Bay Brokers Limited

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

Investment Strategies

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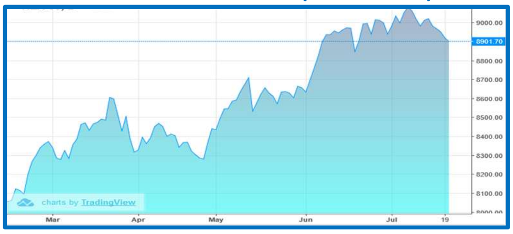
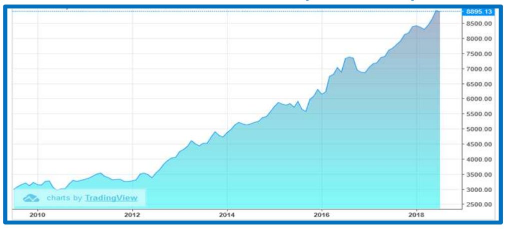
New Zealand's economy could be entering a "danger zone" economists warn; where a weak start to the year feeds falling business confidence, which could see the economy lose momentum throughout 2018. We have come from an environment over the last three years where earnings growth has lifted by about 8% per annum, and we are now facing earnings growth of 4% to 5% per annum. Cost pressures are on the rise, both in New Zealand and globally. That said, our sharemarket continues to perform strongly. Policy uncertainty has not yet been priced into our market.

NZX50 GROSS INDEX (YEAR TO DATE)



NZX50 GROSS INDEX (SINCE 2010)



The rapid rise of Artificial Intelligence has the ability to change our ways of working, and this could have a profound effect on our established corporates. Don't under-estimate the speed and depth of this change, as it could well have both positive and negative effects on corporate earnings going forward.

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STATISTICS NZ DATA

Population

Estimated population at 31 March 2018:	4,871,300
Births Sept 2017 year:	58,494
Deaths Sept 2017 year:	33,240
Net migration June 2018 year:	65,000

Employment

Total employed Sept 2017 quarter:	2,593,000
Unemployment rate Mar 2018 quarter:	4.4%
Ave weekly earnings Sept 2017 quarter:	$1,174.64
Wage inflation Sept 2017 quarter:	1.9%
Cost Price Index September 2017 quarter:	0.5%
The size of the NZ Economy 31 Dec 2017:	**$283 bn**
⇒ **Households**	**$160 bn**
⇒ **Government**	**$50 bn**
⇒ **Investments**	**$65 bn**
GDP per capita year ended June 2017:	**$56,482**
GDP Growth (volume) March 2018 year:	**2.7%**
Bay of Plenty GDP Growth March 2018 year:	4.1%
Tauranga City GDP Growth March 2018 year:	4.4%
Visitor arrivals Annual June 2018 +3.8%	**3,790,000**

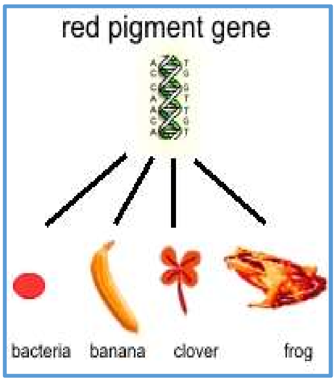
'Efficiency is doing things right; effectiveness is doing the right things'
Peter Drucker

WHAT IS GENE EDITING? – IT IS NOT GENETIC MODIFICATION

Genome editing (also called gene editing), often confused with genetic modification, is a group of technologies that give scientists the ability to change an organism's DNA. Unlike Genetic Modification, it does not involve adding any outside plant or animal genomes into the organism's DNA.

These technologies allow genetic material to be added, removed, or altered at particular locations in the genome. Several approaches to genome editing have been developed. A recent one is known as CRISPR-Cas9 (first invented in 2009 and becoming mainstream in 2017), is short for clustered regularly interspaced short palindromic repeats and CRISPR-associated protein 9. The CRISPR-Cas9 system has generated a lot of excitement in the scientific community because it is faster, cheaper, more accurate, and more efficient than other existing genome editing methods.

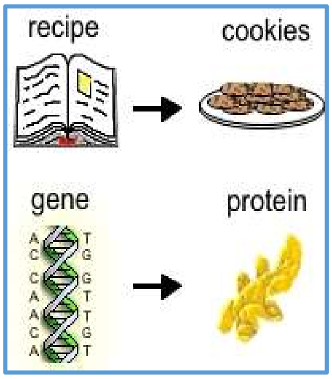
Gene editing allows existing DNA to be "tweaked" to improve particular genetic traits. Earlier methods of doing this was just to "blast" radiate a mass of plants (randomly) and then select those plants that showed the traits that you wanted.



Science has moved on, and New Zealand risks being left behind the rest of the world if it doesn't adopt this technology – and soon. Already it is now accepted in Europe and most scientific communities globally. We are now laggards. Our medical fraternity need it for disease research, and our agricultural industry; we need it to beat our predators (if we wish to be Predator Free by 2050; and agriculture needs it to both reduce emissions, and to speed up plant selection.

Our politicians need to step up and recognise gene editing as an essential science that doesn't involve cross species manipulation.

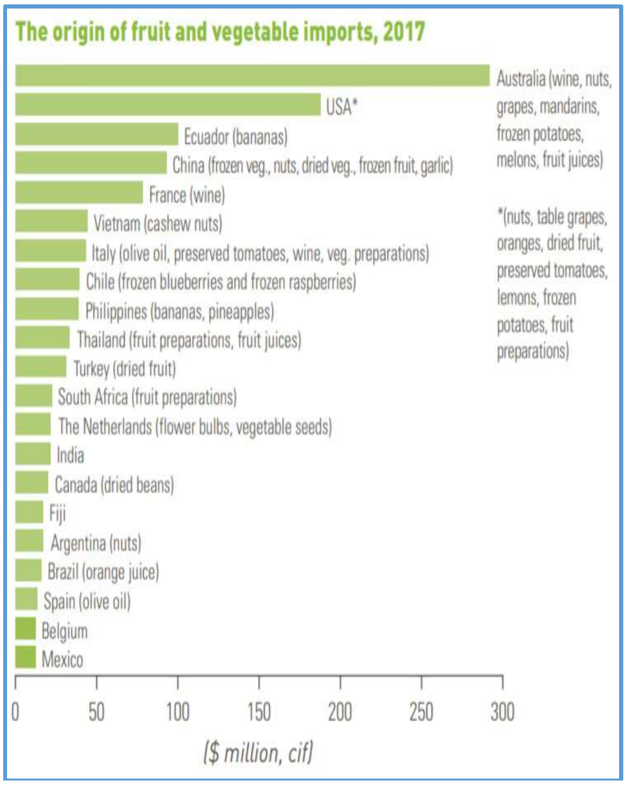
NOTE: *Small segments of DNA are called genes. Each gene holds the instructions for how to produce a single protein. This can be compared to a recipe for making a food dish. A recipe is a set of instructions for making a single dish.*
An organism may have thousands of genes. The set of all genes in an organism is called a genome. A genome can be compared to a cookbook of recipes that makes that organism what it is. Every cell of every living organism has a cookbook.



ANNUAL AVERAGE % CHANGE

Top 10 export destinations *($ million, fob)*

	2010	2016	2017	
Australia	702	804	855	Wine, avocados, processed veg, potatoes, kiwifruit, beans, blueberries, honey*, peas, fruit preparations, sweetcorn, fruit juices
Continental Europe	618	742	778	Kiwifruit, apples, wine, onions, honey*, carrot seed, radish seed
USA	352	679	726	Wine, apples, kiwifruit, honey*
Japan	483	594	605	Kiwifruit, squash, honey*, veg. juice, capsicums, other frozen veg, onions, sweetcorn, wine
China	100	498	502	Kiwifruit, honey*, apples, wine, cherries, frozen peas, fruit juices
UK	367	471	484	Wine, apples, honey*
Taiwan	108	273	250	Kiwifruit, apples, cherries
Canada	74	135	134	Wine, kiwifruit, apples
Korea	85	83	116	Kiwifruit, squash
Thailand	30	98	92	Apples



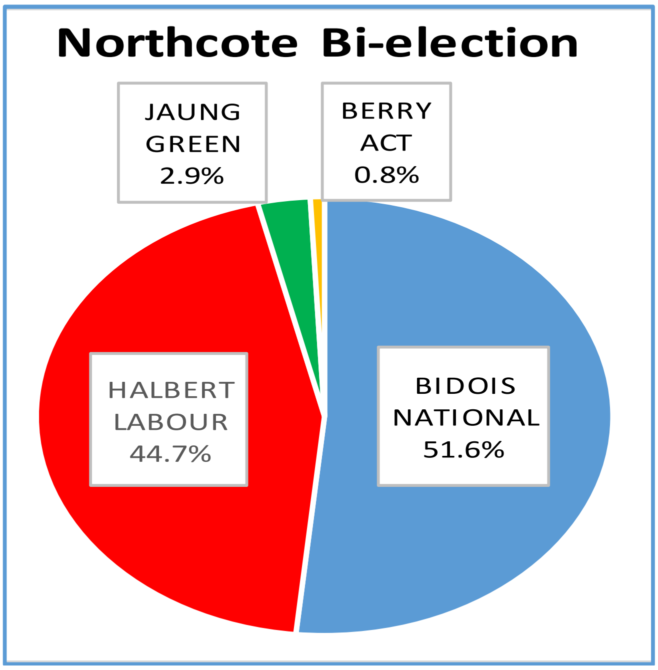
ARDERN/PETERS GOVERNMENT HAS CANNED TRANSPARENCY

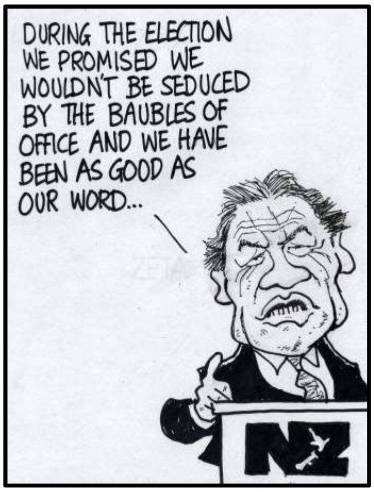
Despite Labour championing full transparency in the leadup to the election, there is very little sign of it now.

The recent revelation that there was no Cabinet paper-trail on the decision to stop future oil exploration is but the latest confirmation of this trend. Under this Government, a clear message is being sent that ministers make the decisions, not bureaucrats. The Oil & Gas decision was made with no consultation nor officials inputs as to the business case (in fact officials were sidelined and ignored because their advice was not what Jacinda Ardern wanted to hear). Was this a trade-off between Winston and the Greens; with Winston needing Greens support for his Waka jumping legislation?

This new Government has also abandoned the practice of officials' committees serving Cabinet committees attending Cabinet committee meetings. And the more general attendance of officials at Cabinet committees has been reduced too. The Better Public Services targets seems to be a thing of the past as well.

In part, all this can be out down to a not-unexpected suspicion on the part of ministers of the public service's commitment to their policy programmes. After all, they had been out of office for nearly a decade; few of them had ever served in a government previously, let alone been ministers; and none of them seriously expected to come to office last year. They were ill-prepared on so many fronts - Labour's policies barely extended beyond the soundbite level, and the preparation of their personnel was inadequate, as the woeful performance of some ministers is now showing.





Winston's Baubles

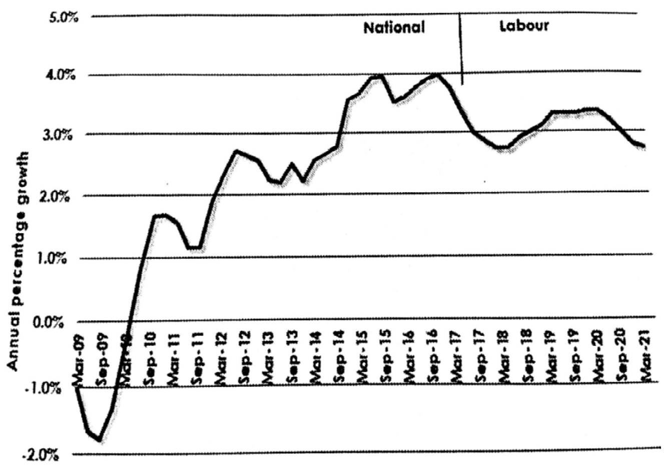
Winston & Shane Jones now live in Northland and it is no coincidence that 60% of the to-date allocated Regional Growth Fund (Peters $3bn slush fund to enamour the regions to his Party) has gone to Northland. When questioned Shane Jones just threw back the one line "To the winner goes the booty." This is a disgrace, and another example of this government's lack of accountability. They said that they were going to do things differently, but if this is their idea of different then I don't think sensible New Zealanders want a bar of it.

ARDERN/PETERS FIRST BUDGET

Not even close to transformational

Labour/NZ First/Greens have inherited a very strong (and globally respected) economy, and yet business confidence has taken a sustained hit. The past National Government dug New Zealand out of the GFC (Global Financial Crisis) better than any other country.

New Zealand's GDP Annual Growth Rate



Treasury now forecasts a much slower growth rate, just as American and global growth picks up.

Residential House Prices

Statistics NZ said in June that just over 3% of homes sold in the first three months of the year had gone to foreign buyers. Statistics show a much higher rate of foreign transactions in Auckland (7.3%) and Central Auckland (nearly 19%). Labour says this shows the continued need for the Overseas Investment Amendment Bill to cool house prices in areas of high foreign ownership.

CLIMATE CHANGE SCENARIOS FOR NEW ZEALAND - NIWA

Given our current knowledge and modelling technology, there are uncertainties in each step of modelling. For example, emission predictions depend on the difficult task of predicting human behaviour, such as changes in population, economic growth, technology, energy availability and national and international policies, including predicting the results of international negotiations on constraining greenhouse gas emissions.

Our understanding of the carbon cycle and of sources and sinks of non-carbon dioxide greenhouse gases is still incomplete. As discussed in NIWA's climate modelling web page, there are significant uncertainties in current global climate model predictions—particularly at the regional level.

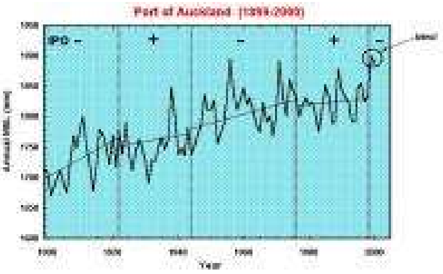
The climate change scenario approach recognises these uncertainties. A scenario is a scientifically-based projection of one plausible future climate for a region. For guidance on regional impacts of climate change, a range of scenarios is desirable. These can span credible estimates of future greenhouse gas emissions, and the uncertainty range in climate model predictions.

Changes in extremes

The greatest impact of climate change is likely to be experienced first by changes in extremes (storm effects) rather than by changes in mean conditions.

Sea level

So, what can we say about whether sea level is rising or not? The graph (below right) shows the annual sea levels at Auckland from 1899 to the present. Overall sea level has risen by 0.14m per century at Auckland and 0.17m per century on average across our four main ports.



The global average over the 20th Century was a rise of between 0.1m and 0.2m per century, with a central value of 0.15m per century. Longer overseas records from stable ports in Europe indicate that modern sea levels began rising noticeably in the early to mid-1800s, after a 3,000-year period of relatively slow rise of 0.01 to 0.02m per century.

Sea level has been rising around the globe as a result of the world's oceans expanding as they warm and because ice previously stored in glaciers and in parts of the polar ice sheets has been melting. Globally, sea level rose 19 centimetres between 1901 and 2010 (IPCC, 2014a).

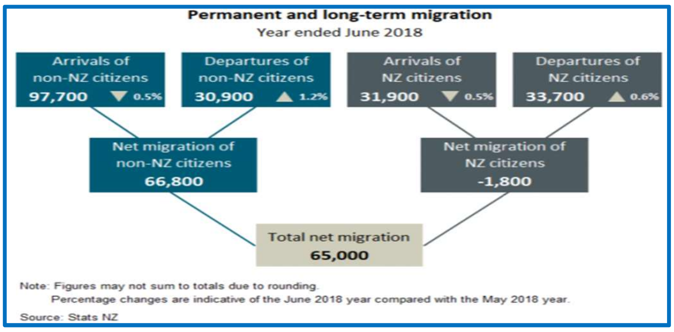
However, sea-level change is not uniform around the world. The Pacific Rim for example, is very susceptible to tectonic plate movement (primarily from earthquakes), and this moves land masses up and down over time.

The rising and sinking of land relative to sea, regional variations in ocean temperatures and circulation, and the adjustment of Earth's gravitational field to the changing ice sheets also cause variations. For the same reasons, sea-level rise is not consistent around New Zealand's coastline.

IN THE NEWS

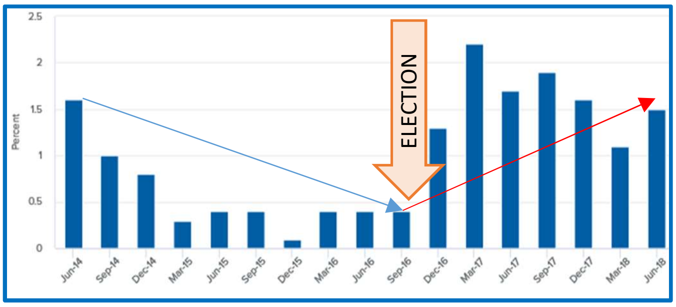
PERMANENT MIGRATION AGAIN HURTING NZ WORKFORCE

More New Zealand citizens are leaving the country long term than returning. In the year ended June 2018, there was a net loss of 1,800 New Zealand citizens, partly offsetting the net gain of 66,800 non-New Zealand citizens. National took huge pride in reversing "the brain drain" to Australia under the John Key/Bill English Government. In just 8 months of the current Ardern/Peters Government we are back losing our skilled workforce across the ditch.



The diagram above shows arrivals of non-NZ citizens 97,700 down 0.5%; and departures of non-NZ citizens 30,900 up 1.2% make net migration gain of non-NZ citizens 66,800. Arrivals of NZ citizens 31,900 down 0.5% and departures of NZ citizens 33,700 up 0.6% make net migration loss of NZ citizens -1,800. Result is total net migration of 65,000.

CONSUMER PRICE INDEX – ANNUAL CHANGE



From the June 2017 quarter to the June 2018 quarter, the CPI increased 1.5%.

- Housing and household utilities increased 3.1%; rentals for housing were up 2.5%; and construction was up 3.9%.
- Transport increased 2.0%, with prices for petrol up 10%.
- Miscellaneous goods and services increased 3.1%, with insurance prices up 5.7%.

NZ'S BEST INVESTOR — IS IT BAY OF PLENTY REGIONAL COUNCIL ?

By: Brian Gaynor - NZ Herald investment columnist. NZ Herald, 2 June 2018

Who is New Zealand's best investor? Is it Graeme Hart, the Todd family, Sir Ron Brierley, Rod Duke or Sir Robert Jones?

This is a difficult question to answer but the Bay of Plenty Regional Council is an obvious candidate because of its stewardship of Port of Tauranga, which has created vast shareholder value over the past 26 years.

Before 1988, the New Zealand waterfront was hopelessly inefficient, mainly because it operated under the following monopolies:

- Harbour boards had the sole right to own and supply plant used for moving cargo.
- Harbour workers had the exclusive right to operate this plant.
- Only Waterside Workers Union members could work on ships.

Then-Transport Minister Bill Jeffries said: "The port industry is too expensive and the country does not get the value it should from the enormous capital and labour costs that the port sector generates."

Just over three decades ago, on April 29, 1988, the Port Companies Act 1988 came into force and radically changed the sector.

The 1988 act required the old harbour boards to transfer their commercial operations to limited liability companies. Most of these new entities were owned by local regional councils.

The next major reform occurred on March 22, 1989, when the Waterfront Industry Reform Act 1989 was enacted.

Under this act, the Waterfront Industry Commission was abolished and port stevedoring companies had complete control over the quantity and quality of their workforce.

This led to a dramatic increase in productivity, with the number of waterfront workers plunging from 3300 to 1800.

The average turnaround time for a container vessel at Ports of Auckland fell from 38 hours to 15.5 hours, even though each ship, on average, had twice as many containers as ships handled under the old system.

At Port of Tauranga, it took only 30 hours and four men to load a 27,000 cubic metre cargo of logs, whereas before the reforms it used to take 12 to 13 days and 44 men to load the same cargo.

Port of Tauranga was the first port company to seek stock exchange listing when it issued a prospectus on March 27, 1992. At the time it was 76.9% owned by the Bay of Plenty Regional Council and 23.1% by the Waikato Regional Council.

As a public company Port of Tauranga Limited has moved from being a non-taxable, non-profit organisation, to one subject to income tax, committed to paying a dividend to shareholders and subject to the normal business and commercial opportunities and constraints faced by any public company.

The company's chief executive was John Halling, who had been employed in the port sector since 1977. The designated day-to-day operations manager was Jon Mayson, who had joined the Bay of Plenty Harbour Board in 1972.

At the time of the IPO, Port of Tauranga represented 33% of New Zealand's exports by volume and 17% by value. It also accounted for 8% of the country's imports by volume.

As part of the IPO, the Waikato Regional Council sold all its 12.6 million shares for $1.05 each and Port of Tauranga issued 10 million new shares at the same price.

After the issue, Bay of Plenty Regional Council owned 56.1% of the port company, through Quayside Holdings Limited, and the public 43.9%.

The port company had a market value of only $78.8m at the $1.05 a share IPO price, with the Bay of Plenty Regional Council's 56.1% stake worth just $44.2m.

There was little interest in the Port of Tauranga float, particularly compared with Progressive Enterprises' IPO at the same time. Most analysts believed that Progressive Enterprises was a "must buy" opportunity, while Port of Tauranga would be a boring and mediocre listing.

These projections were completely wrong.

Progressive Enterprises shares were issued at $2.00 each but by the end of 1995 they had fallen to $1.14, while Port of Tauranga's share price had climbed slowly from $1.05 to $1.29. But Progressive Enterprises' share price recovered and in 1999 West Australia-based Foodland made a successful takeover offer at $3.00 a share, a 50% premium to the IPO price seven years earlier.

Meanwhile, when Progressive Enterprises delisted on October 15, 1999, Port of Tauranga's share price was $5.85 compared with its $1.05 IPO price. Port of Tauranga had left Progressive Enterprises far behind, but that was only the beginning as far as the Mount Maunganui based company was concerned.

John Halling resigned as chief executive in January 1997 and was replaced by Jon Mayson. In October 2005, Mark Cairns replaced Mayson. Cairns had previously been chief executive of Toll Owens Limited, a 50-50 joint venture between Port of Tauranga and Toll Logistics New Zealand.

Port of Tauranga's performance under the stewardship of Halling, Mayson and Cairns, the company's only chief executives, has been outstanding. The figures in the table below clearly illustrate its world class performance.

Port of Tauranga

June years	2016/17	2003/04	1990/91
Operational			
Cargo throughput (tonnes)	**22.194m**	12.242m	6.114m
Containers (TEU)	**1,085,987**	394,403	40,134
Ship departures	**1653**	1233	683
Total ship days in port	**2589**	1501	1665
Average turnaround time per ship	**1.4 days**	1.2 days	2.4 days
Average cargo tonnes per ship	**29,665t**	17,495t	12,013t
Employees	**206**	148	137
Financial			
Revenue	**$255.882m**	$151.103m	$30.282m
Pre-tax profit	**$111.347m**	$49.003m	$13.747m
Net profit after tax	**$83.441m**	$33.644m	$9.2m
Net operating cash flow	**$98.185m**	$40.029m	$13.516m
Dividends paid	**$108.893m**	$25.443m	$1.375m

There has been a massive increase in port productivity, with total cargo throughput soaring from 6,114,000 tonnes to 22,194,000 tonnes over the past 26 years, container volume from 40,134 to 1,085,987 TEUs (20-foot equivalent units) and ship departures from 683 to 1653 per annum.

Meanwhile, the number of port employees has risen from 137 to only 206 over the same period.

There has been a significant improvement in the average turnaround time per ship, from 5.5 days in 1988/89 to 2.4 days two years later and now 1.4 days.

This huge increase in productivity and volume has been reflected in the revenue, net profit and dividend figures, as well as sharemarket performance.

Total revenue has soared from $30.3m to $255.9m, net profit after tax from $9.2m to $83.4m and dividends paid from just $1.4m to $108.9m.

The port company has had a one-for-eight capital return, at $8 per share in 2002, followed by a two-for-one share split and then a five-for-one split.

The Bay of Plenty Regional Council has been a huge beneficiary, as indicated by the following figures:

- It has received dividends of $513m since the IPO.
- It has received a capital repayment of $37m.
- The total value of its holding has increased from just $44.2m at the IPO price to $1.92bn.

Thus, the Regional Council has converted $44.2m worth of value in 1992 into $2.47bn, a multiple of more than 50 times over the 26-year period.

By selling all its shares, the Waikato Regional Council has missed out on $165m worth of dividends and capital repayments and its shares would now be worth $575m instead of the $13.3m it realised through the 1992 IPO selldown.

One of the most remarkable features of Port of Tauranga's success is that it has essentially been achieved on just one piece of land in Mt Maunganui, while other successful companies have greatly expanded their geographical footprint.

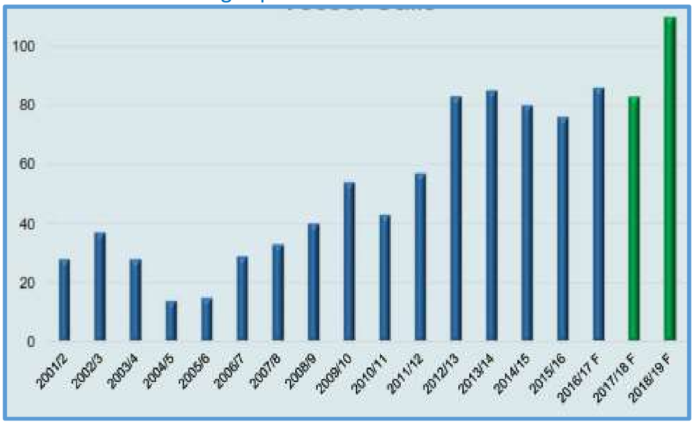
Port of Tauranga's success has been based on a simple formula: prioritising productivity gains, appointing senior executives with industry expertise, having staff share schemes and sticking to its knitting.

Meanwhile, the Bay of Plenty Regional Council has shown its strong support by not selling a single share.

Why aren't other regional authorities challenging their commercial operations in the same way and listing them on the NZX? The Bay of Plenty Regional Council has shown that a successful NZX listing can deliver spectacular returns. Other regional councils should be following the Bay of Plenty Regional Council's shrewd example.

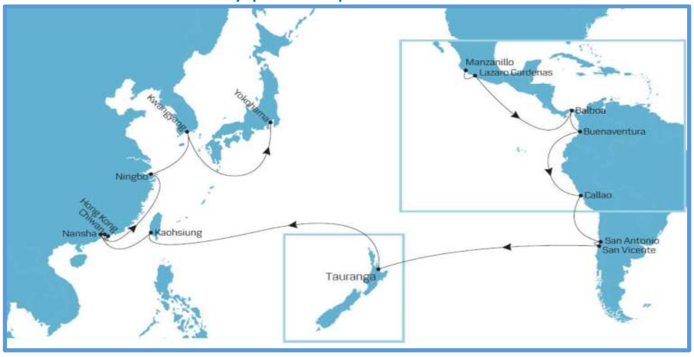
POT CRUISE VESSEL NUMBERS

bookings up 30% for 2018-19 season



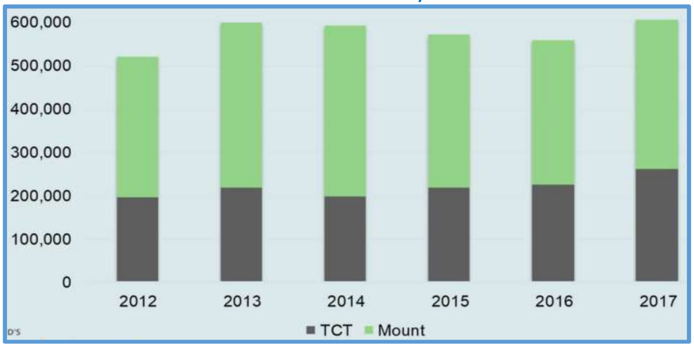
MAERSK LARGE VESSEL ROUTE

NZ only port stop in Australasia



PORT TRUCK MOVEMENTS

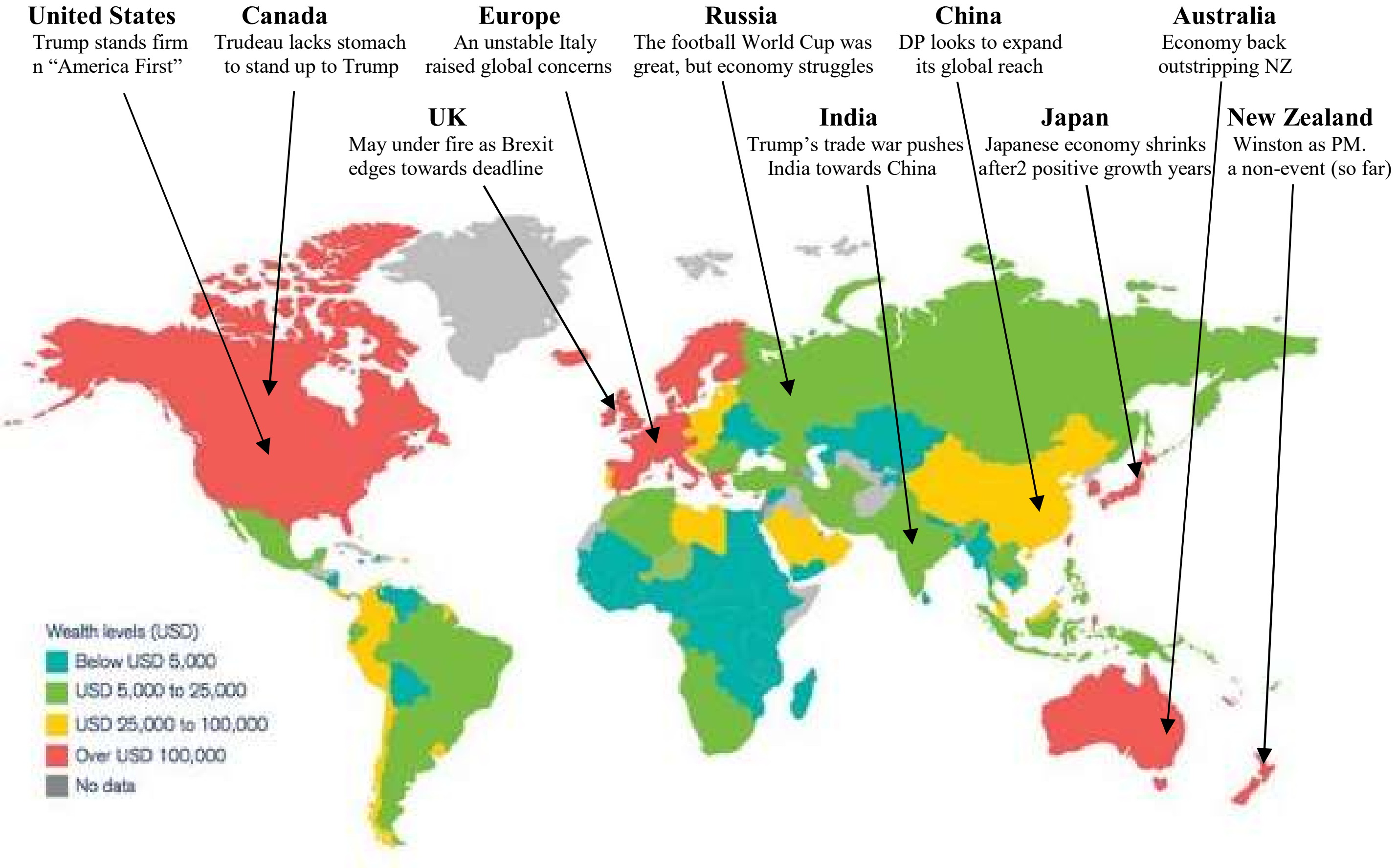
No increase in last 5 years



NOTE from Andrew

There is good reason for my continual accolades and preferred investment into our local Port of Tauranga. This is a great story of sustained capital appreciation.

THE WORLD AT A GLANCE – including World wealth levels 2017



THE GLOBAL ECONOMIC OUTLOOK

A worldwide escalation of the trade tensions between the US and its major trading partners would have consequences for global trade equivalent to the 2008 financial crisis, the World Bank has warned.

Using conservative estimates to assess the risks to the world economy from rising economic nationalism of the kind promoted by Donald Trump, the Washington-based organisation warned of "severe consequences" for world trade and economic growth, with the harshest impact reserved for developing nations.

Under the scenario outlined in its latest global economic prospects report published recently, the bank found a broad-based increase in the use of import tariffs worldwide – to the maximum levels permitted by the World Trade Organisation – would trigger a decline in global trade amounting to 9%. While that would be similar to the drop experienced during the financial crisis of 2008-09, it warned the impact could be even greater if countries went further than the WTO rules.

Franziska Ohnsorge, the lead author of the World Bank's report, said: "*The threat of trade protectionism is a real risk. Anything that puts sand in the wheels of global trade is a risk to global growth.*"

NEW ZEALAND'S ECONOMIC OUTLOOK

Statistics NZ March Quarter data shows that GDP Growth is slowing. The volume of building work put in place fell 0.9% in the quarter after a 1.0% rise in the December quarter. Economists had expected a rise of about 0.5%. March quarter retail spending was also flatter than expected, having grown 0.1% when 1.0% was expected. This, along with weaker business confidence and a slight slowdown in job advertisements growth, indicates early signs that our economy may be running out of puff. ANZ's composite indicator of business and consumer confidence is showing a slowdown in economic growth from the 3% that most forecast and down towards 2%.

TOTAL VOLUME OF BUILDING WORK PUT IN PLACE

SOURCE: Stats NZ, ANZ

United States Economic Outlook

The Trump administration has just announced up to US$12bn in emergency relief for farmers hurt by the president's trade war, moving to insulate food producers from looming financial losses that would be a direct result of President Trump's policies.

The aid to farmers will come through a direct assistance program, one designed to help with food purchase and distribution and one specifically geared toward promoting trade. The move is an indication that Mr. Trump plans to plough forward in escalating his tariff tit-for-tat around the world.

"This administration will not stand by while our hard-working agricultural producers bear the brunt of unfriendly and illegal tariffs."

United States GDP Annual Growth Rate

Australian Economic Outlook

The Australian economy grew an annual 3.1% in the first quarter of 2018, following a 2.4% expansion in the prior quarter and above expectations of a 2.8% growth. It is the fastest annual growth rate since Q2 2016.

Australia GDP Annual Growth Rate

Looking forward, analysts estimate Australia's GDP Annual Growth Rate to stand at 2.9% in 12 months time. In the long-term, that rate is projected to trend around 2.9% in 2020.

United Kingdom Economic Outlook

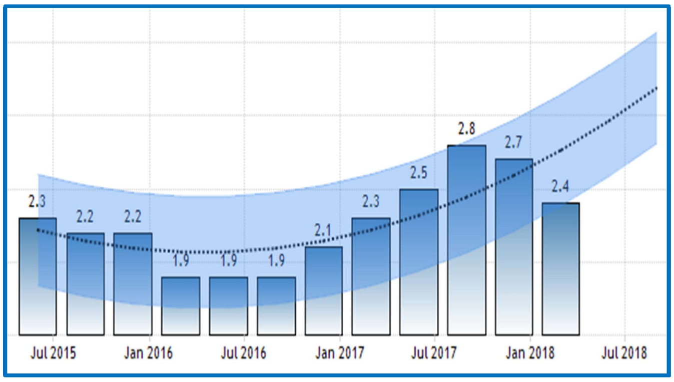
UK GDP growth is expected to slow further in 2018 as public spending cuts and Brexit-related uncertainty weigh on the economy. The unemployment rate is expected to remain around 4.5% in the near term although wage growth is likely to remain low, resulting in falling real wages. Looking forward, they estimate GDP Growth Rate in the United Kingdom to stand at 0.4% in 12 months time. In the long-term, the United Kingdom GDP Growth Rate is projected to trend around 0.5% in 2020.

United Kingdom GDP Quarterly Growth Rate

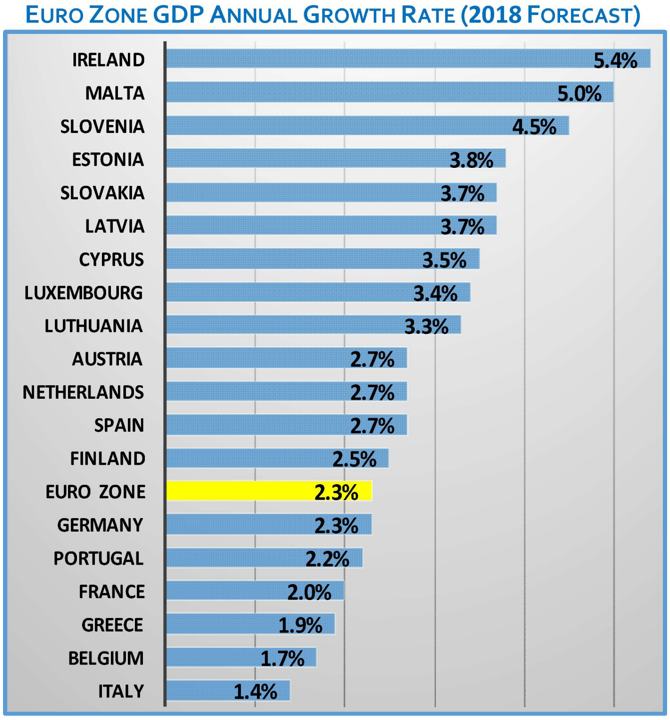
European Economic Outlook

After achieving the best growth in a decade last year, the Eurozone economy is off to a softer start in 2018. Increased sensitivity to global uncertainties, particularly trade protectionist threats and higher oil prices, have emerged as headwinds, with the stronger euro about to add to the pain.

Euro Zone GDP Annual Growth Rate



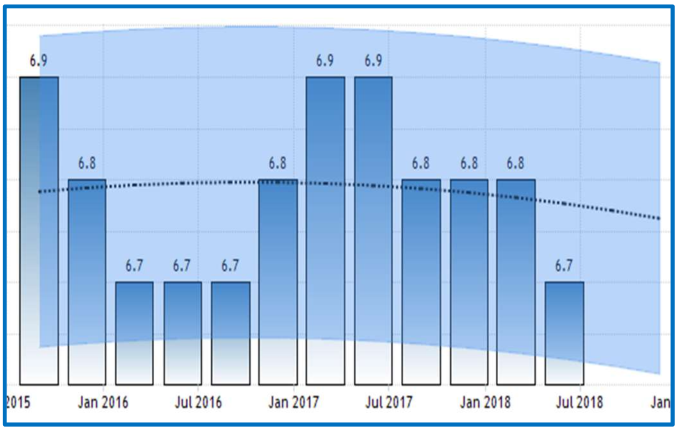
Euro Zone GDP Annual Growth Rate (2018 Forecast)



CHINESE ECONOMIC OUTLOOK

The Chinese economy expanded by 6.8% year-on-year in the first quarter of 2018, the same pace as in the previous two quarters and in line with market expectations. Growth was mainly supported by solid consumption, property investment and exports. The IMF expects China to grow 6.6% in 2018 and 6.4% in 2019.

CHINESE GDP ANNUAL GROWTH RATE



INDIAN ECONOMIC OUTLOOK

The IMF recently reaffirmed that India will be the fastest growing major economy in 2018, with a growth rate of 7.4% that is expected to rise to 7.8% in 2019. The IMF's Asia and Pacific Regional Economic Outlook report said that India was recovering from the effects of demonetisation and the introduction of the Goods and Services Tax and "the recovery is expected to be underpinned by a rebound from transitory shocks as well as robust private consumption." The IMF concluded that the Asian region contributes more than 60% of global growth and three-quarters of this comes from India and China.

INDIA'S GDP ANNUAL GROWTH RATE

COMMODITIES

The big story in the financial markets in 2018 has been the sharp rise in oil prices, which recently hit $80 a barrel for the first time in four years.

But if oil analysts are right and the cost of crude is set to carry on rising, hitting $100 a barrel over the coming months, the big story of 2019 is going to be how oil came down to earth with a bump.

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

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

As a result, there is no longer an oil glut as there was in the middle of the decade. If Iran is frozen out of the global oil market, other suppliers will eventually take up the slack.

OIL: WEST TEXAS CRUDE (1 YEAR CHART)

CURRENCY

There has been a compelling case for a higher US dollar for some time on the back of rising US interest rates and a SD to fall further over the course of the year.

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

SOURCE: Westpac

'It doesn't matter whether a cat is black or white, as long as it catches mice'

Deng Xiao Ping – Chinese Leader (1978 to 1989) who championed China's modernisation

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

PRIMARY INDUSTRY EXPORT REVENUE 2004-2020^F

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

SOURCE: Ministry of Primary Industries

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

New Zealand relies on Primary Industries exports

New Zealand exported $53bn worth of goods and services in 2017. $32bn of that was food and beverages. If you add in logs then the primary industries sector accounted for $40bn or 75% of all exports. This Ardern/Peters Government will forget that at their peril.

Fonterra

Fonterra has slipped to being the 2nd largest dairy processor in the world (No 1 is Dairy Farmers of America). However it is only 18th of the top 20 in the world for the largest sales revenue per kilogram of milk (IFCN Rankings). Fonterra currently lags 40% below the US$1 per average revenue of the 20 largest processors in the world. This debunks the myth that Fonterra is the world's most efficient milk processor. NZ farmers are, but Fonterra isn't.

GLOBAL TOP 5 DAIRY PROCESSORS
REVENUE PER KG/MILK

RANK	COMPANY	COUNTRY	REVENUE PER KG
1st	Danone	French	US$2.40
2nd	Nestlé	Swiss	US$1.90
3rd=	Mengnui	Chinese	US$1.40
3rd=	Yili	Chinese	US$1.40
5th	Groupe Lacalis	French	US$1.30
18th	Fonterra	NZ	US$0.60

SOURCE: IFCN Dairy Research Centre

Dairy Holdings

Dairy Holdings operates 75 farms – 59 dairy and 16 grazing – are all in the South Island and predominantly in Canterbury. DHL is owned by three New Zealand farming families – Colin and Dale Armer, of Tauranga (who also own North Island dairy farms), the Waikato-based Wallace farming family and Murray and Margaret Turley, of Temuka South Canterbury, large-scale potato and arable growers.

It is Fonterra's largest supplier with 54 farms, with the remaining five supplying Westland Milk Products. Its figures are impressive: in the 2017-18 season its 59 dairy farms milked 49,000 cows on 14,300 hectares, producing an estimated 17.26 million kilograms of milksolids.

Significant reductions in nitrogen loss figures have been set by ECan for Canterbury catchments: a 30 per cent cut in Selwyn-Waihora by 2022 and a staggered cut in the Hinds catchment of 15 per cent by 2025 and 36 per cent by 2035. The reductions are calculated from a 2009 to 2013 baseline average.

To help meet these nitrogen loss reduction targets, DHL has invested heavily in more efficient irrigation systems, installing 110 centre pivot spray irrigators in the last 10 years.

"*This investment continued through the low payout years and has left us better positioned. It is not only reducing our nitrogen losses, it is improving profitability. A lot of our farms were converted to dairy in the late 1980s and early 1990s and watered with borderdyke (flood) and Roto-rainers (travelling spray). We now only have five farms at Waitaki to convert to pivot*," CEO Colin Glass said. Water savings were up to 50 to 60% using the pivots, with saving in nitrogen loss per hectare also significant.

When it comes to new technology, rather than being the first adopter, DHL prefers to be the fast follower. DHL champions a low-cost, pasture-based dairy system. "*We try and harvest as much pasture as possible. We are not big importers of feed. Last year we used about 60kg of drymatter of purchased feed per cow. The window we put it in is tight, for an adverse weather event and a tight growth period. We don't use supplementary feed to increase production. "Purchased feed and grazing are the two areas that have increased in cost the most over time. By being self-contained we can control these*," says Glass.

MYCOPLASMA BOVIS

Article written by Greg Gent, a fellow Director on Plant & Food Research. Greg is a senior commercial director with dairy farming interests in Northland. He has strong governance expertise having spent a decade on the Fonterra Board, and holding other directorships in the dairy, insurance, financial services and banking industries Greg is Chair of Dairy Holdings Limited.

The pastoral agricultural sector is facing up well to the M Bovis challenge. NZ was only one of two countries in the world that did not have this disease.

From a farmer perspective it appeared at the start that the response and actions were slow from Wellington. In hindsight the challenges with the bacteria does go some way to explain that. Like all things new, the reaction has been strong, driven at times by emotion and has provided yet another blow to a sector that feels very undervalued for the huge contribution it makes to NZ inc.

The bacteria is a very very weak one. A presentation I attended from an MPI scientist liken it to HIV, very weak and not easy to pass on, hence my support for the eradication option. This bacteria for example, has no cell wall and requires a fast build-up of protein (mucous) to survive outside of it's host. The greatest risks are animals in very close contact with each other - feedlots etc and calves drinking milk from infected cows.

The other huge challenge is the unreliability of testing. The bacteria can remain in its host and be very difficult to detect until an "event". With the Industry entering calving it is thought that "event" will be calving when the animal comes under a period of natural stress. For this reason MPI is embarking on a nation-wide milk testing regime starting shortly. It is hoped that this programme will uncover the actual size of the infection in the national herd.

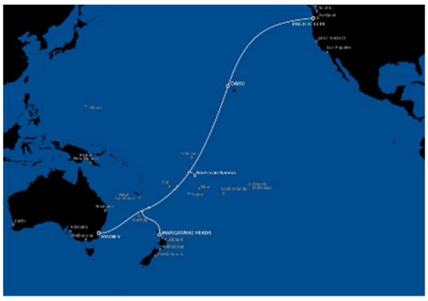
Should the worst occur and eradication is not possible I remain confident NZ farmers will squarely face up to farming with M Bovis as farmers from around the world have done. Farming in New Zealand is export orientated. M Bovis could be lived with but it would be yet another layer of cost and administrative burden to an Industry that is already struggling under the weight of regulation and therefore international competitiveness.

HAWAIKI SUBMARINE CABLE BEGINS COMMERCIAL OPERATIONS

Hawaiki Submarine Cable has begun commercial operations for its 15,000 km fibre optic deep-sea cable linking Australia, New Zealand, the Pacific and the United States.

The US$300 million Hawaiki Submarine Cable System "is the fastest and largest cross-sectional capacity link between the U.S. and Australia and New Zealand. It will significantly enhance our connectivity to the rest of the world and, ultimately, improve the everyday lives of our communities," said Hawaiki CEO Remi Galasso.

The cable, which has enough fibre to run more than twice around the equator, can transmit 43.8 terabytes per second or 80,000 times the average satellite link.



According to Hawaiki, at that speed, you could download more than 8,500 high definition DVD per second or stream 1.7 million 4K TV streams simultaneously.

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

Sir John Key

NEW ZEALAND EQUITIES

FNZC's Model Portfolio – June 2018

The FNZC model portfolio delivered a total return of +3.08% in June 2018, underperforming the benchmark NZX50G index return of +3.28%. This portfolio has delivered a 12-month total return of +20.2%, outperforming the benchmark NZX50G return of +17.5%. Positive active return in June was delivered by underweight positions in TME and CBL, while underweight positions in FPH and RYM delivered was counter productive.

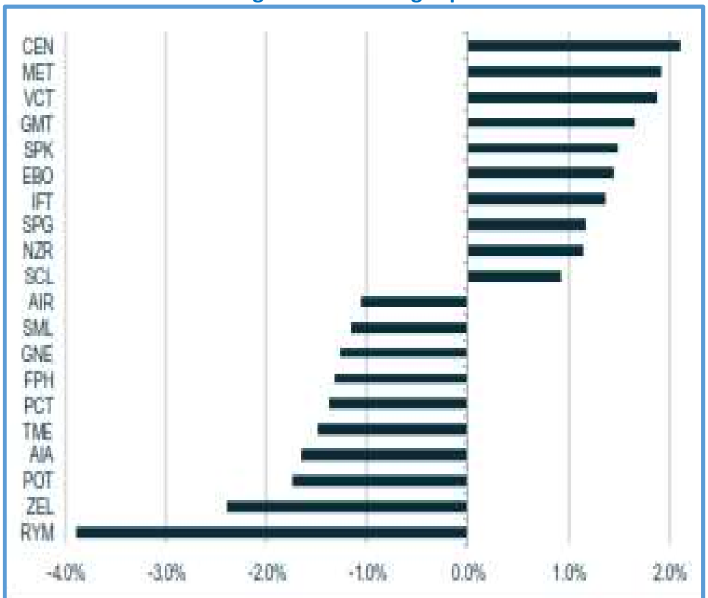
FNZC identifies wage inflation, a higher oil price and a weaker NZD as macro-risk trade ideas. Recent discussions with listed and unlisted contacts highlight growing concern around wage inflation, with both minimum wage and skilled labour shortage as key drivers of cost pressure. With consideration to the effects of labour cost pass-through, FNZC assesses negative margin risk to be most acute for the retail sector.

With Brent crude having rallied 65% in past 12 months, FNZC continue to highlight oil price risk as a trade idea, with negative earnings risk exposure to a higher oil price for stocks including AIR, AIA, SAN and THL.

Since mid-April, the NZD has depreciated 8% against the USD and 3% against the AUD and EUR. FNZC highlights positive exposure to these currency movements for stocks, including FPH, ATM, MFT, EBO, RBD, THL, SAN, NZR, SCL and KMD. Conversely, they identify negative exposure to a weaker NZD for AIR and SKT.

FNZC continues to see a challenged risk-reward profile for key growth names and therefore their portfolio presently has an overweight bias towards defensives, where they see some value upside and where they generally judge structural and earnings risks to be relatively low.

FNZC's Model Portfolio
Overweight & Underweight positions



Source: First NZ Capital

Review of Property Sector

As at 30 June 2018

Code	Rating	Price (NZ$)	Price 31 May	Target Price	Price/ NTA	Dividend Yield	Gross Yield	Gearing
APL(x NPT)	OUTPERFORM	$0.58	$0.59	$0.71	0.82x	6.2%	8.6%	4.3%
ARG	NEUTRAL	$1.07	$1.08	$1.09	0.96x	5.9%	8.1%	35.9%
AUG	OUTPERFORM	$1.09	$1.08	$1.14	0.95x	5.5%	7.9%	27.0%
GMT	NEUTRAL	$1.45	$1.42	$1.37	1.03x	4.6%	6.4%	25.0%
IPL	NEUTRAL	$1.49	$1.49	$1.47	0.91x	5.0%	7.0%	41.6%
KPG	NEUTRAL	$1.35	$1.41	$1.39	0.96x	5.2%	7.2%	29.7%
PCT	NEUTRAL	$1.35	$1.30	$1.32	0.96x	4.4%	6.2%	23.0%
PFI	NEUTRAL	$1.73	$1.70	$1.64	1.06x	4.4%	6.1%	30.8%
SPG	OUTPERFORM	$1.83	$1.79	$1.90	0.94x	5.4%	7.5%	34.1%
VHP		$2.01	$2.02		0.93x	4.4%	6.1%	36.8%
Average					**0.97x**	**4.9%**	**6.8%**	**29.5%**

Code	Sector	Property (NZ$m)	Occupancy	WALT Yrs	Cap Rate	Implied Cap Rate	FY+! 3 Lease Exp
APL(x NPT)	Off/Ind/Retail	$125	97.4%	4.4	7.4%	9.0%	n/d
ARG	Off/Ind/Retail	$1,513	98.8%	6.1	7.0%	7.3%	29%
GMT	Industrial	$2,345	98.2%	6.1	6.2%	6.2%	27%
IPL	LFR	$738	99.9%	13.1	6.2%	6.7%	8%
KPG	Retail/Office	$3,052	99.6%	5.3	6.1%	6.2%	30%
PCT	Office	$2,168	99.5%	7.0	6.2%	6.1%	24%
PFI	Industrial/Offic	$1,211	99.9%	5.3	6.6%	6.5%	34%
SPG	Off/Ind/Retail	$902	98.8%	4.9	6.6%	6.8%	34%
VHP	Healthcare	$1,655	99.2%	18.4	5.9%	6.2%	8%
Weighted Average			**99.1%**	**7.4**	**6.3%**	**6.4%**	**26%**

SOURCE: Company data, FNZC Estimates, Gearing is last reported

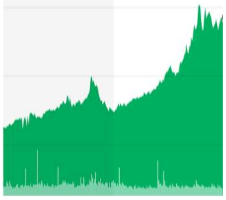
STOCKS TO WATCH

UPDATED STOCKS ONLY

NEW ZEALAND NOTE: THESE ARE ALL ONE YEAR GRAPHS

COLOUR DONATES: GREEN – UP YTD RED – DOWN YTD

Prices as at 20th July 2018



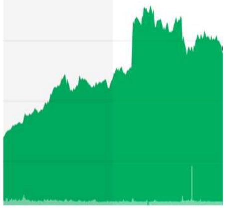
Auckland International Airport

FNZC doesn't rate this stock, but I do. It virtual monopolistic positioning should continue to underpin AIA's share price. AIA continues to trade strongly, with total passenger numbers for Auckland increasing 2.8% in April 2018. The Commerce Commission's release of its draft review of AIA's aeronautical pricing decisions serve as a reminder to the market that AIA effectively operates within a regulatory framework that caps the return on capital that it can earn from its regulated aeronautical operations.

Contrary to FNZC I now rate this stock a HOLD, but BUY on weakness.

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

NZX Code:	**AIA**
Share Price:	**$6.80**
12mth Target:	**$5.25**
Projected return (%)	
Capital gain	-22.8%
Dividend yield (Net)	3.6%
Total return	**-19.2%**
Rating: UNDERPERFORM	
52-week price range:6.02-7.13	

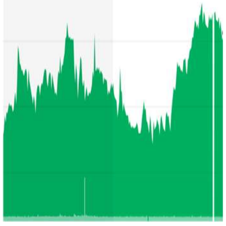


The a2 Milk Company

BlackRock, a major global Fund Manager, has recently taken a 5% stake in ATM – giving the market renewed confidence in this stellar market performer. After a strong performance in the Chinese market, ATM has expanded into South Korea. A2 says South Korea is an attractive market because it has high per capita dairy consumption, world-class retailers and fast-growing online sales. ATM has signed a distribution agreement with pharmaceutical giant Yuhan and they will launch a range of dairy nutritional products sourced from Australia and New Zealand, with sales expected to start between July and December this year.

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

NZX Code:	**ATM**
Share Price:	**$10.75**
12mth Target:	**$12.75**
Projected return (%)	
Capital gain	18.6%
Dividend yield (Net)	0.0%
Total return	**18.6%**
Rating: OUTPERFORM	
52-wk price range: 3.88-14.62	

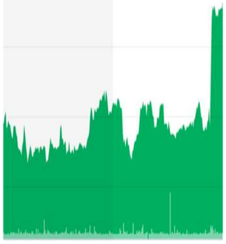


Contact Energy

Contact Energy (CEN) is New Zealand's second largest electricity generator assets (hydro, geothermal, gas fired & thermal) and second largest energy (gas, LPG and electricity) retailer. CEN also has options to build wind generation. While electricity & Gas sales were flat for April, CEN's cost of energy was just $16.21 per MwH, versus $28.36 per MwH in 2017. FNZC has raised their DCF-based one-year target price similarly, to $6.50/share (from $5.85). Low 2H17 hydro hasn't stopped CEN delivering on investor expectations for improving cashflows and yield.

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

NZX Code:	**CEN**
Share Price:	**$5.78**
12mth Target:	**$6.50**
Projected return (%)	
Capital gain	12.5%
Dividend yield (Net)	5.9%
Total return	**18.4%**
Rating: OUTPERFORM	
52-week price range: 5.15-5.96	



Ebos Group

EBO has secured exclusive rights for the distribution of pharmaceutical products to >400 My Chemist and Chemist Warehouse stores in Australia in a five year deal commencing 1 July 2019. The year one revenue impact of this should be A$1bn/NZ$1.1bn, a 14% uplift from the NZ$7.8bn FNZC had been forecasting. No additional guidance was provided, although management is "confident that EBOS will generate an acceptable return on capital from this new business". Read this as very positive and further vindication of recent distribution centre investment.

2018 P/E: 20.0 2019 P/E: 18.9

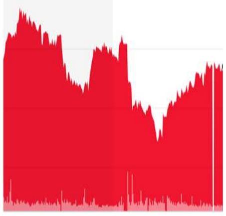
NZX Code:	**EBO**
Share Price:	**$20.84**
12mth Target:	**$19.75**
Projected return (%)	
Capital gain	-5.2%
Dividend yield (Net)	3.8%
Total return	**-1.4%**
Rating: NEUTRAL	
52-wk price range: 17.00 -20.90	

EROAD

RD's 1Q19 unit growth momentum slowed in both Australia, NZ and the US. ANZ units increased 2,591, which equates to 864 per month compared to growth in recent quarters of circa 1,600+ units per month. Some contracts were deferred to later quarters and as such it expects a "lumpy" profile for FY19 with a bounce back in 2Q19 and 3Q19 unit growth. ERD continues to have strong demand in ANZ and a good pipeline. Expect a relatively weak 1H19 in the US, with improvement in 2H19 as momentum builds ahead of the deadline for grandfathered units to be replaced by December 2019 and some intra-state activity picking up.

2019 P/E: 24.8 2019 P/E: 13.5

NZX Code:	**ERD**
Share Price:	**$3.26**
12mth Target:	**$3.60**
Projected return (%)	
Capital gain	10.4%
Dividend yield (Net)	0.0%
Total return	**10.4%**
Rating: NEUTRAL	
52-wk price range: 2.05 - 3.99	

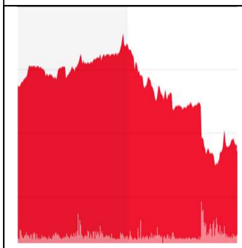


Fletcher Building

FBU said it would temporarily pay more interest on its borrowings, using proceeds from asset sales to cut back debt with syndicate bank lenders. This aims to fix breaches in debt covenants. This comes as a relief for the embattled construction firm that has been reeling from deep losses in major projects. Massive cost overruns at its building and interiors business led to the company's breach of its lending arrangements.

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

NZX Code:	**FBU**
Share Price:	**$6.99**
12mth Target:	**$8.40**
Projected return (%)	
Capital gain	20.7%
Dividend yield (Net)	1.6%
Total return	**21.8%**
Rating: OUTPERFORM	
52-week price range: 5.49-8.14	

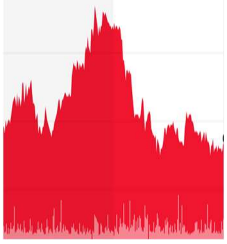


Fonterra Shareholder Fund

FSF recently moved to providing its detailed segmental financial information for its strategic segments - Global Ingredients and the regional Consumer & Food Services (C&FS) businesses. While FNZC still rely on very high level visibility, it is useful that this period coincides with a full NZ milk price cycle (from $8 down to $4 and back up to nearly $7). This clearly highlights a strong inverse relationship between NZ milk price and the earnings of some of the key C&FS segments. In the large Global Ingredients segment, there is little evidence of any structural lift in NZ Ingredients earnings. To be clear, visibility remains low and FSF's earnings volatile and generally disappointing.

2018 P/E: 12.4 2019 P/E: 8.8

NZX Code:	**FSF**
Share Price:	**$5.22**
12mth Target:	**$5.12**
Projected return (%)	
Capital gain	-2.5%
Dividend yield (Net)	5.6%
Total return	**3.1%**
Rating: UNDERPERFORM	
52-week price range: 5.00-6.66	

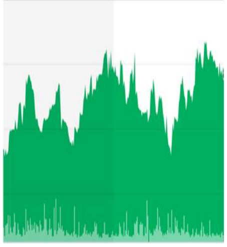


Heartland Bank

FNZC has lowered their target price from $1.83 to $1.66 per share. Over the past few years, they believe HBL's earnings and ROE growth have been mainly driven by its Reverse Mortgage business. Despite strong receivable growth in the balance of HBL's operations, to date this has not benefited ROE. HBL's 3Q18 result and its expectation to be at the top of its FY18 guidance range implies a 4Q18 earnings uplift and possibly some benefit from a focus on quality and scale benefits emerging. If so, this should provide greater confidence to medium-term forecasts as momentum in the reverse mortgage business remains strong.

2018 P/E: 13.9 2019 P/E: 13.0

NZX Code:	**HBL**
Share Price:	**$1.75**
12mth Target:	**$1.66**
Projected return (%)	
Capital gain	-5.2%
Dividend yield (Net)	5.8%
Total return	**0.7%**
Rating: UNDERPERFORML	
52-week price range: 1.68-2.14	



Metlifecare

Over the past three months, more shares have been bought than sold by Metlifecare's insiders. In total, individual insiders own over 1 million shares in the business, which makes up around 0.68% of total shares outstanding. The insider that recently bought more shares is Alistair Ryan (board member). The entity that bought on the open market in the last three months was Devon Funds Management Limited. Although this is an institutional investor, rather than a company executive or board member, the insights gained from direct access to management as a large investor would make it more well-informed than the average retail investor.

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

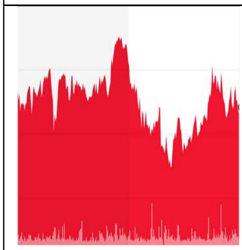
NZX Code:	**MET**
Share Price:	**$6.09**
12mth Target:	**$7.64**
Projected return (%)	
Capital gain	25.5%
Dividend yield (Net)	2.2%
Total return	**27.7%**
Rating: OUTPERFORM	
52-week price range: 5.23-6.39	

Michael Hill International

FNZC continues to view MHJ as offering attractive value, trading on ~10x 12-month forward P/E. As MHJ approaches a clean FY19 without the material earnings drag from the loss-making Emma & Roe and US businesses, FNZC expects greater market focus on the core Australia, New Zealand and Canadian businesses. Expect MHJ to deliver 6% compound earnings growth over the next three years.

2018 P/E: 12.9 2019 P/E: 9.8

NZX Code:	**MHJ**
Share Price:	**$1.05**
12mth Target:	**$1.42**
Projected return (%)	
Capital gain	35.2%
Dividend yield (Net)	5.3%
Total return	**40.5%**
Rating: OUTPERFORM	
52-week price range: 0.94-1.45	

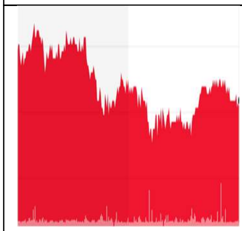


NZ Refining

NZR's total refinery shut was completed on 25 May but will now need an extra 9 days to return the HCU to service, allowing additional work on its refractory and seals. All the other four planned maintenance workstreams remain on track. We regard the timeline for the refinery's full return to service as now largely de-risked following its total shut (the main remaining risks now likely relate to CDU and HCU restarts). CDU 1 restart process is now underway, while CDU2 and HCU are each now scheduled to return to full service in mid-June and the start of July, respectively.

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

NZX Code:	**NZR**
Share Price:	**$2.46**
12mth Target:	**$3.02**
Projected return (%)	
Capital gain	22.8%
Dividend yield (Net)	6.6%
Total return	**29.4%**
Rating: OUTPERFORM	
52-week price range: 2.28-2.67	

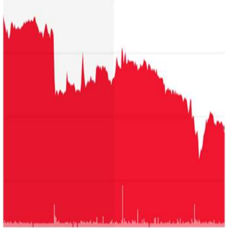


NZX

The highlights of NZX's 2Q18 operating trends were a bounce back in capital raising activity after a relatively subdued 1Q18 and growth in Funds Under Management. Expect this to help support small growth in 1H18 revenue over the previous comparable period. NZX has the potential for incremental earnings growth driven by growth in its Funds business, continued growth in Dairy and incremental gains for its core operations. NZX faces risks as new avenues to raise funds and trade securities arise and from competition from other exchanges.

2018 P/E: 17.5 2019 P/E: 17.1

NZX Code:	**NZX**
Share Price:	**$1.11**
12mth Target:	**$1.16**
Projected return (%)	
Capital gain	4.5%
Dividend yield (Net)	5.6%
Total return	**10.3%**
Rating: NEUTRAL	
52-week price range: 1.04-1.24	

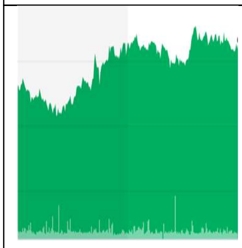


Pacific Edge

PEB has developed a suite of molecular diagnostic tests to detect and monitor bladder cancer. It is a leader in this field and is just gaining traction in the key US market. While PEB's investment case is derisking and offers potentially large returns if its tests become accepted within the industry, it still faces some key risks including a heavy reliance on early key influencers and a high current cash burn rate, meaning PEB remains a higher risk.

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

NZX Code:	**PEB**
Share Price:	**$0.26**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	92.3%
Dividend yield (Net)	0.0%
Total return	**92.3%**
Rating: OUTPERFORM	
52-week price range: 0.19-0.49	



Port of Tauranga

41% of all New Zealand exports now go through POT, and it now handles 33% more containers than POA (Auckland). A recent NZ Shipping Council Report notes that with POT as a "Hub" port it has added $355m in added benefit for NZ Inc. This company continues as a stellar investment for both small shareholders as well as Bay of Plenty Regional Council (which holds more than 54% of the company).

Do not sell. I think this stock will continue higher.

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

NZX Code:	**POT**
Share Price:	**$5.11**
12mth Target:	**$3.80**
Projected return (%)	
Capital gain	-25.6%
Dividend yield (Net)	2.6%
Total return	**-23.0%**
Rating: ~~UNDERPERFORM~~	
52-week price range: 3.70-5.27	

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

Winston S. Churchill

Scales Corporation

Scales has restructured, selling its coolstore operations, and looks set to continue its stellar performance. While the horticulture sector is synonymous with risk, now is not the time to question your investment. This company has a strong strategic focus and looks set to continue to improve shareholder value. FNZC maintains their OUTPERFORM rating with an unchanged $5.00 target price. This target price reflects their expectation for favourable apple production level and selling conditions in 2018.

2018 P/E: 16.6 2019 P/E: 15.5

NZX Code:	**SCL**
Share Price:	**$4.67**
12mth Target:	**$5.00**
Projected return (%)	
Capital gain	7.1%
Dividend yield (Net)	4.3%
Total return	**11.4%**

Rating: OUTPERFORM

52-week price range: 3.30-5.00

Seeka

FNZC has initiated coverage on SEK with a NEUTRAL rating and a $7.25 Target Price. SEK is an international orchard-to-market business with a history in kiwifruit supply services but an expanding product portfolio, geographic reach, and value chain. Following a recovery from Psa, Zespri (NZ's sole kiwifruit exporter) plans to circa double production over the next ten years by rolling out additional licenses to grow its gold kiwifruit varieties. As a packhouse processor, SEK's post-harvest business (~2/3rds EBITDA) stands to be a beneficiary. Risks include high financial gearing, horticultural exposure, and heavy reliance on Zespri.

2018 P/E: 15.2 2019 P/E: 13.1

NZX Code:	**SEK**
Share Price:	**$6.50**
12mth Target:	**$7.25**
Projected return (%)	
Capital gain	11.5%
Dividend yield (Net)	3.6%
Total return	**15.1%**

Rating: NEUTRAL

52-week price range: 5.00-7.01

Synlait Milk

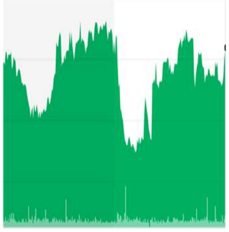
SML announced they will commence work on a $250m nutritional plant at Pokeno so that capacity is in place for the 2019/20 season. Like the $125m investment in liquid dairy processing capacity, FNZC views the announcement as a signal of SML's strong confidence in the demand outlook for its products. Expect to see SML continue to ramp up its investment focus over the medium-term with confidence in its ability to expand its milk pool footprint appearing reasonable also in light of Fonterra's ongoing issues. On the risk side of the equation FNZC remain somewhat conscious that SML has limited customer diversity and a short duration contract with its key customer, as well as some potential for margin contraction.

2018 P/E: 27.3 2019 P/E: 23.7

NZX Code:	**SML**
Share Price:	**$10.73**
12mth Target:	**$7.34**
Projected return (%)	
Capital gain	-31.6%
Dividend yield (Net)	0%
Total return	**-31.6%**

Rating: NEUTRAL

52-week price range: 4.23-11.65



Trustpower

TPW embarked on its multi-utility reinvention with the intention of securing a differentiated and difficult-to-replicate customer offering. This appears to have succeeded, reversing the gradual loss of load and creating an entry point into new regions/segments that might enjoy higher combined margins than pure electricity (or even the well-served but smaller electricity+gas bundle). I have been impressed that TPW has developed a strategy that capitalises on its billing system excellence, and this should future proof future earnings. Buy on weakness.

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

NZX Code:	**TPW**
Share Price:	**$5.85**
12mth Target:	**$5.45**
Projected return (%)	
Capital gain	-6.8%
Dividend yield (Net)	6.4%
Total return	**-0.4%**

Rating: ~~UNDERPERFORM~~

52-week price range: 5.11-6.05

Z Energy

ZEL's $30m FY19 EBITDAF guidance downgrade to between $420m and $455m related primarily to the $20m impact arising from a 20-day delay restarting the hydrocracker at Marsden Point refinery. ZEL tagged another $10m of downgrade to a first-quarter retail margin compression and demand elasticity as it struggled to pass-on a sharp Brent crude price spike during May above the US$70-75/bbl range assumed in previous guidance. FNZC treats these as a one-off, but also note that the June quarter print also missed on jet and petrol volumes.

2019 P/E: 13.4 2020 P/E: 11.6

NZX Code:	**ZEL**
Share Price:	**$7.13**
12mth Target:	**$7.15**
Projected return (%)	
Capital gain	0.3%
Dividend yield (Net)	7.5%
Total return	**7.8%**

Rating: NEUTRAL

52-week price range: 6.81-8.04

Broker picks for 2018 – How are we going 7 months in?

AvonD Portfolio	First NZ Capital	Craigs IP	Forsyth Barr	Hamilton Hindin
Auckland Airport	Eroad	a2 Milk	a2 Milk	Comvita
Eroad	Metlifecare	Mainfreight	Abano	Fletcher Building
Fletcher Building	NZ Refining	Meridian Energy	Arvida	Sky City
Port of Tauranga	Scales Corporation	Restaurant Brands	Chorus	Sky TV
Scales Corporation	Tilt Renewables	Tourism Holdings	Michael Hill	Tower
-2.2%	**-2.9%**	**10.7%**	**-5.0%**	**-6.7%**

NOTE:

- Craigs Investment Partners are the only one (Year To Date) to be in positive territory - with a2 Milk up 33% (YTD) boosting their returns.
- Forsyth Barr continues to struggle, despite picking a2 Milk.
- Auckland International Airport & Port of Tauranga (both having dominant market player advantage) have helped to get me into 2nd Place (albeit still negative). Returns are well down on the stellar 2017 performnce.

	Code	Price 9/7/18	Target Price	Target Gross Return	Stock Performance %			
					Fortnight	Month	Quarter	Year
NZX50 Index	NZX50	9,062	9,000	-0.7%	0.7%	1.4%	7.2%	18.9%
A2 Milk Company	ATM	11.44	12.75	11.5%	-1.8%	-0.5%	-11.8%	194.8%
Freightways	FRE	7.8	7.25	-1.7%	-1.8%	-4.9%	2.0%	7.1%
Kathmandu	KMD	2.93	2.35	-13.6%	4.6%	22.1%	15.6%	46.7%
Michael Hill International	MHJ	1.06	1.45	43.7%	1.9%	-9.4%	-9.4%	-8.1%
Sanford	SAN	7.75	8.28	11.0%	2.0%	0.5%	5.0%	12.1%
Skellerup Holdings	SKL	1.94	1.9	5.2%	-3.5%	-2.5%	9.6%	23.0%
Trade Me	TME	4.72	4.5	1.4%	-4.3%	-1.3%	7.3%	-6.6%

FOCUS LIST ADDITION - Trade Me (TME)

TME has been added to the NZ Focus List. TME has solid positions in the markets that it operates in, although all face risk from current and new competition/innovation. There is little doubt that TME's general items business (33% revenue) is a mature business and that future revenue growth is limited (facing some competition from the likes of Facebook and probably future competition from Amazon) and there appears to be limited opportunity to improve yield. The opportunities for growth lie in motors (33% revenue), property (15% revenue) and jobs (15% revenue). At the 1H18 profit result motors (driven by volume and yield) and jobs (driven almost entirely by yield) provided the most growth, while property disappointed (there are signs of some improvement emerging in 2H18). Arguably, the largest potential lies in property where the gap between print and on-line advertising costs remains large and there is long term potential to innovate. While TME is the pre-eminent online place to advertise real estate, it does face competition from realestate.co.nz, oneroof.co.nz (NZ Herald's attempt to defend its print advertising base) and homes.co.nz. In 1H18, TME's costs grew faster than revenue, resulting in a fall in its EBITDA margin. This is expected to return to previous levels in the next couple of years. In aggregate, the outlook for TME is satisfactory, and it is priced accordingly. In recent times, TME has modestly underperformed the broader Australasian media sector.

The two potential catalysts for a rerating are:

1. Capital management – TME has stated that it will return surplus capital against a target net debt/EBITDA ratio of 1.0x and will review the level of capital annually going forward. On this measure, the level of current surplus capital is around $98m. The return of capital is subject to the capital not being deployed in acquisitions.

2. Recently, TME's CEO, Jon Macdonald, announced his intention to step down in 6 months time. Jon has been in the role for over 10 years, so there is now the potential opportunity for a new CEO to drive the business forward in the next stage of its development.

RECENT NEWS

A2 Milk Company (ATM)

On 7 June 2018, because of ATM's inclusion in the MSCI All Country World Index, US fund manager BlackRock (through its iShares product) disclosed it had increased its holding of ATM shares to over 5%. On 3 July 2018, ATM announced the extension of its supply agreement from Synlait Milk, effectively providing for a new minimum term of five years to 31 July 2023, along with an increase in the volume of infant formula products produced by Synlait (SML) for ATM.

Freightways (FRE)

On 28 June 2018, FRE' s Chairman of the Board of Directors, Sue Sheldon, has resigned her position effective at the close of the Company's next Annual Shareholders' Meeting in October this year. The Board unanimously appointed Mark Verbiest to replace Sue upon her retirement. Mark joined the Freightways Board as an independent director in 2010. Mark is currently a director of ANZ Bank New Zealand and Meridian Energy and Chairman of non-listed companies, Willis Bond Capital Partners and MyCare Ltd. He retired as Chairman of Spark New Zealand Limited at the end of last year.

Kathmandu (KMD)

On 25 June 2018, KMD provided a trading update and profit guidance for the year ending 31 July 2018. Profit guidance for FY18 was increased to between $48 and $52m (last year $38 million). KMD's sales year to date to 24 June 2018 were 7.7% above last year and its gross profit margin was 2.4% above last year due to a higher average selling price.

Michael Hill International (MHJ)

On 21 June 2018, MHJ announced it will close its remaining 6 Emma & Roe semi-fine jewellery stores, at a cost of $3.1m. Supporting the renewed strategic focus on the core Michael Hill brand, the company recently announced a new Australian retail management structure, with effect from 1 July 2018.

Sanford (SAN)

On 23 May 2018, SAN posted an increase in revenue for the half year to 31 March 2018 of 18.4% to $272.8m, and a 14.2% increase in adjusted earnings to $35.4m. Europe and China were two highlights: overall sales in these territories increased by 85.4% and 78.6% respectively.

	Code	PE Ratio		EV/EBITDA		Het Div Yield		Gross Div Yield		Return on Equity
		F Y0	F Y1	F Y0	F Y1	F Y0	F Y1	F Y0	F Y1	
NZX50 Index	NZX50	20.7	19	12.5	11.3	3.4%	3.8%	4.5%	5.0%	
A2 Milk Company	ATM	47.1	33.4	31.2	23.2	0.0%	0.0%	0.0%	0.0%	42.2%
Freightways	F R E	20.5	18.6	12.8	11.8	3.9%	4.5%	5.3%	6.3%	23.8%
Kathmandu	K MD	13.9	13	8.2	7.3	4.4%	4.6%	6.2%	6.4%	11.7%
Michael Hill International	MHJ	11.1	10.7	6.5	5.6	5.0%	5.0%	7.0%	7.0%	18.1%
Sanford	S AN	15.8	14.3	9.7	9	3.0%	3.0%	4.1%	4.1%	7.6%
Skellerup Holdings	S K L	14.7	13.5	9	8.4	5.7%	6.2%	7.2%	7.6%	15.5%
Trade Me	TME	19.4	17.8	12	11.2	4.4%	5.0%	6.1%	7.0%	12.9%

NZ DAILY FIXED INTEREST RATE SHEET

PRICES AS AT 20TH JULY 2018 NOTE: Indicative pricing only

Issuer Name	Maturity/ Call Date	Code	Bond Rating	Coupon	Freq.	Issue Size ($m)	Offer Yield	Offer Price (Capital)	Accrued Interest	Offer Price (Gross)
Contact Energy	15-May-19	CEN020	BBB	5.80%	Q	222.00	2.73%	102.458	1.103	103.561
Mercury NZ Ltd	11-Jul-19	MCY010	BB+	6.90%	Q	300.00	3.94%	102.795	0.247	103.042
Kiwi Capital Funding	15-Jul-19	KCF010	BB+	6.61%	SA	100.00	3.71%	102.760	0.164	102.924
Trustpower	15-Sep-19	TPW160	NA	6.75%	Q	114.16	3.67%	103.441	0.718	104.159
Infratil	15-Nov-19	IFT200	NA	6.75%	Q	68.50	3.82%	103.732	1.287	105.019
Z Energy	15-Nov-19	ZEL030	NA	6.50%	Q	135.00	3.36%	104.014	1.238	105.252
NZ Post Group Finance	15-Nov-19	NZP010	BB+	6.35%	SA	200.00	3.77%	103.267	1.212	104.479
University of Canterbury	15-Dec-19	UOC010	NA	5.77%	SA	50.00	3.67%	102.829	0.620	103.448
Infratil	15-Feb-20	IFT090	NA	8.50%	Q	80.50	3.86%	107.001	1.616	108.617
The Warehouse	15-Jun-20	WHS020	NA	5.30%	SA	125.00	3.69%	102.919	0.571	103.490
Goodmans Property Trust	16-Dec-20	GMB020	BBB+	6.20%	SA	100.00	3.04%	107.254	0.645	107.898
BNZ	17-Dec-20	BNZ090	BBB	5.31%	Q	550.00	3.86%	103.319	0.542	103.860
Chorus Ltd	6-May-21	CNU010	BBB	4.12%	Q	400.00	3.40%	101.907	0.892	102.799
Wellington International Airport	15-May-21	WIA020	NA	6.25%	SA	75.00	3.25%	107.996	1.191	109.187
Sky Network Television Ltd	31-Mar-21	SKT020	NA	6.25%	Q	100.00	4.70%	103.890	0.417	104.307
Infratil	15-Jun-21	IFT220	NA	4.90%	Q	93.88	4.10%	102.173	0.529	102.702
Kiwi Property Group Ltd	20-Aug-21	KPG010	BBB+	6.15%	SA	125.00	3.32%	108.211	2.619	110.830
Westpac Banking Corporation	1-Sep-21	WBC010	BBB	4.70%	Q	400.00	3.87%	102.404	0.685	103.089
Fonterra Cooperative Group	20-Oct-21	FCG030	A-	4.33%	SA	350.00	3.05%	103.920	1.129	105.050
Z Energy	1-Nov-21	ZEL040	NA	4.01%	Q	150.00	3.60%	101.262	- 0.078	101.183
Contact Energy	15-Nov-21	CEN030	BBB	4.40%	Q	150.00	3.23%	103.661	0.843	104.504
ASB Bank	15-Dec-21	ABB050	BBB	5.25%	Q	400.00	3.88%	104.339	0.564	104.903
Trustpower	15-Dec-21	TPW140	NA	5.63%	Q	83.05	3.66%	106.264	0.603	106.866
Precinct Properties	17-Dec-21	PCT010	NA	5.54%	SA	75.00	3.58%	106.221	0.566	106.787
Genesis Energy Ltd	9-Jun-22	GNE040	BB+	5.70%	Q	225.00	4.23%	105.233	0.706	105.939
Insurance Australia Group (Subord)	15-Jun-22	IAGFB	BBB	5.15%	Q	350.00	4.08%	103.835	0.555	104.390
Infratil	15-Jun-22	IFT190	NA	6.85%	Q	93.70	4.23%	109.365	0.733	110.097
Vector Ltd	15-Jun-22	VCT010	NA	5.70%	SA	307.21	4.71%	103.481	0.618	104.100
Goodmans Property Trust	23-Jun-22	GMB030	BBB+	5.00%	SA	100.00	3.48%	105.520	0.430	105.949
SKYCITY Entertainment Group Ltd	28-Sep-22	SKC040	BBB-	4.65%	Q	125.00	3.76%	103.428	0.337	103.765
Air New Zealand	28-Oct-22	AIR020	NA	4.25%	SA	50.00	3.68%	102.226	1.019	103.245
Contact Energy	15-Nov-22	CEN040	BBB	4.63%	Q	100.00	3.58%	104.178	0.888	105.066
Trustpower	15-Dec-22	TPW150	NA	4.01%	Q	127.73	3.84%	100.684	0.435	101.119
Infratil	15-Dec-22	IFT240	NA	5.65%	Q	100.00	4.34%	105.216	0.608	105.824
Fonterra Cooperative Group	7-Mar-23	FCG040	A-	4.42%	SA	150.00	3.35%	104.546	1.677	106.223
Meridian Energy	14-Mar-23	MEL030	BBB+	4.53%	SA	150.00	3.65%	103.724	1.633	105.357
Wellington International Airport	12-May-23	WIA030	NA	4.25%	SA	75.00	3.64%	102.662	0.852	103.514
Goodmans Property Trust	1-Sep-23	GMB050	BBB+	4.00%	SA	100.00	3.74%	101.196	1.586	102.782
Kiwi Property Group Ltd	7-Sep-23	KPG020	BBB+	4.00%	SA	125.00	3.72%	101.292	1.521	102.813
Z Energy	1-Nov-23	ZEL050	NA	4.32%	Q	70.00	3.90%	101.994	- 0.084	101.910
Infratil	15-Sep-23	IFT210	NA	5.25%	Q	122.10	4.43%	103.754	0.567	104.321
Meridian Energy	20-Mar-24	MEL040	BBB+	4.88%	SA	150.00	3.81%	105.397	1.680	107.077
Investore Property Ltd	18-Apr-24	IPL010	NA	4.40%	Q	100.00	4.02%	101.938	0.082	102.020
Goodmans Property Trust	31-May-24	GMB040	BBB+	4.54%	SA	100.00	3.87%	103.475	0.688	104.163
Infratil	15-Jun-24	IFT230	NA	5.50%	Q	56.12	4.66%	104.307	0.594	104.902
Precinct Properties	27-Nov-24	PCT020	NA	4.42%	SA	100.00	4.07%	101.935	0.707	102.642
Property for Industry Ltd	28-Nov-24	PFI010	NA	4.59%	Q	100.00	4.09%	102.782	0.721	103.503
Kiwi Property Group Ltd	19-Dec-24	KPG030	BBB+	4.33%	SA	125.00	3.97%	102.016	0.424	102.440

A von Dadelszen's "Investment Strategies"
Newsletter Ratecard for 2018

Advertising Options – Sizes & Pricing

My newsletters are usually produced bi-monthly, and emailed to a database of over 800 subscribers (currently at no charge).

Full A4 page advert (260mm H x 180mm W)
$300.00+GST
$210.00+GST Discounted Rate/insertion (minimum 4 insertions)

½ page advert (120mm H x 180mm W)
$200.00+GST
$140.00+GST Discounted Rate/insertion (minimum 4 insertions)

¼ page advert (120mm H x 85mm W)
$150.00+GST
$105.00+GST Discounted Rate/insertion (minimum 4 insertions)

1/5 page strip advert (50mm H x 180mm W)
$140.00+GST
$100.00+GST Discounted Rate/insertion (minimum 4 insertions)

Biz Card advert (50mm H x 85mm W)
$100.00+GST
$70.00+GST Discounted Rate/insertion (minimum 4 insertions)

Discounted rate
If you contract for a minimum of 4 insertions, then the "Discounted Rate" is applicable.

Supplied Artwork
Please enquire if you require artwork designed for you.

Deadlines: Copy to Andrew by agreement – Digitally to andrew@vond.co.nz