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# Investment Strategies

Volume 16

AUGUST 2016

## Financial Markets

In these uncertain times investors need to take care that they properly evaluate listed company performance, using established investment criteria. First principles include understanding the business of any company that you invest into. It also means ensuring that dividend income is adequately covered by quantifiable cash earnings from any company that you are seeking sustainable dividend income to supplement your income.

## Politics

Many people ask why I have such an interest in politics; and my answer is twofold. First politics dictates economic sentiment, which is the cornerstone to financial investment. Second, I have always had the belief that if you aren't satisfied with something, then don't complain unless you are prepared to step up yourself. Over the years I have come to realise that being a "participator" in New Zealand politics is very rewarding. The reality is that you can make a difference – so I urge you all to get involved.

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| Equity market 12-Aug-16 | Current | % Change (local currency) | YTD % Change (local currency) | YTD % Change (in NZD) |
|---|---|---|---|---|
| DOW | 18614 | 0.6% | 6.8% | 1.2% |
| NASDAQ | 5228 | 0.5% | 4.4% | -1.1% |
| SP500 | 2186 | 0.5% | 6.9% | 1.3% |
| Japan | 16735 | -0.2% | -12.1% | -1.7% |
| Germany | 10743 | 0.9% | 0.0% | -2.9% |
| UK | 6915 | 0.7% | 10.8% | -7.8% |
| China | 3003 | -0.5% | -15.2% | -21.3% |
| Australia (ASX200) | 5508 | 0.6% | 4.0% | 4.3% |
| NZ 50 Gross. | 7354 | 0.0% | 16.3% | 16.3% |

RRP $5.00

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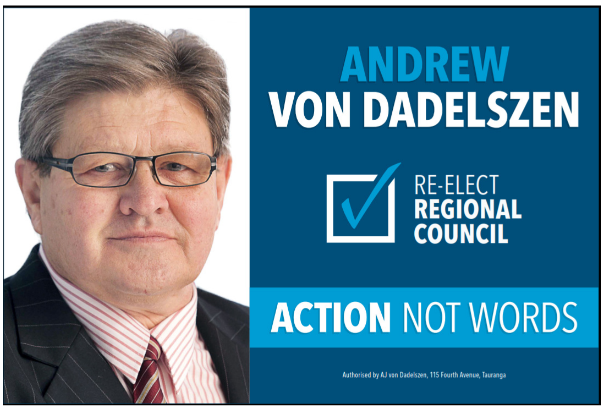


## *Standing for BOP Regional Council*

### Background

Having been a Regional Councillor for 6 years in the mid 2000's, I did not stand in 2013 because at that time I was a Director on the Crown Agency the Environmental Protection Authority (EPA), and I felt that I could have got into a "conflicted" situation.

With Simon Bridges becoming Minister for Energy & Resources (and my partner Maree Brookes) working for Simon – albeit not on ministerial matters – it was felt that there could be a perceived conflict there. As a consequence I withdrew from the EPA and was appointed a Director of the Crown Research Institute – Plant & Food Research.

I am loving my role with Plant & Food Research (PFR), which has a staff of close to 900, and is a leading edge science innovator in the horticulture, seafood and plant sectors. PFR has 13 separate facilities around New Zealand, and has an excellent reputation as a science leader within its fields of expertise.

### Bay of Plenty Regional Council

I am a strong advocate of a Western Bay Unitary Council. We (ratepayers) currently employ more than 1,000 local government staff within the Western Bay (Tauranga City Council, Western Bay District Council, and Tauranga based BOP Regional Council staff). That is about 165 staff for every person within our area (or 1 staff member for every 72 households). That is plain crazy, and yet all our councils (both TCC & BOPRC) continue to employ more and more staff without any increase in output. I ask you – what do you think BOP Regional Council does? The reality is that they do monitor our natural resources (like Tauranga Harbour, our lakes and rivers) but they aren't ACTION orientated enough towards environmental improvement. In recent years staff numbers have doubled to now total 336 (324 full-time employees). The BOP Times report (30th July) noted that staff costs have escalated $8m in the past 5 years. A former director from the Office of the Auditor-General, Larry Mitchell was quoted as saying "salaries at councils around the country had risen to the point of a nationwide epidemic". Tauranga City and BOP Regional Council are both prime offenders, and it has to stop.

Current Councillors have not held their council CEO's to account, and consequently costs are out of control. Being a Regional Councillor should not be seen as a pension - we need councillors who are committed to working for their ratepayers. I am also concerned about the management of water allocation. Central Government has "copped out" and said that regional councils will manage water allocation. We must elect councillors committed to preserving the ethos that no-one owns water.

## *Alan Duff on fostering Maori aspiration*

Source: NZ Herald

Alan Duff, author of the book (and film) "Once were warriors", wrote about the "loser" attitude that is prevalent within Maori (and particularly young Maori). He referenced how the English working class suffered horribly under the merciless rule of aristocrats into the 19th century, and how the European imperialists, from France to Belgium to Great Britain, colonised, then pillaged of every natural resource, African countries. The Arab and African trade slavers then further "raped" Africa, and few can claim that their suffering was immense.

Duff said "*Our Maori political leaders tell us it's all right to whinge about our poverty. But never do they urge us to go into business. A Maori university lecturer recently excused our appalling rate of murdering children as a result of cultural devastation. Excuse me?*

*"The British took over India and ruled them with an iron fist. China's last invasion by Japan was in 1938 and one example of hideous Japanese acts was sons forced to rape mothers, fathers to rape daughters. According to some, the hands of the 23,000 people who worked building the Taj Mahal had their hands cut off so the palace could never be recreated. Virtually every country in Europe has known invasion and suffered violent oppression for decades, even centuries. Hungary has suffered countless invasions from foreign hordes. More recently, under communism, a brutal secret police ruled the country and in the 1950s one in 15 male adults was imprisoned for supposed crimes against the state.*

*"What "cultural devastation" is this excuse-mongering Maori academic talking about? In 1823, Hongi Hika came down from the Far North and smashed my Te Arawa people, who had fled to Mokoia Island. Hongi and his warriors feasted on my ancestors' cooked bodies for six days; they took back an estimated thousand captives as slaves. Sounds like worse "cultural devastation" than being colonised.*

Duff continued "*If Africans are killing their children, it has nothing to do with 'cultural devastation' or colonisation. This excuse-making is part of why we have Maori girl gangs and seemingly no Maori owners of superettes. How long do we put up with this negative, go-nowhere nonsense? The late Ranginui Walker was a master of the gripe. The language he used was Pakeha academic-speak, words like hegemony, colonisation, imperialist arrogance. He didn't actually say or do anything to advance Maori people."*

Duff said "*These kids are getting the message from someone that behaving like this is okay. Just don't get caught. And that doesn't mean by their consciences. For 23 years, our organisation's simple mantra to the 500 schools on our programme has been: It's cool to read. "Cool to aspire. If Maori leaders visited schools giving* *the kids the same message, then every second superette owner would be Maori. If the message "stealing is shameful" was taught from a young age, we brown people would all be better off, and there'd be a lot less of us in prison.”*

**Well said Alan Duff.**

A government that pays you to do nothing destroys your willingness to do anything...

## *Statistics NZ Data*

NEXT CENSUS DUE: 2018

**Population**

**Estimated population** at 31 March 20165: 4,677,400
**Births** March 2016 year (Dec 14: 57,242) 60,468
**Deaths** March 2016 year (Dec 14: 31,063) 31,368
**Net migration** June 2016 year 69,090

**Employment**

**Total employed** March 2016 quarter: 2,399,000
**Unemployment rate** March 2016 quarter: 5.7%
**Ave weekly earnings** March 2016 quarter: 1,134.90
**Wage inflation** March 2016 year 1.6%
**Cost Price Index** March 2016 qtr (Dec qtr: -0.5%) 0.2%

**International Position** Dec quarter: **-$157 Billion**
**GDP per capita** year ended Dec 2015 **$53,496**
**GDP Growth for 2015** (+0.7% for Mar qtr) **2.5%**
**Visitor arrivals** in February 2016 **373,376**

**NZ Household Financial Assets**

| $Billion as at 31st March | 2016 | 2015 | 2008 | 2000 |
|---|---|---|---|---|
| Currency | 3.2 | 3.0 | 1.9 | 1.2 |
| Bank Deposits | 143.1 | 128.9 | 80.0 | 39.5 |
| Other deposits | 10.6 | 9.3 | 15.7 | 6.4 |
| Bonds & loans | 14.3 | 14.3 | 12.6 | 5.2 |
| NZ listed shares | 31.7 | 29.0 | 14.5 | 11.6 |
| NZ unlisted shares | 138.9 | 138.9 | 118.7 | 56.9 |
| Equity in unincorporated NZ businesses | 177.1 | 177.1 | 135.1 | 61.0 |
| Overseas shares | 6.9 | 7.2 | 7.1 | 5.6 |
| Investment funds | 53.9 | 47.7 | 28.0 | 20.6 |
| Life insurance | 8.9 | 8.6 | 9.6 | 12.1 |
| Superannuation/Kiwisaver | 67.7 | 62.7 | 30.6 | 31.1 |
| **Total financial assets** | **656.3** | **626.7** | **453.8** | **251.2** |

Source: RBNZ ...Does not include owner-occupied residential property

**Public Poll Average**

| Source: Curia | 8-Jun-16 | | 9-Aug-16 | |
|---|---|---|---|---|
| | **Vote** | **Seats** | **Vote** | **Seats** |
| **National** | 47.5% | 58 | 46.8% | 57 |
| **Labour** | 29.7% | 36 | 31.2% | 38 |
| **Green** | 11.8% | 14 | 11.5% | 14 |
| **NZ First** | 8.7% | 11 | 7.9% | 10 |
| **Act** | 0.4% | 1 | 0.4% | 1 |
| **Maori** | 0.8% | 1 | 1.1% | 1 |
| **United** | 0.0% | 1 | 0.1% | 1 |
| **Mana** | 0.0% | 0 | 0.1% | 0 |
| **Cons** | 0.5% | 0 | 0.1% | 0 |
| **Total** | 99.3% | 122 | 99.5% | 122 |

***"Success is not final; failure is not fatal: It is the courage to continue that counts."***
Winston S. Churchill

## *What could prevent a 4th Term National Government?*

National continues to poll extremely strongly; but National can’t be complacent. The key risks include:

1. **A global move to “Not trust politicians”.** This movement plays into the hand of the likes of Winston Peters – a consummate politician that knows how to build the “fear vote”. This is why National needs to concentrate on combating NZ First, and not so much on Labour, or the Greens. Angry Andrew Little has given up on the middle ground, and while the Greens are always spoilers, they are unlikely to be strong enough to put the Left into Government.
2. **Current National Ministers becoming complacent.** This is the biggest risk with 3rd Term Governments, looking for a 4th. A tired government lacking ideas is a huge risk, and John Key needs to keep a close eye on this. Let’s look at the Top 12 of Cabinet (these are just my personal thoughts):

i. **John Key** – is the jewel for National. His intellect and energy continue to drive a Prime Minister that remains “ambitious for ALL New Zealanders. Key will go down in history as one of (if not THE) best Prime Minister this country has ever had.

ii. **Bill English** is seen as an incredibly “safe pair of hands” as Minister of Finance. His southern frugality is exactly what our country needed (and still needs).

iii. **Gerry Brownlee** is another “safe pair of hands” for John Key. He has proven his worth in steering the Canterbury rebuild through what could have been a “disaster” for any government.

iv. **Steven Joyce**, “Mr Fixit”, is a smart operator, but his confidence is often mistaken for arrogance. Steven needs some PR management to emphasise his strengths.

v. **Paula Bennett** has an impressive track record with her past portfolios (particularly Social Welfare), but she is struggling somewhat to master Social Housing and Climate Change. Her biggest strength is that she is approachable and ever so bubbly, but does she need to ensure that complacency or arrogance doesn't haunt her.

vi. **Jonathan Coleman** continues to drive costs down in health, and is seen as sound, but uninspiring.

vii. **Amy Adams** continues to star in her portfolios of Justice & Communications. Amy is always well prepared, and comes across oozing professionalism and confidence.

viii. **Christopher Finlayson**, as Attorney-General and Minister of Treaty of Waitangi Negotiations, is seen as our most professional and successful negotiator, albeit that many think he has taken too many "soft options". His role is one of the most difficult, and is essential for this country to move forward, post the settlement process.

ix. **Simon Bridges** has proved a "safe pair of hands" for John Key with his demanding Transport and Energy & Resources portfolios. Simon's weakness is that, despite his strong intellect and passion for work, he often comes across as a tad too arrogant and not really listening. However Simon has matured into a real force to be reckoned with in Cabinet.

x. **Hekia Parata** has done an outstanding job in education. She has to manage an incredibly powerful union movement, and is too often undermined by vested interests. While not recognised as the best manager of her staff, none-the-less John Key recognises her strengths, and continues to trust and back her.

xi. **Anne Tolley** has found her niche in her Social Development portfolio. She has the "bit between her teeth", and is passionate about improving outcomes for our vulnerable children.

xii. **Nick Smith** has an incredible intellect, but is seen to have lost touch with the reality of his portfolios. Housing was never going to be easy, but Nick needs much better PR support if he is to improve his image. The words "out of touch" unfairly rise too often.

3. **Inability to refresh policy settings** to show that National is not stale. Let me give you a couple of policy change ideas that could help:

   i. **Justice** – National should change legislation so that for any capital or aggravated violence offence **the right to remain silent** is not applicable. This will ensure that we don't get repeats of the Kahui murders, where family members refused to speak, and police therefore couldn't get an appropriate conviction. This would also reverse the Crown from having to agree to manslaughter for the disgusting recent torture and murder of young Moko in Taupo.

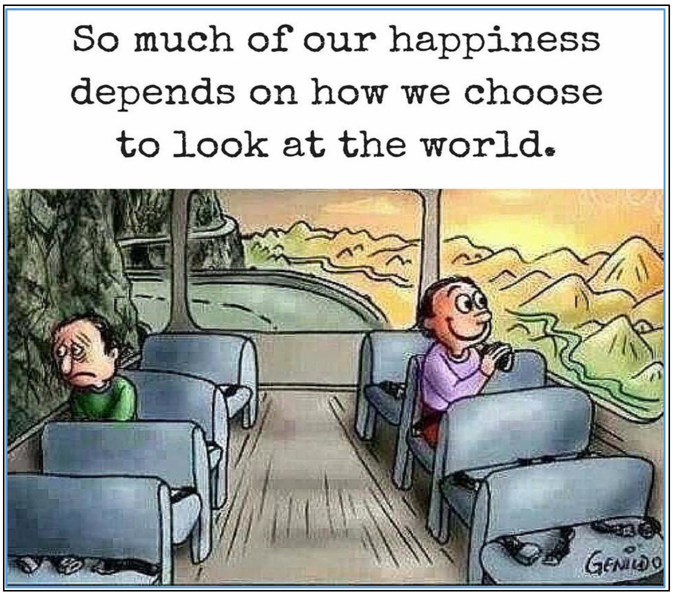
   ii. **Housing** – Consider a **Capital Gains Tax on all property** (including the family home). You could set a threshold of (say) $500,000 to prevent any hardship issues. We have to drive investment into our businesses, and away from assets that don't derive revenue. This will only work if National is bold enough to include the family home. Without this addition, home owners are just encouraged to upgrade to higher valued homes.

   This will take the heat out of housing, and inject extra local funding into our cash strapped SMEs (Small & Medium Sized Businesses)

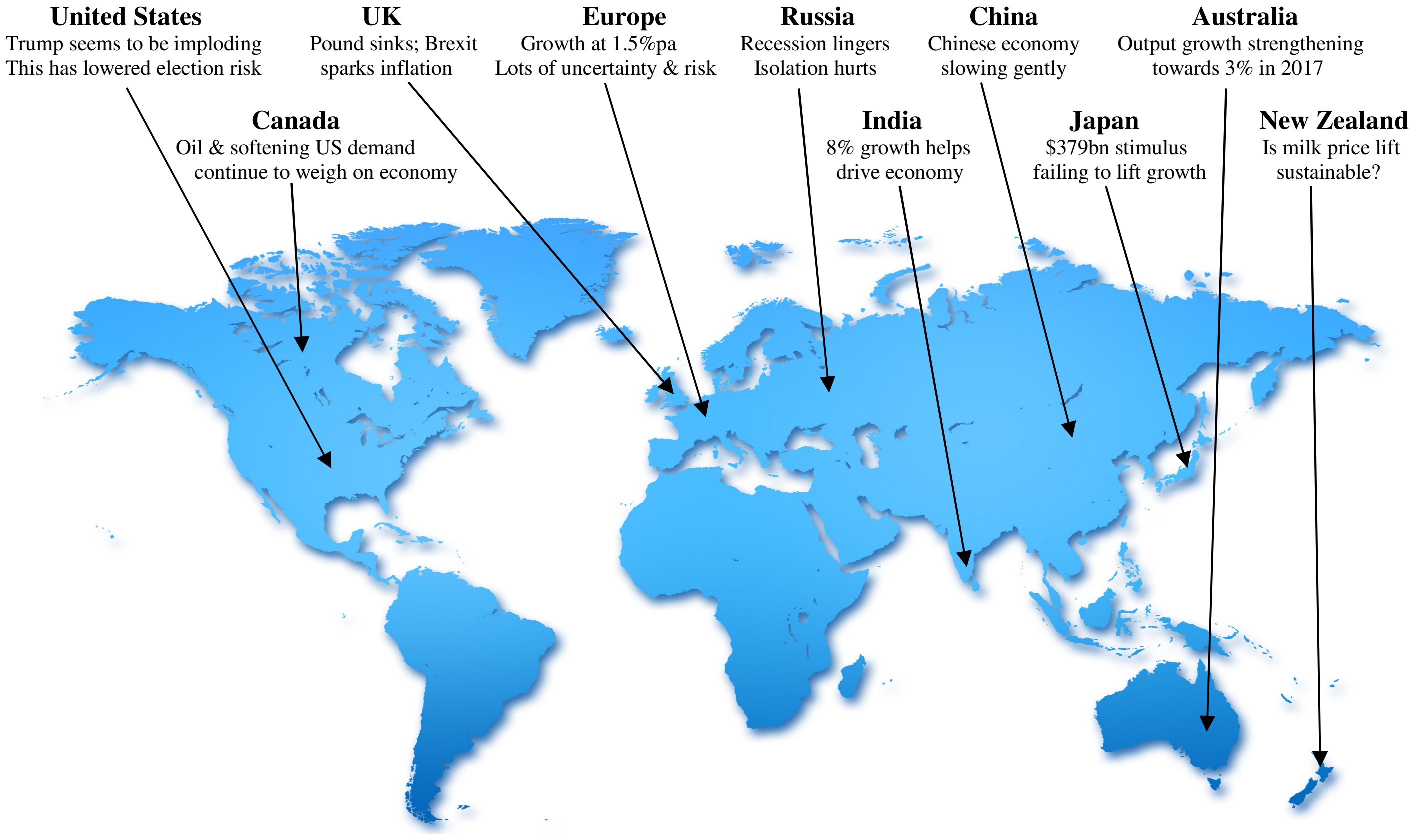
4. **Child Poverty and inequality** were big issues in the 2014 Campaign. **Housing and Immigration** are currently top of mind, but 2017 could well see a change in the election focus - **Water** will be a big issue, and **NZ First will play the "Race Card"** to try to ensure that National looks soft on Maori; and of course he will continue to play the immigration issue for all his worth.

National needs to up its PR game and sell its policies much better. Water is a great example. Nick Smith talks about "Wadeable Water". This is a ridiculous term and National needs to acknowledge its mistake and revert to using "Swimmable" as the only measure. No one would consider swimming during a storm/flood event, so these instances need to be eliminated for the database that determines swimmability. In my opinion this would immediately neutralise the Greens, who have been allowed to take the high ground on this issue. This isn't rocket science, but it might require Nick Smith to eat humble pie for a day or two – all in the best interests of the National Party.

On top of all this is the copycat murder and mayhem that is the current norm in both the US and in Europe (including Turkey) and the Middle East. This copycat anarchy could well migrate to New Zealand, and then all bets would be off with our disaffected unemployed youth. God forbid that this turns into a reality, but we live in very uncertain times.

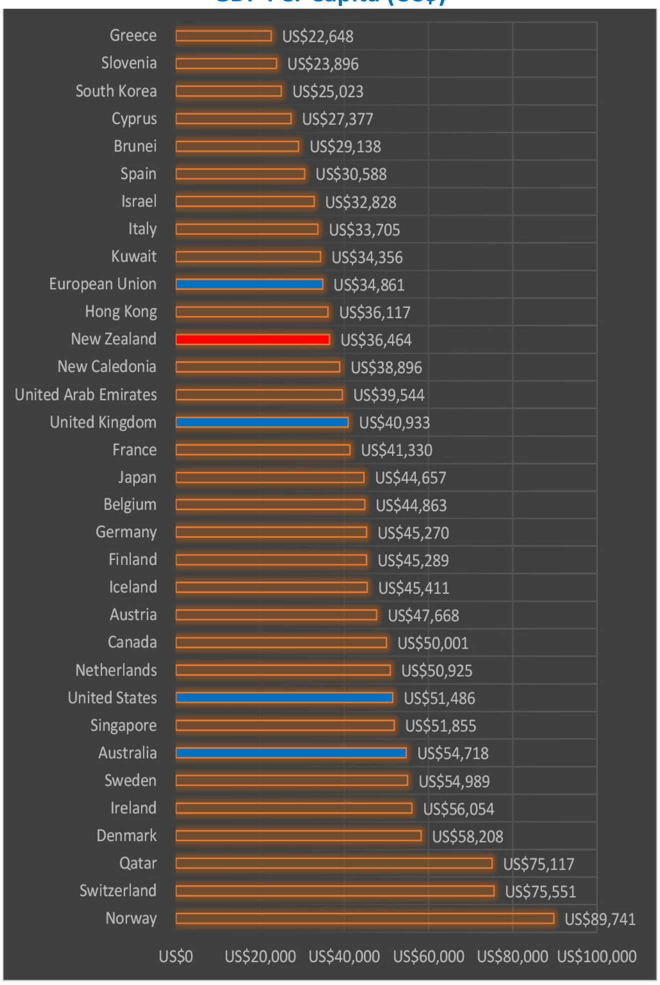


# THE WORLD AT A GLANCE



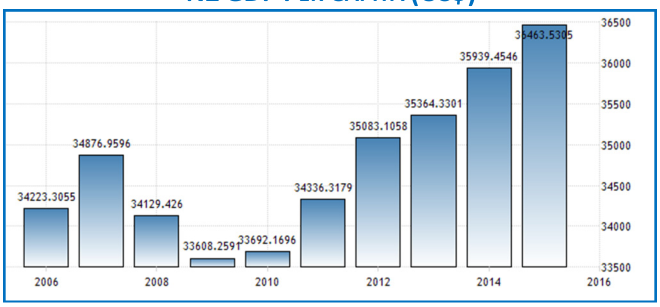

# The Global Economy

**GDP Per Capita (US$)**




Source: World Bank

**NZ GDP Per Capita (US$)**




The Gross Domestic Product per capita in New Zealand was last recorded at US$36,464 in 2015. GDP per Capita in New Zealand is equivalent to 289% of the world's average. New Zealand's GDP per capita was just US$21,660 in 1977 (a 68% increase by 2015).

In the past 7 years (2008 to 2015), under our John Key National Government, New Zealand GDP Per Capita (1.0% per annum) has outstripped Australia (0.8%), United States (0.6%) and United Kingdom (0.3%).

**Australian GDP Per Capita (US$)**

# Government Debt to GDP

Generally, Government debt as a percent of GDP is used by investors to measure a country's ability to make future payments on its debt, thus affecting the country's borrowing costs and government bond yields.

**New Zealand** recorded a Government Debt to GDP of 30.4% of the country's Gross Domestic Product in 2015. Government Debt to GDP in New Zealand averaged 34.4% from 1985 until 2015, reaching an all-time high of 61.0% in 1986 and a record low of 14.5% in 2007. New Zealand is very well placed globally, with its government debt to GDP ratio. Government Debt to GDP in New Zealand is reported by the New Zealand Treasury.

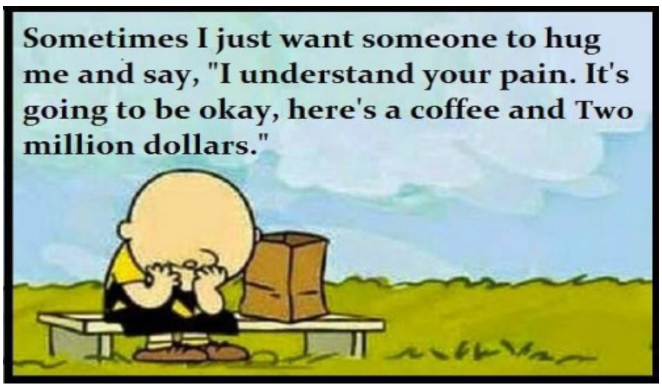

**Australia** recorded a Government Debt to GDP of 36.8% of the country's Gross Domestic Product in 2015. Government Debt to GDP in Australia averaged 21.8% from 1989 until 2015, reaching an all-time high in 2015 and a record low of 9.7% in 2007. Government Debt to GDP in Australia is reported by the Australian Office of Financial Management (AOFM).


**The United States** recorded a Government Debt to GDP of 104.2% of the country's Gross Domestic Product in 2015. Government Debt to GDP in the United States was at a record low of 31.7% in 1974.


**The United Kingdom** recorded a Government Debt to GDP of 89.2% of the country's Gross Domestic Product in 2015. Government Debt to GDP in the United Kingdom averaged 49.9% from 1980 until 2015, reaching an all-time high in 2015 and a record low of 31.3% in 1991.


**Germany** recorded a Government Debt to GDP of 71.2% of the country's Gross Domestic Product in 2015. Government Debt to GDP in Germany reached an all-time high of 81% in 2010, and a record low of 54.8% in 1995.


**China** recorded a Government Debt to GDP of 43.9% (an all-time high) of the country's Gross Domestic Product in 2015.

# Global Economic Outlook

While good investment opportunities remain, investors need to be compensated for heightening global uncertainty and risks of policy exhaustion. The IMF has already moved its global growth forecasts lower, and pessimists globally currently outweigh optimists by two to one. That said, global equity markets continue to rally. July was a very strong month for equity markets as BREXIT concerns subsided. The anticipation of reduced interest rates combined with a large number of investors holding elevated levels of cash saw strong inflows into higher yielding asset classes including equities. The US S&P500 rallied 3.7% in July, UK shares rose 3.4% and the European market was up 3.7%.

## NZ Economic Outlook

The NZ economy remains strong supported by construction, migration and tourism. Despite strong growth, inflation remains low - rising just 0.4% over the year and is becoming a concern to the RBNZ. They expressed concern over the strength of the New Zealand dollar which was reducing inflation and putting further pressure on the dairy sector. The Bank also announced further loan-to-value restrictions to help reduce the financial stability risks due to an overheated property market.

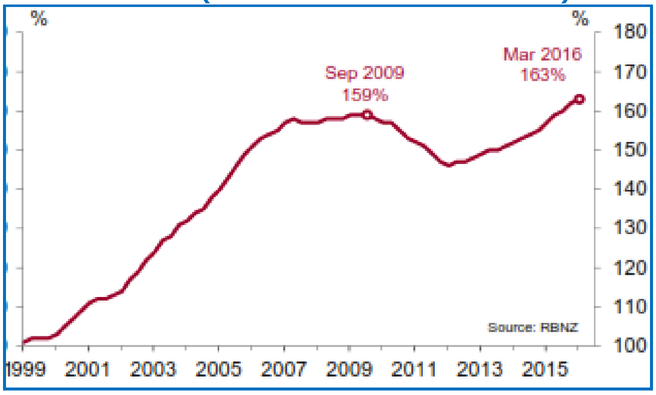
The NZX 50 Gross Index finished up 6.5% for the month of July, the third strongest monthly performance since 2009 (when markets were rebounding from the GFC).

## NZ Household Debt

Compared to other developed economies, household debt levels in New Zealand are high (equivalent to 163% of annual household disposable income) and have been climbing at a relatively fast pace. Increases in debt levels are not necessarily a problem for the economy.

However, this does add to the economy's vulnerabilities. Very low interest rates have been a key contributor to this trend. Low borrowing rates have made it very attractive for investors to purchase residential property using debt, especially given the low level of building relative to population growth in some areas. The resulting strong growth in house prices has also meant that owner-occupiers are borrowing more to purchase housing, while existing owners have spent some of their perceived windfall as house values have risen. Combined, these conditions have resulted in household credit growth rising at its fastest pace since 2008.

**Household Debt as percent of Disposable Income (including investment housing)**



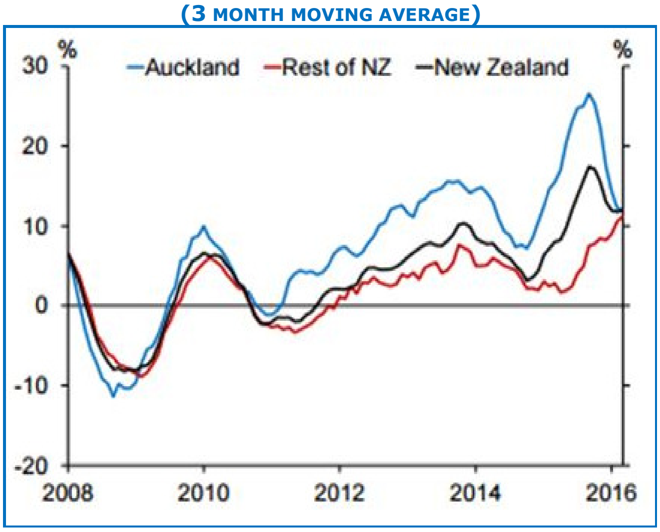

The Reserve Bank of New Zealand is clearly concerned about the New Zealand residential property market. Their latest statement followed an announcement earlier in the week detailing further restrictions to be imposed on the residential property market to come into effect from September this year. This included:

i. A limit for all investor lending, permitting no more than 5% of lending at a Loan to Value Ratio (LVR) greater than 60%. This essentially enforces a 40% deposit on the majority of investor lending. The RBNZ expect this to impact around 70% of investor loans with investors accounting for around 35% of house purchases nationwide.

ii. A limit for all owner-occupier lending, permitting no more than 10% of commitments with an LVR of greater than 80% (this was previously 15% of commitments outside of Auckland).

These new restrictions are intended to help ease demand for housing and reducing risk within the major retail bank's balance sheets. That said, there are already signs that residential house prices might be peaking.

**Annual House Price Inflation (3 month moving average)**




Source: RBNZ

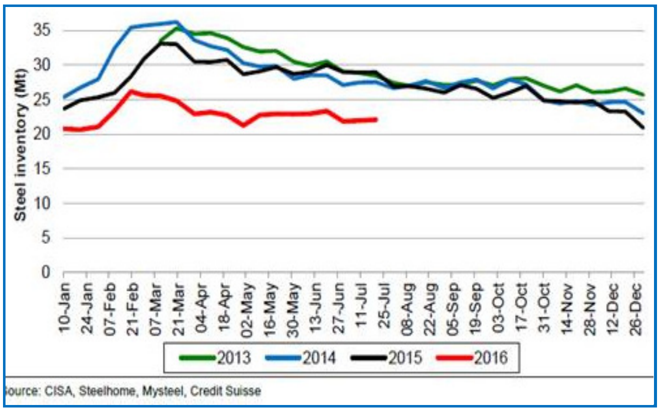
*"If you like spending 6-8 hours per week working on investments, do it. If you don't, then dollar cost average into index funds. This accomplishes diversification across assets and time, two very important things." – **Warren Buffett***

## Australian Economic Outlook

Growth in Australia continues to remain below average as the economy transitions away from the mining sector. This, combined with weak inflation and low wage growth, is likely to lead to further reductions in the Australian cash rate. The RBA's cut in the cash rate from 1.75% to 1.5% is expected to increase demand for yield stocks; assuming bank term deposit rates follow suit. To maintain income levels self-managed super funds need to take A$10 billion out of cash and invest in equities to maintain income levels for every 0.25% reduction in the cash rate. Historically low interest rates benefit share buybacks and debt financed acquisitions.

Strong steel prices are supporting a strong iron ore price as Chinese steel stock levels remain low, caused by low steel production earlier in the year when steel prices were low.

**CHINA STEEL INVENTORIES REMAIN LOW**




The ASX 200 was up 6.3% for July, taking the recent election in its stride.

## US Economy


The uncertainty around the upcoming Presidential Election (November) has increased, and this is slowing the US economy.

The US remains our favoured global region as it is better placed than most to withstand ongoing volatility.

## Asian Economies

After being out of favour for many years, Emerging Markets continued their strong run in July up 4.7% in USD and have now risen an impressive 28% since lows in January. Our analysts have a constructive view on the outlook for Emerging Markets given the recent stability in China, attractive valuations and the fact that investors are generally underweight Emerging Market assets.

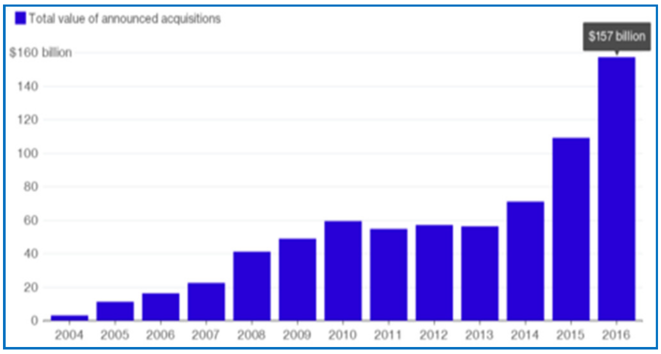
## Chinese Economy

China has been a huge investor in global infrastructure spend. However Britain and Australia have both just refused to sign off on investments where state-owned Chinese companies were ready to provide much-needed funding. In both cases, the long-term utility programs were halted in the later stages, stunning participants. Those in the U.K. were all set to join a signing ceremony when the announcement came.

As China's diplomatic policies become more and more assertive, there's a trend that these countries are gradually enhancing their vetting on Chinese investment. However, this is an attitude that is finally changing.

Chinese firms in the midst of a record overseas spending spree have been buying foreign utilities at the fastest pace in eight years, but these infrastructure deals are set to come under increased scrutiny by incoming governments wary of giving China access to their nations' critical networks.

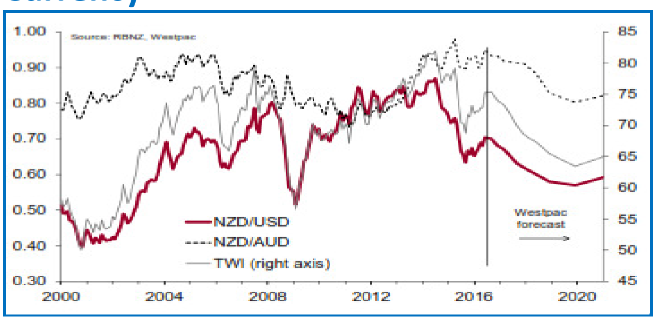
**CHINESE INVESTMENT INTO FOREIGN ASSETS**




United Kingdom Prime Minister Theresa May's government is currently reconsidering a plan to build Britain's first nuclear-power facility in more than 20 years. China General Nuclear Power Corp. had agreed to pay for about one-third of the £18 billion project, which has been progressing for years. May's administration said last month it wanted more time to study the deal. One of her advisers, Nick Timothy, warned last year that China's involvement in nuclear projects might allow it to "shut down Britain's energy production at will."

There is a warning here, for our John Key Government, that while we need foreign investment to retain our growth, it could also come with downstream risk.

## Currency



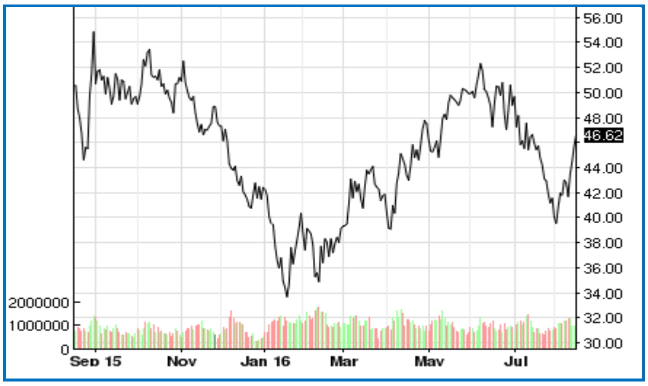
Our Reserve Bank forecasts a lower currency over the rest of this year, but with a stable government, strong population growth, falling unemployment, and interest rates high by global comparatives, the NZ dollar is likely to remain stubbornly high, particularly against the British pound and the euro.

## Commodities – Oil

Traders said oil markets came under renewed pressure from overproduction in both crude and refined products that has left onshore storage tanks filled to the rims, and triggered the chartering of tankers to store unsold fuel.

On the demand side, China's imports were weakening from records set in 2015 and this year. China's near-term crude imports will remain sluggish due to a combination of factors, including brimming commercial fuel stockpiles, slower off-take growth among refiners, and a more gradual pace of strategic stock building.

**OIL: WEST TEXAS CRUDE (1 YEAR CHART)**




# What is Daesh (ISIS) and where is it today?

The group ISIS was regarded by the west as a terrorist organisation even before it began its murderous rampage across the Middle East. Initially called Al-Qaeda in Iraq, it became Isis or Isil in 2013 and then Islamic State - after it launched a major offensive in northern Iraq and claimed to have established a caliphate across Iraq and Syria in June 2014. In the Arab world and the US, the derogatory name **Daesh** is commonly used to describe the group.

## Is it really Islamic?

The group claims to be the sole representative of true followers of Islam and has executed large numbers of Muslims whose understanding of the Koran differs from its own narrow interpretation. Barack Obama and David Cameron have both described the group as "un-Islamic" and surveys have found very little support for the group among western Muslims. Experts say the group believes itself to be religious, whatever most Muslims feel, and that makes it harder to fight.

## How much territory does it control?

At its height, in the winter of 2014-2015, IS encompassed almost a third of Iraq and Syria. According to the US-led coalition, air strikes and ground offensives have reduced its dominance in Iraq by almost half. Last month, the Iraqi army retook Falluja. The big battle now will be for the country's second largest city, Mosul, and the Iraqi Government hopes to foment an uprising among people living there.

## What about its territory in Syria?

That's ‘much more complicated’. With Russian help, forces loyal to President Bashar al-Assad took back the historic city of Palmyra earlier this year – an important symbolic victory which attracted international attention. But the regime appears more interested in attacking moderate opposition groups than in fighting IS.

## Who fights for IS?

Out of IS's 43 original founders, 39 have been killed, according to Hisham al-Hashimi, a Baghdad-based advisor to the Iraqi government. Kurdish and Iraqi commanders say the group is now using fighters who are less experienced and less ideologically committed than their predecessors. The latest US intelligence suggests there are up to 25,000 militants, more than 6,000 less than before, with the flow of foreign fighters into Iraq and Syria falling by almost 90 per cent in the past 12 months.

## How is it doing financially?

Before founding its caliphate, IS made money through oil smuggling in Syria, racketeering and kidnappings, as well as donations from private jihadi networks in the Gulf. Later, it captured some of Syria's most-lucrative oil fields. At their height, these were bringing in £30m a month for the group, with the main buyer being the Syrian government. However, attacks by the West and loss of territory are estimated to have reduced that to £11m a month.

Kissinger has produced a densely written sweeping and impressive book in both its scope and context. Henry Kissinger is 92 years old and it is immediate to see why his analysis is widely respected. In Kissinger's view the most important issue currently impacting global politics is World Order (the balance between legitimacy and power) which he defines and explains from a range of both historical and religious contexts. It is at times a challenging read but it is a meaty and relevant book.

Notable Kissinger points included:

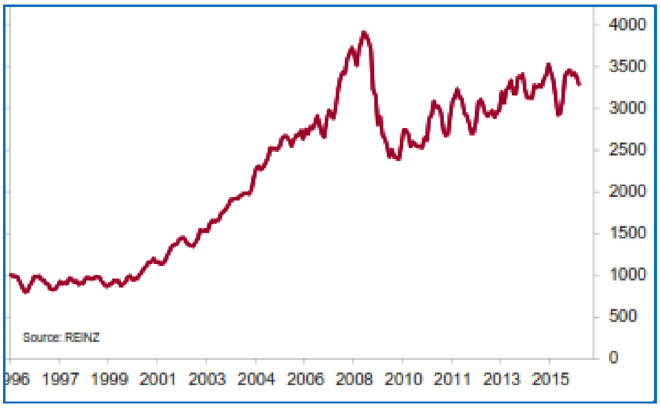
- Having downgraded its military capacities, Europe has little scope to respond when universal norms are flouted.
- In Asia nearly every country considers itself to be 'rising'. This increases the likelihood of volatility and compounds the risks of miscalculation.
- From 1624 (Richelieu) to 1871 (Bismarck) the aim of French foreign policy was to keep Europe divided - to keep France pre-eminent.
- Revolutions are most unsettling when least expected.
- Austria learned too late that in international affairs a reputation for reliability is a more important asset than demonstrations of tactical cleverness (post-Crimea).
- History punishes strategic frivolity sooner or later.
- Iran must decide whether it is a country (Westphalian) or a cause (Jihadism).
- (For Islam)… Democracy is objectionable for its capacity to legislate separately from Sharia law. The Westphalian concept of the state and international law is an abomination because it is based on rules not explicitly prescribed in the Quran.
- ….the Confucian concept of international order is as a familial hierarchy with China as the patriarch.
- China is not a missionary society like the West. It seeks to induce respect not conversion- that subtle line can never be crossed. It is possible for another country to become a friend but it can never be China's peer.
- "Civil wars end in victory or defeat not stalemate", Mao
- Need to learn from the history of the decade before World War 1 when the gradual emergence of an atmosphere of suspicion and latent confrontation escalated into catastrophe (None of the leaders who drifted into war in August 1914 would have done so if they could have foreseen the world in 1918).
- "National sovereignty is far more important than human rights", Deng Xiaoping.
- Bismarck in the 19th century…. "We live in a wondrous time, in which the strong is weak because of his scruples and the weak grows strong because of his audacity".
- US historically has treated foreign policy as a series of episodic challenges rather than as a permanent enterprise (despite Jefferson "we are acting for all mankind", and the US shoring up the world in two World wars and the Cold war).
- For Roosevelt;
  - If a nation was unable or unwilling to act or to defend its own interests it could not expect others to respect them.
  - The international system was in constant flux.
  - Liberal societies underestimate the elements of antagonism and strife in international affairs.
- The historical experience is that a stable European order has never come about except through an ultimate reconciliation of the victor and the defeated.
- Stalin was convinced the capitalist system inevitably produced wars and the hence the end of WW2 would at best be an armistice.
- "The other fellow is a good guy and will respond properly and decently if you treat him right", Roosevelt on Stalin (paraphrased).
- Stalin 1945, "Everyone imposes his own system as far as his army can reach".
- The spread of nuclear weapons multiplies the possibility of nuclear confrontation and will eventually affect the balance between nuclear superpowers. Any major nuclear country, if it succeeds in staying out of a nuclear conflict between the others would emerge as potentially dominant.
- Computing is the first revolution to bring so many individuals and processes in to the same medium and the same language of communication. Humans can become intelligence agencies in their own right.
- Cyberspace challenges all historical experience. Human consciousness is being shaped through screens (factual rather than conceptual, information rather than knowledge). Two different people asking a search engine the same question do not necessarily receive the same answers. The concept of truth is being relativised and individualised.
- If the gap between the qualities required for election and those essential for conduct of office become too wide conceptual grasp may be lost….are candidates spokesmen for marketing efforts?
- If you shirk your international responsibility you will fail at home", Nixon.

# Agribusiness – Looking from the outside in

## Farm Prices

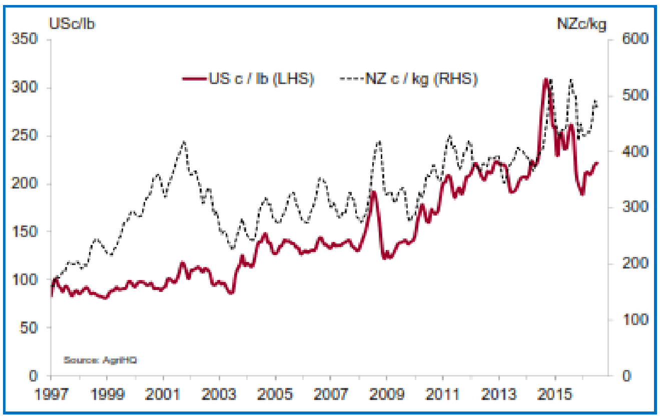
The REINZ farm price index moderated a little further in June, and is now 4% lower than a year ago. However, dairy farm prices have been much weaker, falling further in June (albeit on low volumes). The REINZ dairy farm price index is now 18% below a year ago and 33% below its 2014 peaks. On a per hectare basis, prices for horticulture land have moderated over the last couple of months after a very strong run over the last 6 months.

**REINZ Farm Price Index**



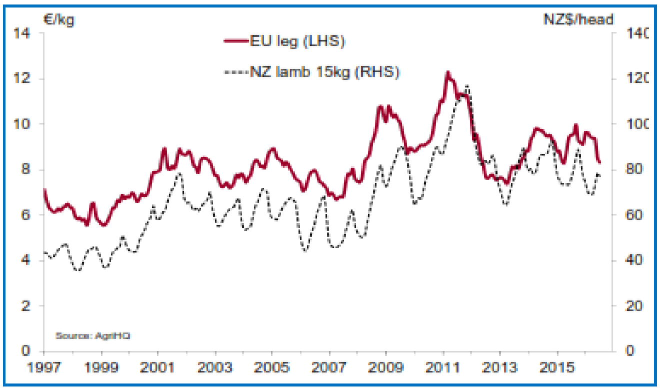

## Beef

Over the medium term, international beef prices are likely to be underpinned by relatively tight global supply as beef exports from Australia, and to a lesser extent New Zealand, contract. However, this will be balanced against increasing domestic supplies in the US, with changes to market access for Brazil's chilled beef exporters an important wild card that could influence prices.



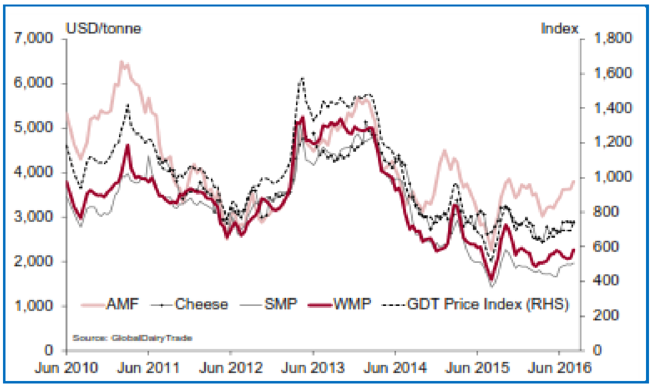

## Lamb

Over the medium term, expect global lamb supplies to remain relatively tight. There has been a modest improvement in the demand outlook for lamb. The recent improvement in oil prices should help bolster incomes in the Middle East, and although the outlook for the Chinese economy remains soft, there are anecdotal reports of lower inventories supporting demand. However, the sharp fall in the value of the pound following the "Brexit" vote will make NZ lamb more expensive for British consumers, putting pressure on prices.




## Dairy

Dairy prices rose 6.6% at the 2nd August Global Dairy Trade auction, led by a 9.9% lift in whole milk powder prices. Most other products on offer also posted gains. While the rise will undoubtedly be welcomed by farmers, there should be caution against getting too carried away just yet. While there are signs of slower growth in milk supply in major dairy exporters, including the EU, this slowdown is coming off a very high level.

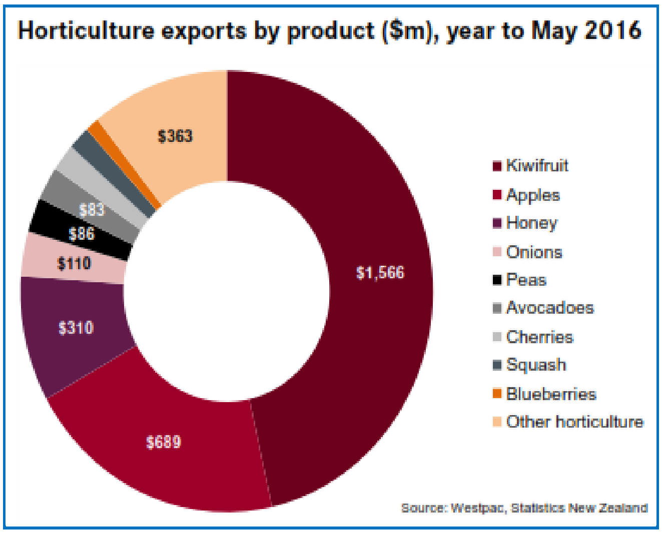



## Horticulture

The horticulture sector in New Zealand is small in terms of direct employment, at around 39,000 FTEs, but is responsible for more than 7% of New Zealand's merchandise exports. The sector is enjoying a period of exceptional growth across almost all subsectors. Total export revenues reached $3.4 billion in the year to May 2016, and in the four years to May revenues from exports of our three most important horticulture products (by value) grew by 54% (kiwifruit), 105% (apples) and 158% (honey). But growth was not limited to these headliners. Blueberries (116%), onions (81%), and cherries (303%) have also done very well. Huge potential for further growth remains.


A number of factors have driven this recent success. Many product categories have increased yields by up to 50% through new on-farm practices, or growing different varieties. Marketing of individual varieties as brands has opened up new markets internationally, while trade with China and other parts of Asia has benefitted from freer trade, often aided by Free Trade Agreements.

At the same time, huge changes are afoot, posing both opportunities and risks. These include increased **consolidation and corporatisation**. **Better technology** is also emerging, including know-how on planting and pruning; new varieties; digital technology to monitor ripeness, quality, and weather patterns to optimise production; more automation in sorting and packing; and better atmosphere control in refrigerated units. This gives us an advantage over competitors until such time as they catch up on the technology, so changes must remain ongoing. Expect more automation of sorting and packing, and the need to employ technology to further support corporatisation. **Exports are increasingly concentrated** in fewer markets, most notably Australia and China, growing risks from a shock in one market. Over the short-term, we expect to see more export concentration in China, but opportunities in emerging markets like India and Indonesia may offer some diversification.




## *Fonterra – Why hasn't it worked?*

15 years since it was formed, Fonterra is fundamentally doing the same things it did in 2001. "Moving up the value chain" is hardly a new vision for New Zealand dairy. Industry leaders have been repeating the same mantra for at least the past 25 years. In 1989, then chairman of the Dairy Board Sir Dryden Spring set the goal of lifting the proportion of value added products" as close to 100 per cent as we can get as soon as possible". In 2016 not too much progress is evident.

The Dairy Industry Restructuring Act 2001 (DIRA) enabled the creation of Fonterra. Under DIRA Fonterra has a statutory obligation to:

- Be an open co-operative that accepts (subject to limited exceptions) all milk supply offered by any dairy farmer in New Zealand who is willing to hold shares in Fonterra in proportion to their milk supply;
- Ensure the terms of supply that apply to new farmer shareholders only differ to those applying to existing farmer shareholders to reflect different circumstances;
- Allow farmer shareholders to supply up to 20% of their weekly production throughout the season to another processor;
- Allow farmer shareholders to leave the Co-operative and, on leaving, purchase their milk vats (subject to specified conditions).

This legislation has effectively stymied Fonterra, and they are now lobbying central government for an easing of the terms of operation. Previously, under the Dairy Board, supply was constrained and farmers were unable to convert into diary production at their will. This change has completely turned the dairy industry on its head, and Fonterra hasn't developed effective strategies to manage this huge increase in production (up 58% since its formation in 2001).

### So where has Fonterra gone wrong?

1. **Fonterra lacks a consumer focus**. It is strongly production driven (controlled by its dairy farmer owners). Increasing volumes and holding market share take precedence over moving up the value curve.
2. **Poor strategic direction.** Fonterra seems to have a confused view of its strengths and weaknesses. In Fonterra's strategic outlook, by covering every step in the supply chain, it believes this gives it a major advantage over competitors. It boasted in 2007 "*We do it all. We can take this expertise and apply all or part of it in any market*." However, expertise in commodities manufacturing and distribution

does not give any special competitive advantage in downstream markets.

3. **Fonterra is capital constrained.** Building a successful higher value dairy business in overseas markets is extremely capital intensive, but Fonterra has channelled its capital mainly into plant and equipment, for processing raw milk in New Zealand - which dominates its business. Growth in capital expenditure has been greater than growth in selling and marketing expenses.

4. **Fonterra exhibits weak governance** and limited capacity to execute. Fonterra has 13 directors - nine dairy farmers elected by supplier shareholders, and four independents appointed by the other nine. The board's expertise is heavily weighted toward milk production and processing. A wider range of talent is required to successfully grow higher value businesses. Inadequate information disclosure and weak monitoring are important related problems.

In conclusion, Fonterra was never a "break-through idea", and It didn't "catch the knowledge wave" that government was looking for.

Bill English told Parliament in 2001, forming Fonterra was the "*product of a political deal between the Government and the dairy industry*". It was a defensive compromise to break an impasse. The industry agreed to lose the Dairy Board's statutory "single exporter" powers on condition that the Government replaced it with special legislation enabling the formation of Fonterra. In short, the statutory single buyer was swapped for a commercial near-monopoly with special rules.

It was an illogical deal with the industry believing it would continue as a highly dominant dairy exporter. De-regulation supporters had hoped that Fonterra's establishment would lead to contestability and significant innovation. 15 years on, that view has come back to bite dairy farmer suppliers/shareholders.

## *Global Equity Strategy – Where is the consensus now?* SOURCE: Credit Suisse

After an extensive round of marketing in the US, UK, Europe and South Africa, our Credit Suisse analysts highlight where they see the 'new' consensus:

- Clients are close to being as bearish on equities as they can remember. Clients do not find equity valuations attractive enough to compensate for the macro, political, earnings and business model risks. Our analysts think that clients are too pessimistic. Bonds, credit and real estate look abnormally expensive, whereas liquidity and positioning are also supportive of equities.

- Clients are warming up to emerging markets. This is a region that our analysts have been overweight since December. The key driver is high real bond yields in local currency terms, while currencies (ex the RMB) are still very cheap.

- Clients see 'lower for longer' now being 'lower forever'. Net speculative positions on Treasury futures are now close to a 3 year high. Clients see structural disinflation, China and a US economy that is late cycle causing US yields to fall further. Our analysts see signs of a rebound in lead indicators, core inflation stabilising (with signs of US wage growth accelerating) and, above all, a move to looser fiscal policy placing upward pressure on yields. Consumer staples are now 2 standard deviations expensive.

- Capitulation on Europe. Many US clients believed Brexit meant the end of the euro (with Italian constitutional referendum being the next key event). Outflows are close to record highs, valuations are back to Greek crisis lows on P/E relatives yet earnings and economic momentum are showing signs of relative stability. Focus on European domestic demand plays.

- Oil: upside risk. Clients see a risk of a spike in the oil price to US$60-70pb despite the 3 year forward being $56pb. Our analysts see oil as capped closer to US$50pb, and believe IOCs' 2018 FCF yield (5% on US$50pb oil) is unattractive.

- Disruptive Technology. Some clients see this as the key risk (and our analysts would agree) with the key drivers being a smartphone penetration rate of 56% globally, 3D printing, battery storage technology and computing power, on some estimates, close to that of a human brain by 2018. Clients are buying the disrupters (Google, Facebook, Amazon, Tencent, most commonly), but are not paying enough attention to the disrupted.

- Japan - close to record foreign selling. This is despite valuations (relative to the US) being back to pre-Abe levels and clear corporate change (with buybacks up very strongly). Policy has to become more stimulative.
- Looser fiscal policy. Clients felt a crisis is needed before it happens. Clients are very aware of the underinvestment in US and UK infrastructure.

- China - largely off the radar screen. This is unwise when housing lead indicators have peaked and state investment growth is already at a 6 year high. Our analysts found deep value and hedge funds warming up to luxury.

## How stretched is the NZ equity market?

The NZ equity market has shown a strong performance over recent years, with the NZX50G index recording an annual average increase over the past five years of 15.4% - which is well above its ten-year average increase of a more modest 8.0% rise - raising some concerns regarding the durability and sustainability of recent domestic equity market gains.

Looking at the duration of real equity market cycles since 1970, the current upturn – with a length of 88 months – has been the second longest over the period examined and is well above both the median and average length of 22 and 34 months, respectively, recorded over the previous nine upturns.

The real annual growth rate for the year to June 2016 of 20.0% is also significantly above its long-run average of 7.2% and resides in the upper quartile of the monthly frequency distribution going back to January 1970. In addition, on the basis of the real log-linear trend since 1970, the NZ equity market is estimated to be around 22% overvalued. Furthermore, current estimated core 12-month forward P/E of 21.6 times is around 35% above its ten-year average of 16.1 times.

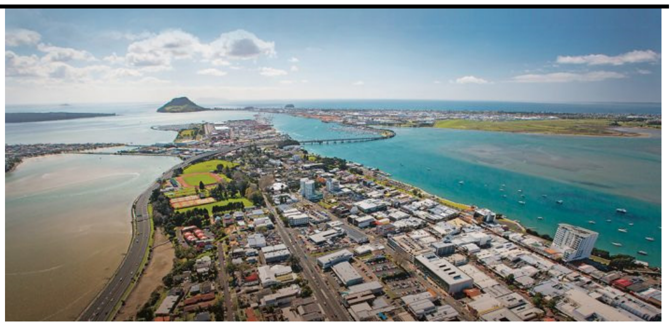
On the basis of recent growth rates relative to its history and current P/E levels, it appears that the NZ equity market is at stretched valuations. However, short-term and long-term interest rate settings clearly remain supportive, together with the absence of a strong sell signal coming from the current attractive level of both the earnings and dividend gaps. In particular, the bond-to-earnings yield index and bond-to-dividend index ratios suggest an undervaluation level around 36% and 51%, respectively, relative to their ten-year averages.

Given that the elevated level of earnings and dividend yields relative to bond yields are key supportive factors – and currently provide a valuation offset to the current stretched P/E ratios and above long-run trend growth rates – there is likely to be heightened market sensitivity to any reversal in these current yield gaps. From our perspective such a reversal is most likely to occur via two pathways:

- Disappointing expectations or outturns for domestic earnings and/or dividends, most likely via a sharp deterioration in domestic activity prospects, and
- A reasonably sharp rise in domestic bond yields from their current historic lows – a scenario that will most likely require to be internationally led.

## Port of Tauranga

I notice Forsyth Barr has recently put out a negative recommendation on POT. For me, POT remains a core portfolio stock. It retains "top of class" in the port sector, and with the imminent arrival of the first 9,500 TEU container ships, I say retain POT as a core investment.



## PGG Wrightson (PGW.NZ)

**OUTPERFORM** $0.47 Target: $0.65

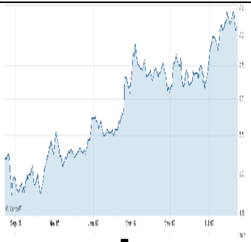
PGW had a strong finish to its FY16F. For the second time in six weeks, PGW has upgraded its FY16F guidance on the back of this strong finish to FY16F. EBITDA is now forecast to exceed $68m - the top end of the company's previous $65-68m guidance. We imply from PGW's NPAT guidance that the company's EBITDA could be around $71m. Despite ongoing headwinds in the fortune for the New Zealand dairy sector, PGW clearly has gained sufficient market share momentum not only to maintain, but also deliver, a likely record EBITDA in FY16F.

### Some significant long-term opportunities

We continue to like management's growth strategy which focuses on improving existing business through share gain in segments where PGW is under-represented and on segments and geographies with structural growth opportunities. Key long-term opportunities for PGW include potential for share gain of rural retail supply into the NZ dairy sector, the irrigation sector, as well as seeds and irrigation solutions in Latin America, especially in Uruguay. The short-term offset is the decline in farm gate returns for the dairying and sheep sectors.

| PGW Year to 30 June | | 2015A | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|
| Adjusted Earnings | NZ$m | 34.7 | 39.3 | 40.2 | 41.9 |
| Earnings /share (Adjust) | NZc | 4.6 | 5.2 | 5.3 | 5.6 |
| EPS Growth | % | 3.8 | 13.3 | 2.3 | 4.1 |
| Price / Earnings Ratio | x | 10.2 | 9.0 | 8.8 | 8.5 |
| Cash Per Share | NZc | 5.7 | 6.4 | 6.6 | 6.8 |
| Net Div / Share | NZc | 4.0 | 4.0 | 4.0 | 4.0 |
| Gross Div Yield | % | 11.8 | 11.8 | 11.8 | 11.8 |

NOTE: (1) THESE ARE ALL ONE YEAR GRAPHS (2) MANY STOCKS NOW EXCEED ANALYST TARGETS, EQUATING TO NEGATIVE PROJECTIONS



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## Auckland International Airport

The Commission reaffirmed that New Zealand airports are free to set their own WACC and target aeronautical returns. However, if a regulated aeronautical return differs from the Commission's mid-point WACC estimate then the airport must provide an explanation and disclose evidence to justify that difference. This flexibility in setting returns will allow for consideration of alternative discount rates for higher risk projects. Our analysts have upgraded our forecasts to capture the assumption that AIA targets future aeronautical returns equivalent to a 60th percentile WACC.

20017 P/E: 31.4 2018 P/E: 28.0

| | |
|---|---|
| **NZX Code:** | **AIA** |
| **Share Price:** | **$7.14** |
| **12mth Target:** | **$5.25** |
| **Projected return (%)** | |
| Capital gain | -26.5% |
| Dividend yield (Net) | 2.8% |
| **Total return** | **-23.7%** |
| **Rating:** | **UNDERPERFORM** |
| 52-week price range:4.75-7.46 | |

→

## Chorus

The Telco Review is now starting to increasingly play out as would be expected – with it following a path that appears to reflect limited political controversy so long as the Government remains political in its decisions – i.e. doesn't get too involved. CNU's revenues and profitability remain some three or more years away, with the Commerce Commission having yet to set the initial asset base and other key inputs and then implement them, in what looks likely to be a Revenue Cap that will be set for CNU.

20017 P/E: 12.7 2018 P/E: 13.8

| | |
|---|---|
| **NZX Code:** | **CNU** |
| **Share Price:** | **$4.60** |
| **12mth Target:** | **$4.10** |
| **Projected return (%)** | |
| Capital gain | -10.9% |
| Dividend yield (Net) | 4.7% |
| **Total return** | **-6.2%** |
| **Rating:** | **NEUTRAL** |
| 52-week price range: 2.45-4.64 | |

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## Contact Energy

CEN continues to appear to offer good value relative to the broader equity market, but has recorded a decline in forecast earnings. Currently CEN is using its strong cash flow to reduce the level of debt on its balance sheet. CEN could materially increase its dividend once the level of debt declines to an acceptable level. However, due to a lack of imputation credits we understand that CEN will probably commence periodic share buybacks rather than pay higher dividends.

20017 P/E: 20.7 2018 P/E: 19.3

| | |
|---|---|
| **NZX Code:** | **CEN** |
| **Share Price:** | **$5.27** |
| **12mth Target:** | **$6.52** |
| **Projected return (%)** | |
| Capital gain | 23.7% |
| Dividend yield (Net) | 4.9% |
| **Total return** | **28.6%** |
| **Rating:** | **OUTPERFORM** |
| 52-week price range: 4.35-5.49 | |

↑

## Ebos Group

EBO has been a solid, consistent performer, growing strongly via acquisitions. The majority of earnings come from wholesale pharmacy, but EBO also operates in animal care (19% of earnings), institutional healthcare, and consumer products. EBO supplies and distributes medical consumable products and equipment to the hospital and primary care sectors in NZ and Australia (78% and 22% of group revenue respectively).

2017 P/E: 17.4 2018 P/E: 16.3

| | |
|---|---|
| **NZX Code:** | **EBO** |
| **Share Price:** | **$17.67** |
| **12mth Target:** | **$14.88** |
| **Projected return (%)** | |
| Capital gain | -15.8% |
| Dividend yield (Net) | 3.6% |
| **Total return** | **-12.2%** |
| **Rating: OUTPERFORM** | |
| 52-week price range: 10.00-17.95 | |

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## EROAD

Our analysts continue to like ERD's business case and growth opportunity. While FY17 growth in North America is expected to be relatively slow until ERD comes to market with a secure Electronic Logging Device (ELD), the large potential in this market and ERD's solid business operation in NZ means its remains an attractive investment case. They have set their target price of $2.95 based on discounted cash flow assumptions of ERD's growth potential in ANZ and 50% of their assessed value for North America to reflect ERD's stage of development in this market.

2017 P/E: N/A 2018 P/E: 19.5

| | |
|---|---|
| **NZX Code:** | **ERD** |
| **Share Price:** | **$2.20** |
| **12mth Target:** | **$2.95** |
| **Projected return (%)** | |
| Capital gain | 34.1% |
| Dividend yield (Net) | 0% |
| **Total return** | **34.1%** |
| **Rating: OUTPERFORM** | |
| 52-week price range: 1.75-3.69 | |

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## Fletcher Building

FBU announced that it has completed the transaction to acquire New Zealand and Fiji road construction and maintenance business Higgins for a purchase price of $303 million. FBU provides an exposure to 1) the present and ongoing recovery in the NZ building market, 2) the Australian detached home building sector, 3) a projected modest recovery in the US non-residential sector, 4) the potential upside in terms of cost savings from FBUnite programme and 5) the tailwinds from a weaker NZD/USD.

2017 P/E: 13.6 2018 P/E: 12.3

| | |
|---|---|
| **NZX Code:** | **FBU** |
| **Share Price:** | **$9.93** |
| **12mth Target:** | **$10.10** |
| **Projected return (%)** | |
| Capital gain | 1.7% |
| Dividend yield (Net) | 4.3% |
| **Total return** | **6.0%** |
| **Rating:** | **OUTPERFORM** |
| 52-week price range: 6.56-10.03 | |

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## Fonterra Shareholder Fund

FSF provides a wide ranging exposure to the dairy industry including a significant position in globally traded dairy commodities due to its strong position in the NZ milk market where it collects ~85% of New Zealand's milk. FSF's ability to convert the opportunities its position provides into a sustainable and growing earnings profile has been challenging. A myriad of factors, both in and outside FSF's control likely contribute to its lack of success to date. While FSF has a strategy to increase its exposure to higher margin products its business remains heavily weighted to processing NZ milk into commodities.

2017 P/E: 10.7 2018 P/E: 9.6

| | |
|---|---|
| **NZX Code:** | **FSF** |
| **Share Price:** | **$5.85** |
| **12mth Target:** | **$6.12** |
| **Projected return (%)** | |
| Capital gain | 4.6% |
| Dividend yield (Net) | 6.6% |
| **Total return %** | **11.2** |
| **Rating:** | **NEUTRAL** |
| 52-week price range: 4.75-6.12 | |

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## Freightways

FRE offers reasonable value when compared to the broader NZ equity market which has enjoyed a strong rally since February. The NZ Express Package business recorded a disappointing first half profit. The second half profit is likely to have been relatively strong following positive comments from FRE's competitors and the increased growth of the ANZ Light Traffic Index. Longer term, a new sorting facility in Christchurch should boost margins from March 2017, with a new Auckland sorting facility to follow. FRE has a solid balance sheet and a good track record of consistent dividend growth.

2017 P/E: 18.6 2018 P/E: 17.0

| | |
|---|---|
| **NZX Code:** | **FRE** |
| **Share Price:** | **$6.66** |
| **12mth Target:** | **$6.15** |
| **Projected return (%)** | |
| Capital gain | -7.7% |
| Dividend yield (Net) | 4.3% |
| **Total return** | **-3.4%** |
| **Rating:** | **NEUTRAL** |

52-week price range: 5.20-6.93

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## Genesis Energy

GNE has a number of distinct differences from its competitor generator/retailers: it has the largest retail customer base, the only coal-fired power station and also the newest combined cycle gas turbine, and it holds a 31% stake in the producing Kupe oil and gas field. Although uncertainty around the future of Tiwai smelter could again impact GNE's thermal profitability and share price by late 2016 (we ascribe 15% chance of exit between 2018 and 2025). NZ's very competitive retail electricity market means retail margins are unlikely to materially increase, indeed we project a general decline (in real 2015 dollar terms) over the next decade down to a 5% earnings margin.

2017 P/E: 21.3 2018 P/E: 21.7

| | |
|---|---|
| **NZX Code:** | **GNE** |
| **Share Price:** | **$2.22** |
| **12mth Target:** | **$1.78** |
| **Projected return (%)** | |
| Capital gain | -19.8% |
| Dividend yield (Net) | 8.4% |
| **Total return** | **-11.4%** |
| **Rating:** | **UNDERPERFORM** |

52-week price range: 1.71-2.30

Unrated

## Hallenstein Glasson

HLG has battled during a difficult period for discretionary retail in NZ and Australia. A weaker NZ dollar and increased competition are headwinds while the Glassons brand is struggling to resonate. This has always been a strong yield play, with a Balance Sheet that is debt free. The question remains as to whether there are any growth prospects.

2017 P/E: 13.5 2018 P/E: 13.9

| | |
|---|---|
| **NZX Code:** | **HLG** |
| **Share Price:** | **$2.80** |
| **12mth Target:** | |
| **Projected return (%)** | |
| Capital gain | 0% |
| Dividend yield (Net) | 11.1% |
| **Total return** | **11.1%** |
| **Rating:** | **UNRATED** |

52-week price range: 2.59-3.86

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## Heartland Bank

HBL reported a solid 2016 profit (+12%) driven by growth across the group including business, rural and motor vehicle lending. The reverse mortgage division also showed some growth. Management once again delivered on expectations. FNZC continue to like HBL's longer term investment case with potential to grow from both organic opportunities and the potential for accretive bolt-on acquisitions. When combined with balance sheet capacity to support core business growth, we believe HBL can deliver growth in dividend per share (DPS) over time. Expect a pre-tax yield of 8.7% in 2017 and further growth in 2018 and 2019.

2017 P/E: 11.3 2018 P/E: 10.9

| | |
|---|---|
| **NZX Code:** | **HBL** |
| **Share Price:** | **$1.43** |
| **12mth Target:** | **$1.30** |
| **Projected return (%)** | |
| Capital gain | -9.2% |
| Dividend yield (Net) | 6.5% |
| **Total return** | **-2.6%** |
| **Rating:** | **NEUTRAL** |

52-week price range: 1.06-1.49

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## Infratil NZ

Expect 2016 to be a year of portfolio re-building, with IFT seeking to secure several large new investments, primarily in retirement or renewable energy sectors. It may also attempt to realise value on some of its older investments still held in the portfolio. It seems possible that IFT could realise gains from it's long-standing TPW exposure this year, with a mooted demerger of TPW into two listed vehicles. We expect considerable market speculation about IFT's preference for shareholding in each of these, and how each vehicle might be valued. We think IFT will retain its stake in TPW Core, whilst IFT will look to invest some of its war chest into new Newco renewables in Australia.

2017 P/E: n/a 2018 P/E: 24.9

| | |
|---|---|
| **NZX Code:** | **IFT** |
| **Share Price:** | **$3.40** |
| **12mth Target:** | **$3.36** |
| **Projected return (%)** | |
| Capital gain | -1.2% |
| Dividend yield (Net) | 4.6% |
| **Total return** | **3.4%** |
| **Rating:** | **NEUTRAL** |

52-week price range: 2.93-3.43

↑

## Mainfreight

With a difficult macro outlook, they believe that MFT may, at least in the short-term, struggle to deliver on that outcome in the increasingly capital intensive Australia market. MFT must differentiate itself with a superior overall customer offer in Australia or face the prospect of increasingly competing with price to win volume. They are more optimistic in their outlook for the Americas. MFT has rapidly expanded its line haul routes over the last 18 months, and while utilisation improvement and economies of scale will take time to develop, the potential for step change improvement in the US market presents an attractive medium and longer-term growth option for MFT.

2017 P/E: 17.1 2018 P/E: 15.1

| | |
|---|---|
| **NZX Code:** | **MFT** |
| **Share Price:** | **$17.26** |
| **12mth Target:** | **$17.10** |
| **Projected return (%)** | |
| Capital gain | -0.9% |
| Dividend yield (Net) | 2.4% |
| **Total return** | **1.5%** |
| **Rating:** | **OUTPERFORM** |

52-week price range:14.04-17.65

→

## Meridian Energy

Like the rest of the electricity generators, the sector's main value driver is long run spot electricity prices. Forward electricity prices currently vary in the $70/MWh to $80/MWh range. FNZC's base-case discounted cash flow assumes an $80/MWh real price in the spot market is achieved by 2025, on the assumption that sustained demand growth will continue, driven by gross domestic product (GDP) and population growth.

2017 P/E: 29.9 2018 P/E: 27.5

| | |
|---|---|
| **NZX Code:** | **MEL** |
| **Share Price:** | **$2.86** |
| **12mth Target:** | **$2.44** |
| **Projected return (%)** | |
| Capital gain | -14.7% |
| Dividend yield (Net) | 7.8% |
| **Total return** | **-6.9%** |
| **Rating:** | **UNDERPERFORM** |

52-week price range: 2.04-2.96

## Metlifecare

MET confirms that the acquisition of its Red Beach site on the Hibiscus Coast is now unconditional. The site will be MET's 16th in the wider Auckland region. The proposed village will become home to over 500 residents and is planned to provide a fll range of living options including a 68-bed care home. The new village is also planned to include a retail precinct, swimming pool, bowling green, croquet lawn and other resident facilities.

2016 P/E: 17.1 2017 P/E15.3

| | |
|---|---|
| **NZX Code:** | **MET** |
| **Share Price:** | **$5.83** |
| **12mth Target:** | **$5.90** |
| **Projected return (%)** | |
| Capital gain | 1.2% |
| Dividend yield (Net) | 1.0% |
| **Total return** | **2.2%** |
| **Rating: OUTPERFORM** | |
| 52-week price range: 4.10-6.00 | |

Restricted

## Mighty River Power

MRP is a renewables-dominated electricity company with hydro, geothermal and gas-fired generation. The sector has a stable demand profile and strong cash flows, and MRP is a low cost producer of with long life assets and a good customer base. FNZC is restricted currently for this stock.

2017 P/E: 18.9 2018 P/E: n/a

| | |
|---|---|
| **NZX Code:** | **MRP** |
| **Share Price:** | **$3.06** |
| **12mth Target:** | **$2.68** |
| **Projected return (%)** | |
| Capital gain | -12.4% |
| Dividend yield (Net) | 7.9% |
| **Total return** | **-4.5%** |
| **Rating: RESTRICTED** | |
| 52-week price range: 2.38-3.15 | |

## NZ Refining

Up to this point FNZC's outlook for 2016 NZR refining margins was for an easing from "stellar" to "robust" levels. A weaker gasoline crack outlook makes them less optimistic. Across the forward curve, Singapore gasoline cracks vs Dubai crude have fallen between US$4-5/bbl. Their latest tracker-based FY16 forecast now expects NZR to receive overall GRM of US$5.3/bbl in FY16 (previously US$6.6/bbl, well below FNZC's long run US$7.2/bbl) and US$6.2/bbl in FY17.

2017 P/E: 17.5 2018 P/E: 9.9

| | |
|---|---|
| **NZX Code:** | **NZR** |
| **Share Price:** | **$2.52** |
| **12mth Target:** | **$2.75** |
| **Projected return (%)** | |
| Capital gain | 9.1% |
| Dividend yield (Net) | 2.9% |
| **Total return** | **12.0%** |
| **Rating: NEUTRAL** | |
| 52-week price range: 2.35-3.89 | |

## Opus International Consultants

FNZC rate OIC neutral with a $1.20 target price because of the increasing longevity of the downdraft in the Australian and Canadian markets. The causal factors which could be regarded as structural is beginning to create some strategic dilemma for management and the Board. The current steep stock price discount to their assessed valuation would suggest the market does not currently believe the present loss making position would or could be turned around, or that the company would exit these markets anytime soon. While FNZC sees value in the business, they struggle with how this might be crystallised.

2017 P/E: 8.2 2018 P/E: 7.3

| | |
|---|---|
| **NZX Code:** | **OIC** |
| **Share Price:** | **$1.16** |
| **12mth Target:** | **$1.20** |
| **Projected return (%)** | |
| Capital gain | 3.4% |
| Dividend yield (Net) | 6.0% |
| **Total return** | **9.4%** |
| **Rating: NEUTRAL** | |
| 52-week price range: 1.08-1.36 | |

## PGG Wrightson

Even with the significant headwinds, PGW was able to eke out some growth as well as a record EBITDA in FY16A of $70.2m compared with $69.6m in FY15A. This is the second consecutive year where PGW was able to sustain c$70m EBITDA against significant decline in spend level in the NZ dairy sector. The stock is currently at undemanding trading multiples.

2017 P/E: 9.9 2018 P/E: 9.4

| | |
|---|---|
| **NZX Code:** | **PGW** |
| **Share Price:** | **$0.52** |
| **12mth Target:** | **$0.65** |
| **Projected return (%)** | |
| Capital gain | 25.0% |
| Dividend yield (Net) | 7.4% |
| **Total return** | **32.4%** |
| **Rating: OUTPERFORM** | |
| 52-week price range: 0.38-0.54 | |

## Port of Tauranga

FNZC retain their central thesis that the current returns earned by international shipping lines on New Zealand trade routes are unsustainably low and as a consequence there will be consolidation in the number of shipping lines that service New Zealand. They expect volume consolidation to occur in the form of ports visited and size of ships that visit those ports. Strategic strengths for POT include its close proximity to one of New Zealand's major export production regions, its Metroport facility in Auckland, its investment in Timaru and its ability to invest for bigger ships while still earning a satisfactory ROIC on that incremental investment.

2017 P/E: 30.0 2018 P/E: 26.5

| | |
|---|---|
| **NZX Code:** | **POT** |
| **Share Price:** | **$19.38** |
| **12mth Target:** | **$17.70** |
| **Projected return (%)** | |
| Capital gain | -8.7% |
| Dividend yield (Net) | 3.0% |
| **Total return** | **-5.7%** |
| **Rating: NEUTRAL** | |
| 52-week price range: 16.60-20.24 | |

## Ryman Healthcare

The retirement village sector benefits from a favourable residential housing market and expect growing support for the industry by government, which needs to encourage investment in capacity ahead of needs for baby boomers. Additional costs and wage inflation are being offset by the ability to charge for additional services (premium charging). RYM is well positioned to benefit from its highly attractive business model, compelling demographic tailwinds and best-of-breed management / operations / assets.

2017 P/E: 26.1 2018 P/E: 22.4

| | |
|---|---|
| **NZX Code:** | **RYM** |
| **Share Price:** | **$9.43** |
| **12mth Target:** | **$9.10** |
| **Projected return (%)** | |
| Capital gain | -3.5% |
| Dividend yield (Net) | 1.9% |
| **Total return** | **-1.6%** |
| **Rating: NEUTRAL** | |
| 52-week price range: 7.05-9.80 | |

## Sky City Entertainment

Momentum has slowed in May and June for SKC. Normalised EBITDA increased 8.3% to $330.1m, which was below expectations following a disappointing final two months of trading. Deteriorating macro conditions and market share loss combined to deliver a 4.3% decline in SKC Adelaide main gaming floor revenue in 2H16. Negative revisions to operating earnings forecasts of 1.5% sees our analyst's 12month price target decline from $4.20 to $4.15 per share.

2017 P/E: 18.2 2018 P/E: 16.8

| | |
|---|---|
| **NZX Code:** | **SKC** |
| **Share Price:** | **$4.97** |
| **12mth Target:** | **$4.15** |
| **Projected return (%)** | |
| Capital gain | -16.5% |
| Dividend yield (Net) | 4.5% |
| **Total return** | **-12.0%** |
| **Rating: UNDERPERFORM** | |
| 52-week price range: 3.68-5.19 | |

## Sky Network Television

While SKT maintains a very strong content position and the degree of overlap between competition and SKT's business remains relatively small, it is difficult to ignore the pressures facing SKT. As the incumbent SKT is well placed to adapt its business model, and it's securing of key content for the next three to five years gives it some time. However, SKT needs to continue to grow subscribers to be competitive for content over the long-term and with more competition and maturity in core pay-tv subscriber numbers

2017 P/E: 14.2 2018 P/E: 17.9

| | |
|---|---|
| **NZX Code:** | **SKT** |
| **Share Price:** | **$4.87** |
| **12mth Target:** | **$4.58** |
| **Projected return (%)** | |
| Capital gain | -6.0% |
| Dividend yield (Net) | 6.2% |
| **Total return** | **0.2%** |

**Rating: NEUTRAL**

52-week price range: 3.91-5.69

## Spark NZ

SPK appears to be a beneficiary of the continued momentum in offshore fund flows seeking out large, liquid, high yielding NZ stocks. While SPK offers an attractive dividend yield, it appears to be expensive on a valuation ratio basis and relative to our discounted cash flow valuation. The dividend yield is currently enhanced by a 3 cent per share special dividend. Due to a sound balance sheet, we believe that this is sustainable for the foreseeable future. However, we don't think it is sustainable in the long term. Consequently, SPK has no forecast dividend growth.

2017 P/E: 18.9 2018 P/E: 17.0

| | |
|---|---|
| **NZX Code:** | **SPK** |
| **Share Price:** | **$3.82** |
| **12mth Target:** | **$3.01** |
| **Projected return (%)** | |
| Capital gain | -21.2% |
| Dividend yield (Net) | 6.8% |
| **Total return** | **-14.4%** |

**Rating: UNDERPERFORM**

52-week price range: 2.69-3.98

## Steel & Tube Holdings

STU is back on a growth path. NZ building activity is expected to further recover in 2016-2017 and beyond driven by increased activity in Canterbury and Auckland. The rise in the value of non-residential building work consented over the past year suggests demand for steel should further recover. STU's next six month's performance will also likely be assisted by some price and margin recovery following a recent round of product price increases.

2017 P/E: 8.0 2018 P/E: 7.4

| | |
|---|---|
| **NZX Code:** | **STU** |
| **Share Price:** | **$2.42** |
| **12mth Target:** | **$2.70** |
| **Projected return (%)** | |
| Capital gain | 11.6% |
| Dividend yield (Net) | 10.3% |
| **Total return** | **21.9%** |

**Rating: OUTPERFORM**

52-week price range: 1.79-2.80

## Summerset Group Holdings

NZ's third-largest retirement village operator, SUM has a proven management team and business model in favourable sector. SUM currently offers the highest rate of growth amongst NZ retirement operators for both earnings and proportionate build rate. A robust platform has been put in place to ensure sustainable growth well into the future.

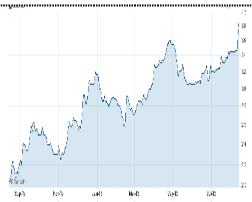
2017 P/E: 20.0 2018 P/E: 16.6

| | |
|---|---|
| **NZX Code:** | **SUM** |
| **Share Price:** | **$5.20** |
| **12mth Target:** | **$4.40** |
| **Projected return (%)** | |
| Capital gain | -15.4% |
| Dividend yield (Net) | 1.5% |
| **Total return** | **-13.9%** |

**Rating: NEUTRAL**

52-week price range: 3.50-5.27

## Synlait Milk



SML recently provided underlying NPAT guidance of $32-33m, a solid upgrade from FNZC's estimate of $28m. Delivery of a fourfold increase in finished infant formula sales for full year 2016 is a strong driver of this strong result. SML noted strong operating cash flows of ~$100m, with net debt reduced to ~$214m, and leverage at ~2.5x EBITDA. This stock is looking increasingly attractive. FY16 could mark the start of a sustained turnaround and volume, margin and debt delivery in FY16 is positive for investor comfort.

2017 P/E: 15.1 2018 P/E: 13.1

| | |
|---|---|
| **NZX Code:** | **SML** |
| **Share Price:** | **$3.85** |
| **12mth Target:** | **$3.73** |
| **Projected return (%)** | |
| Capital gain | -3.1% |
| Dividend yield (Net) | 0% |
| **Total return** | **-3.1%** |

**Rating: NEUTRAL**

52-week price range: 2.04-3.87

## Trustpower

We are still awaiting the final determinations of the separation of TPW's core assets. From an investor's perspective, we'd expect a reconfigured TPWCore to have similar gearing, cashflow and attractive dividend yield characteristics as its four listed NZ genco peers. Certainly NZ TPW prospects look robust, with its successful rollout of a unique and difficult-to-replicate telco/energy service bundle.

2017 P/E: 24.8 2018 P/E: 17.6

| | |
|---|---|
| **NZX Code:** | **TPWL** |
| **Share Price:** | **$8.20** |
| **12mth Target:** | **$7.98** |
| **Projected return (%)** | |
| Capital gain | -2.7% |
| Dividend yield (Net) | 5.1% |
| **Total return** | **2.4%** |

**Rating: NEUTRAL**

52-week price range: 7.19-8.30

## Xero

Upside for XRO includes (1) early stage in a sizeable total addressable market of US$4.2bn; (2) XRO's record of execution and cloud leadership in NZ, Australia and the UK; and (3) potentially undervalued growth as XRO expands into larger international markets. Downside risks include XRO's cash burn; Intuit's growing momentum in the US; and more generally, the market's appetite for risky, lossmaking companies. XRO is the innovation leader of cloud accounting globally. Relative to competitors, XRO has gained the highest penetration of several markets.

2017 P/E: n/a 2018 P/E: n/a

| | |
|---|---|
| **NZX Code:** | **XRO** |
| **Share Price:** | **$20.25** |
| **12mth Target:** | **$21.00** |
| **Projected return (%)** | |
| Capital gain | 3.7% |
| Dividend yield (Net) | 0% |
| **Total return** | **3.7%** |

**Rating: OUTPERFORM**

52-week price range: 12.70-22.40

## Z Energy

ZELs earnings outlook is now much improved after acquiring 100% of Chevron New Zealand's (CNZ) downstream fuels business for a total of $803m (including $18m of transaction costs). Further synergies may become clearer as ZEL integrates the two businesses'. In October it may reveal early thoughts/directions on its eventual post-acquisition Strategy 3.0 refresh. ZEL earnings risks include decreased marketing volumes, a more competitive environment, and a Gross Refining Margin run-rate which is declining due to softness of Asian refining margins.

2017P/E: 19.4 2018 P/E: 15.1

| | |
|---|---|
| **NZX Code:** | **ZEL** |
| **Share Price:** | **$8.58** |
| **12mth Target:** | **$8.25** |
| **Projected return (%)** | |
| Capital gain | -3.8% |
| Dividend yield (Net) | 3.7% |
| **Total return** | **-0.1%** |

**Rating: NEUTRAL**

52-week price range: 5.55-8.68

| NZ LISTED COMPANIES<br>15th August 2016<br>Source: First NZ Capital, CSFB | Ticker | Mrkt Cap (NZ$m) | Price 12-Aug-16 (NZ$) | Target Price (NZ$) | Price Earnings (x) | | Gross Yield (%) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | FY16 | FY17 | FY16 | FY17 |
| CONSUMER DISCRETIONARY | | | | | | | | |
| Intueri Education Group Limited | IQE | 24 | $0.24 | $0.40 | 4 | 3.4 | 0.0% | 0.0% |
| Restaurant Brands New Zealand | RBD | 588 | $5.72 | $5.31 | 22.8 | 18.9 | 3.7% | 4.2% |
| Sky Network Television Limited | SKT | 1,903 | $4.89 | $4.58 | 12.7 | 14.1 | 6.1% | 6.1% |
| SKYCITY Entertainment Group Ltd. | SKC | 3,239 | $4.93 | $4.15 | 21.2 | 18.1 | 4.0% | 4.5% |
| Trade Me Group Ltd | TME | 4,078 | $5.10 | $4.03 | 24.4 | 21.7 | 3.2% | 3.7% |
| RETAIL | | | | | | | | |
| Hallenstein Glasson Holdings | HLG | 163 | $2.75 | $4.10 | 9.2 | 9 | 10.9% | 11.1% |
| Kathmandu | KMD | 397 | $1.97 | $1.90 | 15 | 13 | 3.8% | 4.4% |
| The Warehouse Group Limited | WHS | 985 | $2.84 | $2.40 | 17.3 | 16.4 | 5.3% | 5.6% |
| CONSUMER STAPLES | | | | | | | | |
| Delegat Group | DGL | 612 | $6.05 | $5.80 | 16.8 | 14.3 | 2.0% | 2.1% |
| Fonterra Shareholders' Fund | FSF | 653 | $5.75 | $6.12 | 11.8 | 10.3 | 7.0% | 6.8% |
| PGG Wrightson | PGW | 385 | $0.51 | $0.65 | 9.9 | 10.6 | 7.4% | 7.4% |
| Sanford | SAN | 562 | $6.00 | $6.40 | 15 | 13.6 | 4.0% | 4.3% |
| Scales Corporation | SCL | 478 | $3.42 | $2.90 | 15.4 | 13.7 | 3.8% | 4.4% |
| Synlait Milk Limited | SML | 527 | $3.60 | $3.44 | 18.7 | 15.7 | 0.0% | 0.0% |
| Tegel | TGH | 591 | $1.66 | $2.10 | 16.4 | 13.6 | 0.0% | 4.8% |
| The a2 Milk Company Limited | ATM | 1,474 | $2.07 | $1.75 | 42.7 | 23 | 0.0% | 0.0% |
| ENERGY | | | | | | | | |
| NZ Refining | NZR | 769 | $2.46 | $2.75 | 62.3 | 16.8 | 0.0% | 3.0% |
| Z Energy | ZEL | 3,436 | $8.59 | $8.25 | 24.1 | 19.6 | 3.1% | 3.7% |
| FINANCIALS | | | | | | | | |
| Heartland Bank Ltd | HBL | 673 | $1.42 | $1.30 | 12.4 | 11.8 | 6.0% | 6.3% |
| PROPERTY | | | | | | | | |
| Argosy Property Ltd | ARG | 945 | $1.16 | $1.14 | 18.6 | 18.7 | 5.2% | 5.3% |
| Augusta Capital Ltd | AUG | 95 | $1.09 | $1.04 | 15.1 | 18.4 | 4.6% | 4.7% |
| Goodman Property Trust | GMT | 1,742 | $1.37 | $1.28 | 17.3 | 17.2 | 4.9% | 4.9% |
| Kiwi Property Group Limited | KPG | 2,007 | $1.56 | $1.43 | 23.5 | 21.6 | 4.2% | 4.3% |
| NPT Limited | NPT | 108 | $0.67 | $0.66 | 17.7 | 17 | 5.3% | 5.4% |
| Precinct Properties NZ | PCT | 1,556 | $1.29 | $1.24 | 21.5 | 21.9 | 4.2% | 4.2% |
| Property for Industry Ltd | PFI | 752 | $1.67 | $1.46 | 22.2 | 22.4 | 4.4% | 4.5% |
| Stride Property | STR | 743 | $2.04 | $2.05 | 18.3 | 17.3 | 5.2% | 5.5% |
| Vital Healthcare Property Trust | VHP | 960 | $2.27 | $1.52 | 21.6 | 21.7 | 3.5% | 3.6% |
| MATERIALS | | | | | | | | |
| Fletcher Building | FBU | 6,877 | $9.93 | $9.36 | 17.6 | 14.1 | 3.9% | 4.3% |
| Nuplex Industries | NPX | 1,001 | $5.31 | $5.40 | 13.1 | 11.3 | 5.3% | 6.2% |
| Steel & Tube | STU | 201 | $2.22 | $2.70 | 10.3 | 8.1 | 10.1% | 10.1% |

| NZ LISTED COMPANIES<br>15th August 2016<br>Source: First NZ Capital, CSFB | Ticker | Mrkt Cap (NZ$m) | Price 12-Aug-16 (NZ$) | Target Price (NZ$) | Price Earnings (x) | | Gross Yield (%) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | FY16 | FY17 | FY16 | FY17 |
| HEALTH CARE | | | | | | | | |
| Pacific Edge Ltd | PEB | 221 | $0.58 | $0.70 | -14.1 | -20.7 | 0.0% | 0.0% |
| AFT Pharmaceuticals | AFT | 306 | $3.16 | $3.33 | -28.7 | -29.5 | 0.0% | 0.0% |
| Arvida | ARV | 329 | $1.18 | $1.18 | 19.4 | 17.8 | 3.6% | 3.9% |
| Ebos Group Limited | EBO | 2,633 | $17.40 | $12.00 | 22.3 | 20.1 | 3.0% | 3.4% |
| Fisher & Paykel Healthcare Corp. | FPH | 6,044 | $10.69 | $10.50 | 42 | 35.4 | 1.6% | 1.9% |
| Metlifecare Limited | MET | 1,235 | $5.80 | $5.90 | 19.2 | 17.1 | 0.8% | 0.9% |
| Orion Health Limited | OHE | 728 | $4.55 | $5.25 | -15 | -34.2 | 0.0% | 0.0% |
| Ryman Healthcare Ltd | RYM | 4,650 | $9.30 | $9.10 | 29.5 | 26.3 | 1.7% | 1.9% |
| Summerset Group Holdings Ltd | SUM | 1,079 | $4.90 | $4.40 | 23.1 | 18.1 | 1.3% | 2.1% |
| INDUSTRIALS | | | | | | | | |
| Air New Zealand | AIR | 2,487 | $2.22 | $2.30 | 4.1 | 6.1 | 9.5% | 8.1% |
| Airwork Holdings | AWK | 226 | $4.50 | $4.30 | 9.9 | 9.2 | 4.0% | 4.9% |
| Auckland Airport | AIA | 8,573 | $7.20 | $5.25 | 41.1 | 35 | 2.4% | 2.5% |
| Freightways | FRE | 1,029 | $6.65 | $6.05 | 19.4 | 18.3 | 3.9% | 4.6% |
| Hellaby Holdings | HBY | 265 | $2.71 | $3.40 | 14.6 | 10.6 | 7.9% | 7.9% |
| Mainfreight | MFT | 1,738 | $17.26 | $17.10 | 19.5 | 17.1 | 2.1% | 2.4% |
| Methven | MVN | 92 | $1.26 | $1.35 | 11.4 | 9.9 | 7.1% | 7.9% |
| Metro Performance Glass Ltd | MPG | 365 | $1.97 | $2.30 | 17.8 | 14 | 3.9% | 4.6% |
| Opus International Consultants | OIC | 176 | $1.17 | $1.20 | 11.4 | 8.4 | 5.1% | 6.0% |
| Port of Tauranga | POT | 2,593 | $19.05 | $17.70 | 32.6 | 29.7 | 2.8% | 3.0% |
| Skellerup Holdings | SKL | 264 | $1.37 | $1.42 | 12.8 | 12.9 | 6.6% | 6.6% |
| INFORMATION TECHNOLOGY | | | | | | | | |
| EROAD | ERD | 133 | $2.20 | $2.95 | -120.1 | 87.4 | 0.0% | 0.0% |
| Vista Group International Limited | VGL | 498 | $6.20 | $5.43 | 40.2 | 29.1 | 1.1% | 1.7% |
| Xero | XRO | 2,767 | $20.12 | $21.00 | -33.7 | -38.3 | 0.0% | 0.0% |
| TELECOMMUNICATION SERVICES | | | | | | | | |
| Chorus | CNU | 1,822 | $4.55 | $4.22 | 16 | 12.9 | 4.4% | 4.6% |
| Spark NZ | SPK | 6,981 | $3.82 | $3.01 | 19.5 | 19 | 6.6% | 6.6% |
| UTILITIES | | | | | | | | |
| Contact Energy | CEN | 3,814 | $5.33 | $6.37 | 23.3 | 21.2 | 4.7% | 4.7% |
| Genesis Energy Limited | GNE | 2,290 | $2.29 | $1.78 | 25.7 | 21.8 | 7.3% | 7.6% |
| Infratil | IFT | 1,895 | $3.37 | $3.36 | 55.2 | 57.1 | 4.2% | 4.7% |
| Mercury NZ | MRP | 4,187 | $3.04 | $2.68 | 28.5 | 29.3 | 4.7% | 4.7% |
| Meridian Energy | MEL | 7,497 | $2.93 | $2.44 | 31.2 | 31.2 | 5.6% | 7.4% |
| TrustPower | TPW | 2,573 | $8.15 | $7.98 | 25.3 | 24.7 | 5.2% | 5.2% |
| Vector | VCT | 3,425 | $3.44 | $2.81 | 20.9 | 25.5 | 4.6% | 4.7% |
| Market Average (Excludung AFT,ERD, OHE, PEB, XRO) | | | | | 21.0 | 18.2 | 4.0% | 4.3% |

# New Zealand Listed Companies – Gross Dividend Yields 11th August 2016

| COMPANY<br>Source: FNZC, CS Group Estimates | Rating | PRICE<br>11-Aug-16 | GROSS DIVIDEND YIELD | | | | DIVIDEND COVER | | | | NET DEBT/ EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | FY-1 | FY0 | FY1 | FY2 | FY-1 | FY0 | FY1 | FY2 | |
| Hallenstein Glasson | O | $2.80 | 11.9% | 14.4% | 14.7% | 15.0% | 1 | 1 | 1 | 1 | -23.1% |
| Air New Zealand | N | $2.23 | 9.9% | 13.0% | 11.2% | 11.2% | 1.9 | 2.6 | 2 | 1.6 | 9.0% |
| Tower | N | $1.37 | 10.6% | 11.7% | 11.7% | 11.7% | 0.9 | -0.2 | 0.1 | 0.9 | -44.5% |
| Hellaby | O | $2.68 | 11.1% | 11.1% | 11.1% | 11.3% | 1.3 | 0.9 | 1.2 | 1.4 | 17.2% |
| Steel & Tube | N | $2.08 | 12.6% | 10.6% | 12.0% | 14.0% | 1.3 | 1.3 | 1.3 | 1.3 | 28.9% |
| PGG Wrightson | O | $0.52 | 10.0% | 10.0% | 10.7% | 10.7% | 1.4 | 1.3 | 1.3 | 1.4 | 17.4% |
| Genesis Energy | U | $2.30 | 9.8% | 9.9% | 10.7% | 12.5% | 0.6 | 0.5 | 0.6 | 0.5 | 24.5% |
| Methven | O | $1.25 | 8.8% | 9.9% | 11.0% | 12.1% | 1.1 | 1.2 | 1.3 | 1.2 | 24.1% |
| Spark | U | $3.74 | 7.3% | 9.1% | 8.5% | 8.5% | 1 | 0.8 | 0.8 | 0.9 | 22.0% |
| Skellerup | N | $1.37 | 9.1% | 9.1% | 9.1% | 9.2% | 1.3 | 1.2 | 1.2 | 1.3 | 0.0% |
| Sky Network Television | N | $4.89 | 8.5% | 8.5% | 8.5% | 8.5% | 1.5 | 1.3 | 1.2 | 0.9 | 16.0% |
| Kathmandu | N | $2.00 | 8.5% | 8.5% | 5.3% | 6.1% | 1.7 | 0.9 | 1.7 | 1.7 | 16.0% |
| Heartland | O | $1.40 | 7.4% | 8.4% | 8.9% | 9.1% | 1.4 | 1.3 | 1.3 | 1.3 | 83.2% |
| NZX | N | $1.02 | 8.0% | 8.0% | 8.0% | 8.0% | 0.8 | 0.8 | 1 | 1.2 | -11.8% |
| NPT | U | $0.66 | 7.9% | 7.9% | 8.1% | 8.3% | 1 | 1.1 | 1.1 | 1 | 24.6% |
| Stride | N | $2.04 | 7.6% | 7.8% | 8.3% | 8.3% | 1 | 1 | 1 | 1 | 40.6% |
| The Warehouse | U | $2.84 | 9.3% | 7.8% | 7.3% | 7.8% | 0.9 | 1 | 1.1 | 1.1 | 21.0% |
| Argosy Property | O | $1.15 | 7.8% | 7.7% | 7.9% | 8.1% | 1 | 1 | 1 | 1 | 38.5% |
| Goodman Property Trust | N | $1.37 | 7.3% | 7.3% | 7.5% | 7.6% | 1.2 | 1.2 | 1.2 | 1.2 | 33.2% |
| Trustpower | N | $8.10 | 5.7% | 7.1% | 6.6% | 6.7% | 0.8 | 0.8 | 1.1 | 1.1 | 36.9% |
| Opus | N | $1.16 | 13.1% | 7.1% | 8.3% | 9.5% | 1.3 | 1.7 | 2 | 1.9 | 6.0% |
| Fonterra | N | $5.77 | 4.3% | 7.0% | 6.8% | 7.6% | 1.2 | 1.2 | 1.4 | 1.4 | 31.2% |
| Meridian Energy (fully paid) | U | $2.94 | 8.5% | 6.9% | 9.2% | 7.0% | 0.4 | 0.6 | 0.4 | 0.6 | 14.2% |
| Augusta Capital | N | $1.12 | 6.4% | 6.8% | 6.8% | 7.0% | 1.2 | 1.4 | 1.2 | 1.1 | 20.3% |
| Tegel | O | $1.65 | 0.0% | 6.7% | 6.9% | 7.4% | 0 | 1.5 | 1.5 | 1.5 | 0.0% |
| Mighty River Power | U | $3.10 | 9.9% | 6.5% | 6.3% | 7.2% | 0.5 | 0.7 | 0.7 | 0.7 | 18.1% |
| Kiwi Property Group | N | $1.56 | 6.4% | 6.5% | 6.9% | 7.0% | 1 | 1.1 | 1.1 | 1.1 | 33.5% |
| Property For Industry | U | $1.68 | 6.4% | 6.5% | 6.6% | 6.6% | 1 | 1 | 1 | 1 | 35.4% |
| Infratil | N | $3.39 | 5.9% | 6.5% | 6.5% | 6.5% | 0.4 | 0.4 | 0.9 | 0.9 | 30.8% |
| Vector | U | $3.41 | 6.3% | 6.4% | 6.5% | 6.6% | 0.9 | 1 | 0.8 | 1 | 38.7% |
| Precinct Properties | N | $1.28 | 6.3% | 6.3% | 6.3% | 6.5% | 1.1 | 1.1 | 1.1 | 1.1 | 12.1% |
| Metro Performance Glass | O | $1.93 | 5.4% | 6.2% | 8.1% | 8.6% | 1.5 | 1.5 | 1.5 | 1.5 | 15.3% |
| Chorus | N | $4.50 | 0.0% | 6.2% | 6.5% | 6.8% | 0 | 1.4 | 1.7 | 1.5 | 40.6% |
| Contact Energy | O | $5.33 | 18.7% | 6.0% | 6.3% | 6.5% | 0.3 | 0.9 | 1 | 1 | 29.9% |
| Sanford | N | $5.62 | 5.7% | 5.9% | 6.4% | 7.2% | 1.4 | 1.7 | 1.7 | 1.7 | 20.9% |
| Restaurant Brands | N | $5.70 | 5.1% | 5.8% | 6.4% | 7.0% | 1.2 | 1.2 | 1.3 | 1.3 | 32.0% |
| Airwork Holdings | N | $4.50 | 5.0% | 5.6% | 6.8% | 9.3% | 1.9 | 2.5 | 2.2 | 1.8 | 50.5% |
| Sky City | U | $4.96 | 4.3% | 5.5% | 5.9% | 6.3% | 1.3 | 1.2 | 1.3 | 1.2 | 19.4% |
| Freightways | N | $6.66 | 5.1% | 5.5% | 6.4% | 7.4% | 1.3 | 1.3 | 1.2 | 1.1 | 30.6% |
| Vital Healthcare Property Trust | U | $2.26 | 5.2% | 5.3% | 5.5% | 5.6% | 1.2 | 1.3 | 1.3 | 1.2 | 35.7% |
| Arvida | N | $1.18 | 4.9% | 5.3% | 5.9% | 6.6% | 1.4 | 1.4 | 1.4 | 1.4 | 4.6% |
| Scales Corporation | O | $3.40 | 6.7% | 5.3% | 6.1% | 6.9% | 1.5 | 1.7 | 1.7 | 1.6 | 3.3% |
| Nuplex | N | $5.31 | 5.1% | 5.3% | 6.2% | 6.6% | 1.4 | 1.4 | 1.4 | 1.4 | 9.7% |
| Z Energy | N | $8.50 | 4.3% | 5.1% | 7.3% | 7.9% | 1.3 | 1.4 | 1.3 | 1.2 | 46.9% |
| Fletcher Building | O | $9.83 | 4.4% | 4.7% | 5.2% | 5.5% | 1.6 | 1.4 | 1.6 | 1.7 | 23.7% |
| Trademe | U | $4.99 | 4.5% | 4.5% | 5.2% | 6.5% | 1.2 | 1.3 | 1.2 | 1.1 | 11.3% |
| Port of Tauranga | N | $19.20 | 3.8% | 3.9% | 4.1% | 4.6% | 1.1 | 1.1 | 1.1 | 1.1 | 25.1% |
| Mainfreight | N | $17.25 | 3.0% | 3.4% | 4.0% | 4.4% | 2.4 | 2.4 | 2.3 | 2.3 | 14.8% |
| EBOS | O | $17.60 | 3.0% | 3.3% | 3.7% | 3.8% | 1.5 | 1.5 | 1.5 | 1.5 | 10.6% |
| Auckland Airport | U | $7.38 | 2.8% | 3.3% | 3.5% | 4.4% | 1 | 1 | 1.1 | 1 | 34.6% |
| Delegat's Group | N | $6.00 | 2.5% | 2.8% | 3.0% | 3.5% | 3.1 | 3 | 3.2 | 3.5 | 42.5% |
| Fisher & Paykel Healthcare | N | $10.60 | 2.2% | 2.7% | 3.2% | 3.8% | 1.5 | 1.5 | 1.5 | 1.5 | 5.1% |
| Ryman Healthcare | N | $9.23 | 1.7% | 1.9% | 2.2% | 2.6% | 2 | 2 | 2 | 2 | 13.6% |
| Summerset | U | $4.82 | 1.2% | 1.4% | 2.1% | 2.0% | 3 | 3.3 | 2.7 | 3.1 | 18.9% |
| Vista Group | N | $6.15 | 0.0% | 1.3% | 2.1% | 3.1% | 0 | 2.3 | 2 | 1.9 | -21.8% |
| Metlifecare | O | $5.65 | 0.8% | 0.8% | 0.9% | 0.9% | 5.6 | 6.4 | 6.8 | 7.1 | 2.2% |
| AFT Pharmaceuticals | N | $3.15 | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | 14.1% |
| a2 Milk | U | $2.02 | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | -29.5% |
| EROAD | O | $2.20 | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | 1.5% |
| Intueri Education Group | O | $0.24 | 35.3% | 0.0% | 0.0% | 0.0% | 2.4 | 0 | 0 | 0 | 63.8% |
| New Zealand Refining Company | N | $2.56 | 13.8% | 0.0% | 4.0% | 7.1% | 1.9 | 0 | 2 | 2 | 19.0% |
| Orion | O | $4.65 | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | -15.1% |

1. The Net Debt/Equity ratio is calculated as Gross Debt less cash holdings divided by total shareholder funds. Negative ratios indicate a net cash position.
2. FY0 represents the current financial year
3. Property stock gross yields reflect returns under the PIE regime assuming a 33% unitholder
4. Ratings: "O" - Outperform, "N" - Neutral, "U" - Underperform, "R" – Restricted

# Australian Equities

**Lower interest rates remain good for equities.** The search-for-yield gets a boost with the Reserve Bank of Australia cutting rates by a further 25 bp to a record low of 1.5%. Lower rates will further intensify the search-for-yield, with the dividend yield for Aussie equities compressing to 4.3% from 5% at the start of the year.

The spread between cash and dividend yields remains close to record levels at 280 bp. We estimate that the Superannuation Funds will need to switch A$10bn out of cash into equities to maintain yield on their fund for each 25 bp rate cut.

| AUSTRALIAN FORECASTS 15th August 2016 Source: First NZ Capital, CSFB | Ticker | Mrkt Cap (A$m) | Price 12-Aug-16 (A$) | Target Price (A$) | Price Earnings (x) FY16 | Price Earnings (x) FY17 | Gross Yield (%) FY16 | Gross Yield (%) FY17 |
|---|---|---|---|---|---|---|---|---|
| **CONSUMER DISCRETIONARY** | | | | | | | | |
| Aristocrat Leisure | ALL | 9,869 | 15.49 | 15 | 26.2 | 25 | 1.3% | 1.4% |
| Crown | CWN | 9,673 | 13.28 | 12.7 | 24 | 21.9 | 3.9% | 2.8% |
| Fairfax Media | FXJ | 2,219 | 0.97 | 1.1 | 17 | 14.5 | 4.1% | 4.1% |
| Flight Centre | FLT | 3,460 | 34.28 | 36.27 | 13.8 | 14.4 | 4.5% | 4.2% |
| Harvey Norman | HVN | 5,741 | 5.16 | 4.7 | 17.6 | 16.5 | 4.4% | 3.9% |
| JB Hi-Fi | JBH | 2,709 | 27.38 | 25.95 | 18.7 | 15 | 3.5% | 4.4% |
| REA Group | REA | 8,029 | 60.96 | 61 | 40.1 | 31 | 1.3% | 1.6% |
| Star Entertainment Group | SGR | 4,954 | 6 | 5.6 | 21.7 | 20.7 | 2.1% | 2.3% |
| Tabcorp Holdings | TAH | 4,116 | 4.95 | 5.3 | 22.2 | 22.2 | 4.8% | 4.8% |
| Tatts Group | TTS | 5,873 | 4.01 | 3.15 | 22.6 | 22.7 | 4.2% | 4.2% |
| **CONSUMER STAPLES** | | | | | | | | |
| Blackmores Ltd | BKL | 2,842 | 165 | 175 | 28.3 | 23.7 | 2.6% | 3.2% |
| Coca-Cola Amatil | CCL | 7,094 | 9.29 | 9.8 | 17.4 | 16.9 | 4.8% | 5.1% |
| Graincorp | GNC | 1,920 | 8.39 | 9 | 37.9 | 17.3 | 1.5% | 3.2% |
| Treasury Wine | TWE | 6,938 | 9.4 | 9.2 | 32 | 28.6 | 2.0% | 2.2% |
| Wesfarmers | WES | 47,962 | 42.59 | 40.55 | 20.6 | 17.9 | 4.5% | 4.2% |
| Woolworths | WOW | 29,923 | 23.4 | 24.5 | 18.6 | 18.9 | 3.6% | 3.6% |
| **ENERGY** | | | | | | | | |
| Origin Energy | ORG | 9,889 | 5.64 | 5.9 | 19.9 | 17.5 | 1.8% | 0.0% |
| Caltex Australia | CTX | 8,943 | 34.29 | 40 | 16.3 | 15.1 | 3.1% | 3.3% |
| Oil Search | OSH | 8,592 | 7.38 | | 173 | 30.3 | 0.2% | 1.4% |
| Santos Ltd | STO | 6,418 | 4.73 | 3.07 | 77.3 | 10.7 | 2.8% | 3.7% |
| Woodside Petroleum | WPL | 17,714 | 27.5 | 20.09 | 29.6 | 27.9 | 2.7% | 2.9% |
| **FINANCIALS** | | | | | | | | |
| AMP | AMP | 17,037 | 5.76 | 6.05 | 17.6 | 15.8 | 4.9% | 5.5% |
| ASX | ASX | 9,749 | 50.36 | 45 | 22.9 | 22.4 | 3.9% | 4.0% |
| Challenger Limited | CGF | 5,249 | 9.19 | 10.2 | 15.1 | 14 | 3.5% | 3.7% |
| Henderson Group PLC | HGG | 1,755 | 4.29 | 2.58 | 17.1 | 14.5 | 4.1% | 4.3% |
| IOOF Holdings | IFL | 2,623 | 8.74 | 9 | 15.2 | 15.3 | 6.2% | 5.8% |
| Macquarie Group | MQG | 26,390 | 77.54 | 85 | 12.9 | 12.3 | 5.2% | 5.6% |
| Magellan Financial Group | MFG | 4,080 | 25.25 | 26 | 21.9 | 21.3 | 3.5% | 3.6% |
| Perpetual Limited | PPT | 2,191 | 47.05 | 43 | 17.5 | 17.6 | 5.3% | 5.3% |
| **Insurance Australia Group** | | | | | | | | |
| Insurance Australia Group | IAG | 14,831 | 6.1 | 5.65 | 17.6 | 17.8 | 8.7% | 6.1% |
| Medibank Private Limited | MPL | 8,455 | 3.07 | 2.7 | 20.5 | 20.6 | 3.6% | 3.6% |
| QBE Insurance Group | QBE | 11,764 | 11.22 | 8.28 | 19.4 | 14.7 | 3.8% | 4.9% |
| Suncorp Group Limited | SUN | 16,919 | 13.15 | 13.85 | 16.5 | 14 | 5.2% | 5.6% |
| **COMMERCIAL BANKS** | | | | | | | | |
| ANZ Banking Group | ANZ | 77,750 | 26.56 | 27.3 | 13.2 | 11.4 | 6.0% | 6.2% |
| Bank of Queensland | BOQ | 4,020 | 10.55 | 12 | 11.1 | 10.4 | 7.3% | 7.6% |
| Bendigo and Adelaide Bank | BEN | 4,843 | 10.49 | 10.5 | 12.5 | 12.4 | 6.5% | 6.5% |
| Clydesdale Bank | CYB | 1,966 | 4.45 | 2.99 | 23.8 | 12.4 | 0.0% | 0.8% |
| Commonwealth Bank Austra | CBA | 130,368 | 76.01 | 85 | 14.1 | 13.7 | 5.5% | 5.6% |
| National Australia Bank | NAB | 71,603 | 26.95 | 30 | 11.2 | 10.8 | 7.3% | 7.3% |
| Westpac | WBC | 99,113 | 29.62 | 33 | 13 | 12 | 6.3% | 6.4% |
| **PROPERTY** | | | | | | | | |
| Dexus Property Group | DXS | 9,050 | 9.35 | 8.15 | 14.8 | 15.2 | 4.7% | 4.8% |
| Goodman Group | GMG | 13,248 | 7.45 | 7.29 | 18.6 | 17.3 | 3.2% | 3.5% |
| GPT Group | GPT | 9,871 | 5.49 | 5 | 18.5 | 18 | 4.3% | 4.5% |
| Investa Office Fund | IOF | 2,702 | 4.4 | 4.33 | 15.5 | 15.2 | 4.5% | 4.5% |
| Lend Lease | LLC | 7,873 | 13.52 | 17 | 11.3 | 10.4 | 4.3% | 5.2% |
| Mirvac Group | MGR | 7,848 | 2.12 | 2.15 | 16.3 | 15.2 | 4.7% | 5.0% |
| Scentre Group | SCG | 26,675 | 5.01 | 4.76 | 21.5 | 20.5 | 4.3% | 4.5% |
| Stockland Group | SGP | 11,673 | 4.88 | 4.68 | 17.5 | 16.2 | 5.1% | 5.3% |
| Vicinity Centres | VCX | 13,222 | 3.34 | 3.08 | 17.5 | 17 | 5.3% | 5.4% |
| Westfield Corporation | WFD | 16,588 | 10.44 | 8.25 | 23.2 | 21.4 | 3.1% | 3.2% |

| AUSTRALIAN FORECASTS 15th August 2016 Source: First NZ Capital, CSFB | Ticker | Mrkt Cap (A$m) | Price 12-Aug-16 (A$) | Target Price (A$) | Price Earnings (x) FY16 | Price Earnings (x) FY17 | Gross Yield (%) FY16 | Gross Yield (%) FY17 |
|---|---|---|---|---|---|---|---|---|
| **HEALTH CARE** | | | | | | | | |
| Ansell Limited | ANN | 2,221 | 19.67 | 14.02 | 15 | 15.1 | 2.9% | 3.1% |
| Cochlear | COH | 7,994 | 139.74 | 110 | 42.3 | 37.3 | 1.6% | 1.9% |
| CSL Ltd | CSL | 40,662 | 116.5 | 86.86 | 34.2 | 28.3 | 1.3% | 1.5% |
| Healthscope | HSO | 5,136 | 2.96 | 2.7 | 26.6 | 25.8 | 2.5% | 2.5% |
| Primary Health Care | PRY | 2,091 | 4.01 | 3.65 | 19.9 | 19.5 | 2.9% | 3.0% |
| Ramsay Health Care | RHC | 15,378 | 76.1 | 72 | 33.3 | 30.1 | 1.5% | 1.7% |
| ResMed Inc. | RMD | 9,938 | 9.24 | 7.44 | 27.7 | 27.7 | 1.7% | 1.9% |
| Sonic Healthcare | SHL | 9,128 | 21.99 | 20.1 | 21.4 | 20.3 | 3.3% | 3.6% |
| **INDUSTRIALS** | | | | | | | | |
| Aurizon | AZJ | 10,259 | 5 | 4.8 | 20.2 | 18.2 | 5.0% | 5.5% |
| Brambles | BXB | 16,007 | 13.2 | 8.64 | 25.9 | 24 | 2.2% | 2.3% |
| CIMIC Group | CIM | 10,220 | 31.37 | | 18 | 16.1 | 3.6% | 4.0% |
| Downer EDI | DOW | 2,183 | 5.14 | 4.7 | 11.8 | 13 | 4.7% | 4.3% |
| Seek | SEK | 5,576 | 16.14 | 14.35 | 32.1 | 27.9 | 2.5% | 2.7% |
| **TRANSPORT** | | | | | | | | |
| Qantas | QAN | 6,620 | 3.21 | 4.8 | 6.2 | 5 | 0.0% | 15.6% |
| Qube Holdings Limited | QUB | 3,907 | 2.7 | | 26.8 | 22.9 | 2.0% | 2.2% |
| Sydney Airport | SYD | 16,498 | 7.4 | 6.4 | 56.4 | 51.2 | 4.1% | 4.5% |
| Transurban | TCL | 24,345 | 11.96 | 12.5 | 1077.5 | 73.9 | 3.8% | 4.2% |
| **INFORMATION TECHNOLOGY** | | | | | | | | |
| carsales.com.au | CAR | 3,274 | 13.58 | 12.5 | 29.6 | 26.6 | 2.7% | 3.0% |
| Computershare | CPU | 4,198 | 10.05 | 8.32 | 13.9 | 14.2 | 3.2% | 3.4% |
| **MATERIALS** | | | | | | | | |
| Adelaide Brighton | ABC | 3,723 | 5.73 | 5.55 | 18.7 | 17.8 | 5.1% | 5.2% |
| Amcor | AMC | 13,540 | 15.29 | 11.93 | 21 | 19.3 | 3.5% | 3.8% |
| Boral | BLD | 5,131 | 6.9 | 6.75 | 20.6 | 18.7 | 3.0% | 3.5% |
| CSR | CSR | 1,896 | 3.75 | 3.85 | 11.5 | 10.9 | 6.4% | 6.4% |
| Dulux Group | DLX | 2,534 | 6.51 | 6 | 19.4 | 19 | 3.5% | 3.8% |
| Incitec Pivot | IPL | 4,842 | 2.87 | 3.1 | 16 | 16.7 | 3.1% | 3.0% |
| James Hardie Industries plc | JHX | 7,267 | 21.33 | 17.36 | 29.9 | 25.7 | 2.3% | 2.8% |
| Orica | ORI | 5,541 | 14.78 | 13.6 | 14 | 12.8 | 3.8% | 4.4% |
| Orora | ORA | 3,330 | 2.76 | 2.55 | 21.6 | 19.8 | 3.3% | 3.6% |
| **METALS & MINING** | | | | | | | | |
| Alumina Limited | AWC | 2,929 | 1.33 | 0.97 | 33.5 | 24.6 | 5.9% | 6.9% |
| BHP Billiton | BHP | 79,135 | 20.68 | 16.49 | 55.9 | 25.1 | 1.6% | 2.0% |
| BlueScope Steel | BSL | 4,531 | 7.93 | 8.3 | 15.2 | 9.3 | 1.9% | 3.3% |
| Fortescue Metals Group Ltd | FMG | 10,928 | 4.59 | 3.23 | 9.8 | 11.4 | 1.2% | 1.2% |
| Iluka Resources | ILU | 3,019 | 7.21 | 6 | 42.6 | 25.3 | 3.3% | 2.6% |
| Newcrest Mining | NCM | 14,962 | 25.53 | 14.77 | 42.2 | 16.8 | 0.3% | 0.5% |
| Northern Star Resources Ltd | NST | 2,877 | 4.79 | 4.2 | 19.1 | 9.7 | 1.5% | 3.1% |
| Rio Tinto | RIO | 58,912 | 49.74 | 38.23 | 18.5 | 17.8 | 2.9% | 3.3% |
| South 32 | S32 | 8,100 | 1.99 | 1.53 | 101.6 | 16.7 | 0.3% | 2.4% |
| **TELECOMMUNICATION SERVICES** | | | | | | | | |
| Telstra Corporation | TLS | 66,630 | 5.45 | 5.1 | 16.7 | 15.7 | 5.7% | 5.7% |
| TPG Telecom | TPM | 10,733 | 12.65 | 9 | 30.5 | 26.6 | 1.2% | 1.4% |
| Vocus Communications | VOC | 5,224 | 8.46 | Res | 28.3 | 20.4 | 2.2% | 2.5% |
| **UTILITIES** | | | | | | | | |
| AGL Energy | AGL | 12,853 | 19.05 | 19.9 | 18.3 | 16.7 | 3.6% | 3.9% |
| APA Group | APA | 10,218 | 9.17 | 8.75 | 45.6 | 38.1 | 4.5% | 4.8% |
| AusNet Services | AST | 6,008 | 1.69 | 1.65 | 18.1 | 21 | 5.1% | 5.2% |
| DUET Group | DUE | 6,180 | 2.54 | 2.25 | 27.8 | 40.5 | 7.1% | 7.3% |
| Spark Infrastructure Group | SKI | 4,155 | 2.47 | 2.35 | 65.1 | 51.7 | 5.9% | 6.2% |
| **Market Average** | | | | | **22.6** | **19.8** | **3.6%** | **4.0%** |

# UK Investment Trusts

| Share Price 11-Aug-16 GBP pence | Net Asset Value | (Disc) Premium | *View | Investment Trust Company | Net Yield % | 12 Month % Discount | | | 1 Year % Return pa | | 3 Year % Return pa | | 5 Year % Return pa | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Average | High | Low | Price | NAV | Price | NAV | Price | NAV |
| | | | | **Global Equity Funds** | | | | | | | | | | |
| 658 | 709 | -7.3% | ↑ | Bankers | 2.9 | -2.2 | -8.7 | 3.3 | -18.3 | -14.8 | 5.4 | 5.9 | 12.3 | 7.8 |
| 549 | 625 | -12.2% | ↓ | British Empire & Securities | 2.5 | -12.6 | -14.8 | -7.9 | -10.1 | -14.0 | 4.6 | 2.1 | 3.7 | 2.8 |
| 2385 | 3029 | -21.3% | → | Caledonia Investments | 2.1 | -16.9 | -24.2 | -12.6 | -18.0 | -15.1 | 10.8 | 8.4 | 9.7 | 7.5 |
| 243 | 267 | -9.1% | ↑ | JPM Global Growth & Income | 1.5 | -8.3 | -10.6 | -4.0 | -11.6 | -10.7 | 9.1 | 8.8 | 8.8 | 9.0 |
| 498 | 557 | -10.6% | ↑ | Monks Investment | 1.0 | -10.6 | -13.3 | -6.8 | -8.8 | -7.6 | 9.4 | 7.4 | 7.9 | 6.6 |
| 1,802 | 1709 | 5.4% | ↑ | RIT Capital Partners | 1.8 | 1.7 | -5.3 | 9.3 | -10.6 | -16.2 | 13.2 | 6.5 | 8.3 | 5.7 |
| | | | | **European Funds** | | | | | | | | | | |
| 407 | 399 | 3.6% | ↑ | City of London | 4.0 | 1.3 | -2.5 | 3.3 | -18.4 | -21.1 | 5.7 | 1.7 | 10.5 | 5.9 |
| 705 | 813 | -13.3% | NR | The European Trust | 1.9 | -7.5 | -14.3 | -2.0 | -30.9 | -24.4 | 3.6 | 1.0 | 6.4 | 3.9 |
| 299 | 347 | -13.9% | ↑ | JP Morgan European Smaller | 1.2 | -9.7 | -15.9 | -3.6 | -7.7 | -1.3 | 16.6 | 13.6 | 12.0 | 10.8 |
| 697 | 826 | -15.6% | NR | BlackRock Greater European | 2.0 | -3.5 | -6.2 | 0.2 | -13.5 | 13.0 | 7.0 | 5.1 | 8.9 | 6.8 |
| | | | | **Asia/Pacific Funds (including Japan)** | | | | | | | | | | |
| 327 | 381 | -14.2% | ↑ | JP Morgan Japan | 1.0 | -10.9 | -16.6 | -5.8 | -9.9 | -5.6 | 14.3 | 13.3 | 14.6 | 12.9 |
| 355 | 344 | -2.4% | ↑ | Henderson Far East Income | 6.6 | -0.5 | -5.7 | 4.2 | -7.3 | -11.8 | 6.1 | -0.3 | 7.4 | 1.6 |
| 169 | 184 | -8.1% | ↑ | Schroder Japan Growth Fund | 1.3 | -7.7 | -16.0 | -1.1 | -18.7 | -14.7 | 9.8 | 8.6 | 12.4 | 11.2 |
| | | | | **Global Emerging Markets Funds** | | | | | | | | | | |
| 719 | 805 | -10.7% | ↑ | JP Morgan Emerging Markets | 1.1 | -11.8 | -14.2 | -8.7 | -4.4 | -4.7 | 6.3 | 5.4 | 4.4 | 3.9 |
| 580 | 652 | -11.1% | ↑ | Templeton Emerging Markets | 1.9 | -12.6 | -15.5 | -9.6 | -2.8 | -5.4 | 0.1 | -0.3 | -2.0 | -2.3 |
| | | | | **Far East Exc Japan** | | | | | | | | | | |
| 305 | 344 | -11.2% | ↑ | Edinburgh Dragon | 1.2 | -12.0 | -15.3 | -9.6 | -11.5 | -12.3 | 1.5 | 2.1 | 5.0 | 4.3 |
| 647 | 726 | -10.9% | NR | JP Morgan India | 0.0 | -12.0 | -15.5 | -8.1 | -6.8 | -5.3 | 21.0 | 20.4 | 8.5 | 9.3 |
| 335 | 377 | -11.2% | ↑ | Schroder AsiaPacific | 1.0 | -11.0 | -14.0 | -6.3 | -3.8 | -6.2 | 9.3 | 7.8 | 9.3 | 7.8 |
| | | | | **Other Funds** | | | | | | | | | | |
| 1094 | 1175 | -6.9% | ↑ | North American Income Trust | 3.7 | -10.2 | -13.7 | -5.3 | 10.3 | 4.2 | 9.6 | 9.1 | 14.7 | 11.7 |
| 338 | 345 | -2.2% | ↑ | JPMorgan American | 1.3 | -4.0 | -8.1 | 2.5 | -3.3 | -8.5 | 12.9 | 12.0 | 15.4 | 14.5 |
| 304 | 359 | -0.9% | → | BlackRock World Mining | 9.0 | -11.6 | -20.4 | -5.8 | 3.3 | 3.7 | -9.3 | -12.3 | -13.2 | -18.0 |
| 778 | 785 | -0.9% | → | Polar Capital Technology | 0.0 | -3.0 | -9.1 | 5.7 | -1.8 | 1.1 | 17.8 | 18.3 | 15.7 | 16.5 |
| 559 | 740 | -24.5% | ↑ | SVG Capital | 0.0 | -21.1 | -30.5 | -13.2 | -9.6 | -3.5 | 10.9 | 15.2 | 15.6 | 13.2 |
| 310 | 362 | -14.3% | → | TR Property Trust | 2.5 | -6.4 | -13.8 | 1.3 | -19.0 | -7.2 | 14.4 | 15.1 | 12.9 | 11.4 |
| 2,137 | 2,240 | -4.6% | ↑ | Worldwide Healthcare Trust | 0.7 | -5.3 | -9.2 | 0.9 | -15.9 | -6.0 | 22.4 | 25.0 | 23.7 | 16.7 |

**1yr 3yr & 5yr Performance figures to 31th July 2016 - All in NZ Dollars - Exchange Rate: UK£/NZ$ 0.5545 US$/NZ$ 0.7192**

**NOTE: *VIEW – First NZ Capital Limited**

FNZC's aim is to identify Company's where the share price will outperform the benchmark on a risk adjusted total return basis. This may be through either a narrowing of the discount or outperformance of the underlying portfolio. Through the View we seek to identify buying opportunities for investors in each asset class, on a 12-18 months timeframe. Our view will take into account valuation, but will place a greater emphasis on the quality of management, performance record and risk characteristics (including portfolio diversification, gearing and any outstanding commitments). We will typically focus on the outlook for relative, rather than absolute share price performance.

## Top 20 Largest Global Companies

| Today (newcomers in bold) | 2006 |
|---|---|
| **Apple** | Exxon Mobil |
| **Alphabet (Google)** | General Electric |
| Microsoft | Microsoft |
| Exxon Mobil | Citigroup |
| **Amazon.com** | PetroChina |
| **Facebook** | Toyota Motor |
| Berkshire Hathaway | Bank of America |
| Johnson & Johnson | Procter & Gamble |
| General Electric | Wal-Mart Stores |
| **AT&T** | Johnson & Johnson |
| China Mobile | Pfizer |
| **Wells Fargo** | American International Group |
| JP Morgan | Altria Group |
| Procter & Gambile | China Mobile |
| Wal-Mart Stores | Berkshire Hathaway |
| **Tencent** | JP Morgan |
| Pfizer | Cisco Systems |
| **Verizon Communications** | Bank of China |
| **Alibaba** | Chevron |
| **Samsung Electronics** | IBM |

SOURCE: *Bloomberg*

**If you are looking for a sharebroker I can recommend Graham Nelson, who works out of the Wellington office of First NZ Capital. With modern communications I am sure that you won't be disappointed....**

# NZ Daily Fixed Interest Rate Sheet

**PRICES AS AT 15TH AUGUST 2016** NOTE: Indicative pricing only

| Secondary market 15th August 2016 | Code | Rating | Type | Maturity/ Reset Date | Coupon | Yield | Margin to SWAP | Price /$100 | Coupon Freq |
|---|---|---|---|---|---|---|---|---|---|
| Fletcher Building | FBI110 | NR | Cap | 15/03/2018 | 7.15% | 4.00% | 203 | $107.78 | 2 |
| Z Energy | ZEL020 | NR | Snr | 15/08/2018 | 7.25% | 3.60% | 165 | $107.04 | 4 |
| Fletcher Building | FBI120 | NR | Cap | 15/03/2019 | 5.40% | 3.80% | 184 | $106.17 | 2 |
| Contact Energy Limited | CEN020 | BBB | Snr | 15/05/2019 | 5.80% | 3.10% | 114 | $108.55 | 4 |
| Kiwibank | KCF010 | BB+ | Tier 2 | 15/07/2019 | 6.61% | 4.70% | 273 | $105.75 | 2 |
| Infratil | IFT200 | NR | Bnd | 15/11/2019 | 6.75% | 4.05% | 207 | $109.90 | 4 |
| University of Canterbury | UOC010 | NR | Snr | 15/12/2019 | 5.77% | 4.00% | 201 | $106.48 | 2 |
| Infratil | IFT090 | NR | Convert | 15/02/2020 | 8.50% | 4.36% | 237 | $113.40 | 4 |
| Goodman Property Trust | GMB020 | BBB+ | Snr | 16/12/2020 | 6.20% | 3.20% | 116 | $113.11 | 2 |
| Fletcher Building | FBI150 | NR | Cap | 15/03/2021 | 4.75% | 4.00% | 195 | $105.12 | 2 |
| Sky TV | SKT020 | NR | Snr | 31/03/2021 | 6.25% | 3.73% | 168 | $113.03 | 4 |
| Trustpower | TPW120 | NR | Snr | 15/12/2021 | 5.63% | 3.75% | 165 | $110.04 | 4 |
| Infratil | IFT190 | NR | Bnd | 15/06/2022 | 6.85% | 4.40% | 227 | $113.73 | 4 |
| Goodman Property Bond | GMB030 | BBB+ | Bnd | 23/06/2022 | 5.00% | 3.55% | 142 | $108.36 | 2 |
| Infratil | IFT210 | NR | Bnd | 15/09/2023 | 5.25% | 4.80% | 259 | $104.89 | 4 |

| Floating Rate / Perpetual Bonds | Code | Rating | Type | Reset Date | Coupon | Price /$100 | Margin to SWAP | Maturity | Coupon Freq |
|---|---|---|---|---|---|---|---|---|---|
| Credit Agricole S.A. | CASHA | BB+ | Tier 1 | 19/12/2017 | 5.04% | 90.00 | 310 | Perpetual | 4 |
| Genesis Power Limited | GPLFA | BB+ | Cap Bond | 15/07/2018 | 6.19% | 96.00 | 190 | Perpetual | 4 |
| Infratil | IFTHA | NR | Perp | 15/11/2014 | 4.26% | 60.50 | 300 | Perpetual | 4 |
| Quayside Holdings Ltd | QHLHA | NR | Perp Pref | 12/03/2017 | 5.88% | 100.00 | 170 | Perpetual | 4 |
| Rabobank Nederland | RBOHA | BBB- | Tier 1 | 8/10/2014 | 3.49% | 95.80 | 460 | Perpetual | 4 |
| Rabobank Nederland | RCSHA | BBB- | Tier 1 | 18/06/2019 | 8.34% | 107.00 | 360 | Perpetual | 4 |
| Works Infrastructure Finance | WKSHA | NR | RPS | 15/06/2015 | 7.21% | 103.60 | 340 | Perpetual | 4 |



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