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Volume 33

Investment Strategies

May 2019

Global equity markets have rallied strongly to date in 2019, with a number at, or close to, all-time highs. As a result, investors are on top of the world with measures of investor sentiment high. After a soft start to the year global economic growth is showing signs of strengthening, thanks to the "dovish" stance of central banks, lower interest rates, good (albeit rocky) progress towards securing a US-China trade deal and economic stimulus in China.

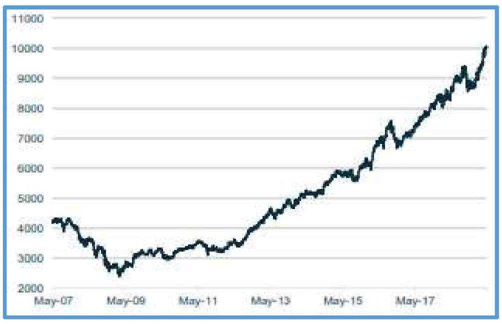
This is positive for company earnings and equity prices. However, FNZC expects that this stronger outlook will see central banks become less "dovish" and interest rates trend up.

This is likely to be a headwind for the NZ equity market which has been a major beneficiary of the quest for dividend yields as interest rates have declined.

In absolute terms, the NZ equity market is trading at valuation multiples not seen before. Furthermore, despite global equities trading at above average valuation multiples levels, NZ equities appear very expensive on a relative basis.

Investors seeking equities offering sound dividend yields could well benefit from looking at global companies as well as those listed in NZ.

NZ50 GROSS INDEX 2007 to 2019



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STATISTICS NZ DATA

Estimated population at 31 Dec 2018:	4,926,400
Births December 2018 year:	58,020
Deaths December 2018 year:	33,225
Total Fertility Rate December 2018 year ↓	1.71
Net long-term migration Mar-19 year:	56,100
- 61,600 in Feb-19 ↓ 5,500	
- 52,704 in Mar-18 ↑ 3,396	
Visitor arrivals Annual at Feb 2019 (↑ 2.7%)	**3,877,813**

Employment

Total employed Jun-18 quarter:	2,631,000
Unemployment rate Mar-19 quarter:(↓0.1%)	4.2%
Tauranga City Unemployment Mar-19 quarter:	**4.7%**
Employment rate Mar-19 quarter: (↓0.3%)	67.5%
Wage rate increase Mar-19 quarter: (↑0.1%)	2.0%
Ave weekly earnings Dec-18 quarter:	$1,124
Average ordinary time hourly earnings: (↑37c)	$32.00
Net Household Wealth (NZ Median)	$340,000
Net Wealth (Top 20%) (↑9.7% pa over last 3 years)	$1.75m
Median Net Wealth – Individual Europeans	$138,000
Median Net Wealth – Individual Maori	$29,000
Consumer Price Index Dec-18 year:	1.9%
The size of the NZ Economy /Dec-18 year:	**$293 bn**
GDP per capita year ended June 2018:	**$57,218**
GDP Growth (volume) Dec-18 year: ↓	**2.8%**

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NEXT ISSUE – NZ BUDGET

OUR POLITICAL CLIMATE

PETERS IS THE MAN IN CHARGE

While the public think Jacinda Ardern can do no wrong, the reality is that domestically she has been marginalized by her Deputy, Winston Peters – who so often is "asleep at the wheel".

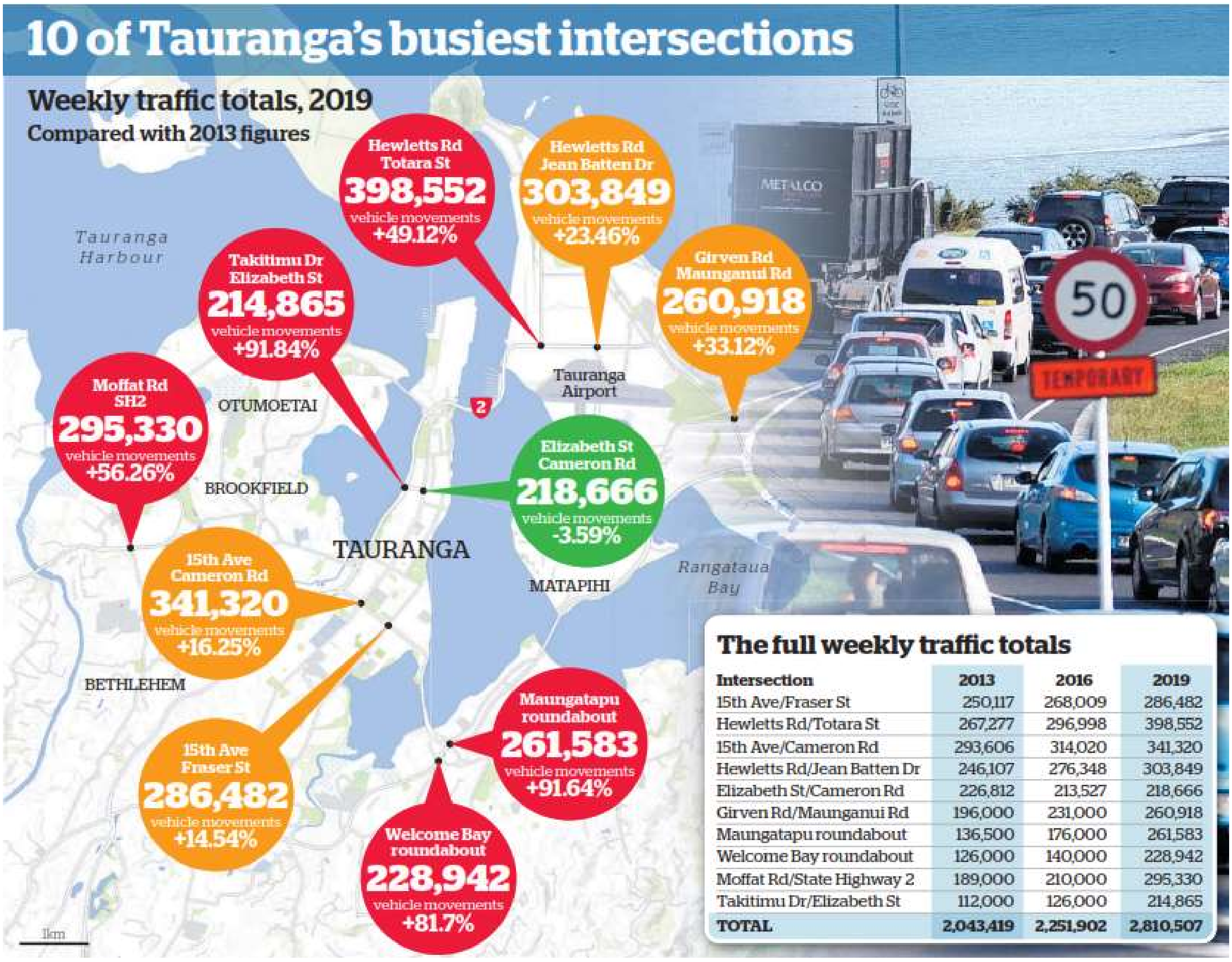
Ardern talked big about a "transformational government", but the reality is that this NZ First-Labour Coalition Government has achieved zip. The Pike River re-entry was really the only policy where Labour, NZ First and the Greens agreed, and it has fallen flat. You can't tell me that the discovery of high levels of oxygen in the drift only happened the day before the planned re-entry on 3rd May. Bollocks. This is just not credible. But it is synonymous with how this government operates – lots of spin, and no delivery.

Take the debacle of congestion on our Tauranga roading network. Labour blames NZTA for the total stone-walling of road infrastructure funding for our key Western Bay roading projects (the Northern and SH29 being just two of many) – but the reality is that, while everyone knows that the Greens will never support roading projects, NZ First (and Winston in particular) have vetoed any money going to Tauranga. He was kicked out of Parliament as the MP for Tauranga by Bob Clarkson, and then lost to Simon Bridges in 2008. This man has a personal beef with Tauranga, and his petty, personal bitterness is putting our city in peril.

My message to Winston is to "grow up" – you are the Deputy Prime Minister, so act like it.

And Jacinda Ardern needs to show some real leadership, and bring Peters into line. Stop hiding behind the internationally acclaimed PR spin, and start governing domestically. This country can't afford to slip any further down the productivity tables – and neither can Tauranga. We need strong economic leadership, and she is currently "missing in action".

"It is trust, more than money, that makes the world go around." - Economist and Columbia University professor Joseph Stiglitz



The full weekly traffic totals

Intersection	2013	2016	2019
15th Ave/Fraser St	250,117	268,009	286,482
Hewletts Rd/Totara St	267,277	296,998	398,552
15th Ave/Cameron Rd	293,606	314,020	341,320
Hewletts Rd/Jean Batten Dr	246,107	276,348	303,849
Elizabeth St/Cameron Rd	226,812	213,527	218,666
Girven Rd/Maunganui Rd	196,000	231,000	260,918
Maungatapu roundabout	136,500	176,000	261,583
Welcome Bay roundabout	126,000	140,000	228,942
Moffat Rd/State Highway 2	189,000	210,000	295,330
Takitimu Dr/Elizabeth St	112,000	126,000	214,865
TOTAL	**2,043,419**	**2,251,902**	**2,810,507**

Labour needs to get rid of Twyford, but also Peters and NZ First need to be held to account for the lack of roading infrastructure funding for our city. Our city is poorly served by its List Members of Parliament.

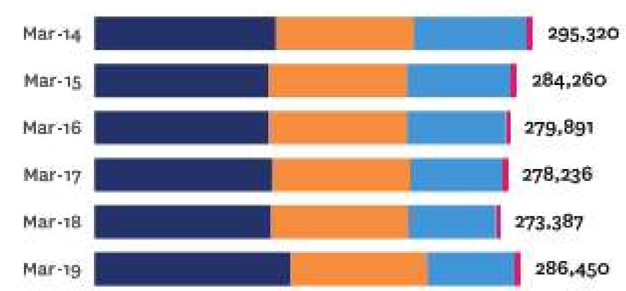
List NZ First MP, Clayton Mitchell – missing in action. List Labour MPs, Jan Tinetti & Angie Warren-Clark – both totally ineffective. Where is the advocacy for our city? National can do little in opposition.

WELLBEING MEASURES GO BACKWARDS

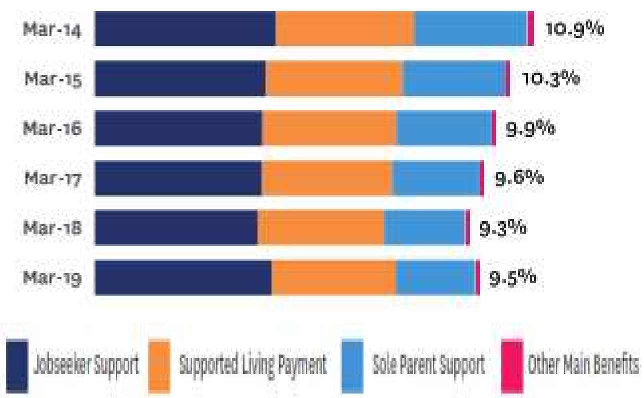
The recently released quarterly stats from MSD had some truly shocking numbers included! The number of New Zealanders needing assistance to eat and live is at record high. Hardship assistance has increased by $48 million in the past year. Under this Government Kiwi families are struggling to put food on the table.

The proportion of the working-age population receiving a main benefit increased to 9.5% as at March 2019, higher than the 9.3% of the working-age population as at March 2018.

Number of working-age people receiving main benefits, broken down by main benefit type

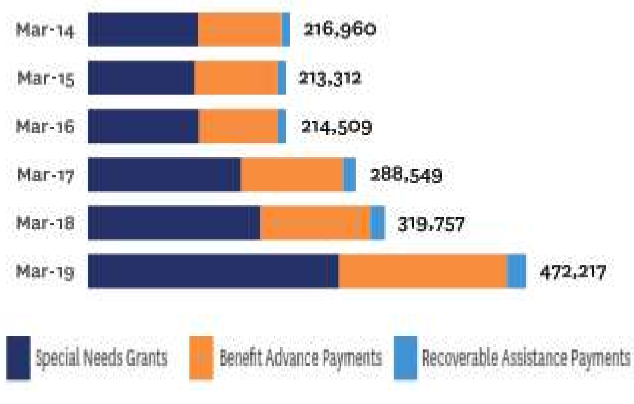


Proportion of working-age population receiving main benefits, broken down by main benefit type

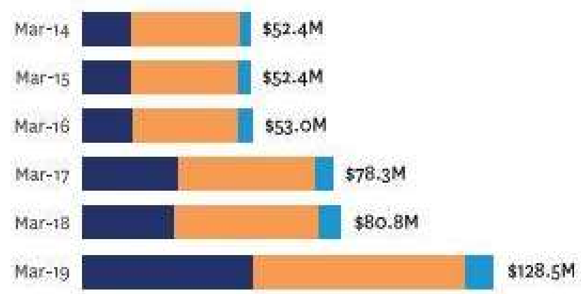


In the March 2019 quarter, 472,217 hardship assistance grants were granted. These were worth $128.5 million. This is an increase compared to the March 2018 quarter, where 319,757 grants worth $80.8 million were granted.

Trends over time of hardship grant numbers



Trends over time of the value of granted payments



Jobseeker benefit numbers up 11% in a year

The latest MSD data shows the number of people receiving a jobseeker benefit has increased by 13,000 or 10.9% in the last year. And it isn't evenly spread. The increase by key demographics is:

- Maori +14.6%
- Pasifika +15.9%
- Under 25s +13.7%
- 25 – 40 year-olds +16.7%

Combined with the hardship assistance, special needs grants are up 45% and advances up 53%. So much for a caring Government.

THE WELLBEING BUDGET – 30th MAY

Source: Peter Dunne, Newsroom Pro, 26th April

This year's Budget has an added significance - it is the year of the "wellbeing" Budget, and its success or failure will be determined by the success or failure of the "wellness" message to resonate with New Zealanders. But here is where the problems begin, because aside from the generalities, the Government, in a manner reminiscent of its approach to the capital gains tax debate, has been very vague about what the "wellbeing" Budget really means, how it will be significantly different from the Budgets we have been used to, and what greater impact it will have on the lives of New Zealanders.

At the World Economic Conference in Davos in January the Prime Minister gave a hint when she said: "We need to address the societal wellbeing of our nation, not just the economic wellbeing," and that she was promoting a "wellbeing Budget" to gauge the long-term impact of policy on the quality of people's lives.

That sounds good, but what does it mean in practice? The Minister of Finance put a little more flesh on the bones in a speech earlier this year when he said, "Using the Treasury's Living Standards Framework (LSF), evidence from sector-based experts and the Government's science advisors, and with collaboration among public sector agencies and Ministers, we have identified five priorities for the Wellbeing Budget."

He further explained that The LSF contains data measures across 12 areas, including health, housing, safety, and social connections, which are in most cases internationally comparable. It shows the current and future wellbeing of New Zealanders broken down by their ethnicity, age, gender, region, family-time and deprivation area, over time.

By implication, we are being led to believe that this represents a vastly different approach to Budgets than has been the case until now, with this Government at the helm of a much more holistic and thorough approach to the Budget process than has ever gone on before.

Well, unfortunately for its narrative, this is not the case. Labour likes to think that the nine years of the previous National-led government, and to some extent the Labour-led government before it, were years of wasted opportunity, where no innovative thinking, outside perhaps the so-called Cullen Fund for retirement savings, and Kiwisaver, happened, and that, consequently, their historic mission is to fill the yawning social, philosophic, and compassion gap.

The truth is somewhat different.

Treasury's Living Standards Framework upon which the Government is placing so much emphasis has been in development since 2011, and the 2012 Welfare Reforms first introduced the notion of a social investment approach, looking to evaluate the long-term return from investing in social services, and to use this information to target future spending. That is barely different from the Prime Minister's 2019 Davos commitment to use the Budget process to gauge the long-term impact of policy on the quality of people's lives.

MINIMUM WAGE INCREASED

SOURCE: Priority One

On 1 April the minimum hourly rate rose by $1.20 to $17.70, directly impacting around 72,000 people in New Zealand. The minimum wage had increased more quickly than median wages over recent years. The median wage in 2018 was 39% higher than in 2008 but the minimum wage was 47% higher. However, while the minimum wage increased more than 7%, MBIE modelling shows that overall incomes for families earning the minimum wage would rise between 1.7% and 3.7%, depending on what other income related government support they received.

The reality is that a lot of the minimum wage increase will be offset by reductions in Working for Families payments.

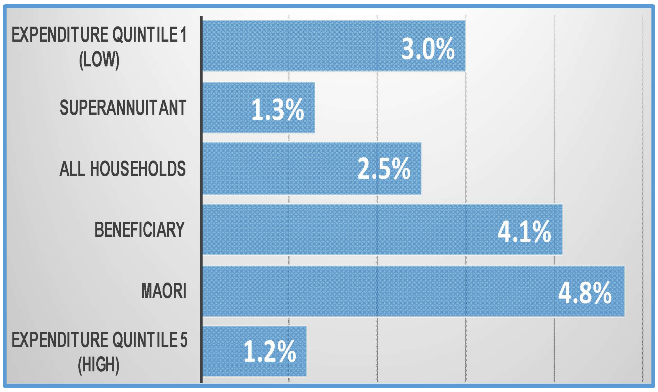
1 in 3 MAORI STILL SMOKE

Ministry of Health data shows about 1 in 7 adults in the general population remain as smokers, but this figure is about 1 in 3 for Māori (30% for Maori men, and 37% for Maori women). Data shows that beneficiaries were hit hardest by the excise tax increase for tobacco products that took effect on 1 January. Beneficiaries' cost of living rose 0.6%, compared with 0.1% for all households.

"*One cigarette cost about $1.50 in the March 2019 quarter, up from about 54 cents a decade ago, partly a result of regular excise tax increases over the past 10 years*," consumer prices manager Gael Price said.

Cigarettes and tobacco make up about 4.1% of all spending for beneficiaries, compared with 2.5% for all households. Māori households were also affected by the cigarette excise tax increase, as cigarettes and tobacco make up about 4.8% of their spending.

PROPORTION OF HOUSEHOLD SPENDING ON CIGARETTES



SOURCE: Stats NZ, September 2017

AUCKLAND'S GROWTH HAS SLOWED

Auckland's crazy population growth has eased, from peak increases in 2015-17 of about 43,000 extra souls a year to a high, but more manageable 30,000 last year. This year is projected to be about 30,000 as well. And that means the organisation tasked with managing the city's growth, Auckland Council, can breathe slightly easier.

The weakness witnessed across Auckland's property market has continued to weigh down the headline results, with the annual fall of 1.5% at the end of April, exactly the same as reported for March. The continued strength in the provinces is clear however, with dwelling values tracking 8.2% higher over the year across the combined thirteen provincial centres.

Index results as at 30 April 2019

	Change in property values			Average Value
	Month	Quarter	Annual	
Auckland	-0.6%	-1.2%	-1.5%	$1,033,583
Hamilton	0.9%	1.4%	5.1%	$585,579
Tauranga	1.0%	2.5%	5.1%	$740,222
Wellington	0.5%	1.8%	8.2%	$706,123
Christchurch	0.2%	0.1%	1.3%	$498,105
Dunedin	1.4%	4.9%	13.0%	$457,530

Highlights over the three months to April 2019

- Best performing main city: **Dunedin +4.9%**
- Weakest performing main city: **Auckland -1.2%**

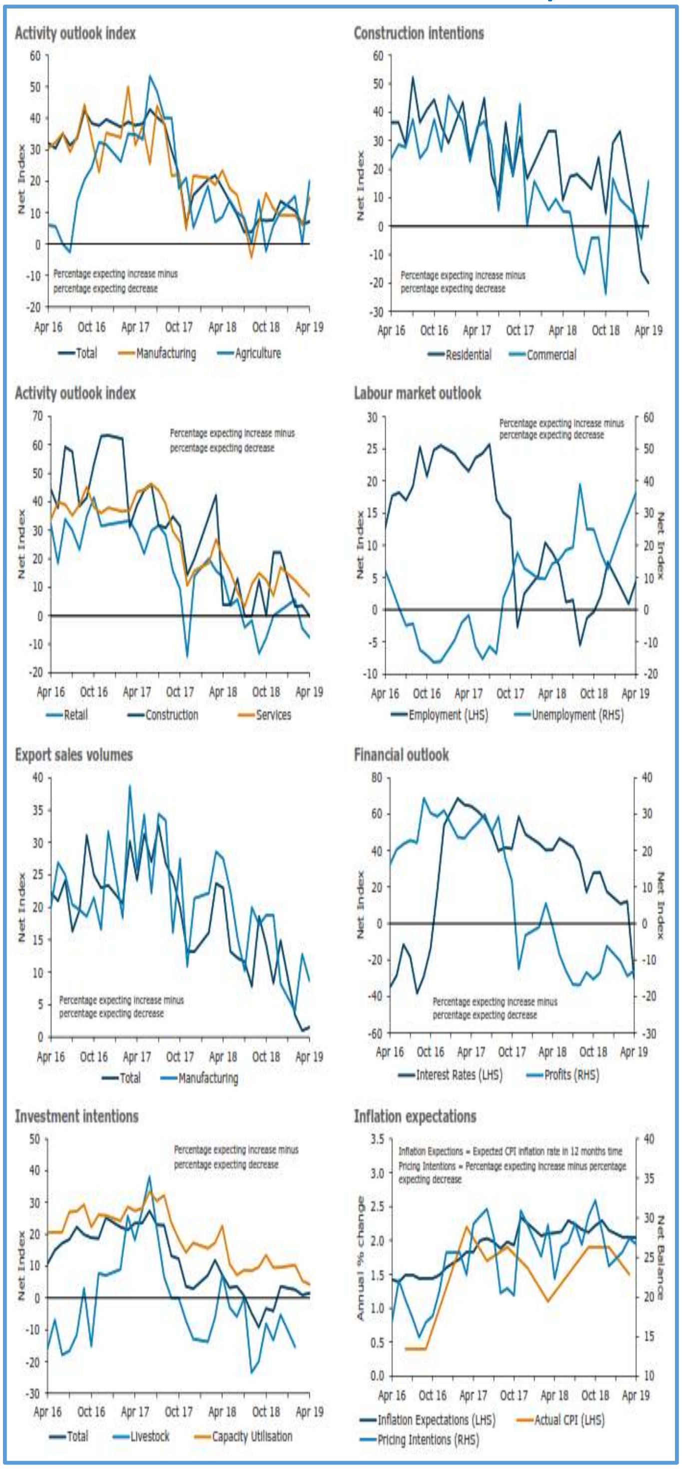
SOURCE: Corelogic.co.nz

Looking ahead, there seems little sign of residential building confidence returning to our markets.

RESIDENTIAL CONSTRUCTION INTENTIONS & RESIDENTIAL BUILDING CONSENTS

SOURCE: ANZ, Statistics NZ

ANZ BUSINESS CONFIDENCE DATA – April 2019



SOURCE: ANZ, Statistics NZ

METHANE AGREEMENT KEY TO ZERO CARBON BILL

It is understood that Climate Change Minister James Shaw and NZ First have negotiated a "split gas" target, which would see methane treated differently from other long-lived gases, like carbon. National's Climate Change spokesperson, Todd Muller seems to have been side-lined in these negotiations by NZ First.

Farmers are worried about the legislation because agriculture accounts for about half our emissions, mostly methane from belching live stock.

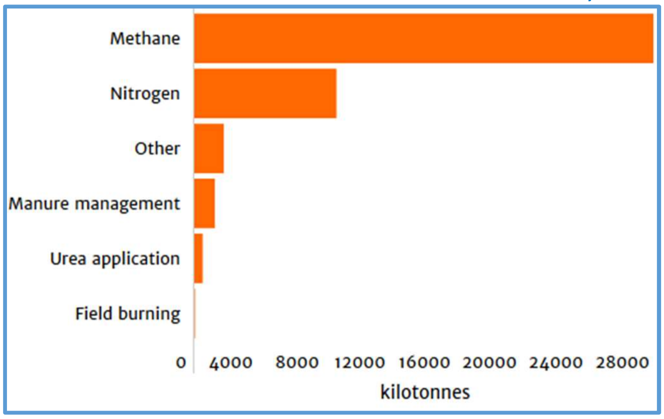
It comes as Shaw took delivery at the end of April of two reports - on agriculture and on transitioning to 100% renewable electricity by 2035 - from the Interim Climate Change Committee (ICCC). Under the 2015 Paris Agreement, New Zealand agreed to reduce its greenhouse gas emissions by 30% below 2005 levels by 2030.

Scientists have long argued delays and inaction will increase costs and reduce chances of limiting temperature increase. New Zealand's methane emissions are six times the global average. But scientists are at odds about how stringent targets should be to reduce or stabilise methane emissions.

Some argue tackling carbon dioxide, a pollutant from industry and transport, is more pressing because it remains in the atmosphere for much longer.

Sector group Beef+Lamb NZ welcomed a more nuanced approach to pollutants. Chief insight officer Jeremy Baker said: "*We are committed to playing our role in addressing climate change. It is important we get the framework right and we end up with an approach that really works at the farm-level and recognises the different impacts of gases such as methane and carbon dioxide.*"

AGRICULTURAL GREENHOUSE GAS ANNUAL EMISSIONS, 2016



SOURCE: Stuff

SHANE JONES WANTS TO FORM A MEGAPORT

SOURCE: Fran O'Sullivan, NZ Herald

Why doesn't Cabinet Minister Shane Jones simply get to the point and advocate using the MOM - or the mixed ownership model - for the future megaport he wants mashed together from three major North Island ports?

Jones has signaled New Zealand First will put the rationalisation of three key North Island ports on the agenda at the 2020 election with a pledge to form a mega-port authority as part of the price of a future coalition deal.

He is obviously keen to defuse investor anxiety. He stopped short of using the "N" word - nationalisation - in his response to the first report from the Working Group undertaking the review of Upper North Island Supply Chain strategy.

Nationalisation had been floated by NZ First at the 2017 election. But unsurprisingly it is not popular with either listed Port of Tauranga or Ports of Auckland which is council owned. The third member of the prospective megaport - Northport - already has diverse ownership.

Yet the mixed ownership model used by the previous National Government to privatise gentailers, such as Mercury with the Crown retaining 51% stakes, could be an appropriate model for a listed megaport.

It is well understood by sharemarket investors and analysts.

Importantly, it could result in a significant listed company on the NZX. One with sufficient balance sheet size to leverage up to partially fund future port development and also with sufficient clout to negotiate with international shipping companies which can currently play ports off against each other.

Jones' planned election year proposal to reform all three major North Island ports will not fly without empowering legislation to create the single entity he wants.

Jones told Newshub: *"There's far too much rivalry, there's not enough collaboration, they operate in isolation and often to the detriment of New Zealand, and as a politician I am going forward into the next election to bring that kind of behaviour to a halt. Unfortunately, that is not the business of the Cabinet or the Government I'm currently a part of. But I am very aspirational of being a future key partner in future government."* Read from that Jones has not been able to persuade Finance Minister Grant Robertson that any hint of nationalisation would fly in the current coalition's first term in office.

The conundrum is that the ports mashup that Jones has in mind can't be achieved without either persuading the owners of the three major North island ports companies, Port of Tauranga, Ports of Auckland and Northport, to surrender ownership control voluntarily or via Government dictate. Even getting voluntary agreement would be difficult given the competition issues that would emerge from moving towards reducing competition in the marketplace. The ownership interests and issues are complex:

- Ports of Auckland is 100% owned by Auckland ratepayers through Auckland Council, which (so far) is intent on retaining ownership and access to the company's dividend stream.
- Ports of Auckland is also a 19.9% shareholder in Marsden Maritime Holdings, whose major shareholder is the Northland Regional Council (53.61%) but also includes other minor shareholders such as ACC (2.18%).
- Marsden Maritime Holdings and the publicly-listed Port of Tauranga each own 50% of Northport.
- Port of Tauranga — worth some $3.5 billion on the NZX on yesterday's share price — is majority controlled by Quayside Securities with 54.14% (this company's shareholder is Quayside Holdings, which is 90.92% owned by the Bay of Plenty Regional Council).

It is one of NZ's best publicly-listed companies with some 13,000 shareholders who have done well from their investments.

Merging the varying combinations would spark takeover code thresholds and would inevitably trigger the Commerce Act through the merged entity having dominance of the container shipping sector.

Which is where legislation will inevitably come into play and with it the prospect of nationalisation if the three companies could not agree on a path forward.

Would this be a bad thing?

The Lange Labour Government essentially forced through the breakup of Telecom after it became concerned about its pricing and dominance of broadband.

While Telecom shareholders ultimately voted for structural separation making history as the "incumbent" telco in the world to voluntarily split in two, the proposal for the megaport is a move in the opposite direction.

If Jones is serious and not simply trying to bully an outcome, he should ask the Working Group Chair Wayne Brown to put it on his agenda, get the best advice in the business, and then look at all the options.

Better that than trying to jawbone through an outcome that will not fly.

INCENTIVISING EVs

There are many vested interests, not the least of which is the fossil fuel industry, who have the means to oppose automobile advances to reduce emissions. Yet there are many past examples, of a sea-change occurring in major industries in a decade or two, once the benefits and adverse costs were realised. These include the rapid transition from horse and carts to automobiles in the early 1900s, the introduction of city-wide sewer systems in the late 1800s, national electrical grids around 1940 or so, the internet in the 1980s, and cell phones in the 2000s. The next major transition is likely to be energy systems. Watch for it, and plan accordingly.

ELECTRIC VEHICLES AS A PERCENTAGE OF TOTAL VEHICLE SALES

Source: Statista

DOES SHUTTING SOCIAL MEDIA REDUCE VIOLENCE?

In the wake of a series of coordinated attacks that claimed more than 250 lives on 21st April, the government of Sri Lanka shut off its residents' access to social media and online messaging systems, including Facebook, WhatsApp, YouTube, Snapchat and Viber. The official government concern was that "false news reports were spreading through social media."

Some commentators applauded the move, suggesting the dangers of disinformation on social media justified shutting down communication networks in times of crisis. Five years of research on the impact of shutdowns and other information controls on societies worldwide have led to the exact opposite conclusion.

A diverse community of academics, businesses and civil society groups share this view. The blackouts deprived Sri Lankans of impartial news reports and disconnected families from each other as they sought to find out who had survived and who was among the dead and injured. Most strikingly, recent research suggests that the blackouts might have increased the potential for protest and violence in the wake of the attack.

Even if shutdowns are ineffective, they can be tempting for governments that need to be seen taking action. Vague and often antiquated laws let them implement drastic measures like shutdowns easily and quickly, with a written order or even a simple phone call. But every time a government uses the tactic, it makes others more likely to follow suit – in the same country and around the world. The evidence shows that this takes a heavy toll on their citizens, both economically and in terms of human rights, without offering them any additional protection or safety.

"We believe PR should be practiced to serve the public interest, to develop mutual understanding between organizations and their publics." *– James E. Grunig*

JACINDA HAS MASTERED THE ART OF SPIN

I definitely don't want to downplay the tragedy that occurred on 15th March, but Jacinda Ardern has had a charmed run on the back of that massacre in Christchurch.

The media love her, and her empathy shone through in spades. However, Australian economist Judith Sloan ripped Ardern. Sloan looked past the empathetic look of the Prime Minister, and worries about the longer term economic and social affects her policies will not only place on New Zealand, but also upon Australia. Sloan said "*What started off as an ill-considered public housing project has turned out to be an extremely unsuccessful private real estate scam. The government estimated that there would be 1000 homes built last year under KiwiBuild; it turned out to be 47. KiwiBuild's long-term goal of delivering 100,000 houses in 10 years has been kept, however, with Ardern admitting in January that the Government will need to demonstrate to the public what we're doing*".

Sloan, who has held a number of government appointments in Australia, including Commissioner of the Productivity Commission, also took aim at the NZ Government's attempt to reduce the migrant intake, noting the foreign buyer ban.

"*If their economy turns pear-shaped, there is a strong possibility more New Zealanders, including those recently arrived migrants, could head over the ditch,"* she said. *"We expect our political leaders to behave in a compassionate and forthright manner in those circumstances. Ardern has lived up to this expectation. But this doesn't inoculate her from criticism as a political leader trying to run a country. On many fronts, her performance has been ordinary*."

Locally, Heather du Plessis-Allan also questioned our PM's response to the massacre, and in particular her wearing a hijab (head scarf). Ironically, I was at a meeting the day prior to du Plessis-Allan's column, where a practicing Muslim told us that her community was highly offended by her "empathetic" statement that "They are us". This person said just using "they" and "us" shows the Muslim community that Jacinda was only interested in her "own self-interest", with little feeling towards this most affected community.

Any interpretation that the Prime Minister is, to put it bluntly, "milking" her compassionate image as a way of deflecting attention from other more difficult issues, is not intended, but it is time that Ardern got back to "managing the New Zealand economy" and the sooner the better.

DAVID FARRAR SUMS UP THE JACINDA EFFECT

"While I do not like many of Ardern's policies, and do think there are areas where she is relatively weak (lack of action on non-performing Ministers), I also think there are some areas where she is very very good. If you are on the right and can't see the areas where she performs well, then you are in danger of under-estimating her just as Labour did with John Key."

"I remain an opponent of many of the policies of the Government of course. And Ardern has areas where I regard her performance as lacking. But she also has areas where she is very strong performer, and people will be making a mistake if they under-estimate her abilities. I certainly won't be."

SOCIAL MEDIA CRACKDOWN IS A BEEHIVE PR JOB

Author: Heather du Plessis-Allan, Newshub, 23 April 2019

The Beehive is trying to cover up on the Capital Gains Tax backdown, Heather writes. There are reports our Prime Minister is right at the front of a global push to crack down on social media giants like Facebook.

Apparently, she's leading the charge to rein in harmful content online. Not only is she personally pushing hard for these companies to toe the line, but other world leaders are getting in touch with her, asking her to front this effort. There's nothing wrong with that. These social media giants do need to be pulled into line. Just today, we found out that the graphic video of the Christchurch mosque shooting is still being hosted on Facebook as recently as yesterday, and watched nearly 800 thousand times.

And there's a good argument to make that Facebook isn't spending enough on technology and human resources to take down that video and others like it. It has the money: it earned US$17 billion in the last quarter of 2018 alone.

So fair enough, it's a worthy enough cause. But let me (de Plessis-Allan) ask you this question: why are you reading about it today? I don't see the Government pushing a clear plan of how to tackle Facebook. I don't see details of which international leaders are on board. I don't even see a sign this will be successful.

So, it's clearly very early days in a ... t, and yet it's made the news. W ... tempt to get us talk ... massive cap ... This is a PR exer ... e Minister's credentials as a glo ... so we forget that domestically she's just passed up a massive opportunity at showing leadership.

Jacinda is now in Paris – yes, it is just a talkfest, but hopefully good will come out from it.

This is a trick the Beehive is rolling out a little too often: showing us how popular and respected the Prime Minister is internationally in the hope that we'll then forgive all number of shortcomings domestically.

LOCAL GOVERNMENT POLITICS

Local Government politicians' election intentions are starting to emerge, and the fight to become Tauranga's Mayor will likely dominate our local October LG elections.

Nominations don't open until 19th July, but that hasn't stopped the likes of Susan Devoy and Tenby Powell from showing their intentions. This is still very early.

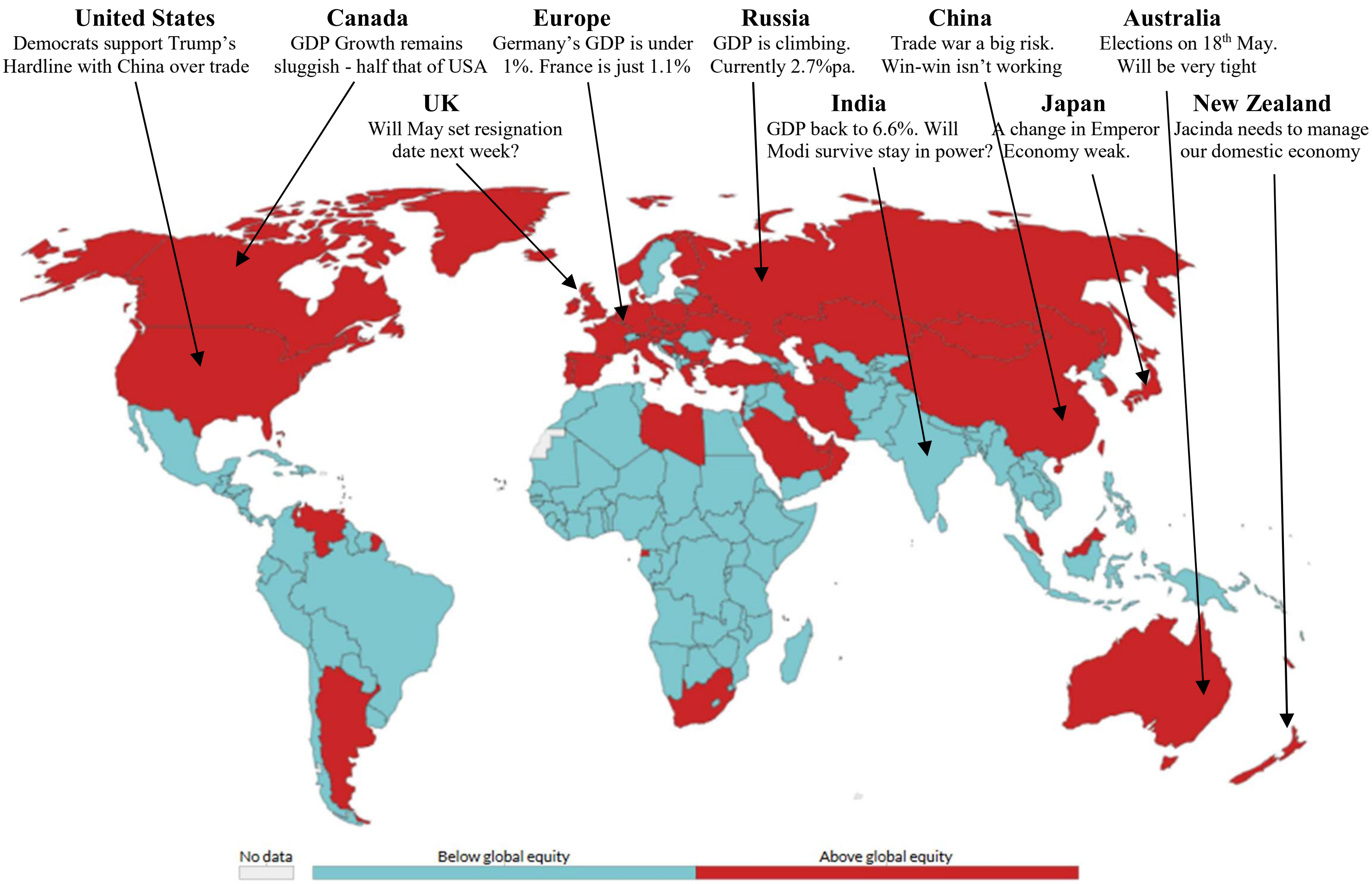
That said - Yes, I too will be standing again for our Regional Council – but don't expect too much fanfare. I am currently doing a branding exercise on the back of our local buses, but you will not see any election advertising included.

BOPRC's big issue remains Public Transport & congestion. Bus patronage is an issue, with all these empty big buses cruising our city.

BOPRC has an outstanding balance sheet, thanks to its $2 billion investment in Port of Tauranga. But, this has built complacency. We have to change this, to ensure efficiency and effectiveness.

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 – Per capita CO_2 Emissions, 2017



THE GLOBAL ECONOMIC OUTLOOK

Weaker growth has been broad based across New Zealand's trading partners. Many economies have limited spare capacity as indicated by low unemployment. Geopolitical tensions between the world's super powers, US and China, remain (examples include the South China Sea and Huawei). Further economic reform is needed in China as it transitions from an investment led to a consumer led economy. Central banks have exhausted many of the options typically used to stimulate economies during economic downturns.

Tension in the Middle-East is ramping up, with Trump flexing his military muscle against Iran. This has added real risk, adding to global uncertainty.

New Zealand's Economic Outlook

Underlying inflation is muted, and risks to global growth and inflation are to the downside. However, there are early signs that the recent easing in financial conditions is getting some traction. Overall, international developments have reduced a key tailwind for the New Zealand economy. While commodity prices have held up well so far, risks are looking a bit one-sided with global demand fragile.

New Zealand's 2019 GDP growth looks to dip to just 2.2% per cent, according ANZ Research. They expect economic growth will pick up later this year after a subdued first half. They pick average annual GDP growth softening to just 2% by mid-year.

However Reserve Bank stimulus is likely to boost the economy from that point for average growth of 2.2% across 2019, picking back up to 2.5% in 2020 and 3% by the end of 2021, according to ANZ.

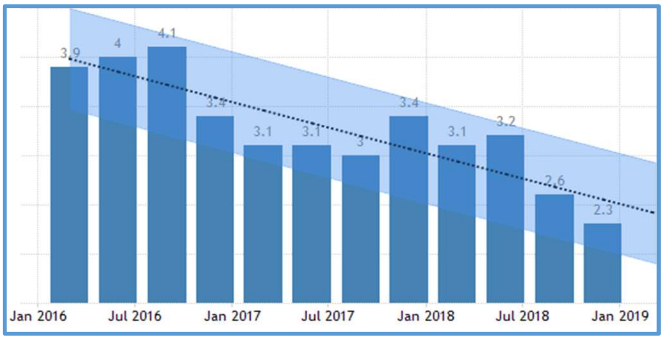
Low business confidence has been a continued drag on the local economy, particularly in tandem with slow global growth. ANZ highlights the cooling housing market as one of the headwinds facing the economy.

"History tells us that it's difficult for the New Zealand economy to grow above trend when the most cyclical component (housing) isn't shooting for the moon," the ANZ report says. "So, while modest house price inflation is probably a good thing from a financial stability standpoint, it does imply a lower-than-otherwise pass-through to real activity and accordingly inflation pressures."

Gradually rising wages, low interest rates, government support packages and continued strong immigration have continued to support private consumption growth.

Australia had also seen a weak housing market and US growth prospects had eased. Despite that, the bright spot for New Zealand was that commodity prices had held up well. "But the risks are looking a bit one sided with global demand fragile." ANZ Research now picks three official cash rate cuts from the Reserve Bank - one in August, followed by November and again in February 2020. "*Overall, we see risks to GDP as broadly balanced, while risks to medium-term inflation are skewed south.* " ANZ says. "*OCR cuts are needed - it's just a question of when they will eventuate and what impact they will have.*"

NEW ZEALAND - ANNUAL GDP GROWTH RATE



Income Tax

New Zealanders spent five more days working this year to pay their tax bill than they did two years ago. May 9 is "Tax Freedom Day" for 2019 - the day when working New Zealand has paid its taxes and can start earning for itself.

Australian Economic Outlook

It's been a year of extremes for Australia. The hottest summer ever. Torrential rains in the north. A crippling drought in its south-eastern farm belt.

AUSTRALIA - ANNUAL GDP GROWTH RATE

Now, with national elections scheduled for May 18, a vital question looms: To what degree will climate change sway the way Australians vote? The answer could provide important lessons for other democracies in the age of climate change.

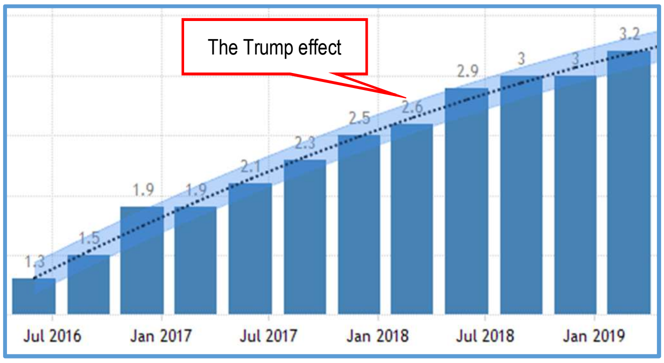
Australia is acutely vulnerable to climate change, just as it is also a culprit. The continent has warmed faster than the global average; its cherished Great Barrier Reef has been devastated by marine heat waves; and heat and drought this year took a bite out of the country's economy, according to a top official of the country's central bank. At the same time, central to its prosperity is the extraction of the dirtiest fossil fuel: Australia is the world's biggest exporter of coal for power generation.

Against that backdrop, the governing conservative coalition, led by the Liberal Party, is under pressure in key districts as independents assail long-standing members of Parliament like Tony Abbott, a former Liberal leader and Prime Minister, over their climate positions.

United States Economic Outlook

Concern remains that no US-China trade deal is forthcoming. Trump has gone “hard-line” on US-China trade war. It is tit-for-tat again, with China retaliating to the US tariff increase from 10% to 25%, China has gone from 5% to 25% for US goods entering China. Trump faces the electorate on 3-Nov- 20, and to be re-elected he needs to be able to claim success in US-China trade relations, and the US economy must be robust. No president has won re-election when the US economy has been in recession.

UNITED STATES ANNUAL GDP GROWTH



An examination of the seven recession indicators followed by Credit Suisse suggests that no US recession is likely until the September 2020 quarter, with equity markets peaking 6-8 months beforehand.

Will President Trump be impeached? Unlikely, following the findings of Robert Mueller’s report into alleged Russian interference in the US election. The Democrats are now investigating whether the investigation was obstructed.

The US economy continues to drive ahead. Unemployment is down to 3.6%, but the participation rate is only at 62.8%, indicating that they are not yet at full employment. However, there is a risk now that their economic growth could become constrained via employment issues.

US-China Trade War

Stock markets around the world sold off sharply after Donald Trump threatened to raise the stakes in the simmering US-China trade war. Trump has since ratcheted up existing import tariffs on US$200bn of Chinese goods sold in the US from 10% to 25%, and slapped on a further US$325bn of goods– which means all Chinese imports being covered by tariffs.

Tariffs have been imposed by Washington on some Chinese goods sold in the US for about a year, as part of the ongoing dispute over trade. They come on top of broader tariffs used by Trump that have hit China and other trading partners such as the EU, Canada and Mexico, on goods including steel and aluminium.

The Trump administration imposed 25% tariffs on $50bn of Chinese technology goods in June 2018, covering aerospace goods, automobiles, communications tech and robotics, in a bid to hinder Beijing's "Made in China 2025" initiative to boost its manufacturing and technology base.

The White House then imposed tariffs of 10% on $200bn of goods in September, on a wider range of products including food ingredients, construction materials, bike parts and burglar alarms. These are the tariffs that has been increased to 25%.

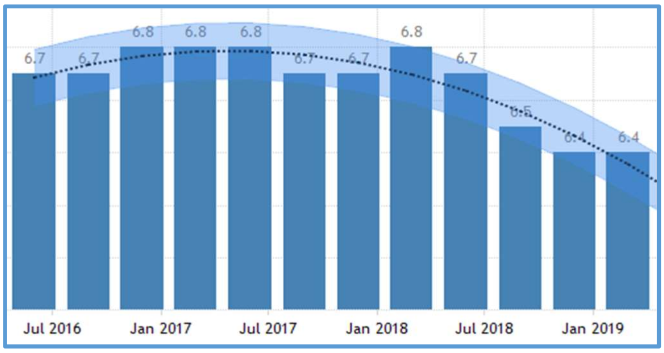
China has retaliated with US$110bn-worth of tariffs on US goods, including agricultural produce such as soya beans, as well as cars, luggage, electronics, housewares and food. Trump says he will compensate the agricultural sector for their loses. Trump has threatened to raise the tariffs before, but agreed a truce late last year with China's president, Xi Jinping, to allow officials more time to negotiate a solution to the trade dispute. Trump and Xi Jinping will meet again in June.

Chinese Economic Outlook

NZ Political and business leaders say the New Zealand China relationship is going from strength to strength, with two-way trade reaching $30bn, the Government's commitment to the new-look Belt and Road Initiative (BRI), and those all-important first trips to China completed. That said, NZ remains stuck with an old FTA (Free Trade Agreement) that is quite inferior, when compared with Australia's FTA.

At the China Business Summit in Auckland, Air New Zealand chief executive Christopher Luxon revealed the airline has lost $100m in the 13 years it has been flying to China, trying to compete with Chinese government-affiliated airlines. Luxon said the Chinese regulatory environment was stacked against New Zealand, and China "sees aviation as tools of the state". "*We compete with large-scale state-backed businesses that can make losses flying to New Zealand*," he said. The resulting "asymmetric" competition means "*Chinese airlines have unfettered access to New Zealand, but we don't have the same access to China*."

CHINA - ANNUAL GDP GROWTH RATE



United Kingdom Economic Outlook

Talk of Brexit has gone quiet, but PM May is still struggling to get Labour on board. Attention now swings to the EU elections, and meanwhile the British economy has had a good bounce.

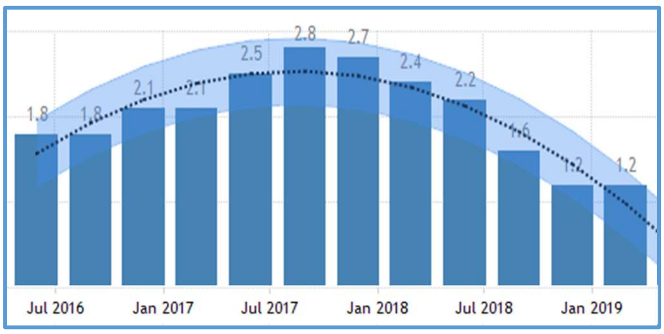
ANNUAL GDP GROWTH RATE

European Economic Outlook

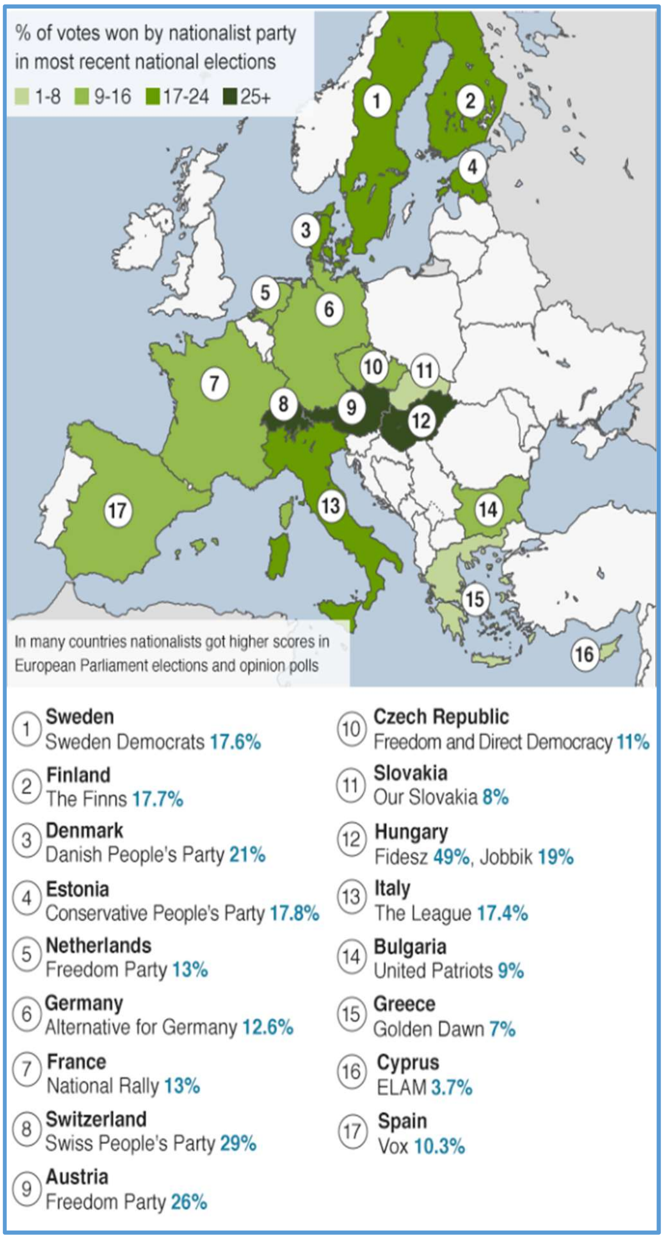
With European elections weeks away, nationalist and far-right parties across Europe are sensing an opportunity. A boom in voter support has led to the far right sharing power in Austria and the nationalist League forming a populist coalition in Italy. Spain - once thought a barren ground for such politics - elected multiple far-right politicians to parliament for the first time since the country returned to democracy in 1975.

Now, some of these parties are attempting to organise into a pan-European power bloc. In part, this can be seen as a backlash against the political establishment, but the wave of discontent also taps into concerns about globalisation, immigration, a dilution of national identity and the EU itself. Poll success in the 23-26 May elections could have a major impact on the balance of power in the European Parliament.

EURO AREA - ANNUAL GDP GROWTH RATE



THE RISE IN NATIONALISM IN EUROPE



COMMODITIES - OIL

Can the oil price recover to US$70/barrel? Brent oil has already risen to around US$70/barrel as supply reductions have played out. A further increase is less likely, having to be driven by demand which is not a major swing factor for oil. West Texas Crude has failed to break into the magical US$70/barrel price.

OIL: WEST TEXAS (1 YEAR CHART)

INTEREST RATES

The Official Cash Rate (OCR) has been reduced to 1.5%. The Monetary Policy Committee decided a lower OCR is necessary to support the outlook for employment and inflation consistent with its policy remit.

Global economic growth has slowed since mid-2018, easing demand for New Zealand's goods and services. This lower global growth has prompted foreign central banks to ease their monetary policy stances, supporting growth prospects. However, there is uncertainty about the global economic outlook. Trade concerns remain, while some other indicators suggest trading-partner growth is stabilising.

Domestic growth slowed from the second half of 2018. Employment is near its maximum sustainable level. Inflationary pressure is projected to rise only slowly. With the cancellation of a proposed CGT (Capital Gains Tax) the likelihood of a further cut in the next 12 months has diminished.

INFLATION

Inflation is currently 1.5%, and has been below the 2% midpoint of the RBNZ's target range for almost all of the past seven years. Back in February the RBNZ was forecasting that inflation would struggle back towards 2%, reaching that mark at the end of 2020 and then sitting there. But that was based on the RBNZ's assumption that GDP growth would pick up substantially, which has not happened. If GDP growth stays slow, then there just won't be enough juice in the economy to push inflation up to 2%.

CURRENCY

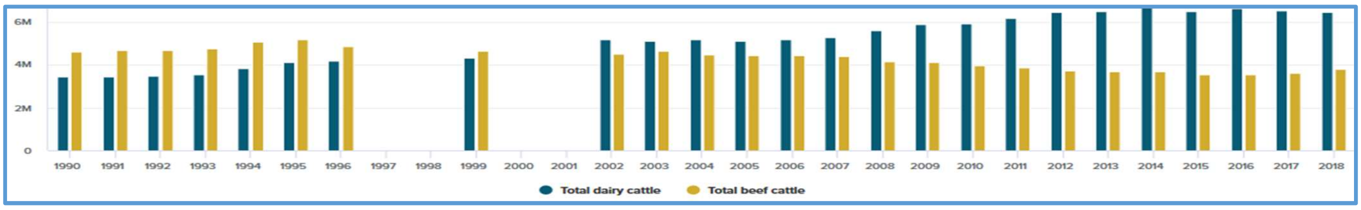
The New Zealand dollar continued to be weighed on by escalating global trade tensions, with China now saying it will raise tariffs on some US goods from June 1. Market jitters were stoked when China announced it would impose higher tariffs on a range of US goods in the wake of Washington's decision last week to hike tariffs on US$200 billion of Chinese imports. Additional US tariffs on all remaining Chinese imports, which would affect an additional US$300 billion worth of goods, have not been decided on yet.

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

SOURCE: Westpac

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

DAIRY & BEEF COW NUMBERS



PRIMARY INDUSTRY EXPORT REVENUE 2004-2023F

Year ended 30 June	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F
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	17,570	17,160	17,340	17,590	17,820
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%	5.5%	-2.3%	1.0%	1.4%	1.3%
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	10,110	9,990	10,020	10,100	10,240
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%	6.0%	-1.2%	0.3%	0.8%	1.4%
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	6,830	6,760	6,750	6,780	6,850
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%	7.0%	-1.0%	-0.1%	0.4%	1.0%
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	6,220	6,340	6,490	6,790	7,070
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%	15.7%	1.9%	2.4%	4.6%	4.1%
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	1,880	1,930	2,000	2,060	2,120
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%	5.8%	2.7%	3.6%	3.0%	2.9%
Arable	94	90	108	110	142	157	146	157	182	229	232	181	210	197	243	235	250	255	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%	23.1%	-3.2%	6.4%	2.0%	0.0%	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	2,800	2,870	2,910	2,950	2,990
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**	**45,645**	**45,300**	**45,765**	**46,525**	**47,350**
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%	6.9%	-0.8%	1.0%	1.7%	1.8%

SOURCE: Ministry of Primary Industries

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

PRIMARY SECTOR OUTLOOK

Global uncertainty and slowing economic activity are not expected to impact primary sector returns in the short term but this remains a key risk in the longer term. The risk of significant trade disruptions appears to be reducing as talks between China and the United States progress, and the Brexit deadline has been pushed out to October.

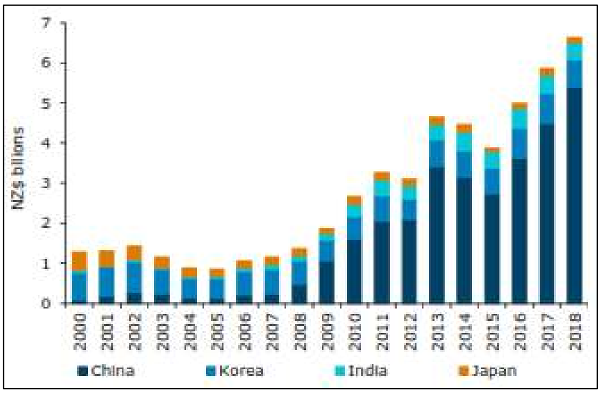
KIWIFRUIT OUTLOOK

Zespri, which markets kiwifruit on behalf of 2,500 New Zealand growers and another 1,200 in Italy, Japan, Korea and France, is expecting total fruit and service payments of $1.775 billion to $1.875 billion in the year ending March 2020. Zespri is yet to publish its March 2019 year results but in February forecast a total payment of almost $1.77 billion for that year. That figure, which excludes loyalty payments, compares with $1.43 billion in the year ended March 2018.

Kiwifruit is New Zealand's biggest horticultural export. Export earnings reached almost $1.7 billion in the June 2017 year, a third of the sector’s total. The next largest contributors were wine at $1.54 billion and apples at $691 million, according to government data.

FORESTRY OUTLOOK

Forestry returns are expected to remain high in the coming months. The volume of timber being felled remains elevated as the industry works its way through the higher volume of trees that were planted in the 1990s. Strong returns for logs are keeping felling rates high for now. The extra timber is being readily absorbed by international markets, which are dominated by demand from China. A slowing of economic activity in China could bring lower demand for logs, but thus far this has not happened. Ongoing government-backed infrastructure projects are expected to keep demand firm through the second quarter of this year.



PRICES AT FARM LEVEL RELATIVE TO 10-YEAR AVERAGE

DAIRY	Dairy prices have continued to strengthen, supported by a reduction in global milk supply. This has supported a lift in the milk price forecast for the 2018/19 season, as well as next season.	
BEEF	Farmgate returns have eased as processing throughput has lifted on the back of a reduction in pasture production. China is providing a strong alternative market to the US, which is supporting returns.	
SHEEP	Lamb and mutton farmgate prices remain exceptionally high, supported by strong in-market prices. Lamb processing has been slower than normal, with lambs being grown to heavier weights.	

NZ FIRST HAS BETRAYED THE RURAL COMMUNITY

NZ First's support of the Zero Carbon Bill, with its unrealistic methane target, is an affront to rural New Zealand. NZ First styled itself the regions' champion, picking up a substantial vote in the last election from farmers, on the basis that they were teaching National a lesson.

NZ First's betrayal won't be forgotten, come election time. National just needs to be constructive in every other way, but promise to reduce the methane target, if they want to command a near total monopoly of the rural vote. NZ First are in real trouble.

Not only does the rural sector clearly view the methane target as a death knell for a good many farmers, but there will be a palpable feeling of personal insult felt by those who have actively been turning their pasture to native planting in a concerted effort to offset pretty much everything except biological methane. The Zero Carbon Bill does not allow farmers to offset their emissions.

The only way to meet the target agreed by NZ First will be to kill cows, and reduce the number of dairy cows in New Zealand. This will of course mean hundreds or thousands of farmers will be bankrupted.

While many farmers may think this is par for the course from Labour and the Greens, there's little doubt rural New Zealand will feel deeply betrayed by NZ First.

Region	At 30 June											
	Total sheep			Total dairy cattle			Total beef cattle			Total deer		
	2017	2018	% change	2017	2018	% change	2017	2018	% change	2017	2018	% change
	(000)			(000)			(000)			(000)		
Northland	328	280	-14.8	379	367	-3.2	383	400	4.6	5	4	-16.9
Auckland	253	202	-20.0	132	116	-12.2	112	114	1.8	11	11	-1.9
Waikato	1,479	1,632	10.4	1,872	1,814	-3.1	488	517	6.0	63	67	6.2
Bay of Plenty	282	233	-17.3	325	307	-5.7	105	96	-8.1	33	37	13.5
Gisborne	1,412	1,457	3.2	9	S	S	247	261	5.7	12	S	S
Haw ke's Bay	2,794	2,851	2.0	88	87	-0.5	421	429	1.7	52	56	9.2
Taranaki	498	395	-20.6	591	548	-7.3	118	116	-1.3	4	3	-28.6
Manaw atu-Wanganui	5,062	5,060	0.0	463	486	5.1	568	554	-2.4	55	56	2.4
Wellington	1,512	1,474	-2.5	97	79	-18.3	135	132	-2.3	11	S	S
Total North Island	**13,619**	**13,584**	**-0.3**	**3,956**	**3,816**	**-3.5**	**2,577**	**2,620**	**1.7**	**245**	**256**	**4.5**
Tasman	262	246	-5.9	66	78	17.5	40	32	-19.8	10	S	S
Nelson	S	27	S	3	S	S	S	1	S	-	-	-
Marlborough	469	496	5.8	25	S	S	52	57	9.4	6	5	-20.7
West Coast	40	S	S	156	144	-8.1	27	25	-7.5	28	24	-16.6
Canterbury	4,474	4,423	-1.1	1,308	1,327	1.4	468	512	9.6	239	253	6.1
Otago	4,587	4,937	7.6	334	331	-0.8	263	296	12.8	116	119	2.9
Southland	3,987	3,488	-12.5	681	S	S	175	172	-1.6	192	183	-4.8
Chatham Islands	69	70	1.2	-	-	-100.0	11	4	-61.3	-	-	-
Total South Island	**13,907**	**13,711**	**-1.4**	**2,574**	**2,569**	**-0.2**	**1,039**	**1,101**	**6.0**	**592**	**596**	**0.7**
Total New Zealand	**27,527**	**27,296**	**-0.8**	**6,530**	**6,386**	**-2.2**	**3,616**	**3,721**	**2.9**	**836**	**851**	**1.8**

1. 2017 w as an agricultural production census year; 2018 w as an agricultural production survey year.

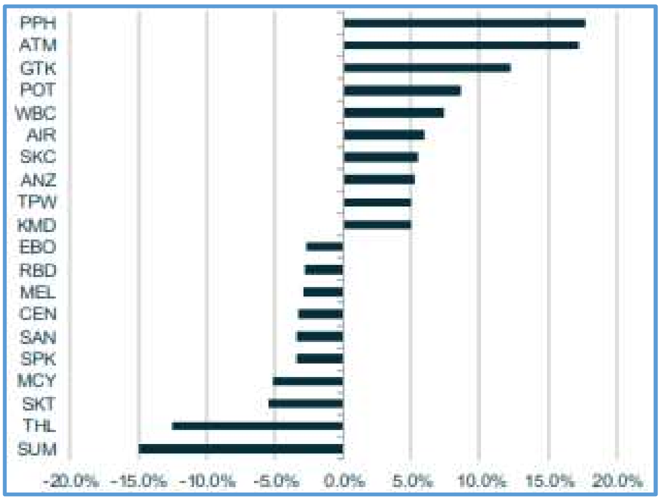
Key facts

At 30 June 2018, the number of:

- Dairy cattle totalled 6.4 million, down 144,000 from 30 June 2017
- Beef cattle totalled 3.7 million, up 105,000 from 30 June 2017
- Sheep totalled 27.3 million, 1 percent fewer than in 2017
- Deer increased 2%, to 851,000.

New Zealand equities' returns were once again positively skewed in April, although outperformance was weighted heavily towards growth stocks as defensive names either consolidated recent gains or declined modestly. The NZX50G index gained +1.7% during April to be up +18.6% on a 12-month rolling basis. Top NZX50 performers in April included PPH (+17.8%), ATM (+17.2%) and GTK (+12.2%), while SUM (-15.0%) and THL (-12.6%) were notable underperformers in the month.

APRIL – NZX50 BEST & WORST PERFORMERS



April was a great month for my 5 top picks for 2019.

My picks (ATM. AFT, FBU, POT & PPH) were included in 3 of the top 4 April outperformers. For the first 4 months, my picks are up 19.1%, with only AFT currently in negative performance.

FNZC Model Portfolio

The FNZC model portfolio is a long-only product benchmarked against the NZX50 index. Their intention is to present the FNZC Research team's best investment ideas while giving due consideration to the liquidity constraints faced by their New Zealand institutional client base and an investment process that looks at earnings momentum, return on capital and earnings multiple relatives in addition to DCF valuation.

Utilities +105bp to +247bp active weight

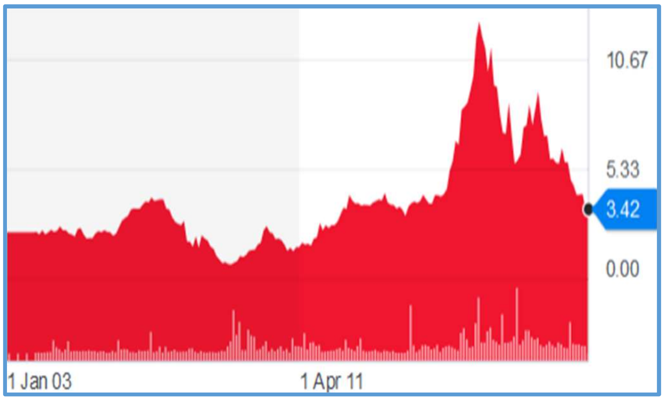
Contact Energy, Mercury and Vector currently screen as cheap relative to both sector peers and the broader market, and with the yield thematic unlikely to unwind in the short term, FNZC is looking to increase their overweight position in these names. They also believe that the EPR options paper released in February went some way towards reducing the risk of a negative regulatory outcome for the Utilities sector, and that the forthcoming Zero Carbon Bill decarbonisation measures may favour listed electricity names. Portfolio revisions are CEN +50bp to +250bp active weight, MCY +30bp to +37bp active weight and VCT +25bp to +151bp active weight.

Comvita (CVT.NZ)

CURRENT PRICE: $3.42 **FNZC TARGET PRICE:** $3.77

FNZC RECOMMENDATION: NEUTRAL

MY RECOMMENDATION: SELL



Comvita shares have fallen 50% in the last 12 months, having fallen 180% since its share price peak of $13.00 on 24th May 2016. CVT said honey production had been "poor overall" for the third season in a row and it now expects a net loss of around $6 million for the year.

In February it reported a first half net loss of $2.7 million as the planned shift to more formal sales channels was taking longer than expected.

CVT management always seem to have an excuse, and recently they said: "*Even though production per hive for Comvita was higher than the previous year, it was a poor production season overall. This has been put down to poor weather patterns but we also believe that there is an impact in most regions, but notably Northland and East Coast, of over-crowding of Manuka sites with hives by competing beekeepers.*" Comvita said the poor honey production season was "*extremely disappointing*" in light of the fact the company has been moving its apiary business to a more variable cost model. "*Obviously we have much work to do,*" it said.

This company has not served its shareholders well – that is one huge understatement. Comvita management has continually raised expectations, but these expectations never seem to materialise. For my money, if I was an existing shareholder (and I have never owned CVT shares), I would sell immediately, and never return.

A wise man said to his son "my boy! When you accumulate the understanding to know why a pizza is made round, to be put into a square box and is eaten in triangles, then my son, you will be able to understand women"

WHY I CONTINUE TO LIKE PORT OF TAURANGA

Port of Tauranga (POT.NZ)

CURRENT PRICE: $6.05 **FNZC TARGET PRICE:** $4.30
FNZC RECOMMENDATION: UNDERPERFORM

MY RECOMMENDATION: HOLD (moved from BUY)

POT continues its fantastic run as one of New Zealand's favourite stocks (despite most brokers having for years rated it a sell).

PORT OF TAURANGA 2009 TO 2019

In the last decade this stock has never faltered, averaging around 60% per annum growth over that time (recognising share splits, but not dividends). What a star!

When compared to Ports of Auckland (100% Auckland City Council owned), the facts speak for themselves. PWC data shows Net Equity as:

	Port of Tauranga	Ports of Auckland
2006	$750m	$629m
2009	$940m	$550m
2019	$4 billion	$1 billion

The interim progress report of the Upper North Island Supply Chain Strategy working group, released at the end of April, stated that upper North Island ports are working against each other, to the detriment of NZ Inc. However, Port of Tauranga CEO, Mark Cairns strongly disputes this, saying that competition, rather than cooperation, is vital for New Zealand's ports.

Mark is adamant that competition has lifted the country's ports from a very poor standard of productivity to being world-class.

"Fundamentally I definitely disagree with the notion of cooperation. I would argue competition has been a very good thing . . . if you look at where ports were in the 70s, there was a very, very low standard of productivity, whereas [now] we have world-class productivity across all of our ports. "*If you look at the Australian Productivity Commission's reports, their measurements show our container handling rates are 50% ahead of our Australian peers,*" Mark said.

POT exports 42% of New Zealand's total, 3 times higher than Auckland, and handles 34% of all NZ cargo.

A key to POT's success has been its logistics between Auckland and Tauranga. These days trains are full in both directions, and Metroport has been a huge success. POT handles 37% of all container movements, and this continues to grow strongly. In contrast, POAL's container business is, at best, flat.

POT moves 50% of its total cargo by rail, whereas POAL is heavily reliant on its roading access, only moving around 5% by rail. This heavy rail reliance by POT hasn't come without substantial capital investment, however. Capex for rail now totals $19.34m, including now owning 60 wagons – many of which have been specially designed to hold 3 twenty-foot containers (versus 2 from conventional wagons).

Mark Cairns stated in the BOP Times (11th May) that he has taken issue with the Upper North Island Supply Chain Strategy working group's report, which stated that the Bay of Plenty and Waikato have benefited from rail infrastructure and investment provided by the Government at no capital cost to the end user. "*This ignores the $267 million in rail costs paid by Port of Tauranga since 2010*," he says.

Cairns also stated that POT is "disappointed" that as such a big stakeholder in the study, it was not given the opportunity to comment on the draft of the first report to check for accuracy before it was released by Associate Transport Minister Shane Jones.

The first report is also factually wrong when recording the ownership structure of the ports. Northport is in fact jointly owned by Northport Ltd, which is 50% owned by POT and 50% by Marsden Maritime, a listed company like POT.

In my opinion, this Government working group is operating well outside its "terms of reference", and with Wayne Brown as Chair, it is a "patsy" working group, working to ensure that Minister Shane Jones gets the answers that he wants. The saving grace is that Finance Minister Grant Robinson is unlikely to fund the $2-5 billion needed to implement Jones' ambitions. Jones has now publicly stated that he would like to see the three ports nationalised; something Mark Cairns says would not be good for New Zealand. Nationalising ports won't solve the export/import imbalance, Cairns says. POT has managed to get trains to and from the port "running virtually balanced import and export".

Port of Tauranga is owned 54.14% by Bay of Plenty Regional Council, and has a Market Capitalisation of $4,114,856,710 – that means that over $2 billion is owned by the ratepayers of the Bay of Plenty.

STOCKS TO WATCH

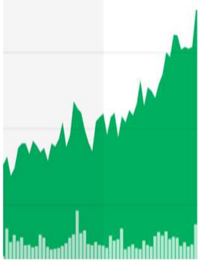
NEW ZEALAND NOTE: THESE ARE ALL ONE YEAR GRAPHS **Prices as at 10h May 2019**

Asset Plus

APL has conditionally acquired 35 Graham St in Auckland's fringe CBD for $58m, representing a yield of 6.85%. Auckland Council currently occupies the building and will enter a 2-year lease from settlement (expected 28 June 2019). The asset has 9,990 m^2 of NLA with large floor plates of 3,000–3,500 m^2. This acquisition is in line with APL's value-add strategy given the potential for a re-positioning on the conclusion of Auckland Council's lease. Options include refurbishment of existing floors through to the addition of 2-3 levels of office space. In FNZC's view, the buildings profile and large floor plates are likely to be attractive to a range of corporate occupiers, and they expect APL to target at least a 50% tenant pre-commitment.

20019 P/E: 18.9 2020 P/E: 19.5

NZX Code:	**APL**
Share Price:	**$0.63**
12mth Target:	**$0.67**
Projected return (%)	
Capital gain	6.3%
Dividend yield (Net)	8.6%
Total return	**14.9%**
Rating:	**OUTPERFORM**
52-week price range: 0.56-0.64	



Auckland International Airport

FNZC believes the Northern runway project remains on track for commissioning around FY28 and their base case forecast scenario indicates that AIA may need to turn to equity funding of its significant capex programme around early to mid-PSE4. Based on observations to date, they believe that the probability has increased that AIA's retailers may struggle to move beyond minimum annual guarantee levels for an extended period.

Contrary to FNZC's recommendation – **I rate AIA as a core portfolio stock**.

20019 P/E: 34.7 2020 P/E: 35.3

NZX Code:	**AIA**
Share Price:	**$8.42**
12mth Target:	**$5.95**
Projected return (%)	
Capital gain	-29.3%
Dividend yield (Net)	3.0%
Total return	**-26.3%**
Rating:	**~~UNDERPERFORM~~**
My Rating:	**NEUTRAL**
52-week price range: 6.51-8.42	

The a2 Milk Company

ATM is engaged in the commercialisation of intellectual property relating to a2 brand milk and related products in New Zealand, Australia, and the United Kingdom. ATM also sources, produces and supplies a2 brand milk and milk related products in Australia. The product comprises Liquid Milk, Infant Formula and other dairy products which include Cream and Yoghurt. Despite ATM's premium to valuation, FNZC believes the investment thesis in ATM remains sound, with continued progress in China and excellent cash conversion expected to underpin performance medium term.

20019 P/E: 35.9 2020 P/E: 28.3

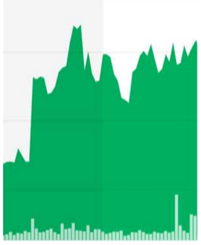
NZX Code:	**ATM**
Share Price:	**$15.97**
12mth Target:	**$14.00**
Projected return (%)	
Capital gain	-12.3%
Dividend yield (Net)	0.9%
Total return	**-11.4%**
Rating:	NEUTRAL
52-wk price range: 8.67-16.04	

Chorus

While CNU's recent outperformance may reflect longer-term expectations around post capex dividends, FNZC continues to believe that high leverage, regulatory uncertainty and network competition remain key issues that require a risk premium to be priced in. FNZC has moved to an underweight position at current levels.

20019 P/E: 336.4 2020 P/E: 56.1

NZX Code:	**CNU**
Share Price:	**$6.25**
12mth Target:	**$4.77**
Projected return (%)	
Capital gain	-23.7%
Dividend yield (Net)	4.6%
Total return	**-19.1%**
Rating:	NEUTRAL
52-week price range: 3.99-6.31	

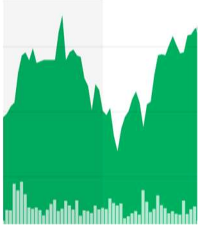


Ebos Group

With several investments made in the past year and the approaching working capital demands of the Chemist Warehouse contract (commencing July 1), EBO has announced a $150mn placement intended to *"provide further capacity for growth"*. The offer is fully underwritten with 7.7m new shares to be issued at $19.70. FNZC believes EBO has distinguished itself as a best-in-class wholesaler which continues to grow despite competition and regulatory headwinds. Well-executed acquisitions are integral to this, yet the question remains whether the company's scale, diversity and opportunities can support materially higher valuations.

20019 P/E: 22.4 2020 P/E: 19.0

NZX Code:	**EBO**
Share Price:	**$22.05**
12mth Target:	**$21.00**
Projected return (%)	
Capital gain	-4.8%
Dividend yield (Net)	3.6%
Total return	**-1.2%**
Rating:	NEUTRAL
52-week price range: 17.75-23.00	



Fisher & Paykel Healthcare

Having overcome manufacturing delays cited in November, FPH has launched the 'F&P Vitera', a next-generation full face mask featuring the 'RollFit XT' adaptable seal, 'VentiCool' headgear fabric and other new design features intended to increase patient comfort. The mask will be available in Australia this month, followed soon after by Canada, New Zealand and Europe. Introduction to the US will follow regulatory clearances, a process we expect to take up to nine months.

2019 P/E: 43.0 2020 P/E: 34.4

NZX Code:	**FPH**
Share Price:	**$15.95**
12mth Target:	**$13.15**
Projected return (%)	
Capital gain	-17.2%
Dividend yield (Net)	2.1%
Total return	**-15.5 %**
Rating:	**UNDERPERFORM**
52-week price range: 11.85-16.44	

Fletcher Building

FBU is emerging from a major reset of the business which saw it record up to $1 billion in onerous contract losses; raise $750 million of equity to address balance sheet issues; announce the simplification of the business in NZ and Australia with divestment of $1 billion of international assets (now almost completed); and acknowledge that turning around the underperforming Australian businesses requires investment into a business generating poor returns that is not without risk.

2019 P/E: 11.9 2020 P/E: 11.1

NZX Code:	**FBU**
Share Price:	**$5.12**
12mth Target:	**$5.28**
Projected return (%)	
Capital gain	3.1%
Dividend yield (Net)	5.4%
Total return	**8.5%**
Rating:	**NEUTRAL**
52-week price range: 4.54-7.19	

Freightways

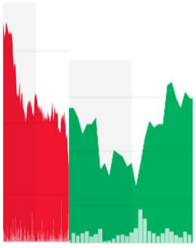
FNZC's overweight position in FRE, was based on the expectation that a more rational competitive environment could lead to an improved price outcome for the low-margin B2C category. FRE confirmed its intentions with the announcement of a 'Pricing for Effort' price strategy at its 1H19 result in February, and FNZC believes that the broader courier industry also remains motivated to improve the earnings profile of the B2C segment. This upside is now largely priced in, and with early evidence of slowing Express Package activity levels, FNZC is reducing its position.

2019 P/E: 20.2 2020 P/E: 11.8

NZX Code:	**FRE**
Share Price:	**$8.68**
12mth Target:	**$7.85**
Projected return (%)	
Capital gain	-9.6%
Dividend yield (Net)	3.2%
Total return	**-6.4 %**

Rating: NEUTRAL

52-week price range: 6.70-8.76



Code change

Heartland Bank

HGH's reverse mortgage book, which grew 18% in 1H19, is a key driver of future profit growth. Pleasingly, Australian demand has not been impacted by declining house prices. The outlook for HGH's Motor Vehicle lending business is less rosy as car registrations decline. HGH's longer-term growth option is supported by a number of favourable demographics. However, FNZC is wary of potential cycle risk and the impact this could have on HGH's core consumer segment. With a strong performance in 2H19 required to meet FY19 guidance, they believe that earnings risk is negatively biased at least in the short-term and they are looking to reduce their portfolio position.

2019 P/E: 9.9 2020 P/E: 9.3

NZX Code:	**HGH**
Share Price:	**$1.58**
12mth Target:	**$1.43**
Projected return (%)	
Capital gain	-9.5%
Dividend yield (Net)	7.0%
Total return	**-2.5%**

Rating: NEUTRAL

52-week price range: 1.31-1.69

Infratil

IFT's share price has performed very well year-to-date, up 21% versus the market's 14% increase. This reflects the proving up of the busi… growth investments. Canl… …C has rece… …Easter Cree… …C has incre… …om its expo… …, Wellington International Airport and Trustpower.

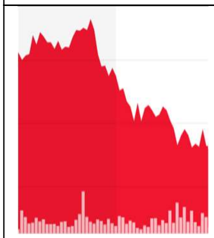
STOP PRESS: IFT and Canadian Private Equity firm Brookfield have purchased Vodafone NZ for $3.4bn. Each party will fund $1,029bn, with IFT raising some of its share via a $400m equity raising. Expect this to constrain or lower shareprice growth short-term.

2019 P/E: 37.4 2020 P/E: 27.8

NZX Code:	**IFT**
Share Price:	**$4.60**
12mth Target:	**$4.37**
Projected return (%)	
Capital gain	-5.0%
Dividend yield (Net)	3.4%
Total return	**-1.6%**

Rating: NEUTRAL

52-week price range: 3.19-4.61



Metlifecare

MET continues to trade at a material discount to NTA (~30%) and at a 25% discount to FNZC's spot-DCF valuation of $6.53. Investor caution on the company's development potential and exposure to the Auckland housing market in the core asset base may account for some of the price/value disconnect. However, there appears no easy or quick fix that the company can put in place to close the share price discount to NTA.

2019 P/E: 12.1 2020 P/E: 10.5

NZX Code:	**MET**
Share Price:	**$4.76**
12mth Target:	**$7.00**
Projected return (%)	
Capital gain	47.1%
Dividend yield (Net)	2.5%
Total return	**49.6%**

Rating: OUTPERFORM

52-week price range: 4.47-6.51

Port of Tauranga

POT narrowed guidance for FY19 net profit to the upper end of a previous range of $96-101m which, after removing the -$2m Coda one-off. FNZC has upgraded earnings (EBITDA) by 1-2% to capture stronger underlying margin performance within the Port Operations segment in 1H19 and their 12-month price target increases to $4.30 per share. FNZC views POT as a high-quality infrastructure asset that is very well positioned to benefit from structural change as the New Zealand container trade progressively moves towards a hub and spoke model. However, given POT trades well above their valuation, FNZC retains an Underperform rating.

I reiterate that, in my opinion, this should be a core portfolio stock.

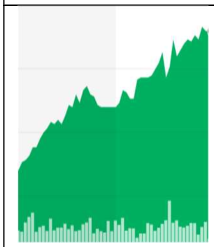
2019 P/E: 34.0 2020 P/E: 33.2

NZX Code:	**POT**
Share Price:	**$6.05**
12mth Target:	**$4.30**
Projected return (%)	
Capital gain	-28.9%
Dividend yield (Net)	2.8%
Total return	**-26.1%**

Rating: ~~UNDERPERFORM~~

My Rating: HOLD

52-week price range: 4.74-6.13



Precinct Properties NZ

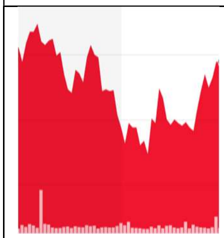
PCT has completed its $152m equity issue, with proceeds to fund medium term development opportunities including a second stage at Bowen Campus and further stages at Wynyard Quarter. At this stage, these are estimated to cost a combined ~$310m. PCT's Balance Sheet is now looking more comfortable, post the equity issue, with 1H19 pro-forma gearing reduced to 18.5%. Looking ahead, FNZC estimates committed gearing is a comfortable 32%, while 'all-in' gearing including future uncommitted developments and flagged asset sales is ~35%. This provides scope for PCT to pursue future development opportunities or, if required, absorb any potential negative turn in property valuations.

2019 P/E: 25.1 2020 P/E: 23.8

NZX Code:	**PCT**
Share Price:	**$1.59**
12mth Target:	**$1.48**
Projected return (%)	
Capital gain	-6.9%
Dividend yield (Net)	3.9%
Total return	**-3.0%**

My Rating: NEUTRAL

52-week price range: 1.25-1.61



Pushpay Holdings

This digital church collection payment operator is upbeat about the coming year after lifting revenue by 40% and reporting of US$18.8m for the year ended March 31, from a loss of US$23.3m a year earlier. The NZX-listed, US-headquartered software-as-a-service company, lifted revenue to US$98.4m from US$70.2m the prior period. The company, which operates in the US, Canada and New Zealand, expects revenue to be between US$122.5m and US$125.5m in the year ending March 2020.

2019 P/E: 34.0 2020 P/E: 33.2

NZX Code:	**PPH**
Share Price:	**$3.99**
12mth Target:	**$4.20**
Projected return (%)	
Capital gain	5.3%
Dividend yield (Net)	0%
Total return	**5.3%**

My Rating: OUTPERFORM

52-week price range: 2.85-4.48

SkyCity Entertainment Group

SKC has released a trading update for the period to 28 April 2019, with revenue growth excluding International Business and the recently divested SKC Darwin asset of +2% below expectations. The weaker momentum in 2H19 and subsequent downgrade to guidance are disappointing although not unexpected given the weaker-than-expected Chinese New Year period as evidenced by recently released inbound tourism statistics. We believe that a slowing macro environment and increasing cost pressure indicate that earnings risk remains negatively skewed at least in the short-term.

2019 P/E: 16.1 2020 P/E: 17.1

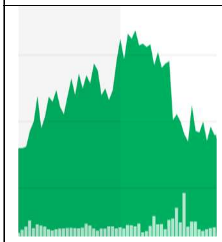
NZX Code: SKC
Share Price: $3.91
12mth Target: from $4.00 $3.85
Projected return (%)
Capital gain -1.5%
Dividend yield (Net) 5.1%
Total return 3.6%
Rating: NEUTRAL
52-week price range: 3.41-4.36

Sky Network Television

A change in direction is coming. With a new CEO taking over at SKT, expect a significant change in direction and approach, as SKT looks to deal with key issues in the business - competition from: low-priced global Over the Top (OTT) platforms; falling premium subs and declining revenue; competitive pressure for rights, including from rights owners going direct. The reset would likely include a change in SKT's brand positioning; how it deals with key NZ rights holders; more local content production; consideration of a move into broadband (for halo brand impact if done right); and greater utilisation of SKT's FTA position.

2019 P/E: 12.5 2020 P/E: 12.7

NZX Code: SKT
Share Price: $1.24
12mth Target: $1.74
Projected return (%)
Capital gain 40.3%
Dividend yield (Net) 7.6%
Total return 47.9%
Rating: OUTPERFORM
52-week price range: 1.20-2.76

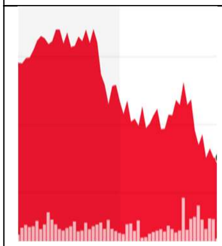


Spark NZ

FNZC sees potential for SKT to enter the broadband market with motives that may not initially be focused on margin generation. One of the attractive aspects of SPK's investment case has been a relatively benign competitive environment with SPK competing well against Vodafone and 2degrees in mobile and able to utilise its considerable scale and greater capacity, to maintain subs in a more competitive broadband market at gross margins and ARPU that have been stable. The potential entry of a pay-TV operator into broadband with a customer base that rivals SPK's in broadband could be interesting. Vodafone NZ should be a reinvigorated competitor but it is difficult to assess any material negatives for SPK.

2019 P/E 17.2 2020 P/E: 16.1

NZX Code: SPK
Share Price: $3.62
12mth Target: $3.39
Projected return (%)
Capital gain -6.4%
Dividend yield (Net) 6.8%
Total return -0.2%
Rating: UNDERPERFORM
52-week price range: 3.43-4.35

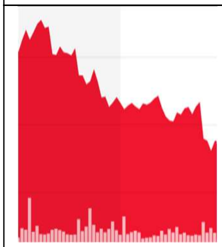


Summerset Group

While inventory analysis suggests sales performance may not have been as weak as headline numbers suggest, the overall picture is one of slower momentum. With only ~28% of its units in Auckland, SUM ranks as having the second lowest exposure to the housing market that is facing the greatest near-term stress; while the near-term development pipeline has a reasonable weightage to Auckland (Hobsonville, Warkworth extension, Ellerslie), the medium-term pipeline is more broad-based.

2019 P/E: 12.5 2020 P/E: 12.7

NZX Code: SUM
Share Price: $5.60
12mth Target: $6.84
Projected return (%)
Capital gain 22.1%
Dividend yield (Net) 2.9%
Total return 25.0%
Rating: OUTPERFORM
52-week price range: 5.50-8.00

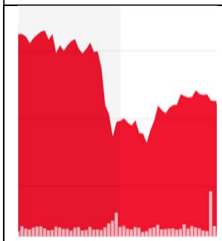


Tourism Holdings

THL has been increasing focus on flexible fleet models that rely on intra-year vehicle churn. This approach has a number of appeals (near-new rental fleet proposition, higher utilisation, sufficient scale to engage in the retail vehicle sales market, etc.). FNZC has been impressed with the progress THL has achieved introducing this model. However, flexible fleet management also increases leverage to consumer confidence/asset price inflation cycles as well as industry-specific market conditions.

2019 P/E: 19.3 2020 P/E: 15.2

NZX Code: THL
Share Price: $4.15
12mth Target: $4.57
Projected return (%)
Capital gain 10.1%
Dividend yield (Net) 6.0%
Total return 16.1%
Rating: NEUTRAL
52-week price range: 3.85-6.89



Z Energy

ZEL reported better-than-expected FY19 RC EBITDAF ($434m), on surprising 2H19 gains for fuel and convenience margins, partly offset by higher Opex. $177m RC NPAT was 6% below FNZC's $189m projection. A final 30.5cps fully imputed final dividend was declared, bringing FY19 total to 43cps. The much-awaited revision to payout policy sees ZEL adopt a much clearer 70%-85% of an "RC free cash flow"-like Operating cashflow definition.

2020 P/E: 13.1 2021 P/E: 12.3

NZX Code: ZEL
Share Price: $6.18
12mth Target: $6.30
Projected return (%)
Capital gain 1.9%
Dividend yield (Net) 8.0%
Total return 9.9%
Rating: NEUTRAL
52-week price range: 5.18-7.75

NZ PROPERTY SECTOR SUMMARY AS AT 30TH APRIL 2019

	Rating	Price ($NZ)	Tgt price	P/NTA	DPS yield	Gross yield	Gearing
APL	OUTPERFORM	$0.60	$0.67	0.84x	6.0%	8.4%	8.0%
ARG	NEUTRAL	$1.32	$1.11	1.12x	4.8%	6.6%	36.8%
AUG	OUTPERFORM	$1.12	$1.14	1.05x	5.4%	8.0%	25.0%
GMT	NEUTRAL	$1.73	$1.43	1.11x	3.8%	5.3%	17.5%
IPL	NEUTRAL	$1.64	$1.48	1.00x	4.6%	6.3%	42.2%
KPG	OUTPERFORM	$1.54	$1.42	1.08x	4.5%	6.3%	29.4%
PCT	NEUTRAL	$1.60	$1.48	1.15x	3.9%	5.4%	24.3%
PFI	UNDERPERFORM	$1.99	$1.67	1.12x	3.9%	5.4%	30.3%
SPG	NEUTRAL	$2.03	$1.92	1.01x	4.9%	6.8%	34.2%
VHP	NEUTRAL	$2.13	$2.13	0.95x	4.2%	5.8%	43.7%
Average				**1.09x**	**4.2%**	**5.9%**	**29.8%**

Source: Company data, FNZC estimates

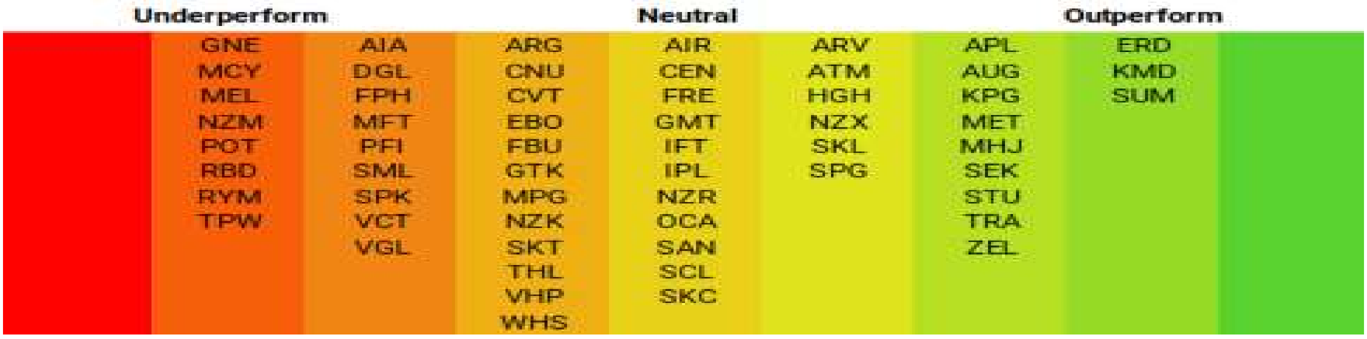
FNZC - NZ EQUITIES: GROSS DIVIDEND YIELDS

AS AT 9TH MAY 2019

COMPANY	RATING	PRICE (NZ$)	GROSS DIVIDEND YIELD				DIVIDEND COVER				NET DEBT/ EQUITY
			FY-1	FY0	FY1	FY2	FY-1	FY0	FY1	FY2	CURRENT
Sky Network Television	O	$1.23	16.9%	16.9%	9.0%	0.0%	2.0	1.6	2.5	0.0	16.5%
Trustpower	U	$7.00	n.a.	12.0%	6.2%	6.5%	n.a.	0.5	1.0	0.9	37.9%
Z Energy	N	$6.25	9.6%	11.4%	11.6%	11.5%	1.1	1.0	1.0	1.1	86.9%
Michael Hill	O	$0.65	11.7%	11.3%	11.3%	11.3%	1.9	1.2	1.4	1.6	10.2%
Air New Zealand	N	$2.74	11.2%	11.2%	11.2%	11.2%	1.6	1.1	1.3	1.4	41.6%
Kathmandu	O	$2.21	9.4%	10.1%	10.7%	11.3%	1.6	1.4	1.4	1.4	7.5%
The Warehouse	N	$2.08	10.7%	10.0%	10.6%	10.8%	1.1	1.2	1.2	1.3	33.5%
Turners Limited	O	$2.46	8.8%	9.6%	10.2%	10.7%	2.1	1.8	1.6	1.7	129.8%
Spark	U	$3.63	8.9%	8.9%	9.3%	9.6%	0.9	0.9	0.9	1.0	88.7%
Asset Plus Limited	O	$0.62	8.7%	8.7%	8.6%	8.6%	1.0	0.9	0.9	0.9	8.3%
Green Cross Health	O	$1.13	8.6%	8.6%	9.2%	10.3%	1.9	2.1	2.0	1.9	27.7%
Heartland Bank	N	$1.59	7.9%	8.3%	8.7%	9.0%	1.4	1.4	1.4	1.4	601.4%
NZX	N	$1.08	7.8%	8.0%	8.1%	7.9%	0.9	0.9	1.0	1.1	8.4%
Steel & Tube	O	$1.23	7.9%	7.9%	9.7%	12.6%	1.2	1.2	1.3	1.3	4.9%
Augusta Capital	O	$1.14	7.4%	7.9%	7.9%	7.9%	1.2	1.4	1.1	1.3	37.6%
Tourism Holdings	N	$3.95	8.2%	7.6%	7.8%	8.7%	1.1	0.9	1.1	1.2	95.0%
Stride	N	$2.05	7.2%	7.2%	7.2%	7.2%	1.1	1.0	1.0	1.1	47.3%
Genesis Energy	U	$3.08	7.2%	7.0%	7.1%	7.7%	0.3	0.5	0.5	0.7	56.9%
Argosy Property	N	$1.34	6.9%	7.0%	7.0%	7.0%	1.1	1.1	1.1	1.1	57.4%
Investore Property	N	$1.61	6.9%	6.9%	7.0%	7.2%	1.1	1.1	1.1	1.1	74.3%
Contact Energy	N	$7.14	6.2%	6.9%	6.9%	6.6%	0.6	0.6	0.6	0.6	32.6%
Kiwi Property Group	O	$1.54	6.7%	6.8%	6.8%	6.8%	1.1	1.0	1.0	1.1	47.5%
Skellerup	N	$2.38	5.9%	6.7%	7.3%	7.8%	1.3	1.2	1.2	1.2	16.1%
Fletcher Building	N	$5.27	0.0%	6.6%	7.4%	7.9%	0.0	1.7	1.6	1.4	5.3%
Sky City	N	$3.88	6.4%	6.4%	6.4%	6.4%	1.2	1.2	1.1	1.2	14.0%
Seeka	O	$5.25	6.3%	6.3%	6.3%	6.3%	1.6	1.4	1.5	1.6	54.1%
Vector	U	$3.69	6.1%	6.2%	6.3%	6.4%	0.9	0.8	0.8	0.9	114.5%
Vital Healthcare	N	$2.11	6.1%	6.2%	6.4%	6.5%	1.2	1.1	1.2	1.2	66.2%
Scales Corporation	N	$5.07	5.2%	6.0%	6.1%	6.5%	1.1	1.2	1.2	1.2	-28.7%
Meridian Energy	U	$4.25	5.7%	5.7%	5.6%	5.7%	0.4	0.5	0.5	0.6	30.7%
Goodman Property Trust	N	$1.74	5.7%	5.7%	5.7%	5.7%	1.2	1.2	1.1	1.1	29.7%
Precinct Properties	N	$1.60	5.4%	5.6%	5.8%	6.0%	1.1	1.1	1.1	1.1	36.8%
Property For Industry	U	$2.03	5.6%	5.6%	5.8%	6.0%	1.1	1.1	1.2	1.2	42.7%
Freightways	N	$8.65	4.8%	5.3%	6.0%	6.8%	1.3	1.2	1.2	1.2	55.0%
Chorus	N	$6.14	5.0%	5.2%	5.4%	5.7%	0.9	0.6	0.4	0.6	203.6%
Mercury	U	$3.93	5.3%	5.1%	5.0%	5.3%	1.0	0.8	0.8	0.9	28.1%
Sanford	N	$6.82	4.7%	4.7%	4.7%	4.7%	1.8	2.1	2.1	2.4	26.5%
Arvida	N	$1.30	4.4%	4.7%	5.2%	5.5%	1.8	1.7	1.9	1.9	29.0%
Tower	O	$0.77	0.0%	4.6%	5.5%	5.9%		1.8	1.8	1.8	-39.3%
Oceania	N	$1.07	4.4%	4.5%	4.3%	5.3%	1.8	1.8	1.8	1.8	38.5%
New Zealand Refining Company	N	$2.06	5.1%	4.4%	15.3%	16.6%	1.3	-0.3	0.8	0.7	34.4%
Infratil	N	$4.55	5.1%	4.2%	4.2%	4.2%	0.7	0.6	0.9	1.3	150.0%
Auckland Airport	U	$8.00	3.8%	3.9%	3.9%	4.2%	1.0	1.0	1.0	1.0	38.0%
Gentrack	N	$5.80	3.3%	3.8%	4.0%	4.6%	1.3	1.1	1.2	1.2	-7.2%
Port of Tauranga	U	$6.00	2.9%	3.2%	3.4%	3.6%	1.1	1.1	1.1	1.1	35.8%
New Zealand King Salmon	N	$2.16	3.2%	3.1%	3.7%	5.1%	2.1	2.0	2.0	2.0	2.6%
Ebos	N	$21.96	3.1%	3.1%	3.7%	4.0%	1.4	1.5	1.4	1.4	35.7%
Summerset	O	$5.73	2.3%	2.8%	3.3%	4.2%	3.4	2.9	2.4	2.2	52.1%
Metlifecare Limited	O	$4.79	2.1%	2.3%	2.6%	2.8%	4.1	3.5	3.7	3.8	17.0%
Delegat's Group	U	$10.34	2.0%	2.3%	2.6%	2.9%	3.0	2.9	2.9	2.9	75.8%
Fisher & Paykel Healthcare	U	$15.61	1.9%	2.1%	2.9%	3.7%	1.6	1.5	1.4	1.2	-1.9%
Mainfreight	U	$35.50	1.8%	2.1%	2.4%	2.8%	2.5	2.5	2.5	2.3	26.3%
Ryman Healthcare	U	$11.92	1.7%	1.9%	2.2%	2.6%	2.0	1.9	1.8	1.8	56.2%
Vista Group	U	$5.23	0.8%	1.5%	1.8%	2.4%	2.1	2.0	2.0	2.0	-13.5%
Tilt	N	$2.36	1.3%	1.1%	0.8%	1.5%	-0.3	1.3	1.2	1.2	64.4%
AFT Pharmaceuticals	O	$2.68	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-821.9%
a2 Milk	N	$16.32	0.0%	0.0%	0.0%	1.2%	0.0	0.0	0.0	3.0	-51.7%
Comvita	N	$3.40	2.5%	0.0%	0.0%	0.0%	2.3	0.0	0.0	0.0	50.5%
Eroad	O	$2.85	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	8.1%
Metro Performance Glass	N	$0.41	25.1%	0.0%	0.0%	0.0%	1.3	0.0	0.0	0.0	51.4%
NZME	U	$0.56	5.0%	0.0%	0.0%	0.0%	4.8	0.0	0.0	0.0	26.2%
Pacific Edge	O	$0.26	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-94.0%
Restaurant Brands	U	$8.95	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	40.0%
Synlait Milk	U	$10.50	0.0%	0.0%	0.0%	9.0%	0.0	0.0	0.0	1.1	65.9%
MEDIAN			**5.3%**	**5.6%**	**5.8%**	**6.0%**	**1.2**	**1.1**	**1.1**	**1.2**	**35.7%**

1. THE NET DEBT/EQUITY RATIO IS CALCULATED AS GROSS DEBT LESS CASH HOLDINGS, DIVIDED BY THE TOTAL EQUITY. NEGATIVE RATIOS INDICATE A NET CASH POSITION.
2. RATINGS: "O" - OUTPERFORM, "N" - NEUTRAL, "U" – UNDERPERFORM, "R" – RESTRICTED.
3. FY0 REPRESENTS THE CURRENT FINANCIAL YEAR.

FNZC - NZ EQUITIES: RECOMMENDATIONS



COMPANY	UNDERPERFORM	NEUTRAL	OUTPERFORM
COMMUNICATION SERVICES	Spark NZ (SPK) NZME (NZM)	Chorus (CNU)	Sky Network TV (SKT)
CONSUMER DISCRETIONARY	Restaurant Brands (RBD)	SkyCity Entertainment (SKC) The Warehouse Group (WHS) Tourism Holdings (THL)	Kathmandu (KMD) Michael Hill International (MHJ) Turners Automotive (TRA)
CONSUMER STAPLES	Delegat Group (DGL) Synlait Milk Limited (SML)	The a2 Milk Company (ATM) NZ King Salmon (NZK) Sanford (SAN) Scales Corporation (SCL)	Green Cross Health (GXH) Seeka (SEK)
ENERGY		NZ Refining (NZR) Z Energy (ZEL)	
FINANCIALS		Heartland Group Holdings (HGH) NZX (NZX)	
HEALTH CARE	Fisher & Paykel Healthcare (FPH)	Ebos Group (EBO)	AFT Pharmaceuticals (AFT) Pacific Edge (PEB)
HEALTHCARE PROVIDERS	Ryman Healthcare (RYM)	Arvida (ARV) Oceania Healthcare (OCA)	Metlifecare (MET) Summerset Group (SUM)
INDUSTRIALS		Metro Performance Glass (MPG) Skellerup Holdings (SKL)	
TRANSORT INFRASTRUCTURE	Auckland Airport (AIA) Mainfreight (MFT) Port of Tauranga (POT)	Air New Zealand (AIR) Freightways (FRE)	
INFORMATION TECH	Vista Group International (VGL)	Gentrack Group (GTK)	EROAD (ERD)
MATERIALS		Fletcher Building (FBU)	Steel & Tube (STU)
PROPERTY	Property for Industry (PFI)	Argosy Property Ltd (ARG) Goodman Property Trust (GMT) Investore Property (IPL) Precinct Properties NZ (PCT) Stride Property Group (SPG) Vital Healthcare Prop Trust (VHP)	Asset Plus (APL) Augusta Capital (AUG) Kiwi Property Group (KPG)
UTILITIES	Genesis Energy (GNE) Mercury NZ (MCY) Meridian Energy (MEL) TrustPower (TPW)	Contact Energy (CEN) Infratil (IFT) TILT Renewables (TLT) Vector (VCT)	

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

Aristocrat Leisure (ALL.AX)

CURRENT PRICE: A$26.03 **TARGET PRICE:** A$30.00

OUTPERFORM

ALL's business model has changed significantly over the past 5 years, transforming into a leading global player in land-based (slot machines) and digital based gaming with recurring revenue now contributing two-thirds of group earnings. The land-based business remains the key earnings driver. FNZC believes that ALL is still under represented in a number of key states in the US and other global geographies. Strong data and anecdotal feedback suggests that ALL's share is likely to increase over the next 12 months. ALL's high growth social gaming business did cause some angst amongst investors in 2018 after management announced a structural change in how new games are brought to market. Instead of the previous scatter gun approach which resulted in 20-30 games being launched a year, the new method allows for games that do not meet specific criteria to be terminated early, thus avoiding costly marketing spend on unsuccessful games. As a result, ALL expects to launch 5 quality games annually.

South 32 (S32.AX)

CURRENT PRICE: A$3.29 **TARGET PRICE:** A$4.00

OUTPERFORM

S32's share price has underperformed that of the major resource companies. While this reflects S32's exposure to aluminium (price has weakened) rather than iron ore (price has strengthened), it has left S32 offering good value. Whilst S32's recent March quarterly update was underwhelming, the emerging strength in the Chinese economy following economic stimulus should be positive for S32. The appeal of S32 is the number of self-help and restructuring initiatives designed to improve its profit performance. These include the acquisitions of Arizona Mining (potentially a $2 billion US mining project) and Eagle Downs (a fully permitted, partially developed metallurgical coal project in the US), the potential sale of its South African coal business in 2019 and S32's portfolio of 18 greenfield exploration projects. S32's US$762 million net cash position and potential further capital management, makes S32 an attractive investment proposition.

Treasury Wine Estates (TWE.AX)

CURRENT PRICE: A$15.09 **TARGET PRICE:** A$19.85

OUTPERFORM

TWE's share price came under pressure in late 2018 due to concerns around a slowing Chinse economy. Despite this, retailer feedback suggests demand is good with recent analysis suggesting TWE's medium term outlook remains strong. The key opportunities to drive further earnings growth include; 1) gaining market share in Asia; 2) improving margins in the US through moving some distribution in-house which TWE estimates represents a 1.80%-4.25% margin opportunity. While the margin range appears somewhat optimistic, every 1% increase adds 2% to group earnings; and 3) potential acquisitions in the US, where TWE needs further scale to reduce its cost per case. Acquiring premium vintners Jackson Family Wines or Ste. Michelle would increase TWE's US volumes by 50%-60%. We expect that investors will look through a difficult FY20 and anticipate strong growth in FY21. That year is expected to benefit from 2018 wine vintages in both Australia and the US being high quality and high quantity. TWE is trading on a 24x FY20 price/earnings ratio with circa 20%pa earnings growth forecast over the next 3 years.

FNZC - GLOBAL EQUITIES: RECOMMENDATIONS

Underperform			Neutral			Outperform		
Inditex	Nestle	AT&T	Home Depot	China Mobile	General Electric	AIA Group	CCB	Netflix
			PetroChina	ExxonMobil	Toyota Motor	Agri. BOC	Merck & Co	Pfizer
			Walt Disney	Schlumberger	Wells Fargo	Airbus	BASF	Union Pacific
				Walmart		MasterCard	Microsoft	Alphabet
						NextEra Energy	Visa	Facebook
						ICBC	3M	Goldman Sachs
						J&J	Amazon	SoftBank
						Oracle	ASML	Caterpillar
						LVMH	Intel	UnitedHealth
							Comcast	BP
							Citigroup	Mitsubishi
							Boeing	
							JPMorgan	
							Bank of America	
							Morgan Stanley	

BP (BP.LN)

CURRENT PRICE: £5.24 **TARGET PRICE:** £6.40

OUTPERFORM

BP is one of the top three global integrated oil and gas companies that have both upstream and downstream operations. BP's crude oil reserves have an above industry average life of around 14 years at the current rate of production and reserves improvement. BP has demonstrated its superior competitiveness versus peers through the years by continuously delivering steady production growth, meaningful cost reduction, while at the same time maintaining its reserve replacement ratio above 100% most of the time. In addition, BP is expected to bring down its cash breakeven production cost to US$35-$40 per barrel by 2021.

A lower cash breakeven point will ensure that BP remains profitable even if the oil price unexpectedly enters a low-price environment. The negative impact of the 2010 Gulf of Mexico oil spill is fading as related expense stands to decline by about £1 billion per year in the coming few years. This should add to the strong earnings growth that BP is already enjoying. BP currently trades on a 2019 forecast dividend yield of 5.4% and a free cash flow yield of 7.5%.

China Construction Bank (0939.HK)

CURRENT PRICE: HK$6.47 **TARGET PRICE:** HK$8.60

OUTPERFORM

China Construction Bank (CCB) is the second largest bank in China in terms of the amount of deposits and outstanding loans. The bank is 59.3% owned by China Investment Corporation (CIC), the sovereign wealth fund of China. Despite the recent economic slowdown in China, CCB continues to deliver around 14% return on equity on the back of steady loan growth, improvement in net interest margin and a benign level of bad debts. As an instrument for China to stimulate the economy, CCB will benefit from the stabilization of the economy and higher loan demand due to the implementation of economic policy stimulus. CCB currently trades on a forecast 2019 Price/Book Value ratio of 0.7x and is expected to deliver a 5.3% dividend yield in 2019.

CK Hutchison (0001.HK)

CURRENT PRICE: HK$79.75 **TARGET PRICE:** HK$131.00

OUTPERFORM

CK HUTCHISON

CK Hutchison (CK) is one the largest Hong Kong-based conglomerates with business exposures in ports, retail, infrastructure, energy, telecommunication and financial services sectors around the world. Among its key businesses, CK enjoys a leading position in the European telecommunication industry through 3 Group Europe. In retail, CK owns the world's largest health and beauty retailer, AS Watson Group, which has a network of over 15,000 stores in 22 countries. CK also has a 40.2% stake in Husky Energy, an integrated energy company listed in Canada. CK is expected to benefit from improved global economic growth which will benefit its well-balanced portfolio of quality businesses. CK currently trades on a 2019 forecast dividend yield of 4.1% and a free cash flow yield of 6.9%.