Andrew von Dadelszen

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WEBSITE:
vond.co.nz

Bay Brokers Limited

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

Investment Strategies

What an incredible run the New Zealand Sharemarket has enjoyed for the last decade. The cancelation of Labour's Capital Gains Tax plans will likely result in extending that run. NZ investors showed relief at the decision, with a further surge in our market. This despite ongoing global concerns.

This highlights the need to remain invested, and don't try to out-think the market.

GLOBAL MARKETS LAST 5 YEARS

Global share markets might be going gang busters, but the political climate remains anything but stable.

American politics is totally dysfunctional, and Brexit continues to disrupt the British. Whether it's Venezuela, Libya or Ukraine – disruption to recognised world order is at risk. At home Jacinda makes global acclaim, while our local media are starting to see through her lack of true leadership.

Locally we are heading towards Local Government Elections (in October), and dysfunction in Tauranga could well see big changes. The counter argument is that we are all so apathetic when it comes to LG elections, with a track record of falling voter participation (maybe as low as 30%), doesn't give much confidence in revitalising our Central City – nor resolving our congestion issues.

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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 migration Feb 2019 year: ↑	61,600
(Migration In 153,100 Migration Out 91,600)	
China - 7,500; UK - 5,900;	
India - 5,100; Australia - 4,100	
Visitor arrivals Annual August 2018 (↑ 3.6%)	**3,803,196**

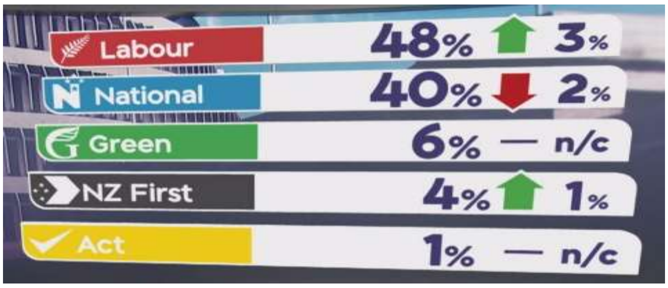
Employment

Total employed June 2018 quarter:	2,631,000
Unemployment rate Dec 2018 quarter:	4.3%
Employment rate Dec 2018 quarter:	67.8%
Wage rate increase Dec 2018 quarter:	1.9%
Ave weekly earnings December 2018 quarter:	$1,124
Average ordinary time hourly earnings:	$31.63
Net Wealth (NZ Median) (↑5.6% pa over 3 years)	$340,000
Net Wealth (Top 20%) (↑9.7% pa over last 3 years)	$1.75m
Consumer Price Index December 2018 year:	1.9%
The size of the NZ Economy /Dec 2018 year:	**$293 bn**
GDP per capita year ended June 2018:	**$57,218**
GDP Growth (volume) Dec 2018 year:	**2.8%**
Tauranga City GDP Growth Sept 2018 year:	**3.6%**

OUR POLITICAL CLIMATE

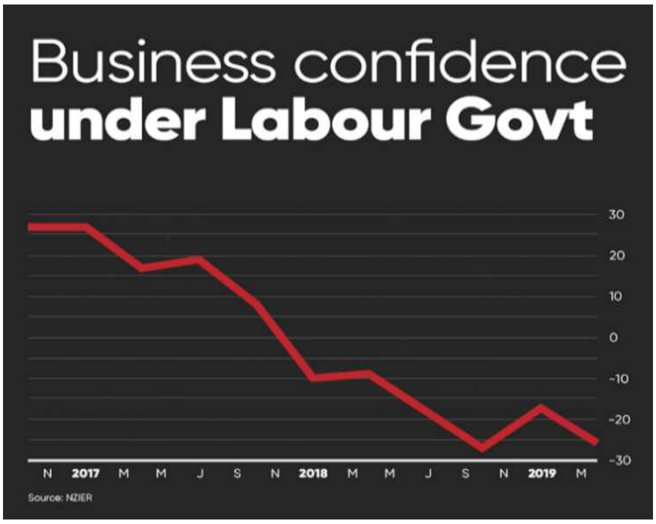
POLL RESULTS

The February Reid Research Poll had Labour 47.5%, and National at 41.6%. Just before the March 15th shooting, National (on internal polling) could have governed alone. Now (4 weeks after the shooting), Labour is back at 49.6%, National is back at 41.3%, NZ First continues below the 5% threshold at 2.3%, and the Greens are now also below the threshold at 2.9%.



The interesting aspect of this is that there is a soft vote of around 7-8% (swing voters), and that is a "soft belly" that political parties need to tap. This "soft vote" appears to have been swayed by Jacinda Ardern's empathy and compassion, but also were previously swayed by her (Labour's) inconsistencies on Capital Gains Tax, KiwiBuild, the cost of living arguments, and conflicts in election promises with the likes of teachers.

Expect further volatility as we head into the 2020 election.



LABOUR'S YEAR OF DELIVERY

At the start of the year Jacinda Ardern declared that 2019 was her government's 'year of delivery'. Her individual popularity might be intact, but she seems to be failing on all of her "transformation" promises.

First was KiwiBuild, which is totally flawed policy. She has given up on all of her (and Twyford's) targets, but still maintains that they will their 100,000 homes (still have only completed 74 homes) – what a joke!

Second, we were supposed to have the Zero Carbon Act, but it too is in trouble, with James Shaw now predicting that our emissions will continue to rise until the mid-2020's. Emissions actually dropped under the last National Government. How can we call this policy "transformational"?

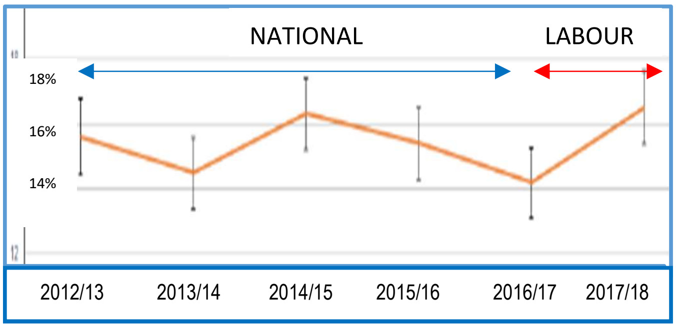
Thirdly, there is the move to the Wellbeing Budget, which is great in theory but even Treasury is not convinced (see my February Newsletter). This was another PR spin, that isn't delivering results. Data shows that child poverty dropped under National, but rose in Labour's first year in office (see graph and comment below).

Of course, the fourth was the Capital Gains Tax, which Labour has campaigned on for the last 3 elections.

All in all, Labour has a lot of "delivery" to achieve – rather than just PR spin.

CHILD POVERTY MEASURE

The percentage of children living in households with less than 50% median equalized disposable household income before housing costs are deducted (2013-18).



Treasury is tasked with developing criteria (see my February Newsletter, page 3) to measure well-being. The table above (sourced from Treasury) is an indication that, half way through their term, Labour has failed, on the criteria of "child poverty".

We need, as a country, to be able to measure our competitiveness, as well as our liveability, when compared to other 1st world countries – but our measurements need to be real. Benchmarking is a great tool, but with Labour's "well-being budget" I fear that we will head towards "mediocrity".

FOREIGN OWNERSHIP OF NZ ASSETS

The tightening of the rules on foreign ownership of residential housing looks to have worked, albeit more from Beijing tightening its rules on allowing residents to get capital out of the country (2016), than any NZ Government initiatives, but the buyout of New Zealand dairy companies and farmland attracts a lot of attention.

New statistics, released in a recent KPMG report, indicates that Chinese investment trends within New Zealand are static. In fact, in the 2016 to 2018 period Australians were our biggest investors of NZ assets (16%); followed by US investors (15%); and in just 3rd place is China (at 10%). Canada came in 5th (5%), which was a surprise, considering the size of the Canadian economy, and its lack of traditional trading relations with New Zealand.

CAPITAL GAINS TAX

Jacinda Ardern has buckled once again. True, she was never going to get this crazy Cullen CGT policy through in this term, but she has now stated that she will never promote it under any future Government that she might lead.

However, what is still worrying is the multitude of 'tax grabs' that Cullen also recommended, that she still hasn't written off. Beware the wolf in sheep's clothing. Our socialist Prime Minister hasn't finished her envy-based tax grabbing yet!

National Party leader Simon Bridges can take a lot of the credit for this back-down. He said "*People who take risks with smart ideas and build something bigger than themselves shouldn't be discouraged. We need people who take risks and stretch themselves because the ones who succeed create more jobs*." He remains highly critical of the process, which cost around $2 million, and seriously weakened our economy with her scare tactics.

So now we have a government that won't receive its CGT, and yet will still have to pay out on its promised offsets – these included about $1 billion over the next four years for a 15% tax credit to any business spending a minimum of $50,000 on R&D. R&D spending in New Zealand is currently 1.37% of GDP each year. Boosting that to 2% over 10 years is part of the Labour-NZ First coalition agreement.

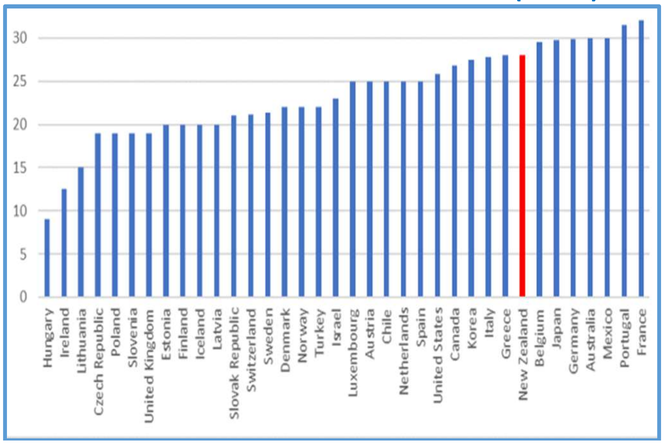
Even if the government's decision to abandon a capital gains tax is - as some argue - a smart strategic move, it undoubtedly puts the rest of its agenda in jeopardy. Consider the Prime Minister's pledge to halve child poverty within a decade, possibly the political priority closest to her heart. It is very difficult to see how that can be achieved without the $3.4 billion a year that the capital gains tax was, according to the most recent estimate, going to raise.

CORPORATE TAX RATES COMPARED

SOURCE: Michael Reddell's blog, croakingcassandra.com

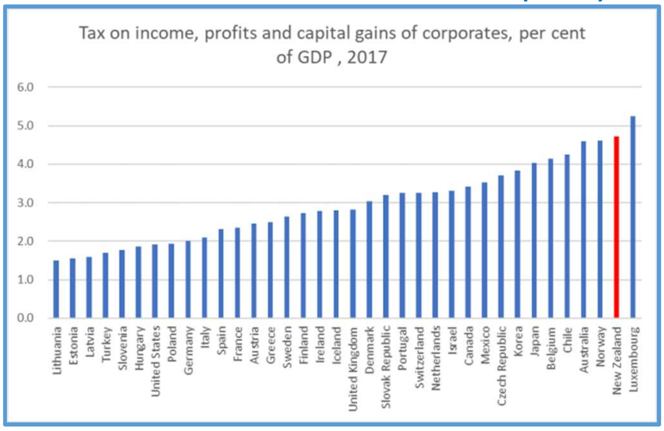
New Zealand Corporations are already highly taxed. We have one of the highest statutory company tax rates of any OECD country. Here are the OECD's own numbers for 2019 (incorporating all levels of government - some countries, including the US, have state level company taxes as well as national ones).

CORPORATE INCOME TAX RATE 2019 (OECD)



As almost everyone knows, headline corporate tax rates can mask a multitude of exemptions and deductions. So here is the data on the tax collected on the "income, profits, and capital gains" of corporates, expressed as a share of GDP. Data on actual tax collections takes time to compile, so these data are for 2017.

TAX ON INCOME, PROFITS & CAPITAL GAINS FOR CORPORATIONS - % OF GDP 2017 (OECD)



In this particular year, we took the second highest share of GDP in corporate tax revenue. That rank bobs around a bit from year to year (in the year the Tax Working Group used in their discussion document, we ranked number 1) and it appears to matter a bit whether countries collect taxes from central government entities or not (we do), but no one seriously questions that however one looks at things, New Zealand is one of the handful of countries collecting the highest tax (share of GDP) from corporates.

The picture is further complicated by the fact that New Zealand (and Australia, but almost no one else) runs a dividend imputation scheme, such that for domestic resident shareholders (only), corporate tax is really a withholding tax, and tax paid at the corporate level is credited against the shareholder's personal tax liability. In most other countries there is a double taxation issue (profits and dividends are taxed with no offsetting credits), and partly as a result dividend payout rates tend to be lower. (This, incidentally, is one reason why there is a stronger case for a CGT in other countries than there is in New Zealand or Australia.)

IS IT TIME FOR WINSTON TO RETIRE?

Winston will be 75-year's old at the 2020 election, and his ability to represent our country on the global stage came into question last month. Jetlag is not easy, but falling asleep during serious international discussions was not a good look for New Zealand.

To be honest, I think Winston is asleep at the wheel, both abroad and at home. When you combine this with a Trade Minister (Hon. David Parker) who doesn't like travel, you have more evidence of a dysfunctional inner Cabinet.

We have a Prime Minister who is great on the international stage, but is plagued with paralysis when it comes to follow up actions to augment the platitudes. This three-headed monster of a government just isn't performing, despite inheriting a fantastic balance sheet from National.

I was accused by one of my clients that my last newsletter was blatantly biased, and I suppose it was = I don't apologise for wearing my politics on my sleeve. However, I challenge those from the left to show me solid evidence of what this current government has actually achieved in the last 2 years.

I agree that National (and John Key in particular) missed an opportunity with regards to the Pike River re-entry. Andrew Little has shone, albeit the profit will be in an actual successful re-entry (which is by no means certain).

SHANE JONES' ARROGANCE IS ENDLESS

By: Heather du Plessis-Allan - Herald on Sunday

Rules and principles. Two concepts that don't appear to spend much time in the company of Shane Jones. He's in trouble. Again.

This time he's interceded with authorities on behalf of a trucking company owned by his mother's great-great-great-grandmother's great-great grandson. The trucking company racked up 116 speeding and traffic-related fines in four years. The authorities want the trucks off the road. Matua Shane - as he likes to call himself - had a word with those authorities.

That should set off alarm bells because he's the Associate Transport Minister. But hey, that's not the hat he was wearing during the chat, he reckons. Nope. He interceded as the Champion of the Regions - as he likes to call himself. Because the Champion of the Regions was worried about the 1,000 jobs that would be lost if the company folded. Riiiiight.

The amazing thing is just how little Jones seems to care about having his integrity questioned. He just leans back, half closes his eyes, and chats about it like he's explaining the ins and outs of why he chose Quarter Tea for the bathroom walls.

In fact, it's almost like Jonesy - as he likes to call himself - is deliberately breaking rules and forgoing principles.

He's been in trouble for suggesting he'll interfere with the independent SFO, for attacking Spark's former CEO Simon Moutter, for attacking Air New Zealand's CEO Chris Luxon, and for attacking the Warehouse Group's Joan Withers.

And every time he's grilled over his integrity, he just does his best Boris Johnson impersonation and waddles off to the debating chamber looking self-satisfied. I get why he does this. The Sonny Bill Williams of Politics - as he likes to call himself - needs attention. Possibly in the same way that a junkie needs heroin, but also in order to keep his job.

The party he belongs to is currently polling below the 5 per cent threshold. As in, half of that. They should be doing better. Sure, New Zealand First always polls low mid-term, then bounces back during election campaigns. They often defy final-days predictions.

Maybe they'll do the same thing this time. Or maybe they won't. This term, unlike others, they've had $3bn to throw around and win over grateful regional voters, but it's not working. The voters are taking the money, thanks very much, then telling polling companies they'll vote for a much more sensible party.

Sensible is not a word you'd associate with NZ First at the moment. Not if the party allows the Prince of the Provinces - as he likes to call himself - this much leash. Or if it allows Defence Minister Ron Mark to give funding to a group, then ask that same group for votes.

Let's be honest, post-Christchurch shooting, NZ First suddenly feels very wrong in this government. Jacinda Ardern has managed to make this government feel principled and progressive. She's reforming gun laws, taking on Facebook, uniting the country in its support for our Muslim community.

And then there's NZ First hanging around reminding us how she did a Faustian deal with the devil to get into power. NZ First isn't principled enough to belong in this government. It hasn't been principled enough since day dot. This is the party that gave us Tuku Morgan's underwear scandal, Brendan Horan's nasty split from the party, Richard Prosser's attack on Muslim immigrants as "a sorry pack of misogynist troglodytes from Wogistan" and Winston Peters' deafening dog-whistling.

NZ First feels like the stumbling, drunk boyfriend that the cool girl brought the party. She's too good for him, and everyone can suddenly see it. Ardern might just have to crack the whip a little. Big Chief - as he likes to call himself - might be a good place to start.

MIGRATION NUMBERS

New Zealand's declining migration trend appears to have been arrested – and even reversed - but economists are urging caution on that reading of Stats NZ figures. Stats NZ released its latest migration data and it offers up a provisional estimate of annual net migration of 61,600 in the year ending February 2019.

That figure is near the highest reported under Stats NZ's new outcomes-based measure, but it is subject to revision under the new measure and those revisions can be significant.

The transition between the Stats NZ's old and new ways of measuring migration is still making an accurate take on migration figures difficult. Westpac senior economist Satish Ranchhod says that estimates of monthly net migration remain very high, with a net inflow of 6,570 in February (compared to 6,100 in January). But Westpac continues to treat recent migration estimates with a large grain of salt, he says.

"*While migration inflows appear to have firmed in recent months, we suspect that the extent of this increase is more modest than current estimates imply. These figures are the highest level in 18 years and saw annual migration rising to 61,600 and it completely reversed the down trends that we saw through 2017 and 2018.*"

Ranchhod says that if it is the case that migration and population growth are reaccelerating at a rapid pace that has important implications for the growth in New Zealand's demand base, including in housing. However, the change in Stats NZ's estimate measures means the recent uptrend in migration needs to be interpreted with a great deal of caution.

"*We're concerned that it isn't a true reflection of what's happening to New Zealand's population. Notably, the recent upswing in net migration seems inconsistent with visa data which has been fairly stable in recent months. We are much less certain that migration is now trending higher at a rapid pace. Looking at conditions in the New Zealand and global economy more generally, we suspect that net migration and population growth are currently running lower than estimates imply.*"

Can we still trust STAT NZ figures? This is a huge problem, as we make so many of our macro and micro policy decisions based on statistical data.

SLUMP IN CHINESE TOURISM IN FEBRUARY

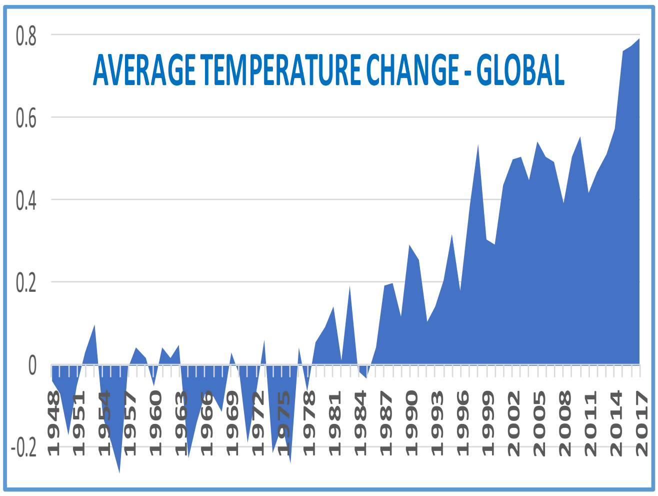
Passenger arrivals from China into Auckland International Airport dropped 29% in February – more than offsetting a gain in January from the earlier start of the Lunar New Year holiday. Arrivals from China dropped to 41,080 in February, from 57,903 a year earlier when Chinese tourist arrivals in New Zealand had been a record.

Arrivals from China were 9% higher in January at 36,137, but that was an increase of only about 3,000 from the year before. Across the two months, volumes were down 15%.

China is the second-largest source of international visitors to New Zealand, having overtaken the UK and the US in 2012. Australia remains the biggest by a wide margin, accounting for about 1.5 million visitors in the year ended February – more than three-times the Chinese figure, according to Stats NZ.

GLOBAL WARMING

Global average land-sea temperature has risen strongly since 1985, but in the prior period (1948 to 1984) global temperatures were negative.



SOURCE: Met Office (UK) Hadley Centre

Global temperatures have always moved in cycles, and "shooting from the hip" policy making is extremely dangerous. We definitely are going through a cycle of sea temperature rising, and as a result, we can expect storm effect and sea surge. As a result of this, a precautionary approach is sensible - but this doesn't justify being alarmist. We do have time to develop good scientific solutions to the effects of climate – and not rush to the likes of hideously economically disastrous "ban all oil & gas exploration" decisions (for example).

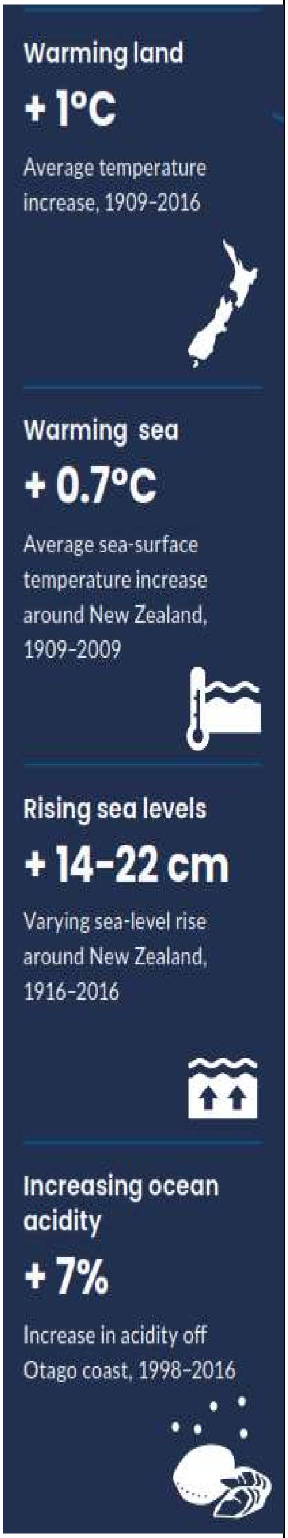
ENVIRONMENT AOTEAROA 2019 REPORT

This is the first synthesis report produced under environmental reporting legislation that came into effect in 2016. Sadly, the standout message is the scale and importance of the gaps in the data on environmental change. As Professor Troy Braiden said in the NZ Herald, "*One danger of repeating rather than updating information in environmental reports is that it reinforces excuses for not taking action*."

New Zealand makes a small contribution to global emissions, but we have high emissions per person when compared internationally. In 2015, New Zealand emitted 17.5 tonnes of carbon dioxide equivalent greenhouse gases per person, which was higher than all but five of the 43 Annex-I industrialised countries. Agriculture is responsible for nearly half of our gross greenhouse gas emissions, which reflects agriculture's economic importance, followed by road transport, which enables movement of goods and services on our roads.

Although our global contribution is small (0.17% of gross global greenhouse gas emissions in 2013), the contribution of small nations like New Zealand is important.

Our gross greenhouse gas emissions have increased by 20% since 1990, but have been relatively steady in the past decade, despite increases in population and GDP.



This means our emissions per person are lower now than 10 years go. Similarly, our emissions per unit of gross domestic product since 1990 are 43% lower, but still high internationally – the fourth highest in the OECD in 2016.

Our larger cities tend to have high levels of black carbon (also known as soot), one of the most important contributors to global warming.

According to the International Panel on Climate Change, our emissions are reversible if we make that choice as a society. Even small reductions in greenhouse gas concentrations will reduce the changes that our grandchildren and their descendants will experience.

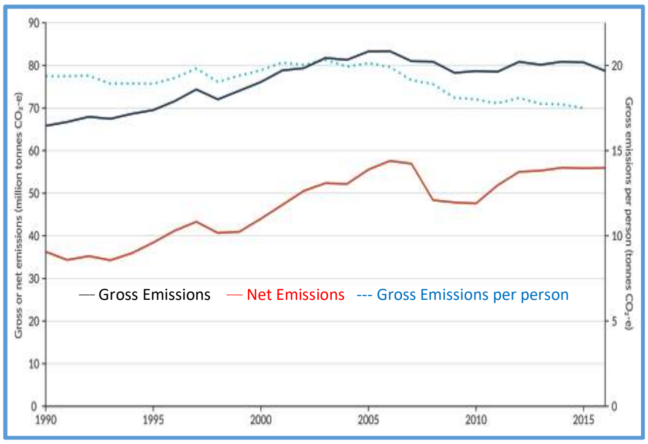
Our high emissions per person are partly due to the large proportion of methane and nitrous oxide from agriculture.

These gases warm our atmosphere more strongly than carbon dioxide (CO_2), and increase our per-person CO_2 equivalent greenhouse gas emissions.

Road vehicles are our main source of CO_2 emissions. We have the highest rate of car ownership in the OECD, and our cars are old compared to other OECD countries.

This raises per-person emissions because older cars tend to use more fuel for each kilometre travelled and emit more black carbon.

NEW ZEALAND's GREENHOUSE GAS EMISSIONS
1990-2018



SOURCE: MfE, UN

THE MAORI ECONOMY

Finance Minister Grant Robertson says the Māori economy could be worth more than $50bn. Robertson says he understands the Māori economy value estimates were largely drawn from post-settlement entities meaning the value of the Māori economy could be much higher. Ministry of Business, Innovation and Employment figures estimate Māori assets are worth $42.6bn (15.4% increase since 2010) – and 14.54% of the New Zealand economy. The bottom line is that Maoridom is now on a level playing field economically when compared to all New Zealanders.

TDB Advisory – tdb.co.nz Iwi Investment Report 2018

TDB Advisory reviews the corporate structures, investment strategies and investment performance of selected iwi across New Zealand. Overall, their analysis indicates a reasonably positive financial performance by the sector. All of the eight iwi covered in their 2018 report, including the two largest iwi in terms of assets ($) - Ngai Tahu and Waikato-Tainui - have generated consistently positive returns over a number of years. However, over the last six years, only two iwi - Ngai Tahu and Ngati Whatua Orakei – have recorded an average return on assets above the returns of our benchmark portfolio. Raukawa has generated returns broadly in line with the benchmark portfolio (ie, within one percent) and Ngapuhi, Ngati Awa, Ngati Porou, Tuhoe and Waikato-Tainui have seen returns below the benchmark.

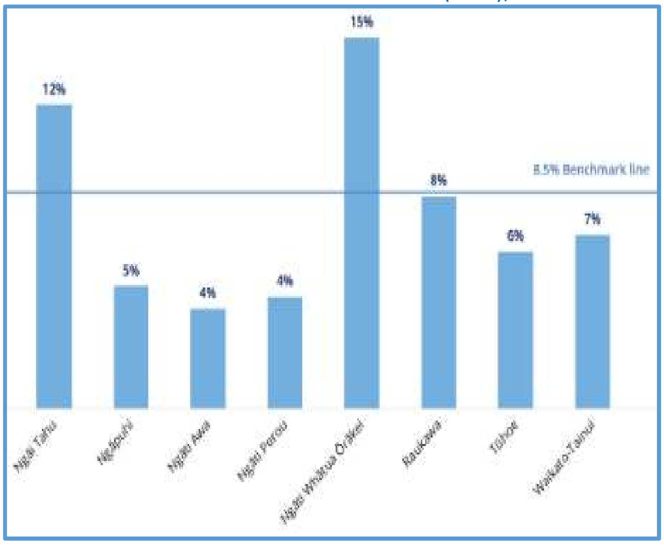
MAP OF THE EIGHT IWI

Several of the iwi have relatively undiversified investment portfolios with few assets outside their rohe. They are therefore heavily exposed to single asset class (e.g. property) risk in a narrowly defined geographic area. While there are often strong cultural and historical reasons for such a concentration in their portfolios, it is risky from a financial perspective. Many iwi have interests in the domestic fishing industry, with holdings of settlement fisheries quota and shares of Moana NZ, and are exposed to volatility of this sector. However, other than Ngapuhi, fisheries-related assets are generally less than 10% of the asset portfolio for iwi with interests in the fishing industry. A common feature of all the iwi is having a low level of debt. As Table 1 shows, three of the iwi have zero debt and the remaining five iwi have a debt-to-capital ratio that is no higher than 17%.

Investment performance

There have been considerable differences in the investment performances of the iwi over recent years. Average returns of each iwi over the period 2013 – 2018 are tabled below (compared against a benchmark line of 8.5%)

AVERAGE ANNUAL RETURN ON ASSETS (ROA), 2013-2018



Many New Zealander's are showing concern that, despite gaining substantive Crown settlements, these Iwi continue to pay very little tax on their earnings (because of their charity status, and low iwi authority tax rates – 14%). The problem with this is two-fold. Firstly, the iwi economy now makes up around 15% of New Zealand's economy, and secondly, they are competing with other commercial operations on an unlevel playing field. The debate needs to be had as to whether it is now time to correct these inconsistencies.

	Total Assets	No of asset classes	Largest asset class	Capital allocation of largest asset class	Management Approach	Debt-to-capital
Ngāi Tahu	$1,924m	7	Private equity	29%	Largely active	11%
Ngāpuhi	$59m	7	Fisheries Quota	36%	Largely passive	0%
Ngāti Awa	$151m	7	Property	31%	Mixed	12%
Ngāti Porou	$243m	6	Financial assets	59%	Largely passive	5%
Ngāti Whātua Ōrākei	$1,189m	1	Property	100%	Active	17%
Raukawa	$164m	7	Managed funds	26%	Mixed	0%
Tūhoe	$365m	7	Managed funds	49%	Largely passive	0%
Waikato-Tainui	$1,369m	6	Property	52%	Largely active	11%

	Location	Year of Deed	Redress amount	Population
Ngāi Tahu	South Island	1997	$170m	61,000
Ngāpuhi	Northland	Still under negotiation	-	135,126
Ngāti Awa	Bay of Plenty	2005	$42m	14,033
Ngāti Porou	East Cape	2011	$90m	76,437
Ngāti Whātua Ōrākei	Ōrākei	2011	$18m	15,905
Raukawa	South Waikato	2012	$50m	10,815
Tūhoe	Te Urewera	2012	$169m	37,536
Waikato-Tainui	Waikato	1995	$170m	70,474

DID YOU KNOW …

China – The US is the biggest global spender at US$600bn per year on their military. China comes second with US$200bn annually. Of the Chinese military China's fighter aircraft fleet numbers 1,222; of which 740 are 4th generation fighter jets, purchased from Russia. The Russians insist that these Sukhoi Su-57 stealth fighters are serviced back in Russia every 18 months. The reason being that Russia won't share their jet engine technology.

It is interesting to note that China hasn't engaged in a "hot" war since 1971, when they got defeated by the Vietnamese.

Chinese President Xi Jinping wants his military to be as powerful as America's by 2050 — and his control of major economic and military institutions in his country could help him do just that.

It's not yet clear if China will eventually become as powerful as the US — the US could improve its military a lot, too — but there is every indication that America has had trouble curbing Beijing's military rise.

BREXIT – WHAT NEXT ??

Without doubt, we all (and especially the British) have "Brexit fatigue" but, that said, we also seem to have a "Brexit addiction". However, European Elections could be painful for Remainers. Pro-Brexit parties are trumping anti-Brexit parties in the polls. The problem is that the Labour vote is mostly made up of Remainers.

What we now have is not "taking back control". This is not the proud, independent, liberated Britain that the Brexiteers promised. It is grotesque, calamitous, an epic act of self-harm brought about not by some war or disaster but by their own stupidity. And the true "enemies of the people" are not those opposing this catastrophic Brexit. They are not the million decent people from every background who marched in London a couple of Saturday's ago, or the five million who have petitioned to revoke Article 50, but those whose lies, zealotry, and political recklessness have all but broken Britain. For posterity's sake, those self-styled "patriots" who have so grievously betrayed their country should be named and shamed.

The original sin was that of David Cameron, now blithely writing his memoirs in his shepherd's hut, enjoying exotic holidays and enriching himself on the speakers' circuit.

The public was not clamouring for a referendum on EU membership. Cameron called it for the narrow purpose of uniting his party and fending off Ukip. He offered an ill-informed electorate a binary choice on an extraordinarily complex issue of profound constitutional importance without even the safeguard of a 60% threshold for approval. It was one of the most foolish gambles ever taken by a British prime minister, and one that unleashed the charlatans, rogues and demagogues of the Leave campaign. Cameron may be the worst prime minister of modern times, but May runs him close. She is certainly the only one to pursue a goal that she knows to be immensely damaging to her country.

The roll of ignominy does not end there. Next up is May's de facto accomplice, Jeremy Corbyn. He is a covert Leaver masquerading as a Remainer, the opposition leader who refuses to lead, the head not so much of a government-in-waiting than of an "opposition in hiding" as one commentator put it.

With even a halfway decent opposition leader, Britain would never have voted for Brexit. Though Corbyn and his coterie of far-left aides profess to believe in people power, they have since done their best to frustrate the overwhelming majority of Labour members who abhor Brexit. The grass roots feel betrayed.

The latest decision of the EU to "kick the decision down the track" to October 2019 will just prolong the damage to both the UK, and to the EU.

Successful people are always looking for opportunities to help others.
Unsuccessful people are always asking, 'What's in it for me?' *– Brian Tracy*

In 2012, Colorado legalized cannabis and added to what has fast become a multibillion-dollar global industry for all things weed-related: from vape pens to brownies and beyond. But to say that we've legalized marijuana is subtly misleading -- what we've really done is commercialized THC, says educator Ben Cort, and that's led to products that are unnaturally potent. In an eye-opening talk, Cort examines the often-unseen impacts of the commercial cannabis industry - and calls on us to question those who are getting rich off of it.

So, let's start with a little bit of Weed 101. Cannabis is a plant that grows naturally and has been used within textiles and even traditional Chinese medicine for thousands of years. Genesis 1:12 even tells us: "I have given you all of the seed-bearing plants and herbs to use." It's the microphone -- it's got a TV preacher sort of thing.

Now, cannabis is made up of hundreds of different chemicals, but two of those chemicals are by far the most interesting. That's CBD and THC. CBD is where almost all of the medicinal properties lie. It's an incredibly fascinating part of the plant with real potential to help people. It also is totally nonintoxicating. You could take a bath in the stuff while vaping pure CBD and drinking a CBD smoothie, and you still couldn't get high.

Now, for as interesting and remarkable a part of the plant as CBD is, it actually makes up a really tiny portion of the commercial market. The real money is being made in that other chemical - in THC. THC is the natural part of the plant that gets you high. And before the 1970s, cannabis contained less than half of a percent of THC. That's what's naturally occurring. Over the last 40 years, as we became better gardeners, that that percentage of THC started to slowly but steadily rise, until recently, when the chemists started to get involved.

So, these guys moved cultivation exclusively indoors, and they made grow cycles extremely and unnaturally short. They also started to use pesticides and fertilizers in some ways that we should be concerned with. In fact, I was recently talking to a buddy who had just left a job at a commercial grow operation because he was so concerned with the chemicals that he was being asked to interact with. Some of his fellow employees were actually encouraged to wear hazmat suits while they were spraying the chemical cocktails on the plants. With that kind of manipulation, the products that are being sold today can contain above 30 percent THC. And our concentrates -- our concentrates can actually contain above 95 percent THC -- a far cry from the natural plant. Listen, this isn't your grandpa's weed.

This isn't your dad's weed. Like, this isn't even my weed. If you've ever set foot inside one of the thousands of dispensaries that have sprung up in recent years, you know that what we're really selling in them is THC. All of the weed that you buy commercially lists exactly how much THC it contains, as do our other, much more popular products like vape pens, coffee, ice cream, condiments, granola, gum, candy, baked goods, suppositories.

Pretty much anything that you can imagine introducing into the human body. The vast majority of cannabis that's being sold today - it isn't really cannabis. It's THC in either a pure form or in an extremely high and unnatural concentration. To say that we have legalized weed is subtly misleading. We have commercialized THC. And it's happened really quickly.

Now, the reason why the commercial market has so rapidly exploded is because there is a hell of a lot of money to be made in satisfying and increasing our desire to get high. And that money is no longer really being made by the mom-and-pop shops. So industry groups and corporations -- groups like the Drug Policy Alliance, the Marijuana Policy Project, Arcview Investment, the Cannabis Industry Association - they've chased out and helped to chase out a lot of the small-time growers. So, these cats know that the best way to continue to profit off of us is if they follow the alcohol industry's 80/20 rule. It's simple -- it's where 80 percent of the product is consumed by 20 percent of the consumers - the problemed users. The wealthy, white, weed lobbyists -- and seriously, they are almost all rich, white men - they know that we will consume more of what they're selling if they jack up the potency. They also know that we are more than twice as likely to consume THC regularly if we earn under 20,000 dollars a year than those who earn over 50,000 dollars a year. In other words, the poorer you are, the more likely you are to spend your money on their products. And in this country, income and race are highly correlated.

One of the reasons we often hear cited for the legalization of marijuana is that it will help to stop the disproportionate incarceration rates among minorities, which is something everybody in this room should be extremely concerned with. Unfortunately, we don't have to look any further than arrest rates for juveniles here in Colorado to counter that argument. According to the Colorado Department of Public Safety, since we opened retail in 2014 - almost all of which are in poor, minority neighbourhoods -- we saw an eight percent reduction in the arrest of white kids for all weed-related activity. Good on 'em. During that same time period, there was a 29% increase in the arrest of Hispanic kids for weed-related activity and a 58 percent increase in the arrest of black kids for weed-related crimes. You guys heard that, right? We are actually arresting more people of colour in Colorado than we were prior to commercialization. And you're not reading that in the Post. Colorado Department of Safety. Legal marijuana coming into focus.

Another big issue that we have is in school suspension rates. So, schools that are predominantly white - that is, they have a minority population of 25% or fewer - in the first full year of data collection following commercialization, these schools had a grand total of 190 drug-related suspensions, almost all of which are for THC. At the same time, schools with a minority population of 75 to 100 percent had 801 drug-related suspensions, almost all of which were for THC.

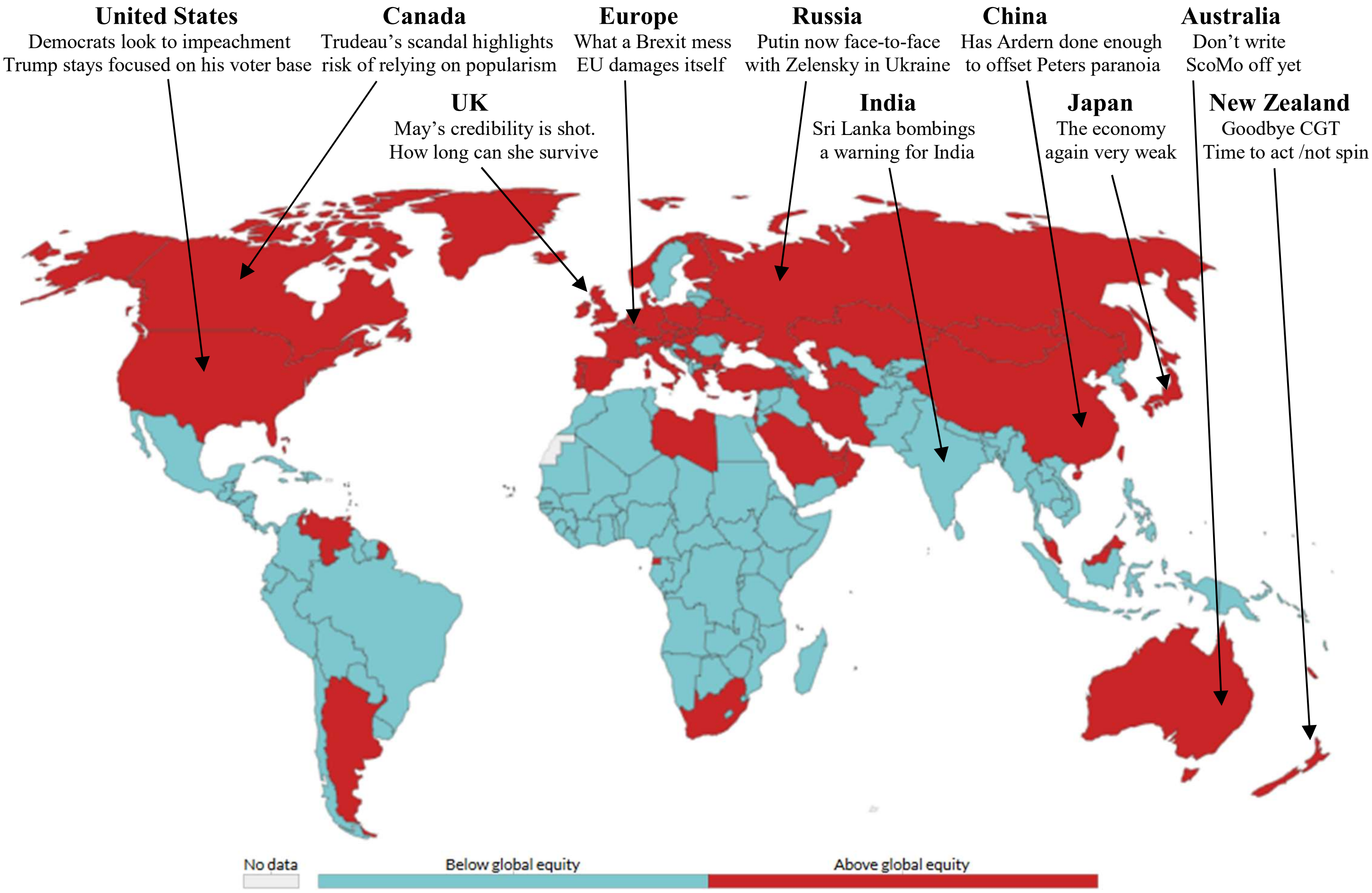
When discussing minority populations, one that unfortunately often gets left out of the conversation is the LGBTQ community. Members of this community are more than twice as likely to consume THC than those who identify as heterosexual or cisgender. They also, unfortunately, have higher rates of mental illness and suicide. According to a study published in 2014 called "Going to Pot," we see that the unnaturally high levels of THC found in today's products actually compound those issues. They make them worse. Unfortunately, that seems to matter very little to the folks who are selling these products, because as you just saw, clearly, this is a good consumer base.

Listen, man - I get it. In many circles, legalized marijuana is too much of a sacred cow to question. But we need to start this conversation, because what's being sold today is not natural, and lobbyists and industry are using social justice as a smoke screen so that they can get richer.

OFF WE GO AGAIN, IN ANOTHER ROUND OF "BACK OF THE BUS" ADVERTISING

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



If you add up an unsustainable fiscal position in the US, Brexit, Europe's structural issues, China's slowdown, there are not many parts of global economy that look particularly rosy.

Our global economic outlook continues to weaken. "*This weaker outlook has prompted central banks to ease their expected monetary policy stances, placing upward pressure on the New Zealand dollar*," New Zealand's Reserve Bank Governor said at the end of March.

Domestic growth slowed in 2018, with softness in the housing market and weak business investment contributing. "*We expect ongoing low interest rates, and increased government spending and investment, to support economic growth over 2019.*"

Reserve Bank said employment was near its maximum sustainable level. "*As capacity pressures built, consumer price inflation was expected to rise to around the mid-point of the bank's target range at 2%.*" The bank said the balance of risks to its outlook had shifted to the downside.

"The risk of a more pronounced global downturn has increased and low business sentiment continues to weigh on domestic spending," it said. "*On the upside, inflation could rise faster if firms pass on cost increases to prices to a greater extent*."

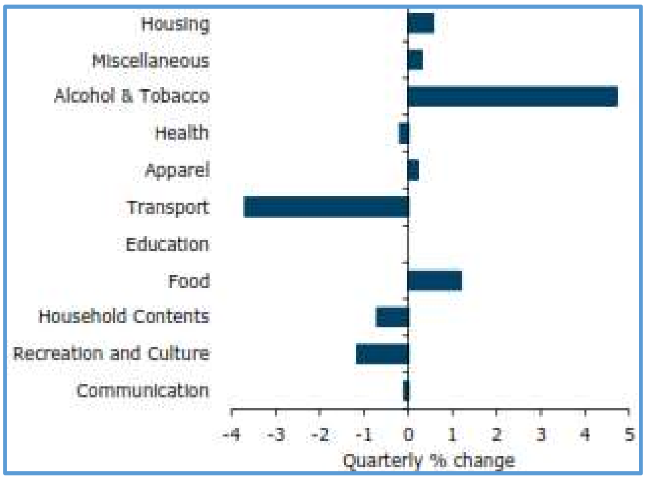
New Zealand's Economic Outlook

Richard Yetsenga, Chief economist and Head of Research at ANZ in Sydney talks about the outlook for Australia and New Zealand, saying "*We have to work hard to ensure that the resources we have are working at their most productive because generating growth the easy ways, either by adding more people or adding more credit, are running out of runway*."

In New Zealand, the household debt to income ratio is 170%. In Australia, it's 200%. "*Effectively, both countries are at the right-hand end of that risk distribution - that can't really be an incremental source of further economic growth going forward*," Yetsenga said.

The minimum wage went up $1.20 on 1 April to $17.70 per hour, and is now sitting at almost 71% of the median wage. And more rises are on the way; the Government intends to keep lifting the minimum wage to $20 by April 2021. Minimum wage rises are likely to impact economic outcomes. All up, expect higher minimum wages to provide a small temporary boost to real wage growth, but higher CPI inflation than otherwise will provide a partial offset. Lower-than-otherwise hours worked will also partially offset the boost to household incomes.

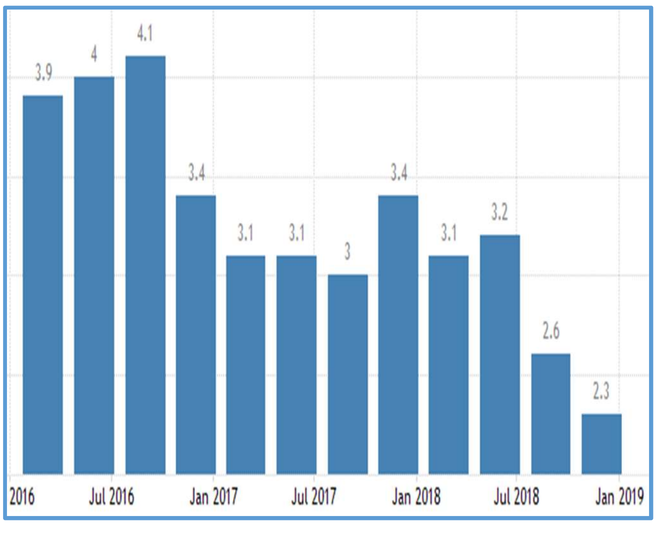
NZ CPI GROUPS – MARCH 2019 QUARTER



Source: Stats NZ, ANZ

The graph (above) shows that regulated prices added to strength in non-tradable prices. Seasonal cigarette and tobacco tax hikes, and increases in education fees contributed 0.3% to quarterly CPI inflation. Housing and utilities prices were in line with expectations, with Rents increasing 0.6% and purchase of housing rising 0.7%. The household and household utilities group contributed 0.1% to inflation, a bit less than in recent years. Health prices were weaker than usual, reflecting government policy changes. They fell 0.2%, but made a negligible contribution to headline CPI.

NEW ZEALAND - ANNUAL GDP GROWTH RATE



AUSTRALIAN ECONOMIC OUTLOOK

Ask Australian economists about their golden run (28 years without a recession), and almost all will say it has been driven partly by good luck and partly by good policy. An entire generation of young adults has grown up without experiencing a protracted downturn. But in Australia, as I came to learn, nobody really *acts* as if they're the stars of an unprecedented three-decade success story. They're aware that the good times could end. The mood is more practicality than pessimism.

The luck part can't be minimised. Beneath the ground of large stretches of Australia are the iron ore and coal that have been the raw materials behind China's long economic boom. Above ground lies the wheat and cattle that have helped feed China's rapidly growing middle-class population.

China's growth, in other words, has created a tail wind that has boosted Australia's economy for much of this period. If the Chinese economy ever truly tanks, even the most skilled policymakers in Australia will have a hard time preventing a recession. But China's gravitational pull can explain only so much. For one thing, other countries nearby have had recessions, some severe, in recent decades. And there is a long list of policy choices that enabled the long Australian boom even as otherwise similar economies sank.

One episode is particularly telling. In 1997, an East Asian financial crisis walloped the economies of countries like South Korea, Thailand and Indonesia. These nations were major buyers of Australian exports. The value of the Australian dollar started to fall on global currency markets, putting the expansion at risk only six years in.

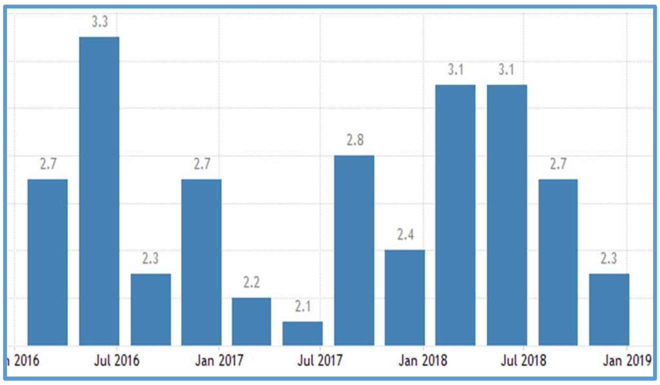
On the other side of the Tasman Sea, New Zealand's central bank responded to the same problem by raising interest rates. After all, a falling New Zealand dollar indicated a lack of confidence in the currency and implied that inflation would soon rise.

At the Reserve Bank of Australia, by contrast, officials concluded that the falling value of the Australian dollar reflected shifting economic fundamentals that were ultimately healthy — part of how the Australian economy could adapt to faltering demand from East Asia.

Rather than raise interest rates to try to prevent a falling currency, they viewed a falling currency as the key to navigating the peril — by making Australian exports more competitive in the United States and Europe, for example.

"*The government was uncomfortable if the exchange rate went too low, because it looked like a sign of no confidence*," said Malcolm Edey, who was the central bank's head of economic research at the time. "*We had a good monetary framework in place, we stuck to it, and we didn't panic when the exchange rate moved around along the way.*" Sure enough, New Zealand fell into recession in 1997 and 1998, while Australia endured only a period of subpar growth. Good policy, it turns out, has a way of creating good luck.

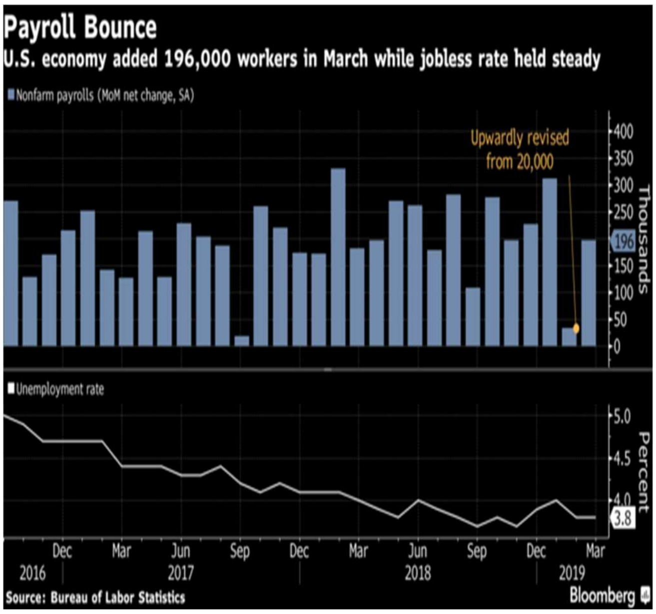
AUSTRALIA - ANNUAL GDP GROWTH RATE



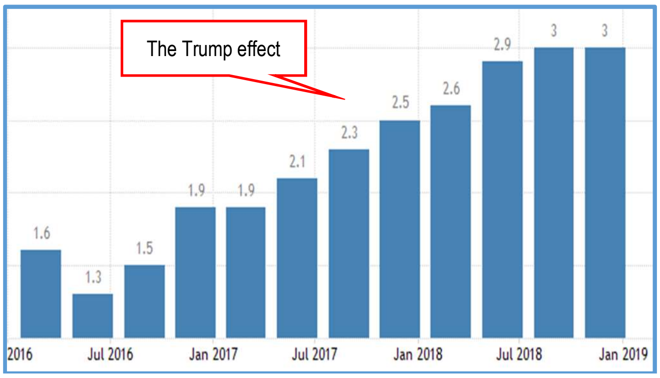
UNITED STATES ECONOMIC OUTLOOK

U.S. hiring rebounded more than forecast in March and the prior month was stronger than first reported, potentially relieving some concerns about a cooling economy. Wage gains eased and the unemployment rate held near a 49-year low.

UNITED STATES – PAYROLL BOUNCE



UNITED STATES ANNUAL GDP GROWTH



European Economic Outlook

The Eurozone annual economic growth was revised lower to 1.1 percent in the fourth quarter of 2018, compared to a preliminary 1.2 percent and below the third-quarter 1.6 percent expansion.

The European Union agreed to start trade talks with the United States on industrial goods. France, however, has objected to the decision while Belgium abstained. French President Emmanuel Macron has one big issue regarding trade talks with the United States — the White House does not support the latest climate deal. Despite the French opposition, the European Trade Commissioner said she would contact U.S. Trade Representative to see when talks could begin.

Germany

German manufacturing remained in a slump at the start of the second quarter, casting a cloud over the euro-area economy as well as the European Central Bank's hopes for a quick recovery.

Factory output in Europe's largest economy contracted for a fourth month running in April, according to a survey on Thursday. Manufacturing in the euro area also shrank, while a broader gauge of economic activity in the region declined.

Turkey

Turkey's lira fell to a six-month low against the dollar as President Recep Erdogan's ruling AK Party formally requested new elections, which it appears to have narrowly lost. Unemployment in Turkey hit 14.7% in January, the highest in a decade. Moody's expects the Turkish economy to contract by 2% in 2019.

EURO AREA - ANNUAL GDP GROWTH RATE

United Kingdom Economic Outlook

The first Brexit mistake was to assume that the negotiations on the British side could be effectively conducted by a group of ministers and bureaucrats almost all of whom had supported the Remain case and still believed that it was contrary to the nation's interests to leave the EU.

The second mistake was to assume that, in the wake of the referendum, the EU would try to facilitate Britain's withdrawal from the union with a minimum of disruption on both sides. But what the British failed to appreciate was that the EU is viewed, at least by the French and Germans, not as some kind of loose confederation of nation-states but as a supranational body with an almost theological quality.

On this view an attempt to leave the union is akin to heresy by the member of a church and deserving of the most severe penalties. It was in this vein that the president of the European Council said in February that those in Britain who supported Brexit deserve "a special place in hell". And the president of the European Commission has described former British prime minister David Cameron, who called the referendum, as "one of the great destroyers of modern times".

The third mistake, closely aligned to the second, was to effectively rule out from the start the option of leaving the EU without any kind of deal between the two sides. This took a lot of pressure off the EU negotiators, who did not have to face up to the possibility that if they did not formulate a realistic proposal for the terms of exit, they might face a result that was just as unpredictable for them as it was for Britain.

The fourth mistake was to allow the EU to introduce the false issue of the border between the Irish Republic and the UK province of Northern Ireland and then insist that there could be no customs posts on the border. Why not has never been explained.

The truth is that the referendum result flew in the face of enormously powerful groups in Britain and in Europe, who were never going to accept it.

UNITED KINGDOM - ANNUAL GDP GROWTH RATE

Chinese Economic Outlook

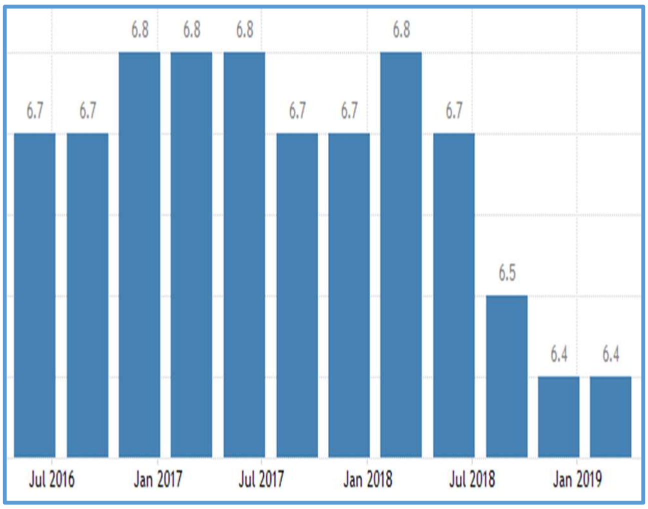
China's economy could be showing renewed signs of life in 2019. The world's second-biggest economy grew slightly more than expected in the first quarter of 2019, Chinese government figures showed Wednesday. It expanded by 6.4% compared to a year ago, beating economists' forecasts of 6.3%.

The prospect of a deeper slowdown in China has been one of the biggest concerns for the global economy this year. China's growth has been hit by a trade war with the United States and government efforts to rein in a huge amount of debt in China's financial system.

"This confirms that China's economic growth is bottoming out and this momentum is likely to continue going into months ahead," said Tai Hui, chief market strategist for Asia-Pacific at investment firm JPMorgan Asset Management.

Chinese government statistics showed that growth in the first three months of the year was supported by strong manufacturing production and greater spending by Chinese consumers.

CHINA - ANNUAL GDP GROWTH RATE

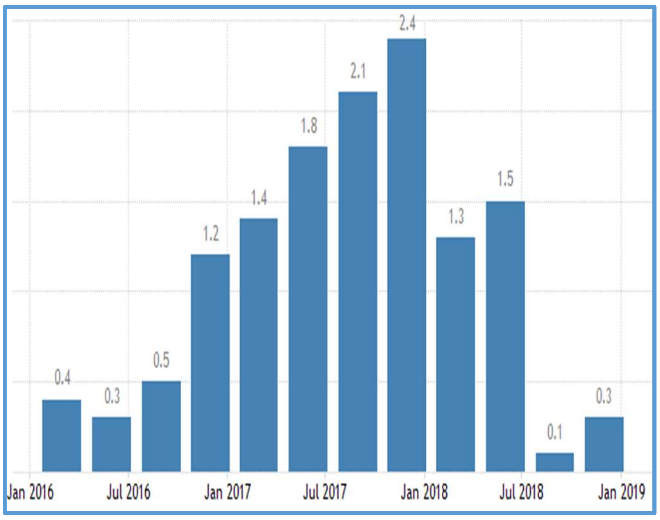


Japanese Economic Outlook

Japan's economy has been cooling since 2018. External headwinds and trade overhangs persist, but the central bank remains hopeful of the inflation accelerating toward the 2.0 percent target. Their economy grew at a moderate pace in 2018, following very strong growth in 2017. All major categories decelerated in 2018, including consumer spending, investment, and exports.

Real GDP declined in the first and third quarters, with a sharp drop in investment in the third quarter. The third quarter decline was partly due to the impact of natural disasters. In the fourth quarter, real GDP grew at an annualized rate of 1.4%, which is quite good in a country with a declining population, but not sufficient to offset the 2.6% decline in the third quarter.

JAPAN – ANNUAL GDP GROWTH RATE



Growth was driven by strong gains in household spending and especially strong growth of business investment. It is widely believed that businesses are increasingly investing in labour-saving technology due to a shortage of labour. Japan currently has a very low unemployment rate.

COMMODITIES - OIL

A drop in crude shipments from top exporter Saudi Arabia, and a draw in U.S. oil inventories supported prices in recent days. U.S. West Texas Intermediate crude futures edged higher at US$64 per barrel. Brent crude futures rose slightly to US$71.97 a barrel (near its five-month high of US$72.27 a barrel.

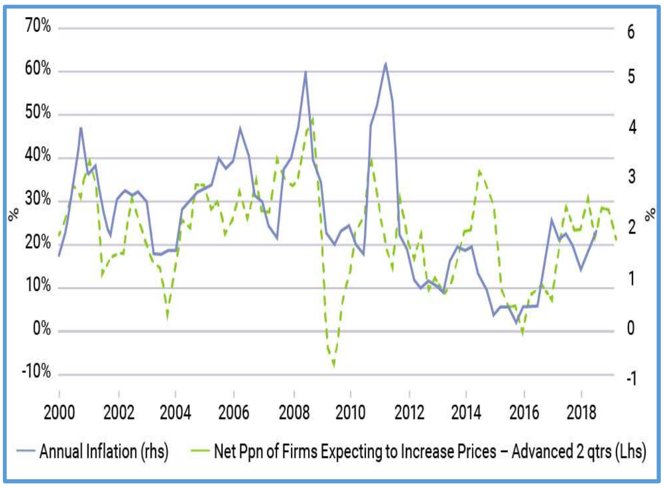
Saudi Arabia's crude oil exports fell by 277,000 barrels per day to just under 7 million bpd in February, from the month before.

OIL: WEST TEXAS (1 YEAR CHART)

INTEREST RATES

New Zealand's 10-year Government bond yield traded decisively under 2.0% for the first time towards the end of March, having closed the previous Friday at 1.9%. That means the Government's borrowing costs for a 10-year term is effectively lower than 2.0% and have fallen from 3.0% in the last year.

INFLATION



Source: FNZC, Stats NZ, NZIER, UBS

Will inflation finally punch through 2%? Yes, but not until early 2020. While a moderating economic growth outlook has taken pressure off inflation, inflationary pressures are real. Shortages of skilled and unskilled labour are acute as highlighted by company surveys and a 3.9% unemployment rate (a level not seen since mid-2008). In the latest NZIER survey a net 46.5% of firms experienced higher costs, the highest level since 2008.

So why has inflation continued to hover under 2% for the past two years? The answer seems to be that firms are reluctant to increase prices (in the NZIER survey only a net 20.7% of firms expected to increase prices).

However, with ongoing cost increases and pressures on profitability, we expect inflation to punch through 2%.

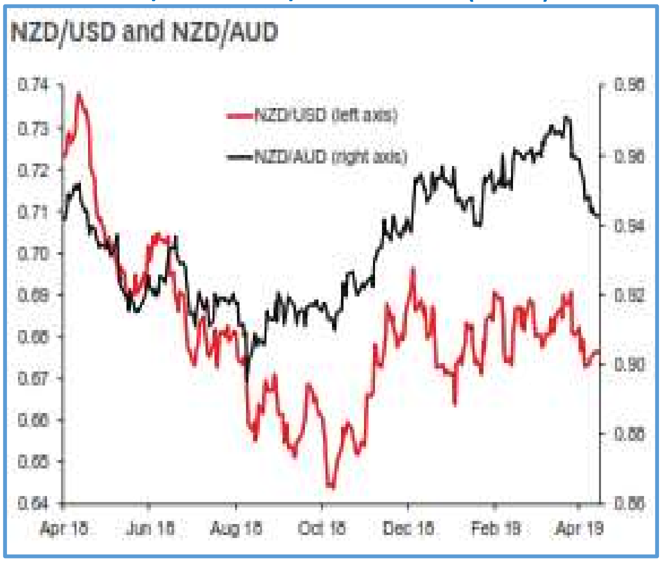
CURRENCY

The New Zealand dollar continues to fall against the greenback after the central bank governor (12th April) kept the door open for a May rate cut and as strong US labour market data eased fears of a possible slowdown in the economy there.

"*It is a really mixed picture, it's just hard*," RBNZ governor Adrian Orr said. "*I don't know yet*" whether there will be a cut in May, he said.

Markets were surprised in March when the central bank switched to an easing bias saying its next move would likely be a rate cut. May's decision will be the first to be made by the central bank's new Monetary Policy Committee, which includes four internal members and three external members. Orr reiterated in the interview that the starting point for that committee will be the RBNZ's latest policy stance.

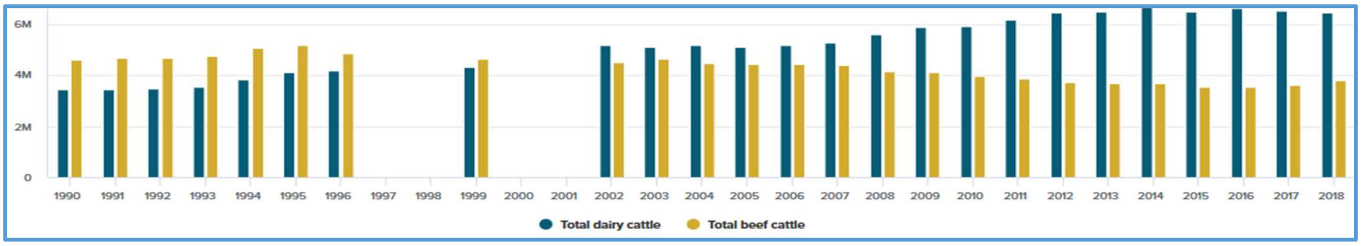
NZD/AUD & NZD/USD CROSS RATE (1 YEAR)



SOURCE: Westpac

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

DAIRY & BEEF COW NUMBER



PRIMARY INDUSTRY EXPORT REVENUE 2004-2023F

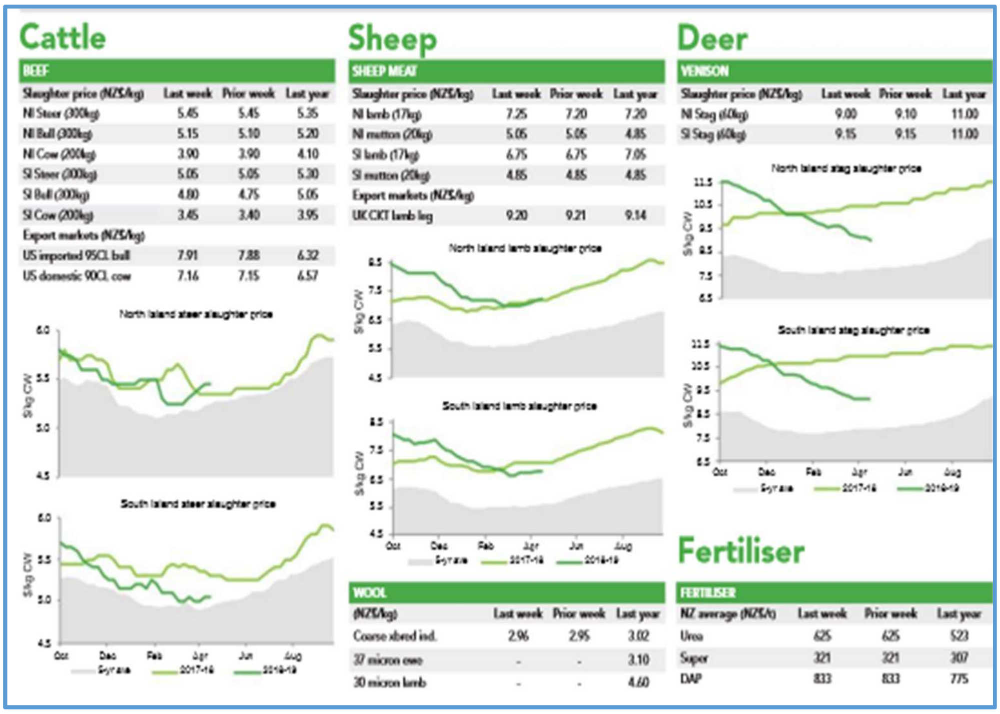
Year ended 30 June	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F
Dairy	6,092	5,982	6,986	7,848	10,359	11,036	10,312	12,912	13,379	13,139	17,791	14,050	13,289	14,638	16,655	17,570	17,160	17,340	17,590	17,820
Annual % Change		-1.8%	16.8%	12.3%	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%

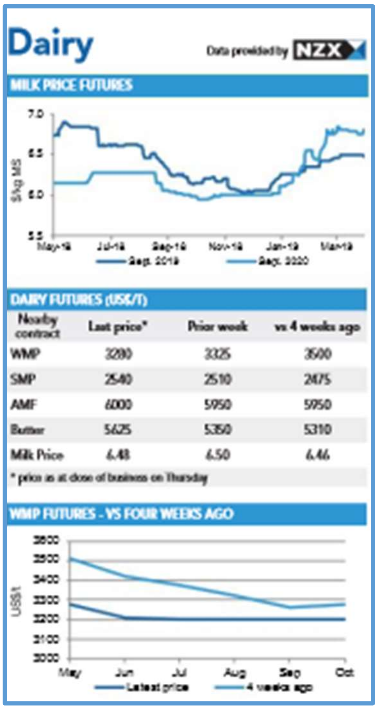
SOURCE: Ministry of Primary Industries

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

AGRICULTURAL OUTLOOK

Global prices for key New Zealand agricultural products have started 2019 on the front foot. What's more, many sectors are benefiting from the relatively rare combination of firm prices and strong production. In aggregate, prices look set to broadly track sideways through 2019. However, the threat of a further escalation of the trade war between the US and China is casting a shadow over the outlook.





Investors are seeking yield in riskier propositions, in a low-rate environment that is likely to continue. Discipline needs to be applied with regards to the downside associated with any reversal in rates and also in appropriately considering risk in these "bond proxies". There is an argument that the listed property sector (4.3% net dividend yield) arguably offers a better risk-reward given its generally lower earnings risk. The LPV sector is characterised by limited earnings and dividend growth, and very stable earnings.

Against this, we do need to consider the basis on which some utilities are trading at similar or lower yields. Some of the factors that investors increasingly need to take into account when considering utilities is that they also have low growth outlooks in earnings, and generally have greater earnings and dividend risk.

Code	Sector	Price 9-Apr-19	SPOT Disc Cash Flow	PREMIUM TO SPOT DCF	DIVIDEND YIELD FY19
SPK	Spark	$3.62	$3.35	8.1%	6.9%
CNU	Chorus	$5.83	$4.51	29.3%	3.9%
AIA	Auckland Airport	$8.14	$5.25	55.0%	2.8%
VCT	Vector	$3.49	$3.50	-0.3%	4.7%
CEN	Contact Energy	$6.85	$6.19	10.7%	5.8%
GNE	Genesis Energy	$3.04	$2.29	32.8%	5.6%
MCY	Mercury	$3.84	$3.38	13.6%	4.1%
MEL	Meridlan Energy	$4.05	$3.04	33.2%	4.8%
TPT	TrustPower	$7.00	$5.84	19.9%	4.9%

Auckland Int. Airport (AIA.NZ)

31st Dec PRICE: $11.15
CURRENT PRICE: $8.18 **FNZC TARGET PRICE:** $5.50
MY RECOMMENDATION: ACCUMULATE

Auckland Airport faces the challenge of keeping more than 20 million passengers a year moving through one of the biggest building sites in the country.

As AIA scrambles to keep up with unprecedented expansion in aviation, it needs to build ''The Airport of the Future'' for the additional 20m passengers forecast to pass through it during the next 20 years. It's been likened to ''making your bed while standing on it'' - operating an airport for 55,000 passengers a day while hundreds of workers are rebuilding it.

Auckland is the gateway for more than 80% of the 3.8m overseas visitors and the bigger number of Kiwis who come into the country each year. The tourism surge of the past five years has meant more airlines are flying here and more visitors wanting to fly domestically. In turn, the increase in the number of planes has meant more destination and price options for New Zealanders to fly overseas, which they're doing in record numbers.

The airport, and others in the tourism sector, has been caught out by the visitor influx which exceeded forecasts, requiring an accelerated building programme. In the 10 years to 2027 the company will spend more than $5bn on key projects and billions more in the following years. The ''infrastructure deficit'' has been a long-running theme for the airport since it opened for operations in November 1965.

Auckland Airport' is 22.4% owned by Auckland Council, the rest is owned by institutions and a relatively high number of small shareholders who have enjoyed healthy dividends and share price growth as travel has boomed. It has a market capitalisation of just on $10bn and has plenty of capacity to borrow heavily but long-term passengers will pay for the Airport of the Future.

NZ RETIREMENT VILLAGE SECTOR

The removal of a capital gains Tax risk will revitalise this sector for investors - The NZ Retirement Village (RV) sector has had very strong positive momentum up until recently. Above-trend house price growth has been a key driver of the lift in resale margins (one of two key sources of cash flow that are visible in the sector, with Deferred Management Fee (DMF) being the other; visibility on true cash development "margin" is lacking, as is care profitability, overheads and maintenance capex) and NTA valuation uplift through the registered valuation uplifts (visibility is also low). RYM, SUM and MET have all benefited from this in the last five years.

Development has been the other key driver of positive momentum with RYM and SUM benefiting from the accumulation of large land banks and growing delivery, with the latter delivering a lot of NTA growth, and the accumulation of land promising to do so in the future.

Code	Retirement Sector	Price 13-Sep-18	Price 9-Apr-20	Change in price	NTA Latest
SUM	Summerset	$7.70	$5.77	-25.1%	$4.38
MET	Metlifecare	$6.29	$4.73	-24.8%	$6.97
RYM	Ryman Healthcare	$13.53	$12.00	-11.3%	$4.06
NZ50	NZX50 Gross Index	4,149	4,298	3.6%	

"Magic is believing in yourself, if you can do that, you can make anything happen"
Johann Wolfgang von Goethe

Air New Zealand

AIR has presented the outcomes from its business review, includes: (1) updated medium term capacity guidance of 3-5% from previous guidance of 5-7%; this includes the launch of a new Auckland-Seoul route. (2) AIR is deferring the delivery of four A320/A321 NEOs and pushing out the delivery timeframe for its B777-200 replacement programme. In the near-term this reduces capex in FY20 but increases it in FY21 and FY22. (3) $60mn of cost savings over two years. Importantly, this includes the normalisation of inefficiencies related to Rolls Royce engine issues (~$20m) with a further ~$40m from overheads and other cost-out.

20019 P/E: 10.1 2020 P/E: 8.6

NZX Code:	**AIR**
Share Price:	**$2.78**
12mth Target:	**$2.55**
Projected return (%)	
Capital gain	-8.3%
Dividend yield (Net)	8.9%
Total return	**0.6%**
Rating: NEUTRAL	
52-week price range: 2.23-3.41	

Auckland International Airport

Aeronautical segment earnings growth slowed significantly in FY18, as passenger growth trends moderated, and passenger and landing charges adjusted down to the new PSE3 schedule. However, this was offset by strong retail segment growth, as the expanded international outbound retail precinct began to phase in. We forecast retail income to increase from $15.83 per international PAX in the disruption impacted FY17 to around $20.70 in FY20.

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:	**$8.00**
12mth Target:	**$5.95**
Projected return (%)	
Capital gain	-33.8%
Dividend yield (Net)	3.0%
Total return	**-30.8%**
Rating: ~~UNDERPERFORM~~	
My Rating: NEUTRAL	
52-week price range: 6.11-8.40	

The a2 Milk Company

ATM has an enviable history of growth and, while the magnitude of this may ease through time, FNZC believes the outlook provided in February offers grounds for optimism near term. A line-of-sight on revenue expectations for the June half, and management confidence in returns from a super-sized marketing budget, are integral to this. Subsequent news flow has also been supportive: strong February exports to HK/China, volume/margin commentary from Synlait and the appointment of a China Chief Executive are all helpful in their view.

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

NZX Code:	**ATM**
Share Price:	**$15.70**
12mth Target:	**$14.00**
Projected return (%)	
Capital gain	-10.8%
Dividend yield (Net)	0.9%
Total return	**-9.9%**
Rating: NEUTRAL	
52-wk price range: 8.67-16.04	

Chorus

CNU is unusual in that its recent re-rate is being driven largely on the back of an expectation of material dividend upside. CNU has been subject to a re-rate, both around regulatory outcomes and dividends. The FY14-16 re-rate came on the back of finalisation of copper regulatory decisions that had earlier caused CNU to suspend the dividend. The resumption of dividend saw a re-rate to a 4.7% yield that clearly reflected an element of confidence in a post-FY20 reset and longer-term growth potential.

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

NZX Code:	**CNU**
Share Price:	**$6.13**
12mth Target:	**$4.77**
Projected return (%)	
Capital gain	-22.2%
Dividend yield (Net)	4.6%
Total return	**-17.6%**
Rating: NEUTRAL	
52-week price range: 3.94-6.18	

Contact Energy

1H19 earnings were in line with expectations. CEN benefited from 2% above-mean hydro to offset planned geothermal outages, CEN reported EBITDAF $291m,erasing memory of weak 1H18 hydro. A 16cps 1H19 interim dividend was declared, and a new payout policy increases dividend guidance. The new 100% OpFCF payout policy (was 80-90%) allows 39dps guidance for FY19 & FY20. There is still risk to unexpected adverse impacts arising from the government's Electricity Price Review recommendations, or acceleration of cheaper new builds on the Interim Climate Change Commission's (ICCC) report.

20019 P/E: 26.7 2020 P/E: 28.1

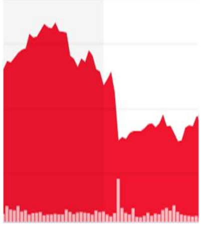
NZX Code:	**CEN**
Share Price:	**$6.82**
12mth Target:	**$6.31**
Projected return (%)	
Capital gain	-7.5%
Dividend yield (Net)	6.2%
Total return	**-1.3**
Rating: NEUTRAL	
52-week price range: 5.23-7.30	

Fisher & Paykel Healthcare

With FPH's litigation against ResMed having become relatively broad, February's news of a 'no liability, no payment' settlement has been well received. At the same time FNZC is cautious of the subsequent appreciation of the share price and believe it important to focus on operational questions that linger on. Delays on FPH's next OSA mask are well understood, but this doesn't change the fact that it may take 9+ months for the product to have a positive impact in the US. Meanwhile, the source of soft Hospital growth in humidifiers and traditional applications is difficult to pinpoint and appears likely to be compounded by the northern flu season.

2019 P/E: 41.6 2020 P/E: 33.2

NZX Code:	**FPH**
Share Price:	**$15.16**
12mth Target:	**$13.15**
Projected return (%)	
Capital gain	-13.3%
Dividend yield (Net)	2.1%
Total return	**-11.2 %**
Rating: UNDERPERFORM	
52-week price range: 11.85-16.44	



Fletcher Building

Overall, the issues associated with a NZ building conglomerate with many moving parts, together with a challenged Australian business, were to the fore in their latest result. FNZC takes a measured approach – particularly when it comes to factoring in a reversion to mid-cycle activity levels. FBU trades on an undemanding Price to Earnings ratio, but the market needs confidence that both Directors and Senior Management are on top of the key issues.

2019 P/E: 11.5 2020 P/E: 113

NZX Code:	**FBU**
Share Price:	**$5.18**
12mth Target:	**$5.23**
Projected return (%)	
Capital gain	1.0%
Dividend yield (Net)	5.4%
Total return	**6.4%**
Rating: NEUTRAL	
52-week price range: 4.54-7.19	

Fonterra Shareholders' Fund – FNZC is RESTRICTED

While 1H19 highlights that FY19 will be another disappointing year, FSF's journey on strategic and asset portfolio reviews as the necessary precursor to getting a better understanding of where FSF is going and the investment case. Over the next six months FSF will move through the full review of strategy; a portfolio review on investments, major assets and partnerships; and make initial moves to reduce debt through FY19. As the results of this work are shared, FNZC expects focus on the large unallocated cost base (and long-term capex requirements); FSF's longer-term intentions on capital structure; and addressing how it intends to remain competitive for milk supply in NZ on a significant base of stainless-steel capacity. FSF must be realistic about its capability and "DNA" through this process, having seen significant value destruction as it has invested away from its core business without the capital structure to necessarily withstand bumps along the way.

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

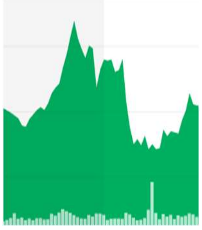
NZX Code:	**FSF**
Share Price:	**$4.32**
12mth Target:	**$**
Projected return (%)	
Capital gain	%
Dividend yield (Net)	3.2%
Total return	**%**
Rating: RESTRICTED	
52-week price range: 4.17-5.80	

Genesis Energy

As the largest retailer and thermal generator, GNE has relatively high operating leverage to both spot market conditions and the state of retail churn. After its 2014 IPO, the initial strategy was focused on risk containment to avoid earnings volatility, but at the expense of growth and limiting value capture from its pivotal thermal stations. GNE's payout policy is in marked contrast to that of its peers, adopting steady dividend progression but starting from a much lower CF payout ratio. It chose this approach because its 46% stake in the depleting Kupe Oil & gas field.

2019 P/E: 33.1 2020 P/E: 31.2

NZX Code:	**GNE**
Share Price:	**$3.06**
12mth Target:	**$2.30**
Projected return (%)	
Capital gain	-24.8%
Dividend yield (Net)	6.2%
Total return	**-18.6 %**
Rating: UNDERPERFORM	
52-week price range: 2.21-3.28	



Hallenstein Glassson

HGL lifted first-half profit 5.9% as cuts to back-office costs offset skinnier margins from clearance sales. Net profit rose to $16m in the six months ended 1st Feb, from $15.1m a year earlier. Revenue grew 3.1% to $151.2m but gross margin shrank to 59.7% from 61.5%. The contraction in margin was due to increased promotional sales through November and December. Although the trading environment in both New Zealand and Australia is still challenging, it has been encouraging that group sales for the first seven weeks of the 2019 winter season are 1.5% ahead of the same period last year.

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

NZX Code:	**HLG**
Share Price:	**$4.78**
12mth Target:	**$4.80**
Projected return (%)	
Capital gain	0.0%
Dividend yield (Net)	7.0%
Total return	**7.0%**
Rating: NEUTRAL	
52-week price range: 3.98-6.35	

Infratil

CDC reports that its Sydney contracts are being signed on 15-year tenors, extending weighted average lease expiry (WALE) from 4.2 to 9 years and significantly reducing CDC exposure to our thesis of future lease rate compression. Both WALE extension and extra Sydney growth see our estimate for the value of IFT's 48.2% stake in CDC rise to NZ$689m (from NZ$467m). Updates from Longroad and TLT reassured that both businesses continue to produce valuable options for capital deployment.

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

NZX Code:	**IFT**
Share Price:	**$4.38**
12mth Target:	**$4.37**
Projected return (%)	
Capital gain	-0.2%
Dividend yield (Net)	4.2%
Total return	**4.0 %**
Rating: NEUTRAL	
52-week price range: 3.15-4.45	

Kathmandu Holdings

KMD reported adjusted NPAT of NZ$13.2m, at the top-end of its guidance. Underlying this result was a better-than-forecasted EBITDA of NZ$27.6m (+10% YoY; +4.0% vs FNZC's forecast). While this growth appears robust, it is important to note that the prior period did not include the Oboz business. Adjusting for this acquisition, revenue was down by 0.7% YoY with normalised EBITDA down by 7.0%. This underlying deterioration was weak trading in the New Zealand business (same-store sales -2.2%) and unfavourable Australian currency translation vs. PCP.

20019 P/E: 10.9 2020 P/E: 10.2

NZX Code:	**KMD**
Share Price:	**$2.39**
12mth Target:	**$2.75**
Projected return (%)	
Capital gain	15.1%
Dividend yield (Net)	7.1%
Total return	**22.2%**
Rating: OUTPERFORM	
52-wk price range: 2.15-3.46	

Mercury NZ

FNZC regards MCY as the generator-retailer with the largest natural competitive advantages, fewest moving parts and fewest negative exposures within the sector. Its predominately upper North Island portfolio offers a degree of insulation from the potential Tiwai smelter exit in the future. MCY is a 100% renewable generator, trades effectively in the wholesale market due to its pivotal role in the North Island generation market and continues to be an excellent retail operator (despite high competition).

2019 P/E: 28.2 2020 P/E: 25.5

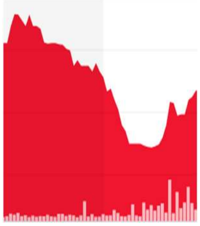
NZX Code:	**MCY**
Share Price:	**$3.85**
12mth Target:	**$3.53**
Projected return (%)	
Capital gain	-8.3%
Dividend yield (Net)	3.6%
Total return	-4.7%
Rating: UNDERPERFORM	
52-week price range: 3.08-3.95	

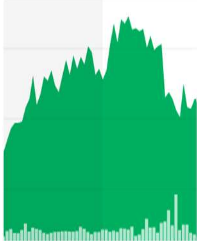
Meridian Energy

MEL is a 100% renewable generator, with the vast majority of its generation being South Island hydro, supplemented by windfarm output spread across the country. It has the largest annual share of generation (~30% of national output) and is the primary counterparty supplying NZ's largest load at the Tiwai aluminium smelter (~15% of national demand). Because the company has very low operating costs and its aluminium smelter contract is insensitive to electricity prices, MEL is arguably the Genco least exposed to the long-run wholesale price outlook. However, in the short run, its reliance on volatile hydro inflows and spot price sensitivity to its lake storage levels causes relatively sizeable potential earnings volatility.

2019 P/E: 28.2 2020 P/E: 25.5

NZX Code:	**MEL**
Share Price:	**$4.08**
12mth Target:	**$3.47**
Projected return (%)	
Capital gain	-24.0%
Dividend yield (Net)	5.1%
Total return	**19.9%**
Rating: UNDERPERFORM	
52-week price range: 2.81-4.29	

	**Michael Hill International** MHJ has delivered a weaker–than-expected nine-month trading update, retail gross margin -50bp below forecasts. Among MHJ's key markets Australia was the only one to report a sequential improvement in same-store sales trends (1Q-3Q: -12.8% / -6.2% / -3.4%) with both New Zealand (-7.6% / -2.9% / -6.3%) and Canada (-11.0% / +5.8% / +0.1%) reporting a material slowdown. This deterioration is particularly disappointing given the early positive momentum that had been reported since the new CEO came on-board in November. 2019 P/E: 11.2 2020 P/E: 9.3	**NZX Code:** **MHJ** **Share Price:** **$0.65** **12mth Target:** **$0.90** **Projected return (%)** Capital gain 38.5% Dividend yield (Net) 7.5% **Total return** **46.0%** **Rating: OUTPERFORM** 52-week price range: 0.56-1.17
	**Port of Tauranga** On 19th February, FNZC stated "We view POT as a high-quality infrastructure asset that is very well positioned to benefit from structural change as New Zealand container trade progressively moves towards a hub and spoke model. However, with a total return of negative15%, we retain an Underperform rating." The share price was then $5.38, and has since reached $5.71. They have never understood the compelling imperatives that encourage locals to buy this stock. **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:** **$5.72** **12mth Target:** **$4.30** **Projected return (%)** Capital gain -24.8% Dividend yield (Net) 2.8% **Total return** **-22.0%** **Rating: ~~UNDERPERFORM~~** **My Rating: ACCUMULATE** 52-week price range: 4.74-5.75
	**Pushpay Holdings** PPH shareholders have seen the share price rise 53% over three years, well in excess of the market return (23%, not including dividends). PPH's revenue trended up 68% each year over three years. That's well above most pre-profit companies. The share price rise of 15% per year throughout that time is nice to see, and given the revenue growth, that gain seems somewhat justified. PPH is likely to report profitability when it reports on 8th May. 2019 P/E: 34.0 2020 P/E: 33.2	**NZX Code:** **PPH** **Share Price:** **$3.85** **12mth Target:** **$4.20** **Projected return (%)** Capital gain 9.1% Dividend yield (Net) 0% **Total return** **9.1%** **My Rating: OUTPERFORM** 52-week price range: 2.85-4.48
	**Restaurant Brands** RBD has resolved not to pay a final dividend. In addition, RBD's commentary regarding the need to retain cash flow flexibility in the context of its more aggressive new store build plans and potential further M&A leads FNZC to believe that dividends will be on hold for the near-to-medium term. Management indicated that debt may increase to 2.5x net debt / EBITDA (as a ceiling). Importantly, RBD highlighted that the new 75% owner's (Finaccess) preference is that equity is only used to finance growth initiatives as a last resort. 2020 P/E: 24.3 2021 P/E: 20.8	**NZX Code:** **RBD** **Share Price:** **$8.06** **12mth Target:** **$7.65** **Projected return (%)** Capital gain -15.1% Dividend yield (Net) 0% **Total return** **-15.1%** **Rating: UNDERPERFORM** 52-week price range: 7.07-9.30
	**Scales Corporation** FY19 is shaping up to be a strong year in the Mr Apple business driven by China apple pricing (frosts in 2018), partly offset by Europe. Strong recent apple prices in China (domestic fuji +20% YoY). Futures prices are signalling this is likely to persist over the key export window for NZ apples (Mar-Jul). Early (Feb) royal gala pricing (NZ$FOB/kg) for NZ exports is up ~8% YoY (a positive early read but on low volumes). Napier Port royal gala export prices to China were up +20% YoY in Feb. 2019 P/E: 19.6 2020 P/E: 19.3	**NZX Code:** **SCL** **Share Price:** **$5.01** **12mth Target:** **$4.82** **Projected return (%)** Capital gain -3.8% Dividend yield (Net) 4.3% **Total return** **0.5%** **Rating: NEUTRAL** 52-week price range: 4.20-5.00
	**Seeka** SEK has announced the acquisition of a post-harvest business, Aongatete Coolstores Ltd (Aongatete), for $25m. SEK expect this to add 4-4.5mn kiwifruit trays and deliver EBITDA of $3.5-4.5m (5.6-7.1x EBITDA multiple). FNZC understands Aongatete has a complementary asset utilisation profile relative to SEK's existing post-harvest business. They expect a full year's earnings contribution from Aongatete in FY19. 2019 P/E: 14.2 2020 P/E: 13.7	**NZX Code:** **SEK** **Share Price:** **$5.15** **12mth Target:** **$6.33** **Projected return (%)** Capital gain 22.9% Dividend yield (Net) 4.9% **Total return** **27.8%** **Rating: OUTPERFORM** 52-week price range: 4.20-6.37
	**SkyCity Entertainment Group** SKC has announced that it has entered a binding agreement to sell a long-term concession over its Auckland main site and NZICC car park assets to the Macquarie Principal Finance Group for NZ$220mn. Sale proceeds are broadly in line with expectations although the operating earnings loss relating to the transaction of $17.5–$20.0m p.a. is more than we had anticipated. The concession term extends until the renewal date of SKC's Auckland gaming licence in 2048. SKC will retain the ongoing priority access to the car parks for its customers and employees, with permanent access to 450 spaces for exclusive use by VIP customers. 2019 P/E: 15.8 2020 P/E: 16.8	**NZX Code:** **SKC** **Share Price:** **$4.04** **12mth Target:** **$4.00** **Projected return (%)** Capital gain -1.0% Dividend yield (Net) 5.1% **Total return** **4.1%** **Rating: NEUTRAL** 52-week price range: 3.41-4.36



Spark NZ

SPK resisted the temptation in FY14/15 to use the proceeds from its major divestment programme to return capital to investors, instead settling on an approach to re-gear the balance sheet slowly through a mix of investment to support a still-benign earnings outcome, and re-base the dividend above earnings and free cash flow. SPK stands out for its low leverage, which reflects the Board's focus on retention of an A credit rating. While this remains SPK's objective (may it one day revisit?), the headroom for SPK to continue to increase debt without the requisite growth in earnings is becoming more limited and SPK could always avoid the de-rating that might come with reducing the dividend by revisiting the A-objective.

2019 P/E: 17.9 2020 P/E: 16.8

NZX Code:	**SPK**
Share Price:	**$3.81**
12mth Target:	**$3.39**
Projected return (%)	
Capital gain	-8.4%
Dividend yield (Net)	6.6%
Total return	**-1.8%**
Rating: UNDERPERFORM	
52-week price range: 3.32-4.35	

Steel & Tube

Strong opex performance will give STU some comfort and it seems that a better revenue-mix result would have genuinely created upside to forecasts, highlighting that revenue outcomes remain the key factor in STU's target for FY21 EBIT of $35m-40 m. It is early days but there are signs the trajectory may not be linear and investors should consider this together with limited granularity on just what is driving outcomes – gross margin is a key area of focus over the next 18 months. FNZC revenue forecast is unchanged but we flow through more conservative gross margin forecasts and lower opex. Spot DCF valuation – $1.56, 12month Target Price is $1.65. Stay OUTPERFORM. Risks: Activity levels, execution of turnaround strategy, competition.

2019 P/E: 14.4 2020 P/E: 10.7

NZX Code:	**STU**
Share Price:	**$1.22**
12mth Target:	**$1.65**
Projected return (%)	
Capital gain	35.2%
Dividend yield (Net)	6.6%
Total return	**41.8%**
Rating: OUTPERFORM	
52-week price range: 1.14-1.94	

TILT Renewables

TLT reaffirmed its prospects in Australia and NZ, and is now holding 2,700MW of approved development potential (this figure excludes Dundonnell which is already under-construction). QLD (700MW) & NSW (1,300MW) were flagged as being most prospective. FNZC continues to see up to another NZ$0.70/sh upside potential – particularly on sell-down of existing windfarms to third parties with low costs of capital - but with no certainty of delivery. An influx of cheap capital spoiled TLTs RET chances in the previous investment round, and that could easily recur.

2019 P/E: 65.7 2020 P/E: 87.8

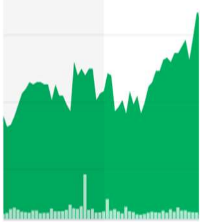
NZX Code:	**TLT**
Share Price:	**$2.35**
12mth Target:	**$2.33**
Projected return (%)	
Capital gain	-0.5%
Dividend yield (Net)	0.9%
Total return	**0.4%**
Rating: NEUTRAL	
52-week price range: 1.63-2.45	

TrustPower

TPW is the smallest of the five "major" Gencos in NZ. It owns a fleet of small- to medium-scale hydro assets which are spread throughout NZ and contracts a sizeable proportion of third-party generation by medium or long-term contracts (including all of TLT's extant NZ windfarm generation) which are necessary to ensure it retains a net generator portfolio balance. Its innovative telco bundling strategy and premium netback place it as the most profitable electricity retailer.

2020 P/E: 20.0 2021 P/E: 23.1

NZX Code:	**TPW**
Share Price:	**$6.79**
12mth Target:	**$5.85**
Projected return (%)	
Capital gain	-13.8%
Dividend yield (Net)	4.5%
Total return	**-9.3%**
Rating: UNDERPERFORM	
52-week price range: 5.52-7.16	

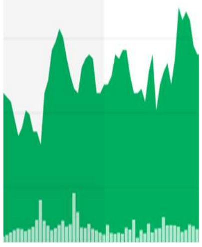


Vector

VCT holds a monopoly position in the Auckland electricity distribution network and is subject to regulated earnings that are reset on a five-yearly basis. This provides stability and visibility to around 70% of its earnings and capital expenditure. VCT's investing cash flow has consistently exceeded operating cash flow and it used the proceeds from the sale of its gas transmission assets to reduce net economic debt by more than $800mn in FY16. Subsequently, VCT has continued with negative free cash flow levels resulting in year-on-year increases in debt.

P/E: 27.3 2020 P/E: 25.2

NZX Code:	**VCT**
Share Price:	**$3.70**
12mth Target:	**$3.27**
Projected return (%)	
Capital gain	-11.6%
Dividend yield (Net)	4.7%
Total return	**-6.9%**
Rating: UNDERPERFORM	
52-week price range: 3.16-3.75	

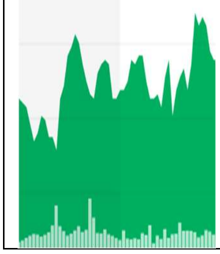


Vital Healthcare

VHP's manager, Northwest Healthcare (NWH), has completed its fee and governance review. A tiered base fee structure will be introduced, charging 65bp on the gross asset value of VHP's portfolio up to $1bn, 55bp from $1bn to $2bn, 45bp from $2bn to $3bn, and 40bp thereafter. In FNZC's view, a tiered base fee is an improvement on the previous flat fee. Improvements to VHP's governance structures were also announced, including the elimination of NWH's ability to: (1) remove independent directors and unitholders' right to nominate and vote on independent directors, and (2) unilaterally alter the amount of the manager's fee. These changes are clear positives for unit holders.

P/E: 22.0 2020 P/E: 20.1

NZX Code:	**VHP**
Share Price:	**$2.12**
12mth Target:	**$2.13**
Projected return (%)	
Capital gain	0.7%
Dividend yield (Net)	4.1%
Total return	**4.8%**
Rating: NEUTRAL	
52-week price range: 1.99-2.17	



Z Energy

ZEL offers good value supported by its dividend. ZEL's Return on Capital Employed (ROCE) is 26% - meaningfully higher than the 9.4% average in the Oil and Gas industry. This suggests it is using capital more effectively than other similar companies. Putting aside its position relative to its industry for now, in absolute terms, Z Energy's ROCE is currently very good. Three years ago its ROCE was just 10.0%.

P/E: 14.3 2020 P/E: 13.5

NZX Code:	**ZEL**
Share Price:	**$6.30**
12mth Target:	**$6.50**
Projected return (%)	
Capital gain	3.2%
Dividend yield (Net)	6.9%
Total return	**10.1%**
Rating: OUTPERFORM	
52-week price range: 5.18-7.75	

NZ LISTED COMPANIES 18th April 2019	Ticker	Mrkt Cap	Price 18-Apr-19	Target Price	Price Earnings (x)		Net Yield (%)	
Source: First NZ Capital, CSFB		(NZ$m)	(NZ$)	(NZ$)	FY19	FY20	FY19	FY20
COMMUNICATION SERVICES								
Chorus	CNU	2,612	5.99	4.77	42.0	64.9	3.8%	4.0%
Spark NZ	SPK	6,601	3.60	3.39	16.9	15.8	7.0%	7.0%
NZME	NZM	108	0.55	0.47	6.8	6.8	0.0%	0.0%
Sky Network Television	SKT	483	1.24	1.74	5.3	6.2	12.1%	8.1%
CONSUMER DISCRETIONARY								
Hotels, Restaurants, Leisure & Tourism								
Restaurant Brands NZ	RBD	1,129	9.05	8.85	25.7	22.2	2.0%	3.4%
SKYCITY Entertainment	SKC	2,722	3.99	4.00	16.0	17.1	5.0%	5.0%
Tourism Holdings	THL	633	5.10	4.69	20.4	16.3	5.3%	5.3%
Retail								
Kathmandu	KMD	516	2.28	2.75	10.5	9.9	7.0%	7.5%
Michael Hill Int	MHJ	237	0.65	0.85	10.4	8.6	8.2%	8.2%
The Warehouse Group	WHS	739	2.13	2.00	11.4	10.7	7.0%	7.4%
Turners Automotive	TRA	211	2.43	3.11	8.1	8.3	7.0%	7.4%
CONSUMER STAPLES								
Delegat Group	DGL	1,021	10.10	9.34	20.0	18.0	1.7%	1.9%
Green Cross Health	GXH	162	1.13	2.20	7.8	7.6	6.2%	6.6%
NZ King Salmon	NZK	391	2.82	2.71	24.0	18.6	2.1%	2.7%
Sanford	SAN	627	6.70	7.39	14.1	13.6	3.4%	3.4%
Scales Corporation	SCL	703	5.03	4.82	19.6	19.3	4.3%	4.4%
Seeka	SEK	162	5.05	6.33	14.6	14.1	4.8%	4.8%
Synlait Milk	SML	1,868	10.42	7.95	21.3	17.5	0.0%	0.0%
Comvita	CVT	206	4.14	4.02	403.5	24.6	0.0%	0.0%
The a2 Milk Company	ATM	10,722	14.59	14.00	36.6	28.9	0.0%	0.0%
ENERGY								
NZ Refining	NZR	644	2.06	2.38	-95.4	12.0	3.2%	11.0%
Z Energy	ZEL	2,556	6.39	6.50	14.6	13.7	6.7%	6.8%
FINANCIALS								
Heartland Group Holdings	HGH	956	1.68	1.43	12.6	11.9	5.7%	6.0%
NZX	NZX	275	1.00	1.11	18.4	16.4	6.2%	6.3%
HEALTHCARE SERVICES								
AFT Pharmaceuticals	AFT	170	1.75	2.77	n.m.	40.9	0.0%	0.0%
Ebos Group	EBO	3,083	21.40	20.75	22.0	18.5	3.2%	3.8%
F & P Healthcare	FPH	8,692	15.15	13.15	41.2	32.9	1.6%	2.1%
Pacific Edge	PEB	143	0.28	0.40	-8.1	-9.8	0.0%	0.0%
HEALTHCARE PROVIDERS								
Arvida	ARV	538	1.30	1.36	14.1	11.7	4.1%	4.6%
Metlifecare	MET	981	4.60	7.00	11.8	10.2	2.4%	2.7%
Oceania Healthcare	OCA	616	1.01	1.11	11.4	12.2	4.8%	4.5%
Ryman Healthcare	RYM	5,715	11.43	9.07	26.7	23.7	2.0%	2.3%
Summerset Group Holdings	SUM	1,314	5.82	7.07	9.7	10.5	2.7%	3.3%
INDUSTRIALS								
Metro Performance Glass	MPG	77	0.42	0.60	5.0	5.2	0.0%	0.0%
Methven	MVN	120	1.63	1.30	14.5	12.9	5.5%	6.1%
Skellerup Holdings	SKL	436	2.24	2.13	14.5	13.6	5.8%	6.3%
LOGISTICS								
Air New Zealand	AIR	3,144	2.80	2.55	11.5	9.8	7.9%	7.9%
Auckland Airport	AIA	9,691	8.00	5.50	34.8	35.2	2.8%	2.8%
Freightways	FRE	1,344	8.65	7.85	21.6	19.6	3.8%	4.3%
Mainfreight	MFT	3,621	35.96	25.50	27.0	23.8	1.5%	1.7%
Port of Tauranga	POT	3,843	5.65	4.30	38.1	35.6	2.5%	2.6%
INFORMATION TECHNOLOGY								
EROAD	ERD	182	2.67	3.25	-40.2	64.1	0.0%	0.0%
Gentrack Group	GTK	547	5.55	5.00	32.9	28.4	2.9%	3.0%
Vista Group International	VGL	812	4.89	4.10	38.0	30.5	1.3%	1.6%
BUILDING MATERIALS								
Fletcher Building	FBU	4,309	5.05	5.28	11.6	11.5	5.0%	5.5%
Steel & Tube	STU	199	1.20	1.65	14.0	10.5	5.8%	7.2%
PROPERTY								
Asset Plus	APL	96	0.60	0.67	18.5	19.0	6.0%	6.0%
Argosy Property	ARG	1,054	1.28	1.11	18.9	19.0	4.9%	4.9%
Augusta Capital	AUG	99	1.13	1.14	13.3	17.4	5.3%	5.3%
Goodman Property Trust	GMT	2,221	1.72	1.43	22.0	24.4	3.9%	3.9%
Investore Property	IPL	419	1.61	1.48	19.0	18.7	4.6%	4.7%
Kiwi Property Group	KPG	2,113	1.48	1.42	21.6	21.1	4.7%	4.7%
Property for Industry	PFI	963	1.93	1.67	22.2	20.9	3.9%	4.1%
Stride Prop Group	SPG	742	2.03	1.92	19.5	19.5	4.9%	4.9%
Vital Healthcare Prop Trust	VHP	947	2.13	2.13	21.7	19.8	4.1%	4.2%
UTILITIES								
Contact Energy	CEN	4,824	6.73	6.31	28.4	30.0	5.9%	5.8%
Genesis Energy	GNE	3,160	3.11	2.30	37.0	34.9	5.5%	5.6%
Infratil	IFT	2,371	4.24	4.37	37.6	28.0	4.1%	4.2%
Mercury NZ	MCY	5,320	3.91	3.53	30.7	29.9	4.0%	4.0%
Meridian Energy	MEL	10,431	4.07	3.10	40.7	39.2	4.8%	4.8%
TILT Renewables	TLT	1,022	2.31	2.20	65.3	87.3	1.2%	0.9%
TrustPower	TPW	2,194	7.01	5.85	20.0	23.1	9.8%	4.5%
Vector	VCT	3,550	3.55	3.27	27.2	25.1	4.6%	4.7%
Market Average (PE ratios exclude: AFT, ERD, FBU, NZR, PEB, TLT)					27.5	19.8	4.1%	4.2%

COMPANY	RATING	PRICE	GROSS DIVIDEND YIELD				DIVIDEND COVER				DEBT/EQITY
			FY-1	FY0	FY1	FY2	FY-1	FY0	FY1	FY2	CURRENT
Sky Network Television	N	$1.30	16.0%	16.0%	10.7%	10.7%	2.0	1.6	2.0	1.5	16.5%
Trustpower	U	$6.91	n.a.	12.2%	6.3%	6.6%	n.a.	0.5	1.0	0.9	37.9%
Air New Zealand	N	$2.77	11.0%	11.0%	11.0%	11.0%	1.6	1.1	1.3	1.4	41.6%
Michael Hill	O	$0.68	11.2%	10.8%	10.8%	10.8%	1.9	1.2	1.4	1.6	10.2%
Turners Limited	O	$2.42	8.9%	9.8%	10.3%	10.9%	2.1	1.8	1.6	1.7	129.8%
The Warehouse	N	$2.14	10.4%	9.7%	10.3%	10.5%	1.1	1.2	1.2	1.3	33.5%
Z Energy	O	$6.25	7.2%	9.4%	9.6%	10.3%	1.6	1.0	1.1	1.1	75.9%
Kathmandu	O	$2.38	8.8%	9.3%	9.9%	10.5%	1.6	1.4	1.4	1.4	7.5%
Asset Plus Limited	O	$0.60	9.0%	9.0%	9.0%	9.0%	1.0	0.9	0.9	0.9	8.3%
Spark	U	$3.69	8.8%	8.8%	9.1%	9.4%	0.9	0.9	0.9	1.0	88.7%
NZX	N	$1.00	8.5%	8.6%	8.8%	8.5%	0.9	0.9	1.0	1.1	8.4%
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	$1.58	7.9%	8.4%	8.8%	9.0%	1.4	1.4	1.4	1.4	601.4%
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	$1.15	7.3%	7.8%	7.8%	7.8%	1.2	1.4	1.1	1.3	37.6%
Stride	N	$2.03	7.3%	7.3%	7.3%	7.3%	1.1	1.0	1.0	1.1	47.3%
Contact Energy	N	$6.80	6.5%	7.2%	7.3%	6.9%	0.6	0.6	0.6	0.6	32.6%
Skellerup	N	$2.22	6.3%	7.2%	7.8%	8.3%	1.3	1.2	1.2	1.2	16.1%
Argosy Property	N	$1.30	7.1%	7.2%	7.2%	7.2%	1.1	1.1	1.1	1.1	57.4%
Investore Property	N	$1.60	7.0%	7.0%	7.1%	7.2%	1.1	1.1	1.1	1.1	74.3%
Kiwi Property Group	O	$1.50	6.8%	6.9%	6.9%	6.9%	1.1	1.0	1.0	1.1	47.5%
Genesis Energy	U	$3.16	7.0%	6.8%	6.9%	7.5%	0.3	0.5	0.5	0.7	56.9%
Fletcher Building	N	$5.08	0.0%	6.8%	7.7%	8.2%	0.0	1.7	1.6	1.4	5.3%
Seeka	O	$5.12	6.5%	6.5%	6.5%	6.5%	1.6	1.4	1.5	1.6	54.1%
Tourism Holdings	N	$5.09	6.3%	6.3%	6.3%	7.1%	1.1	0.9	1.2	1.2	89.7%
Vector	U	$3.65	6.2%	6.3%	6.4%	6.5%	0.9	0.8	0.8	0.9	114.5%
Vital Healthcare	N	$2.12	6.0%	6.2%	6.3%	6.5%	1.2	1.1	1.2	1.2	66.2%
Sky City	N	$4.03	6.1%	6.1%	6.1%	6.1%	1.2	1.2	1.2	1.2	13.3%
Scales Corporation	N	$4.98	5.3%	6.1%	6.2%	6.6%	1.1	1.2	1.2	1.2	-28.7%
Meridian Energy	U	$4.06	5.9%	6.0%	5.9%	5.9%	0.4	0.5	0.5	0.6	30.7%
Property For Industry	U	$1.98	5.7%	5.7%	6.0%	6.2%	1.1	1.1	1.2	1.2	42.7%
Goodman Property Trust	N	$1.74	5.7%	5.7%	5.7%	5.7%	1.2	1.2	1.1	1.1	29.7%
Freightways	N	$8.69	4.8%	5.3%	6.0%	6.8%	1.3	1.2	1.2	1.2	55.0%
Chorus	N	$6.07	5.0%	5.3%	5.5%	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%
Tower	O	$0.72	0.0%	4.9%	5.9%	6.3%		1.8	1.8	1.8	-39.3%
Arvida	N	$1.27	4.5%	4.8%	5.3%	5.6%	1.8	1.7	1.9	1.9	29.0%
Oceania	N	$1.05	4.5%	4.6%	4.3%	5.4%	1.8	1.8	1.8	1.8	38.5%

COMPANY	RATING	PRICE	GROSS DIVIDEND YIELD				DIVIDEND COVER				DEBT/EQITY
			FY-1	FY0	FY1	FY2	FY-1	FY0	FY1	FY2	CURRENT
Sanford	N	$6.96	4.6%	4.6%	4.6%	4.6%	1.8	2.1	2.1	2.4	26.5%
New Zealand Refining Company	N	$2.07	5.0%	4.4%	15.2%	16.5%	1.3	-0.3	0.8	0.7	34.4%
Infratil	N	$4.40	5.3%	4.3%	4.3%	4.4%	0.7	0.6	0.9	1.3	150.0%
Gentrack	N	$5.59	3.4%	3.9%	4.1%	4.8%	1.3	1.1	1.2	1.2	-7.2%
Auckland Airport	U	$8.02	3.8%	3.9%	3.9%	4.2%	1.0	1.0	1.0	1.0	38.0%
Port of Tauranga	U	$5.70	3.1%	3.4%	3.5%	3.8%	1.1	1.1	1.1	1.1	35.8%
Ebos	N	$22.00	3.1%	3.2%	3.8%	4.1%	1.4	1.4	1.4	1.4	52.7%
New Zealand King Salmon	O	$2.93	2.4%	2.8%	3.6%	4.5%	2.1	2.0	2.0	2.0	2.7%
Summerset	N	$5.90	2.2%	2.7%	3.2%	4.1%	3.4	2.9	2.4	2.2	52.1%
Delegat's Group	U	$10.20	2.0%	2.3%	2.6%	3.0%	3.0	2.9	2.9	2.9	75.8%
Metlifecare Limited	O	$4.87	2.1%	2.3%	2.5%	2.7%	4.1	3.5	3.7	3.8	17.0%
Fisher & Paykel Healthcare	U	$15.50	1.9%	2.1%	2.9%	3.7%	1.6	1.5	1.4	1.2	-1.9%
Mainfreight	U	$35.95	1.7%	2.0%	2.4%	2.7%	2.5	2.5	2.5	2.3	26.3%
Ryman Healthcare	U	$11.85	1.7%	1.9%	2.2%	2.6%	2.0	1.9	1.8	1.8	56.2%
Vista Group	U	$5.09	0.9%	1.5%	1.9%	2.5%	2.1	2.0	2.0	2.0	-13.5%
Tilt	N	$2.34	1.3%	1.1%	0.9%	1.5%	-0.3	1.3	1.2	1.2	64.4%
AFT Pharmaceuticals	O	$1.70	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-821.9%
a2 Milk	N	$16.00	0.0%	0.0%	0.0%	1.3%	0.0	0.0	0.0	3.0	-51.7%
Comvita	N	$4.20	2.0%	0.0%	0.0%	0.0%	2.3	0.0	0.0	0.0	51.2%
Eroad	O	$2.74	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	8.1%
Metro Performance Glass	N	$0.42	24.5%	0.0%	0.0%	0.0%	1.3	0.0	0.0	0.0	51.4%
NZME	U	$0.54	5.1%	0.0%	0.0%	0.0%	4.8	0.0	0.0	0.0	26.2%
Pacific Edge	O	$0.29	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-94.0%
Restaurant Brands	U	$8.36	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%**	**5.7%**	**6.0%**	**6.3%**	**1.2**	**1.1**	**1.2**	**1.2**	**35.8%**

Source: First NZ Capital, CS Group Estimates

1. The Net Debt/Equity ratio is calculated as Gross Debt less cash holdings divided by 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.

Limitations and Disclaimer