutral.

2019 P/E: 19.7 2020 P/E: 19.1

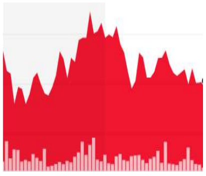
NZX Code:	**SCL**
Share Price:	**$5.00**
12mth Target: ↑	**$4.82**
Projected return (%)	
Capital gain	-3.6%
Dividend yield (Net)	4.5%
Total return	**0.9%**
Rating: NEUTRAL	
52-week price range: 4.20-5.13	

Sky Television

While SKT maintains a very strong content position, it is difficult to ignore the pressures that it faces. As the incumbent, SKT is both well placed to adapt its business model (its securing of key content for the next three years still gives it some time, and it has a high portion of its sub base for whom sport content is critical) and more susceptible to the threat that competing platforms bring (including its own over-the-top (OTT) offerings which will cause some issues in the core base also). SKT needs to continue to grow subscribers to be competitive for content over the long term and with more competition and maturity in core pay TV subscriber numbers, it is possible that SKT would need to make changes to its approach to delivery and packaging/pricing of content to keep up with what subscribers want and their perceptions on value for money. SKT has launched its own OTT offerings (Neon and FanPass) but needs to embrace this more fully and a major repositioning of the brand is required. We think the timeframes for better visibility on SKT's outlook likely remain some time away and take a cautious approach to SKT, particularly with pricing changes increasing uncertainty, more changes to come (including the execution of a number of new platforms) and a major rights renewal cycle ahead of SKT. On the positive side, SKT looks set to start to address some of the issues in the business, albeit that outcomes are uncertain, and the positive impacts may take some years to flow through. Jarden's rating is outperform on valuation, but there is considerable uncertainty.

2020 P/E 5.3 2021 P/E: 5.8

NZX Code:	**SKT**
Share Price:	**$1.12**
12mth Target:	**$1.61**
Projected return (%)	
Capital gain	43.8%
Dividend yield (Net)	0.0%
Total return	**43.8%**
Rating: OUTPERFORM	
52-week price range: 1.08-2.52	



Synlait Milk

SML is entering a new expansionary capital expenditure phase as it looks to diversify its business, recognising the heavy reliance currently on a single customer, market and product. The momentum in SML's business looks set to moderate somewhat in FY19 and FY20, but a lot of upside remains to earnings if SML can secure attractive customer contracts for its new investment. We have increased confidence in the ability for SML, at least in the nearer term, to sustain current margins on increasing volumes of finished infant formula (IF), but remain cautious about long-term assumptions and on that basis assume some reversion in returns. 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 still 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. Jarden's are cautiously positive on SML's outlook but recognise that the positive leverage exposure to increasing finished IF volumes goes both ways. They rate SML underperform on valuation and risk-reward balance.

2020 P/E: 17.3 2021 P/E: 13.8

NZX Code:	**SML**
Share Price:	**$9.10**
12mth Target:	**$8.50**
Projected return (%)	
Capital gain	-6.1%
Dividend yield (Net)	0.0%
Total return	**-6.1%**
Rating: UNDERPERFORM	
52-week price range: 8.05-11.35	

The Warehouse Group

With its recent result WHS reported adjusted net profit of $74.1m. The 0.4% improvement in group gross margin is a welcome indication that the company's strategic repositioning and move to a Every Day Low Prices (EDLP) model and away from a Hi-Lo pricing model may be gaining traction. However, this upside is mitigated by ongoing restructuring costs, expected continuing losses from TheMarket and significantly higher capital expenditure indicated for the medium term. After reflecting these offsetting elements in Jarden's forecast, their target price remains at $2.24. While this target price is below the current share price, WHS' dividend yield of ~7% delivers a broadly neutral total return and supports their neutral rating.

2020 P/E 12.0 2021 P/E: 11.3

NZX Code:	**WHS**
Share Price:	**$2.55**
12mth Target:	**$2.24**
Projected return (%)	
Capital gain	-12.6%
Dividend yield (Net)	8.3%
Total return	**-3.9%**
Rating: NEUTRAL	
52-week price range: 2.00-2.51	

Z Energy

In its recent update ZEL downgraded their guidance for FY20 RC (replacement cost) earnings (EBITDA) to a $390-430 million range. The downgrade is attributed to heavy retail discounting ($50 million) and lower refining margins ($10 million). FY20 dividend guidance is now for a 48-50 cents per share range (versus prior 48-54 range). The concerning signal is that these market conditions seem expected to continue beyond 2H20 with the company attributing this to widespread competition, not just new entrants. ZEL's competitive response may focus on recovering some market share via Caltex as a fighting brand, presumably at the cost of lower margins. Dividends still look sustainable under the new payout policy. But Jarden's now think dividend yield support for trading will be limited until several periods of steady forecast outlooks and ex-post results leave investors sufficiently confident to accept lower yields, given the recent sequence of surprise downgrades (albeit most have been outside the company's control). They downgrade to an underperform rating (from neutral).

2020 P/E 14.6 2021 P/E: 13.4

NZX Code:	**ZEL**
Share Price:	**$5.56**
12mth Target: ↓	**$5.30**
Projected return (%)	
Capital gain	-4.7%
Dividend yield (Net)	8.6%
Total return	**3.9%**
Rating: UNDERPERFORM	
52-week price range: 5.18-7.20	

NZ LISTED COMPANIES 7th October 2019		Mrkt Cap	Price 07-Oct-19	Target Price	Price Earnings (x)		Net Yield (%)	
Source: Jarden, CSFB Estimates	Ticker	(NZ$m)	(NZ$)	(NZ$)	FY19	FY20	FY19	FY20
COMMUNICATION SERVICES								
Chorus	CNU	2,227	5.07	5.07	42.2	53.6	4.5%	4.7%
NZME	NZM	88	0.45	0.50	5.1	5.5	0.0%	0.0%
Sky Network Television	SKT	464	1.12	1.61	4.5	5.2	7.1%	0.0%
Spark NZ	SPK	8,377	4.56	3.42	20.5	20.4	5.5%	5.5%
CONSUMER DISCRETIONARY								
Michael Hill International	MHJ	224	0.62	0.82	8.7	8.4	6.9%	7.8%
Restaurant Brands New Zealand	RBD	1,352	10.84	7.65	31.9	30.5	0.0%	0.0%
SKYCITY Entertainment Group	SKC	2,668	3.98	3.80	15.5	17.1	5.0%	5.0%
The Warehouse Group	WHS	864	2.49	2.24	11.6	12.0	6.8%	6.7%
Tourism Holdings	THL	613	4.17	4.17	18.7	20.2	6.5%	6.5%
CONSUMER STAPLES								
Comvita	CVT	154	3.10	3.61	-19.2	27.9	1.9%	2.2%
Delegat Group	DGL	1,133	11.20	21.00	22.1	21.1	1.5%	1.6%
Fonterra Shareholders' Fund	FSF	385	3.78	3.85	22.7	14.1	0.0%	3.4%
New Zealand King Salmon Co	NZK	331	2.39	2.15	25.7	24.5	2.1%	2.1%
Sanford	SAN	653	6.98	7.57	15.0	13.9	3.3%	3.3%
Scales Corporation	SCL	704	5.04	4.82	19.9	19.3	4.3%	4.4%
Seeka Limited	SEK	155	4.85	5.85	32.9	17.7	4.9%	4.9%
Synlait Milk	SML	1,625	9.06	8.50	19.7	17.2	0.0%	0.0%
The a2 Milk Company	ATM	9,604	13.06	14.40	33.1	27.8	0.0%	0.0%
ENERGY								
NZ Refining	NZR	644	2.06	2.17	44.1	8.9	6.0%	8.9%
Z Energy	ZEL	2,184	5.46	5.30	12.0	14.1	7.9%	8.8%
FINANCIALS								
Heartland Group Holdings	HGH	923	1.60	1.53	12.0	11.4	6.3%	6.6%
NZX	NZX	345	1.25	1.18	22.6	20.3	5.0%	5.0%
HEALTH CARE								
AFT Pharmaceuticals	AFT	288	2.96	2.80	-118.7	73.9	0.0%	0.0%
Ebos Group	EBO	3,755	24.88	20.62	24.8	22.5	3.0%	3.1%
Fisher & Paykel Healthcare	FPH	9,826	17.11	13.15	46.8	39.8	1.4%	1.8%
HEALTH CARE PROVIDERS								
Arvida	ARV	797	1.47	1.40	15.7	13.0	3.6%	3.9%
Oceania Healthcare	OCA	622	1.02	1.08	12.4	11.6	4.6%	4.7%
Ryman Healthcare	RYM	6,480	12.96	9.80	28.5	24.6	1.8%	2.0%
Summerset Group Holdings	SUM	1,463	6.45	6.75	14.1	13.3	2.1%	2.2%
INDUSTRIALS								
Fletcher Building	FBU	4,029	4.76	4.97	11.1	13.9	4.8%	5.0%
Metro Performance Glass	MPG	67	0.36	0.62	4.7	4.4	0.0%	0.0%
Skellerup Holdings	SKL	432	2.22	2.05	14.8	14.1	5.9%	6.0%
Steel & Tube	STU	139	0.84	1.03	12.9	10.8	6.0%	7.1%
TRANSPORT & LOGISTICS								
Air New Zealand	AIR	3,161	2.82	2.67	11.7	10.9	7.8%	8.2%
Auckland Airport	AIA	11,084	9.15	6.11	40.3	40.7	2.4%	2.5%
Freightways	FRE	1,240	7.98	7.78	20.3	18.7	3.8%	4.7%
Mainfreight	MFT	3,959	39.32	30.10	28.1	24.2	1.4%	1.7%
Port of Tauranga	POT	4,354	6.40	4.40	43.8	42.2	2.9%	2.5%
INFORMATION TECHNOLOGY								
EROAD	ERD	205	3.00	3.40	-41.1	120.2	0.0%	0.0%
Gentrack Group	GTK	481	4.88	5.15	31.4	25.0	2.9%	3.4%
Vista Group International	VGL	611	3.67	4.45	39.9	33.5	1.3%	1.5%
REAL ESTATE								
Argosy Property	ARG	1,191	1.44	1.20	20.8	22.3	4.4%	4.4%
Asset Plus	APL	103	0.64	0.69	20.7	17.0	5.7%	5.7%
Augusta Capital	AUG	134	1.53	1.23	17.2	22.6	4.0%	4.3%
Investore Property	IPL	492	1.89	1.58	23.6	23.4	4.0%	4.0%
Kiwi Property Group	KPG	2,369	1.64	1.52	23.5	22.8	4.2%	4.3%
Precinct Properties NZ	PCT	2,391	1.82	1.65	28.6	26.8	3.3%	3.5%
Property for Industry	PFI	1,197	2.40	1.78	27.5	25.4	3.2%	3.3%
Stride Property Group	SPG	848	2.32	2.05	21.9	22.4	4.3%	4.3%
Vital Healthcare Property Trust	VHP	1,220	2.70	2.38	27.2	25.2	3.2%	3.2%
ENERGY UTILITIES								
Contact Energy	CEN	6,250	8.72	7.01	35.5	39.9	4.5%	4.5%
Genesis Energy Limited	GNE	3,583	3.50	2.08	53.8	48.9	4.9%	4.9%
Mercury NZ	MCY	7,356	5.40	3.43	45.7	43.8	2.9%	2.9%
Meridian Energy	MEL	13,494	5.27	3.43	40.5	47.5	4.0%	4.1%
TILT Renewables	TLT	1,246	2.84	2.21	102.2	n.m.	0.6%	0.4%
TrustPower	TPW	2,576	8.23	5.39	25.1	27.1	9.0%	4.2%
Vector	VCT	3,530	3.53	3.27	27.0	24.9	4.7%	4.7%
MARKET AVERAGE*					**24.2**	**23.3**	**3.6%**	**3.7%**

**PE ratios exclude: AFT, CVT, ERD, GMT, NZR, TLT*

Australian Forecasts 7-October-2019	Ticker	Market Cap	Price 07-Oct-19	Target Price	Price Earnings (x)		Net Yield (%)	
Source: CSFB estimates		(A$m)	(A$)	(A$)	FY19	FY20	FY19	FY20
COMMUNICATION SERVICES								
Telstra Corporation	TLS	40,675	3.42	3.70	18.9	16.7	4.7%	4.7%
carsales.com.au	CAR	3,683	15.05	16.50	28.0	26.5	3.0%	3.0%
Nine Entertainment	NEC	3,240	1.90	2.10	12.8	16.0	5.3%	5.3%
REA Group	REA	13,928	105.74	90.50	47.2	41.5	1.1%	1.3%
TPG Telecom	TPM	6,430	6.93	5.50	17.1	26.9	0.6%	0.6%
CONSUMER DISCRETIONARY								
Aristocrat Leisure	ALL	19,705	30.86	30.00	23.3	20.4	1.7%	1.9%
Crown	CWN	8,194	12.10	11.30	22.3	23.9	5.0%	5.0%
Domino's Pizza Enterprise	DMP	4,114	47.96	38.52	29.1	26.3	2.4%	2.7%
Flight Centre	FLT	4,700	46.48	47.76	17.9	17.1	4.5%	4.8%
JB Hi-Fi	JBH	3,934	34.24	26.02	15.9	17.1	4.1%	3.9%
Star Entertainment	SGR	3,944	4.30	3.75	17.7	17.8	4.8%	4.8%
Tabcorp Holdings	TAH	9,782	4.83	4.56	24.5	27.0	4.6%	4.3%
Wesfarmers	WES	43,846	38.67	32.16	22.6	22.6	4.6%	3.6%
CONSUMER STAPLES								
Coca-Cola Amatil	CCL	7,566	10.45	9.40	19.8	18.7	4.5%	4.5%
Treasury Wine	TWE	12,898	17.92	19.30	29.9	25.2	2.1%	2.6%
Woolworths	WOW	45,807	36.32	31.68	27.2	24.6	2.8%	3.0%
Coles Group	COL	19,876	14.90	13.23	20.1	22.6	1.6%	3.8%
ENERGY								
AMP	AMP	5,842	1.70	2.00	8.7	10.4	0.0%	1.5%
Beach Energy	BPT	5,538	2.43	2.11	9.9	9.7	0.8%	1.6%
Caltex Australia	CTX	6,452	25.84	26.85	20.9	15.4	2.9%	3.9%
Challenger	CGF	4,241	6.93	7.20	12.4	13.4	5.1%	5.1%
Oil Search	OSH	7,265	7.04	4.22	17.2	13.9	2.7%	3.2%
Origin Energy	ORG	13,632	7.74	8.50	13.3	13.2	3.2%	3.8%
Santos	STO	10,263	7.28	4.85	11.7	10.3	2.0%	1.8%
Whitehaven Coal	WHC	3,191	3.11	4.10	5.6	18.1	16.1%	4.2%
Woodside Petroleum	WPL	19,674	30.85	24.49	15.8	13.3	5.1%	6.0%
WorleyParsons	WOR	6,510	12.51	17.70	21.8	13.8	2.2%	4.4%
COMMERCIAL BANKS								
ANZ Banking Group	ANZ	77,016	27.17	27.80	11.7	11.9	6.0%	6.1%
Bank of Queensland	BOQ	3,875	9.55	9.70	12.6	12.9	7.0%	6.9%
Bendigo and Adelaide Ba	BEN	5,470	11.10	10.00	14.5	15.1	6.3%	6.3%
Commonwealth Bank Aus	CBA	137,353	77.59	77.60	16.9	16.2	5.6%	5.6%
National Australia Bank	NAB	80,292	27.85	27.90	15.6	12.3	6.0%	6.0%
Westpac	WBC	99,184	28.42	30.55	14.5	12.8	6.3%	5.9%
FINANCIALS								
ASX	ASX	15,573	80.44	60.00	31.6	30.9	2.8%	2.9%
Macquarie Group	MQG	44,807	126.44	135.00	14.9	14.9	4.5%	4.6%
Magellan Financial Grou	MFG	9,266	50.87	49.30	24.7	22.0	3.6%	4.1%
Insurance								
Insurance Australia Grou	IAG	17,726	7.67	7.50	17.2	20.6	4.2%	3.8%
Medibank Private	MPL	8,951	3.25	2.90	20.0	20.2	4.8%	4.2%
NIB Holdings	NHF	3,183	6.98	5.75	19.3	20.0	3.3%	3.1%
QBE Insurance Group	QBE	10,937	12.31	8.46	14.8	14.9	3.8%	4.2%
Suncorp Group	SUN	16,996	13.48	13.90	84.6	16.1	5.8%	5.4%
HEALTH CARE								
CSL	CSL	72,596	236.34	168.52	37.9	35.4	1.2%	1.3%
Ansell	ANN	2,361	26.37	18.91	16.3	15.5	2.6%	2.8%
Cochlear	COH	11,956	206.83	211.00	44.9	40.2	1.6%	1.7%
HEALTH CARE PROVIDERS & SERVICES								
Ramsay Health Care	RHC	13,044	64.55	65.00	22.6	23.7	2.3%	2.4%
ResMed	RMD	24,498	19.28	13.89	40.9	39.1	1.1%	1.2%
Sonic Healthcare	SHL	13,304	28.02	26.80	24.2	23.3	3.0%	3.1%

Australian Forecasts 7-October-2019	Ticker	Market Cap	Price 07-Oct-19	Target Price	Price Earnings (x)		Net Yield (%)	
Source: CSFB estimates		(A$m)	(A$)	(A$)	FY19	FY20	FY19	FY20
TRANSPORT & LOGISTICS								
Qantas	QAN	10,004	6.37	6.40	11.7	9.4	3.9%	3.9%
Atlas Arteria	ALX	5,467	8.00	8.10	-99.9	29.2	3.8%	4.1%
Aurizon	AZJ	11,583	5.82	6.00	24.5	20.5	4.1%	4.9%
Qube Holdings	QUB	5,183	3.19	2.80	41.6	41.7	2.1%	2.1%
Sydney Airport	SYD	18,137	8.03	6.65	46.4	45.1	4.9%	5.0%
Transurban	TCL	39,705	14.53	13.00	228.5	100.1	4.1%	4.3%
INDUSTRIALS								
ALS	ALQ	3,859	8.00	8.40	21.6	19.8	2.8%	3.0%
Brambles	BXB	11,639	10.94	7.59	23.4	21.8	2.8%	2.8%
CIMIC Group	CIM	9,867	30.48	35.00	13.0	13.3	4.7%	4.5%
Cleanaway Waste Mgt	CWY	3,877	1.89	1.85	27.6	25.8	1.9%	2.1%
Downer EDI	DOW	4,544	7.64	8.00	16.9	15.7	3.7%	4.2%
Reliance Worldwide	RWC	3,097	3.92	4.25	20.4	19.4	2.3%	2.4%
Seek	SEK	7,290	20.71	19.60	39.4	49.4	2.2%	1.6%
INFORMATION TECHNOLOGY								
Computershare	CPU	5,747	15.64	11.13	15.1	15.9	2.9%	2.8%
Link Administration	LNK	2,969	5.56	5.75	14.8	18.1	3.7%	3.1%
Xero	XRO	9,438	62.30	43.25	n.m.	477.1	0.0%	0.0%
MATERIALS								
Amcor	AMC	15,416	14.04	9.98	15.4	15.2	4.8%	4.8%
Boral	BLD	5,346	4.56	4.10	11.0	12.8	5.8%	4.9%
Incitec Pivot	IPL	5,219	3.25	3.73	37.5	18.7	1.4%	2.8%
James Hardie	JHX	7,275	24.28	16.00	24.2	20.7	2.2%	2.6%
Orica	ORI	8,620	22.65	21.22	23.8	23.0	2.3%	2.9%
Orora	ORA	3,355	2.78	2.80	15.6	17.1	4.7%	4.1%
METALS & MINING								
Alumina	AWC	4,463	2.29	1.82	11.8	11.3	5.4%	7.7%
BHP Group	BHP	114,220	35.30	24.97	13.1	10.9	4.5%	4.6%
BlueScope Steel	BSL	5,964	11.60	15.30	6.5	12.8	1.2%	1.2%
Evolution Mining	EVN	7,843	4.61	2.60	36.1	27.2	2.1%	2.2%
Fortescue Metals Group	FMG	17,963	8.62	5.06	5.7	4.3	14.1%	15.0%
Iluka Resources	ILU	3,317	7.85	8.80	10.6	13.0	1.9%	0.0%
Newcrest Mining	NCM	18,457	35.47	13.76	33.3	26.0	0.9%	0.6%
Northern Star Resources	NST	7,483	11.70	6.30	48.8	23.8	1.2%	1.4%
OZ Minerals	OZL	3,006	9.28	9.50	15.5	18.0	2.5%	2.5%
Rio Tinto	RIO	84,413	87.65	58.04	8.8	9.6	8.1%	6.1%
South 32	S32	8,165	2.43	2.16	8.5	11.1	5.8%	3.6%
REAL ESTATE								
Lend Lease	LLC	9,557	16.93	16.83	20.6	12.9	2.5%	3.9%
Dexus	DXS	13,294	12.12	12.20	21.9	21.4	4.1%	4.3%
Goodman Group	GMG	26,000	14.22	14.43	27.3	24.8	2.1%	2.1%
GPT Group	GPT	11,999	6.16	5.99	20.7	19.8	4.3%	4.5%
Mirvac Group	MGR	11,999	3.05	3.04	20.0	18.9	3.8%	4.0%
Scentre Group	SCG	20,880	3.93	4.19	16.3	15.8	5.8%	6.0%
Stockland Group	SGP	10,634	4.46	4.32	14.1	13.6	6.2%	6.3%
Vicinity Centres	VCX	9,553	2.54	2.51	14.8	14.9	6.3%	6.1%
ENERGY UTILITIES								
AusNet Services	AST	6,642	1.80	1.80	25.7	25.3	5.4%	5.6%
AGL Energy	AGL	12,428	19.02	18.40	12.0	14.3	6.3%	6.3%
APA Group	APA	13,097	11.10	10.20	45.5	38.1	4.2%	4.5%
Spark Infrastructure	SKI	3,636	2.14	2.30	41.1	48.2	7.0%	7.0%
Market Average					**23.0**	**21.3**	**3.8%**	**3.8%**

Woodside Petroleum (WPL.AX)

OUTPERFORM A$32.12 **TARGET:** A$36.20

Upside visible through pessimistic fog

WPL has underperformed of late (down ~20% versus peers in six months) given high LNG exposure amidst weaker LNG contract/spot pricing, a disappointing 1H19 result, increased scepticism regarding Scarborough growth viability (low prices/JV challenges), stronger results/diversified market exposure from peers, capital management policy uncertainty, credibility issues, missed Browse toll deadline and delay risk at Senegal.

WPL.AX Year to 30 June		2019A	2020F	2021F	2022F
Adjusted NPAT	US$m	1,416	1,230	1,475	1,772
Earnings /share	USc	1.54	1.32	1.58	1.89
PE Ratio	x	14.1	16.4	13.8	11.5
Dividend	US$	1.44	1.06	1.26	1.14
Dividend Yield	%	6.6	4.9	5.8	5.2

- **The retrace now provides an opportunity to accumulate** WPL for little more than base business value, with ~A$5-10/share upside, if growth plans come to fruition/market conditions improve long term, but limited downside (~A$2/share) if they don't. Jarden thinks WPL is valued at ~A$30/share under a lower forever LNG price and ex-growth scenario, presenting limited downside versus peers.
- **Upcoming catalysts** include 2H results which should capture Greater Enfield startup, Pluto post turnaround, and affirm 2Q disappointment as one off. Catalysts on growth include a Scarborough tolling agreement and selldown + offtake agreement de-risking the project (but these catalysts may slip well into 2020 given JV challenges.) Progress on Senegal and Browse might occur too, although do not count this for their valuation.
- **Decrease TP to A$36.20 (from A$37.33) and maintain OUTPERFORM.** Jarden sees WPL, notwithstanding its risks, with material upside room left to run, versus most peers where much upside is priced in. Catalysts over a six-month outlook may prove elusive, whilst JV negotiation delays at growth projects and sustained weak LNG fundamentals may weigh on sentiment. they can understand some may wait to see if the risks/delay at growth catalysts may materialise over coming six months, providing opportunity to accumulate. But on a 12-18 month view, they think we could see a turnaround, and see limited downside risk from adding to positions at current levels (oil price movements aside). And if the catalysts above do come in sooner rather than later, then the opportunity to accumulate WPL at these levels could be missed.

South 32 (S32.AX)

OUTPERFORM A$2.64 **TARGET:** A$3.20

Commodity price review has driven a downgrade

This looks like reducing near term met coal prices 11% in CY19 and 15% in CY20. And would result in EPS changes of 23% and 17% in FY20 and FY21 respectively. Given the recent share price softness, Jarden has retained its outperform recommendation.

S32.AX Year to 30 June		2019A	2020F	2021F	2022F
Adjusted NPAT	US$m	992	746	797	748
Earnings /share	USc	19.42	14.86	15.90	14.94
PE Ratio	x	9.2	12.0	11.2	11.9
Dividend Yield	%	5.4	3.3	3.6	3.4

Jarden remains comfortable with the longer-term value but the imbedded growth in S32 will take some time to materialise and current coal markets are likely to make the economics of Eagle Downs challenging. Unfortunately, near-term, with commodity prices and macro sentiment working against them, it's hard to see a catalyst but for those with a more constructive view on the sector (or the macro outlook) and those who are happy to navigate some near-term volatility,

Index / Stock Name	Stock Code	Current Price $	Target Price $	Target Gross Return %	Gross Stock Performance %			
					Fortnight	Month	Quarter	Year
ASX100 Index	ASX100	17,799						
Aristocrat Leisure	ALL	30.86	30.00	-1.0%	-0.3	7.2	3.9	11.8
Atlas Arteria	ALX	8.00	8.10	5.0%	3.0	-1.1	1.4	21.5
Cleanaway Waste Management	CWY	1.89	1.85	0.0%	-4.8	-5.0	-20.8	7.3
Flight Centre	FLT	46.48	47.76	7.5%	-2.0	-1.3	12.0	-4.4
James Hardie	JHX	24.28	23.70	0.2%	-1.7	8.4	30.0	22.6
Magellan Financial Group	MFG	50.87	49.30	1.0%	-3.1	-1.4	-4.5	81.2
Resmed	RMD	19.28	20.10	5.5%	-1.0	-5.7	10.1	23.1
Santos	STO	7.28	7.24	1.5%	-6.5	1.5	7.4	0.1
Scentre Group	SCG	3.93	4.19	12.4%	-0.3	-1.0	-0.2	6.0
South 32	S32	2.43	3.20	35.3%	-12.3	-7.8	-23.5	-40.2
Treasury Wine Estates	TWE	17.92	19.30	10.3%	-6.5	-4.0	17.7	2.4

Stock Code	PE Ratio x		EV/EBITDA x		Net Div Yield %		Return on Equity %
	FY0	FY1	FY0	FY1	FY0	FY1	
ALL	23.3	20.4	14.3	13.4	1.7	1.9	39.6
ALX	-99.9	29.2	64.4	20.4	3.8	4.1	-2.6
CWY	25.8	22.2	8.5	7.8	2.1	2.5	5.7
FLT	17.1	16.0	10.1	9.6	4.8	5.1	18.1
JHX	20.7	19.4	14.1	13.3	2.6	3.1	19.2
MFG	22.0	19.6	16.5	14.7	4.1	4.6	40.7
RMD	39.1	32.8	29.1	26.3	1.2	1.3	20.3
STO	11.7	10.3	5.6	5.2	2.0	1.8	11.1
SCG	16.3	15.8	18.4	18.3	5.8	6.0	5.4
S32	11.1	10.3	4.5	4.1	3.6	3.9	7.4
TWE	25.2	21.4	15.7	13.5	2.6	3.0	13.0

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