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Investment Strategies

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Markets

Following market weakness FNZC has cut their global industrial production forecast due to a worsening outlook for emerging markets and commodity producers.

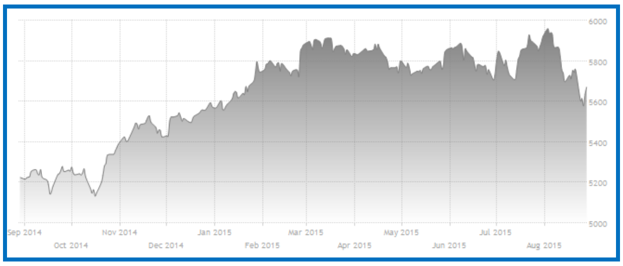
- *Global IP momentum has rebounded since May, and US-led improvement should continue. The rebound is now likely to be modest and might be brief. They think Industrial Production will grow at half its typical trend this year.*
- *Commodity prices are under pressure, and headline inflation around the world should be lower as a result. They now don't think the Fed will raise rates in September.*
- *Developed market consumers underpin global industrial production and provide an offset for emerging market weakness. They think US growth will be solid in the second half, prompting a Fed hike by the end of the year. China's weakness, in contrast, is unlikely to go away soon.*

What to do? FNZC suggests:

- *Increasing cash can often be an immediate reaction as investors transition their thinking from the lack of "return on capital" to total focus on "return of". We think this period of volatility will persist until there is some clarity in the situation in China and emerging markets weighing on investor appetite. Offsetting this will be a relative confidence in the relativity better prospects in the US.*
- *Where weightings to equities remain materially higher than average or benchmark it may not be too late to reweight / increase cash.*
- *Opportunities in equities - putting aside good quality growth companies that get oversold, defensive yield remains a key theme however with slowing economic growth in NZ and across our trading partners – being selective is the key.*

- ***Yield:** this list should provide some potential names to watch which might include **Spark, Contact, Heartland.** (NZFC's NZ yield table is on Page22 of this newsletter.)*
- ***Quality Growth:** Ebos; Port of Tauranga; Auckland Airport; Mainfreight*

NZX50 INDEX CHART – 1 YEAR

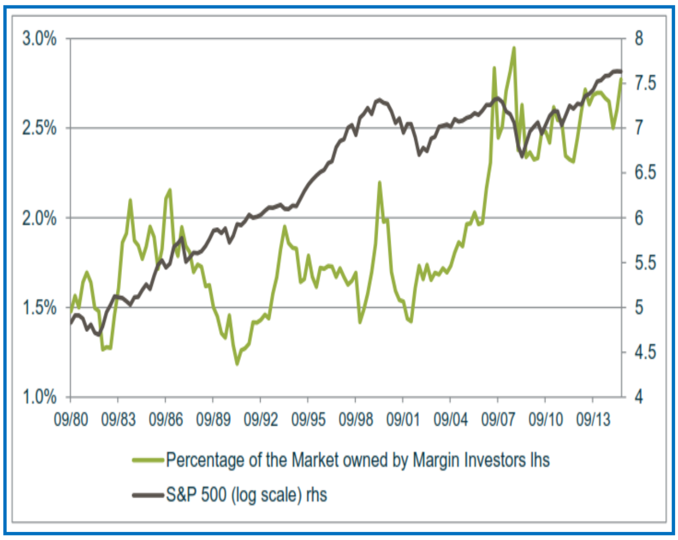


"Don't be afraid to give up the good to go for the great."
John D. Rockefeller

While the financial market turmoil being experienced over the past few days is not an everyday event it does occur from time to time. Why it occurs at a particular point in time and not at some other time is often not entirely clear. Specifically looking at equity markets what makes these episodes worse is that equity markets typically rise gradually over an extended period of time and then fall over a much shorter period of time – a rather extreme saying describes this as "up the escalator and down the lift shaft".

The reason for this phenomena probably reflects the impact of high frequency trading and the behaviour of those investors who buy stocks using borrowed funds (margin investors). High frequency trading are computer generated trading platforms used by large sophisticated investors to transact many equity orders very quickly. The black box nature of their trading makes their trading activities a common explanation for periods of extreme equity market volatility. In the case of margin investors when equity markets fall the value of the securities backing their loans fall, often resulting in forced selling. Forced sellers typically sell at any price, which in turn adversely impacts on the value of securities held, creating a downward spiral until non-leveraged investors (of which there are many) step into the market to buy securities at low prices. The following graph shows that although the level of margin investors in the US is high it has been that way since 2007. Furthermore significant market corrections are typically preceded by a spike in margin investing, which is not something which we are currently seeing. Hence we probably don't need to worry that margin investors are going to trigger a downward spiral in the US equity market. Although we strongly suspect that Chinese margin investors are part of the reason for the significant increase and subsequent decline in the Chinese stock market.

US MARGIN INVESTORS



SOURCE: Bloomberg, First NZ Capital

What triggered the sudden loss in confidence and subsequent equity market falls?

Over the past month there has been an increasing focus on the US Federal Reserve and the potential commencement of a series of increases in the Fed Funds Rate and the deceleration of Chinese economic growth.

First consider the US Federal reserve. While the current performance of the US economy probably doesn't warrant the current extremely low Fed Funds Rate recent developments suggest that any increase is now unlikely to start in September. This reflects the current financial market turmoil, low inflation caused by the recent fall in the oil price and the dampening effect of the high US dollar on the US economy. Hence we wouldn't see this as a trigger for the recent turmoil.

Weakness in Chinese economic growth is the more likely reason for the recent turmoil in equity markets. While there has been evidence of Chinese economic growth slowing for some time it appears that the fall in the Caixin Purchasing Managers Index to a weaker than expected 47.1 was the straw that broke the camel's back. We remain of the view that the Chinese authorities have numerous tools at their disposal to stimulate the Chinese economy to see them through the current soft patch. It needs to be acknowledged that the transition from an economy driven by exports and investment to one driven by household consumption was unlikely to proceed smoothly. The recent shift in the way the Peoples Bank of China sets the value of the yuan to a more market driven mechanism is an example of the bumpy path being faced. The resulting devaluation of the yuan (which in our opinion was justified) caused much market consternation. As China is such a large economy (15% of global gross domestic product) it has a meaningful impact on a number of neighbouring economies who are significant exporters to China – NZ and Australia amongst them.

Action to be taken

During times of financial market turmoil we believe that investors should firstly focus on their strategic asset allocation and remind themselves that the strategic asset allocation represents the mix of assets held in the long term to meet the risk return objectives of their investing. If the asset allocation has been set correctly we believe they should be prepared to ride out the volatility which occurs in financial markets from time to time. This doesn't make it any easier to withstand the downturn but it should prevent investors from making mistakes and reducing equity exposure excessively just before equity markets trough, resulting in the subsequent upturn being missed.

From a tactical asset allocation stand point we note that similar to many other commentators we have reduced the exposure to equities in aggregate from an 8% overweight position in mid-2013 to just 1% currently. This mainly reflected the ever increasing valuation of equity markets. That said there are a number of factors which provide support to equity markets – low long term interest rates and ongoing quantitative easing (initially the US Federal Reserve and Bank of England and subsequently the Bank of Japan and European Central Bank). We are happy to retain our current exposure to equities as the current equity market volatility makes it difficult to determine whether a bottom has been reached. What we do know is that equity market uptrends are typically slower than the falls which means there is no need to rush in, although as always isolated opportunities may present themselves.

We remain cautious on the outlook for emerging equity markets as China works through its current transition. As noted above the transition is likely to buffet other emerging economies which are significant trading partners of China.

Our preference is for European equities which should benefit from the ongoing recovery in the European economy, which is supported by stimulatory monetary policy and pent up demand following years of sub-optimal economic growth and which has still to lift aggregate European company earnings above the level achieved in 2007.

Investors looking for higher risk investments may consider investing in commodity related companies as commodities appear to be oversold. For more risk adverse investors we would recommend waiting as it is likely to take a number of months before commodity stockpiles are consumed and a normal supply/demand balance returns to commodity markets, resulting in a sustained improvement in commodity prices.

Keeping market volatility in perspective

The biggest one day fall in world markets happened on 19th October 1987. On that day the US Market fell nearly 23%. That said by year end the US Market was still up 2.25% for the year.

The NZ Economy - August

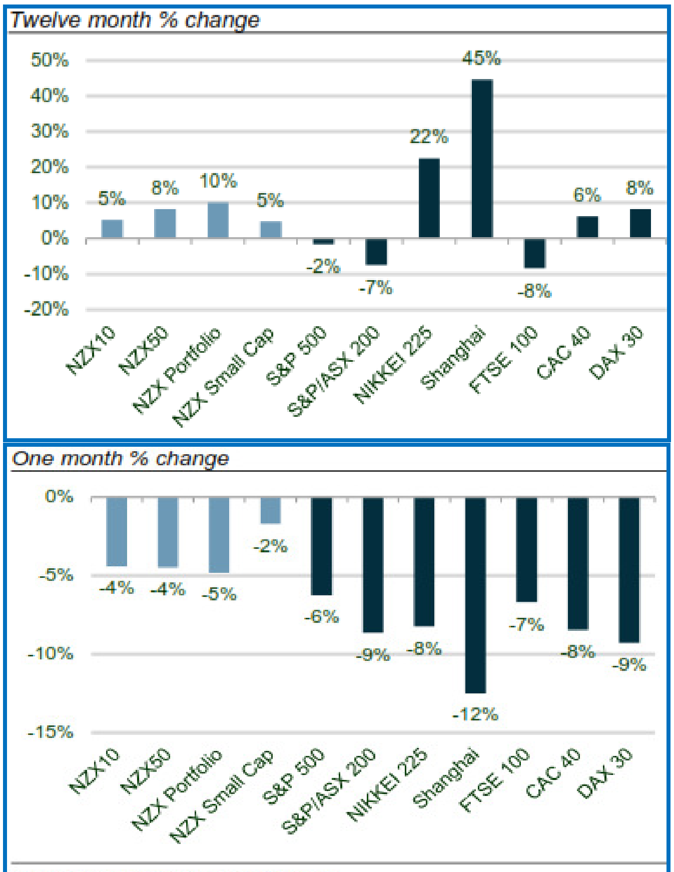
Leading indicators point to a below 2% annual GDP growth rate by the end of 2015. Set against a backdrop of significant financial market volatility – largely centred on heightened concerns regarding Chinese growth prospects – the NZ economy has continued to show signs of a slowing in the pace of economic growth. In particular, over the past month we have seen a further deterioration in business confidence and activity outlook expectations, a slight rise in the unemployment rate, together with a further weakening in consumer confidence.

The current supportive factors include historical high levels of net migration, robust international tourist numbers, recent strong growth in dwelling consents, together with the effect of a weaker NZ dollar and an expectation of additional interest rate cuts.

However our analysts remain concerned that the NZ economy could fall into a near-term growth "air-pocket". In particular, they assess that the annual rate of growth in the NZ economy is now likely to slip below the 2% level by the end of this year – with the risk distribution increasingly skewed towards the downside.

The NZ equity market outperformed relative to its global peer over August. In particular, the NZX50G index fell by 4.5% Month on Month (MoM), which compared with a larger decline of 6.6% MoM for the MSCI World (total return index – local currency).

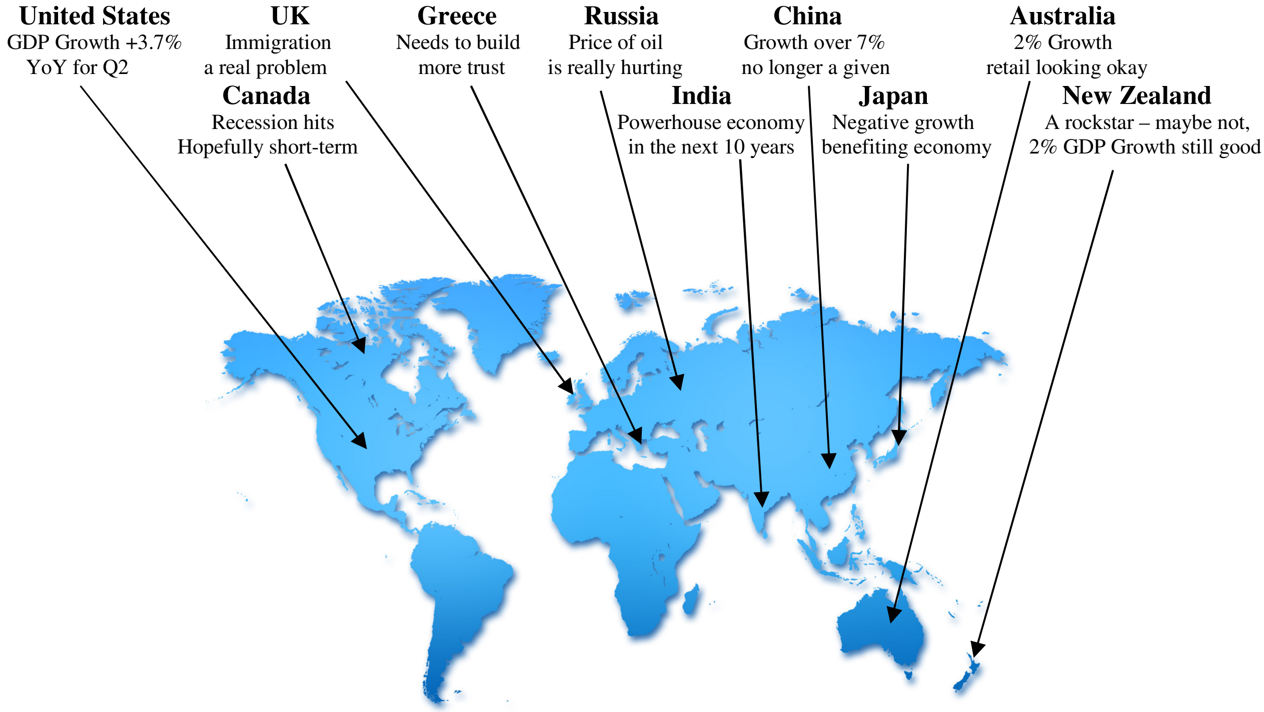
EQUITY MARKET PERFORMANCE



Source: IRESS, First NZ Capital

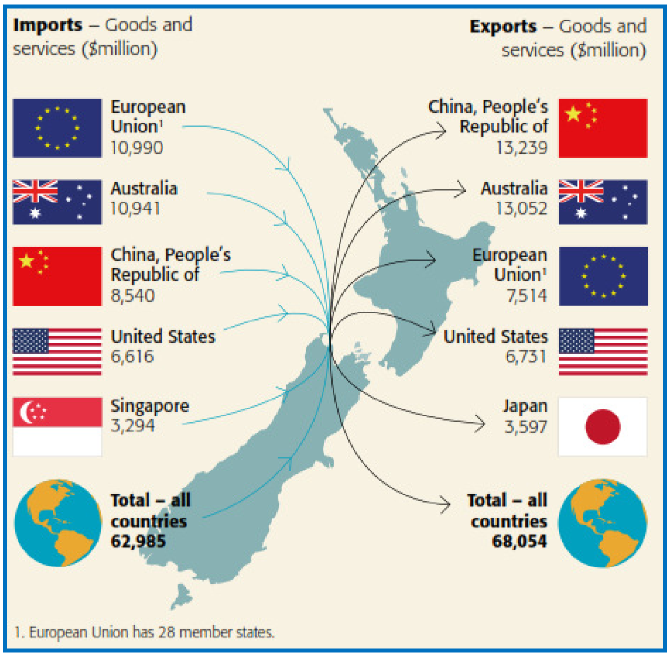
It is not all doom and gloom, and in the Western Bay of Plenty there is substantive economic initiatives underway, and a confidence level unsurpassed in recent times.

THE WORLD AT A GLANCE

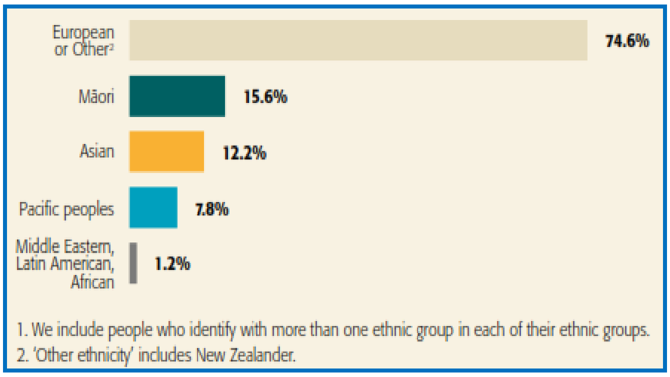


New Zealand Statistical Data

NZ'S MAIN TRADING PARTNERS - 2014

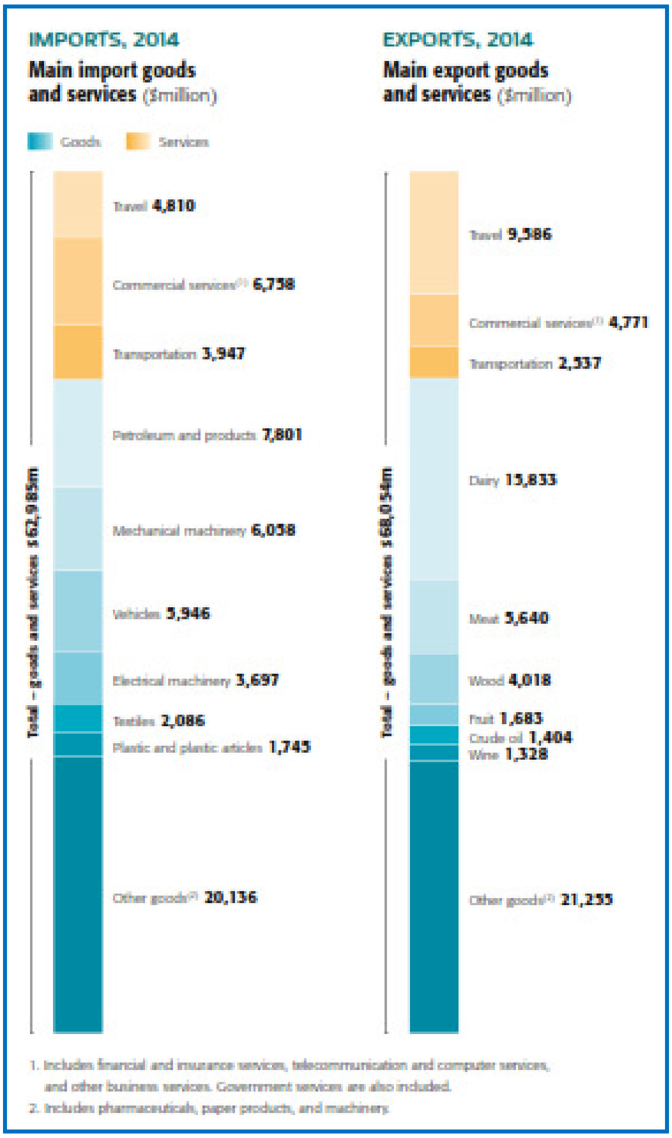


NEW ZEALAND'S ETHNIC DIVERSITY – JUNE 2013[1]



SOURCE: STATISTICS NZ

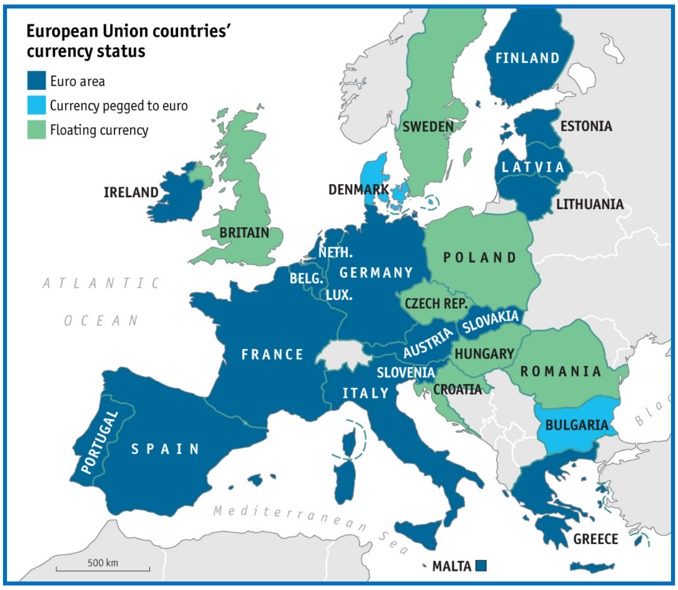
NZ'S IMPORTS V EXPORTS - 2014



United States

US gross domestic product grew at a 3.7 percent annualised rate in the second quarter, upwardly revised from the 2.3 percent pace reported last month. The strengthening US dollar is impacting negatively on the revenues and profits of those US companies with international earnings. Over the last year the USD has appreciated by 21% against both the Euro and Yen as the European and Japanese central banks aggressively ease monetary policy, while the US is looking to increase interest rates. We expect a staggering US$500 billion could be sliced off the revenues of US companies as a result of the strengthening US Dollar. This is in contrast to the previous extended period where a weakening dollar allowed US companies to significantly increase their share of global sales. US companies that are predominantly exporters are very quickly having to adjust to this rising US Dollar, and this is putting enormous pressure upon them (just as New Zealand Exporters had to learn to do the same in years gone by – albeit over a more extended timeframe).

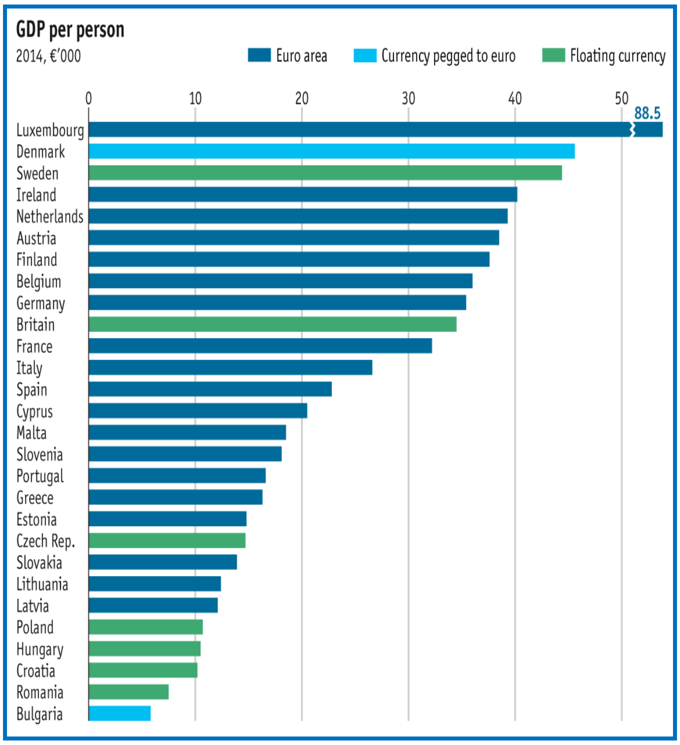
Eurozone



AFTER perking up a bit in late 2014 and earlier this year, the recovery in the 19-strong euro area lost momentum in the second quarter of 2015. The quarterly pace of growth slowed from 0.4% in each of the previous two quarters to 0.3%. As throughout the rather feeble recovery (which started in the spring of 2013) a poor performance by France and Italy, the euro zone's second- and third-largest economies respectively, let the side down. French GDP stagnated while Italian output grew by just 0.2%.

Looking ahead, the prospects for the euro-zone economy are mixed. The slowdown in China will tend to hold Germany back since the Chinese market has been a lucrative one for its exports of investment goods and luxury cars. On the other hand, the decision to rescue Greece in its third bail-out in five years removes uncertainty about a possible disruptive exit from the monetary union, at least for the time being.

EUROPEAN GDP PER PERSON



Europe's Escalating Migration Crisis

ON AUGUST 28th Austrian police found 71 dead migrants in a refrigerated lorry. The bodies of 59 men, eight women and four children were discovered just inside Austria's border with Hungary. Beyond its immediate horror, the discovery highlights two worrying developments in Europe's migrant crisis. The first is the increasing sophistication of people-smuggling organisations within Europe. Traffickers have long operated in Italy, helping migrants who have crossed the Mediterranean from North Africa to continue their journey northwards. But this year many more are entering Greece from Turkey and travelling up to Hungary and beyond via the Balkans; their numbers create demand for organised smuggling services. (Most are Syrian).

A second, related development is the use of private vehicles to circumvent police and border officials who have stepped up their checks of buses and trains along well-trodden migration routes, and removed or expelled migrants without proper documentation.

Both developments stem from the same problem that leads to migrants being tear-gassed at Greece's border with Macedonia, or occupying filthy camps in Calais: the clash between the wish of many asylum-seekers to reach particular parts of Europe and governments' jealous preservation of their own national migration and asylum policies.

China

The Chinese economy has now slowed to its weakest since 2009. However it is still likely to have GDP Growth of at least 5%, and more probably closer to 7%. Either figure remains substantially higher than Western Economies could achieve.

China is not in crisis. However, its ability to evolve smoothly from a command to a market economy is in question as never before. In fact it is believed that China is on the verge of a massive stimulus to boost the overall economy. This should also stimulate their stockmarket.

Stockmarket turmoil in China need not spell economic doom. But it does raise questions far beyond the country's shores. The ability to make stockmarkets boomerang is usually reserved for central bankers. But on August 24th, hours into a global market rout that had started in Asia and was sweeping its way through Europe and then America, Tim Cook, the boss of Apple, turned his hand to it. *"I can tell you that we have continued to experience strong growth for our business in China through July and August,"* he wrote in an e-mail to CNBC, a financial-news channel. *"I continue to believe that China represents an unprecedented opportunity over the long term."*

By the time Mr Cook felt it necessary to opine on the state of the world's second-biggest economy, plenty had started to question its prospects. Following weeks of wobbling, the Shanghai stock exchange had just cratered. A government once credited with near-magical powers to browbeat its economy into growth looked to have misplaced its wand. Suspicions abounded that a decades-long era of superlative—if recently softening—economic expansion might be coming to an end. So the news that Chinese consumers were still in the mood for new iPhones and whizzy watches did more to assuage nerves than reams of official pronouncements from Beijing ever could. Apple shares reclaimed the $66 billion they had lost; the Dow Jones blue-chip index, having opened down a calamitous 1,000 points, rebounded.

China's economic growth adds a lot of dollars to world GDP. A table from Market Minder provides some perspective:

Hypothetical Chinese Growth in US Dollars

If China grew...	Global GDP would gain
7.0% (official target)	$726.6 billion
6.8% (IMF estimate)	$705.9 billion
6.5% (assuming share market slowdown)	$674.7 billion
6.0% (a bigger slowdown)	$622.8 billion
5.0% (just to be really conservative)	$519.0 billion

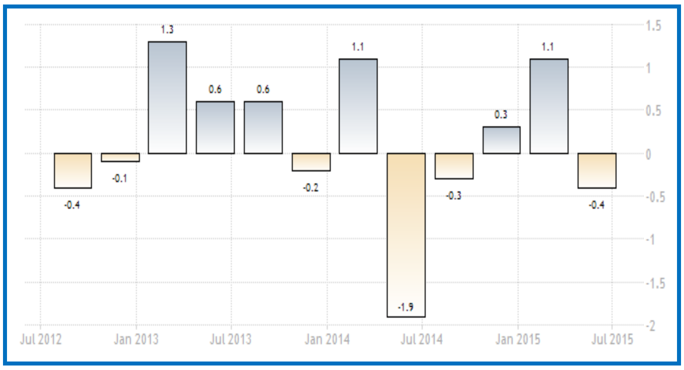
Source: International Monetary Fund. Calculations based on IMF's estimate of China's 2014 GDP at $10.38 trillion.

Even assuming the worst, $US519 billion is big: *"it's like two and a half Greeces. Or, if you prefer, it's the equivalent of the US growing about 3%.*

Japan

Life keeps getting harder for Japan's central bankers. AFTER two years of remission, Japan seems likely to sink back into the "chronic disease" of deflation, as Haruhiko Kuroda, the governor of the Bank of Japan (BoJ), calls it. The Gross Domestic Product (GDP) in Japan contracted 0.4% in the second quarter of 2015 over the previous quarter. GDP Growth Rate in Japan averaged 0.49% from 1980 until 2015, reaching an all time high of 3.2% in the second quarter of 1990 and a record low of -4% in the first quarter of 2009.

JAPAN GDP GROWTH RATE 2012 to 2015



Japan's industrialized, free market economy is the third biggest in the world. It has the largest electronics industry and the third largest automobile industry in the world. Japan's economy is well-known by its efficiency and competitiveness in exports oriented sectors, but productivity is lower in areas such as agriculture, distribution, and services.

India

India is one of the world's fastest-growing economies, defying weakness in developed countries and elsewhere in emerging Asia, expanded 7% in the April-through-June.

INDIA GDP GROWTH RATE 2012 to 2015

Asia's third-largest economy also continued to distinguish itself from its neighbours by being fuelled not by investments or exports but by consumer spending, which grew 7.4% year-on-year, according to official figures released recently. Indians are still opening their pocketbooks despite a withering of demand in other large economies, which has sapped trade and production growth around the globe.

Australia

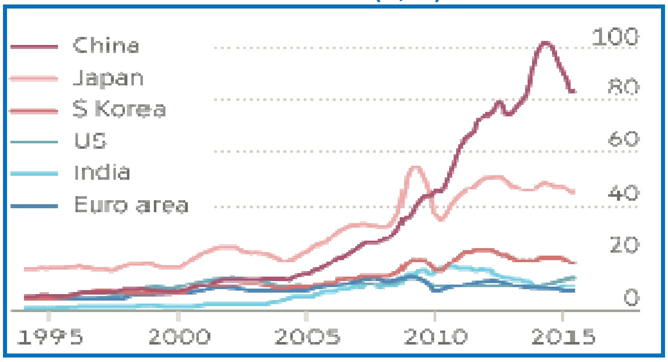
Australia is on track to surpass 26 consecutive years of growth, according to its treasurer, swiping the modern-era record from the Netherlands despite a slowdown in its biggest trading partner, China. In a bullish forecast, Joe Hockey said the economy was benefiting from capital inflows from China in response to recent stock market volatility and dismissed concerns that Australia was now too reliant on trade with Beijing.

AUSTRALIA GDP GROWTH RATE 2012 to 2015

However, a slump in iron ore prices, falling mining investment and slower than expected growth in China are prompting some economists to warn the good times may be over Down Under where the unemployment rate increased to 6.3 per cent in July, from 6.1 per cent in June. Morgan Stanley forecasts Australia's economy shrank 0.1 per cent in the second quarter, when compared with the previous three months, due to a weather-related drag on exports, weak business investment and domestic demand.

"The problem with socialism is that eventually you run out of other people's money."
Margaret Thatcher

AUSTRALIAN EXPORTS BY DESTINATION
12 month total (A$bn)



Commodities

Commodity prices just slumped to their lowest level since 1999, according to the widely-used Bloomberg index (made up of 22 major traded commodities). Commodity prices hit their post-crisis peak in early 2011, and have generally been sliding since then — they're now all the way to where they were in 1999, before the 2000s commodities boom began.

BLOOMBERG COMMODITY INDEX - 2006 to 2015

There's a mixture of good news and bad news explaining why the prices are plunging. Part of the story is a surge in supply, for example in oil. The world's major producers have made a concerted effort to slow the advance of American oil production by increasing the supply and therefore reducing the price. That's good news (so long as you don't own any oil rigs).

The bad news reason is that part of the explanation is falling demand, and the falling expectation of future demand, particularly from China. That will also reduce prices, since exporters expect fewer buyers for their products.

NZ Dollar

The New Zealand dollar suffered badly from the global stock market crash but managed to recover. What's next? The dairy auction and business confidence are the highlights. The crash of stock markets hurt the "risk" sentiment and the kiwi was certainly a victim, especially as the economy depends on Chinese demand. NZD/USD crashed to the 0.62 handle before rebounding. An improvement in sentiment, led by Chinese stimulus and a potential delay of the Fed hike helped the kiwi recover. However, it was not enough to mitigate all the falls. A lower than expected trade deficit didn't help much either.

NEW ZEALAND DOLLAR/US DOLLAR – LAST 12-MONTHS

Investors are selling currencies such as the kiwi as they unwind so called 'carry trades' where they sell a lower-yielding currency to buy riskier, higher-yielding ones for better returns. The US dollar strengthened as traders position themselves for a potential interest rate hike in the US next month.

Statistics NZ Data

Population

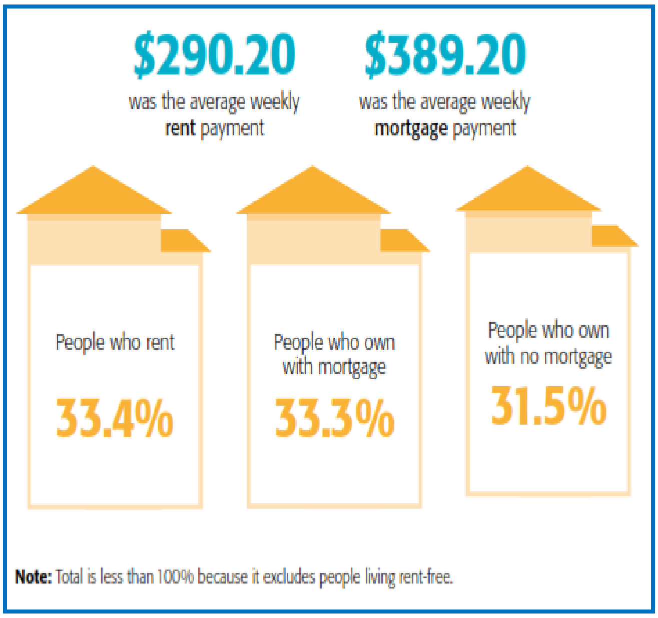
Estimated population at 30 June 2015: 4,596,700
Births June 2015 year (Dec 14): (57,242) 59,617
Deaths June 2015 year (Dec 14): (31,063) 31,563
Net migration July 2015 year (Feb 15): (55,121) 59,639

Employment

Total employed June 2015 quarter: 2,360,000
Unemployment rate June 2015 quarter: 5.9%
Ave weekly earnings June 2015 quarter: $1,120.85
Wage inflation June 2015 year (Dec 14): (+1.8%) +1.6%

International Position Mar Quarter: **-$153.5 Billion**

NZ'S HOUSING DATA – 2014



Our Local Government needs a huge shakeup

If Councils stick to "core business" then we can afford our amenities

Our Regional, District & City Councils all seem to think that they are responsible for the social wellbeing of our communities. This is a "nice to do" but is not a requirement, and is costing ratepayers hugely. It is time for our Councils to get back to their "core business", and the 2010 Amendments to the Local Government Act 2002 lay this out clearly.

The 2010 Amendment "*encourages councils to focus on core services by requiring councils to have particular regard to the contribution to their communities of:*

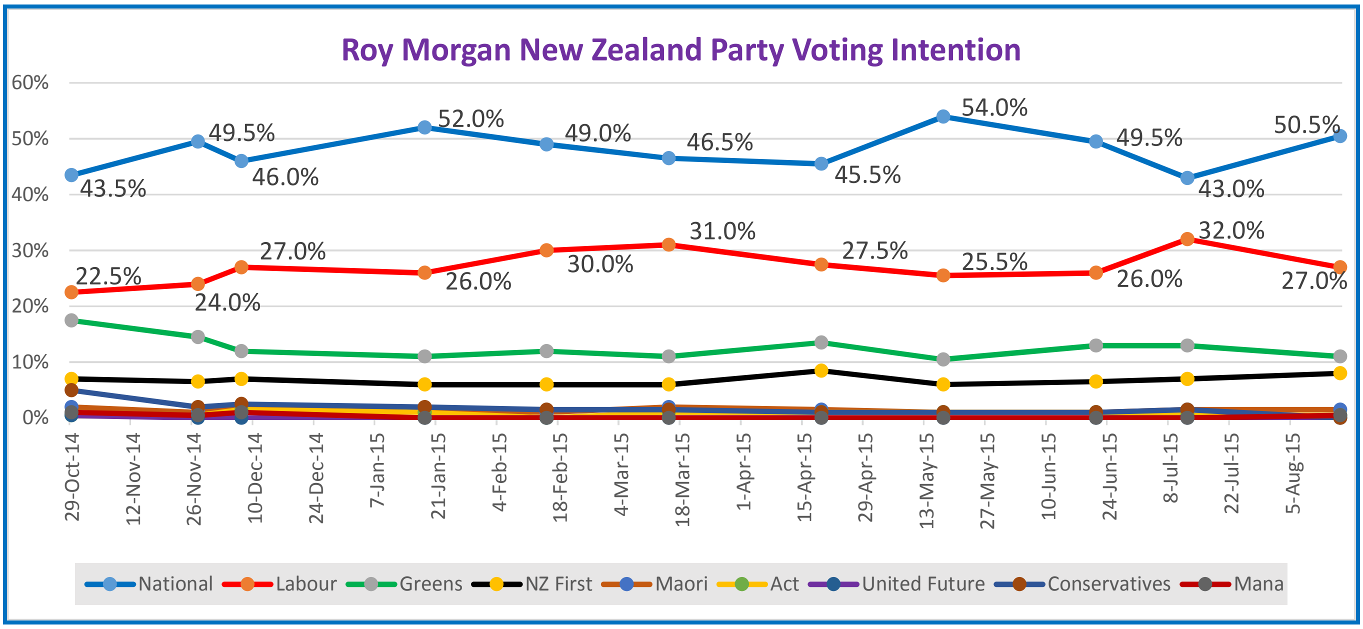
- *network infrastructure;*
- *public transport services;*
- *solid waste collection and disposal;*
- *the avoidance and mitigation of natural hazards; and*
- *libraries, museums, reserves, recreational facilities, and other community infrastructure."*

The 2002 Act (section 14) requires all councils to take a consistent approach to their activities, including:

- *Conducting their business in a clear, transparent and democratically accountable way.*
- *Operating in an efficient and effective manner.*
- *Making themselves aware of and having regard to the views of all their communities.*
- *Taking a sustainable development approach (thinking about the social, economic and cultural interests of people and communities, the need to maintain and enhance the quality of the environment, and the reasonably foreseeable needs of future generations).*

Issues like social housing are not part of council's core business (this is a Central Government issue), but improving our public amenities is. If our current councilors stuck to their mandate, then Tauranga City would have been able to afford its libraries, museums, reserves, recreational facilities, and other community infrastructure (as stated in the Act). I am one who believes that we have to build a substantive sports stadium close to downtown Tauranga. How do we afford it? That's easy - we prioritise and don't waste money on things outside Council's mandate. Just as importantly, Council operates in an efficient and effective manner. Come on Tauranga - canvas your elected representatives to operate within their mandate, so that we can get the amenities that we so deserve.

This was my bi-weekly editorial, written for the Weekend Sun & the Sunlive Website, on 14th August 2015.



OIL AT $40/ BARREL – The implications longer-term

The aerial view from a Texas-bound airplane tells the story: thousands of well pads carved into the desert shrubbery as far as the eye can see.

AERIAL VIEW OF OIL FIELDS OVER WEST TEXAS

It's all about oil in West Texas. The area is home to the Permian Basin, the most prolific oil-producing formation in the US, a hydrocarbon-rich collection of formations that stretch from Texas into New Mexico. Once written off as a place for tumbleweeds, the area has become a boom region in the past decade as the advent of horizontal hydraulic fracturing—"fracking"—brought new investment to waning, vertically drilled oil fields.

Crude production in the Permian Basin is at near-record levels, around 2 million barrels per day, according to the Energy Information Agency, for the first time since the early 1970s. But as crude prices have collapsed over the last year amid oversupply and waning global demand, cutbacks have once again starkly taken root in this oil patch, which has experienced boom and bust cycles for nearly a century now. West Texas Crude has traded below $40 for much of the week. A year ago, it was above $90.

The rig count has dropped dramatically, down 55 percent since late September, as oil and gas companies drill fewer wells. Current prices do not justify continued drilling in the U.S. for oil. Period. Some analysts peg the ballpark break-even of pulling oil out of the West Texas ground at $35 to $40, making it one of more cost-effective energy plays in the United States.

Can Saudi Arabia sustain an oil price of $40/bbl?

Mark the date on your calendars: Aug. 28, 2018. That's when Saudi Arabia goes broke. Or at least that's the date according to one model of the oil-rich nation's reserves, crude production and the price of oil.

If crude stays around $40, America's Middle Eastern ally will run out of money on that date. Obviously, that assumes no other changes in fiscal or monetary policy. But regardless, it's an exercise that helps show exactly how important the price of oil is, and why Americans who value Middle East stability would want to see an increase in oil.

Without a recovery in the oil market, nations face huge budgetary shortfalls and increased political volatility over the coming years. Small, rich nations like Qatar and Kuwait likely have enough cash reserves to ride out the storm for a very long time, but poorer OPEC members like Libya, Iraq and Nigeria face potentially explosive situations.

Somewhere in the middle of that mix is Saudi Arabia, at once rich and at the mercy of the oil market. Crude accounts for about 90 percent of total export value and around 80 percent of total government revenue. Saudi Arabia needs the price of oil to rise - and quickly. With the market still oversupplied and key producers pushing exports to record levels, that reset looks increasingly imperilled.

Agribusiness – Looking from the outside in

How serious is the Downturn in Dairy Returns?

Trying to get a clear picture of the state of the Dairy Industry is currently very difficult, with Fonterra failing to front foot this issue, by stating clearly what an accurate estimate is.

DairyNZ has crunched the numbers and came up with $3.65/kg MS as the actual milk income this financial year based on the Fonterra forecast of $3.85/kg for milks solids. For farm owner-operators DairyNZ said there would be a $1.50/kg gap between income and outgoings, for which Fonterra had offered 50c/kg loan as partial coverage. But that offer was not available to sharemilkers.

Doing new budgets with Fonterra's latest forecasts has opened up huge cashflow shortfalls for dairy farm businesses in the 2016 financial year. The record low milk price forecast of $3.85/kg of milk solids and the dismal monthly advance rates in the mid-$2 range until January would produce financial year milk incomes in the mid-$3 range.

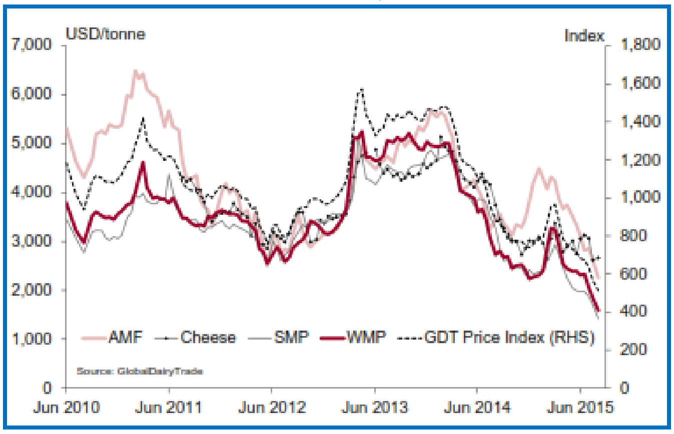
It is expected that average farm working expenses equate to $3.94/kg of milk solids – this excludes all debt servicing and essential living expenses to the farm owner. This is likely to result in a cash farm loss (assuming $1.48/kg in debt servicing) of $235,000 for the average farm.

Baker & Associates (a Wairarapa Farm Consultancy) have said that cash receipts for milk for the typical farm would be $3.29 plus a first-half dividend and any livestock sales. According to their modelling, by October they expect a 10% reduction in the milking herd, to result in a 10% reduction in milk and a 17% reduction in operating costs.

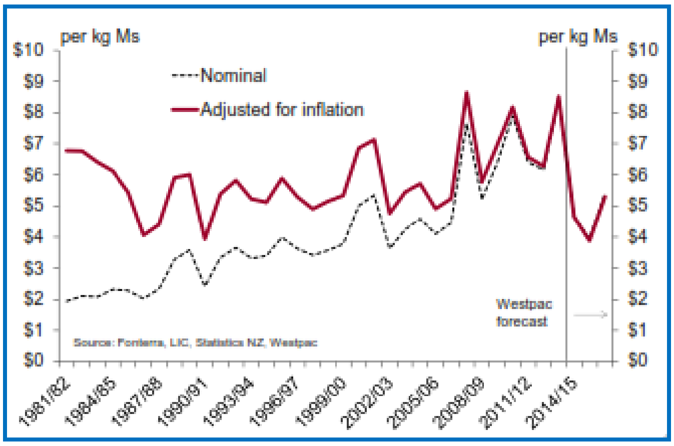
DairyNZ said the average FWE included $1.40/kg for interest and rent, $1.40 for feed including grazing, $1 for labour, 50c for fertiliser and 35c for animal health and breeding. It expected the savings in feed costs would be eaten up in extra interest payments.

"The effect on the level of payments over a season will keep farmers' cash income constrained for at least the next 18 months and it will take some farmers many years to recover from these low milk prices," DairyNZ chief executive Tim Mackle said. "*We calculate around nine out of 10 farmers will need to take on extra debt to keep going through some major operating losses. Low interest rates are helping but our analysis shows the average farmer now needs a milk price of $5.40 to break even and this latest forecast is well short of that*."

NZD & Dairy Commodity Prices, adjusted for inflation



Dairy Payout History & Westpac Forecasts



Times will be a bit tougher for dairy farmers over the next few months and it will have a flow-on impact in regional communities. However, this volatility in dairy prices is expected to be short-term. The medium to long-term outlook for our dairy sector, and indeed all primary sectors, is very positive, and expected to grow by 17 per cent to more than $41 billion over the next four years.

Because of hard-working New Zealanders and Government's responsible economic management, we now have a stronger, more diverse economy.

Impressive growth in the meat, horticulture and seafood sectors will help to offset any decrease in the dairy sector, and they have very positive outlooks.

For example, beef prices for New Zealand farmers have risen to record highs and horticulture exports are now worth over $4 billion. The New Zealand dollar is also around 25 cents lower against the US dollar than this time last year which is helping all exporters, and interest rates are low.

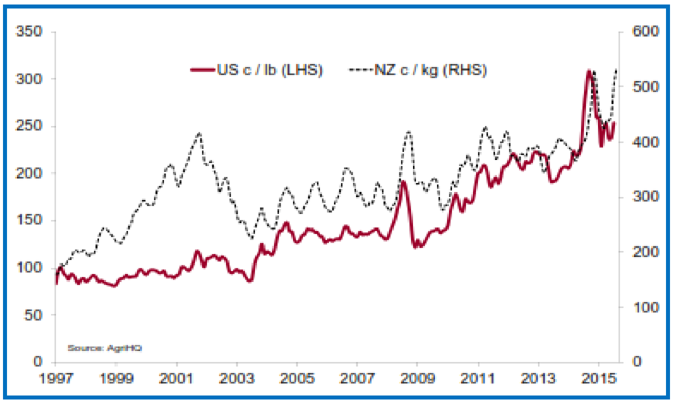
Other sectors of the economy are also performing well, including tourism, ICT, international education, and the wine industry.

Dairy farmers are resourceful and they know better than anyone that it's a cyclical business, and always has been.

Beef

Beef prices in the US remain at high levels, although the supply of imported beef seems sufficient to prevent a repeat of last summer's price spike. However, the weaker New Zealand dollar has lifted domestic schedule prices right back to last year's highs, and we expect a further decline in the currency over the rest of this year.

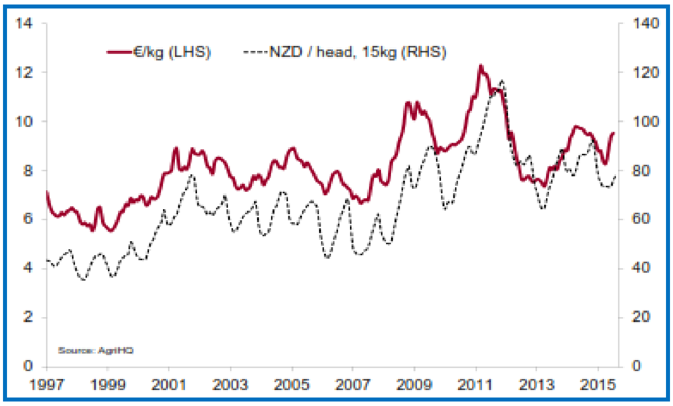
Beef Prices – Last 10 Years



Lamb

Chilled lamb prices in Europe have held up reasonably well, although global supply appears to remain ample. The weaker New Zealand dollar will help to support returns.

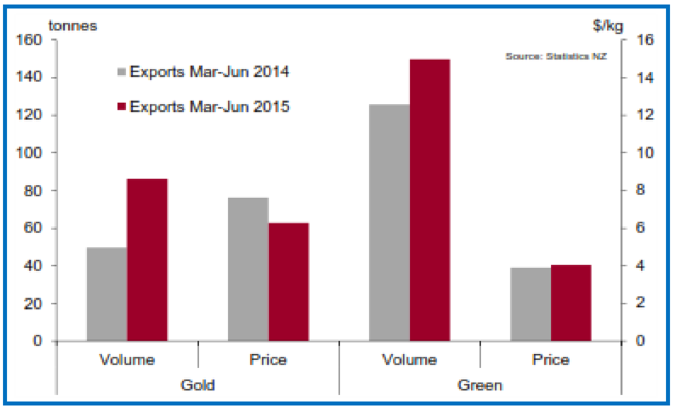
Lamb Prices – Last 10 Years



Kiwifruit

With kiwifruit exports hitting their seasonal peak, the current season is shaping up to be a very positive one. Gold kiwifruit have rebounded strongly from the Psa virus, though the sharp lift in volumes has been partly offset by lower prices. By contrast, the strong lift in green kiwifruit volumes has not had a detectable impact on prices so far this season.

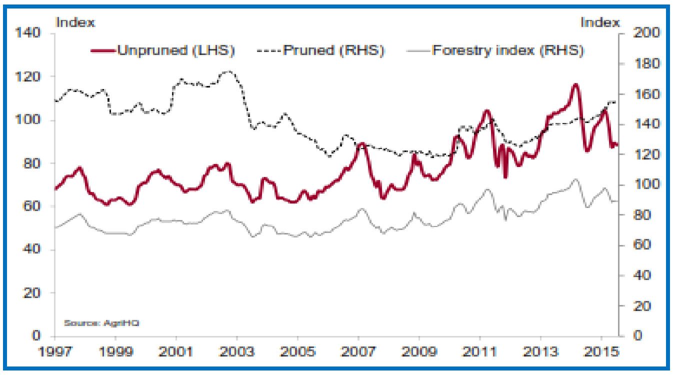
Kiwifruit Prices – Last 2 Seasons



Forestry

Unpruned log prices remained near their recent lows in July, whereas pruned log prices rose to a 12-year high. The weaker NZD will go some way towards restoring the competitiveness of New Zealand's log exports. Demand for housing construction materials is holding steady nationwide, although the centre of growth is clearly shifting from Christchurch to Auckland.

Log Prices – Last 10 Years



Westpac Exchange Rate Forecasts (End of Quarter)

	NZD/ USD	NZD/ AUD	NZD/ EUR	NZD/ GBP	NZD/ JPY	TWI
Sep-15	0.64	0.90	0.60	0.43	79.4	70.0
Dec-15	0.63	0.90	0.60	0.43	79.4	69.4
Mar-16	0.62	0.89	0.59	0.42	78.1	68.3
Jun-16	0.63	0.91	0.60	0.43	80.6	69.9
Sep-16	0.65	0.92	0.61	0.43	83.2	71.2
Dec-16	0.67	0.92	0.62	0.43	86.4	72.6
Mar-17	0.68	0.92	0.62	0.42	84.3	72.6
Jun-17	0.67	0.90	0.61	0.41	83.6	71.4
Sep-17	0.67	0.88	0.59	0.39	83.0	70.2
Dec-17	0.66	0.87	0.59	0.38	83.0	69.7

Dairy Industry Payout History

The recovery in the DGT (second rise in a row after 10 consecutive falls) is the first ray of sunshine for our dairy farmers for quite some time. Our dairy farmers are having to compete without subsidy against a world overflowing with subsidies. While New Zealand farmers have a forecast farm gate price of just $3.85/kg of Milk Solids (kgMS), our competitors are better positioned.

Country	Indicative NZ$/kgMS
New Zealand	$3.85
China	$11.00
USA	$8.15
Argentina	$7.57
UK	$6.95
Australia	$6.70
Ireland	$6.10

$/kgMS		Fonterra			Tatua		Westland		Synlait	Open Country	Miraka	Oceania Dairy
		Milk	Dividend	Total	Cash	Retention	Cash	Retention				
		$	$	$	$	$	$	%	$	$	$	$
1998-99	A			3.58								
1999-00	A			3.78								
2000-01	A			5.01								
2001-02	A			5.35								
2002-03	A	3.34	0.29	3.63								
2003-04	A	3.97	0.28	4.25								
2004-05	A	4.37	0.22	4.59								
2005-06	A	3.85	0.25	4.10								
2006-07	A	3.87	0.59	4.46			4.72					
2007-08	A	7.59	0.07	7.66	8.00		7.99					
2008-09	A	4.75	0.45	5.20	5.38		4.58		5.03			
2009-10	A	6.10	0.27	6.37	6.32		6.15		6.31	6.07		
2010-11	A	7.60	0.30	7.90	8.10	0.58	7.70	0.30	7.76	7.56		
2011-12	A	6.08	0.32	6.40	7.50	0.54	6.04	0.10	6.22		6.18*	
2012-13	A	5.84	0.32	6.16	7.40	1.17	6.34	0.10	5.89		5.94*	
2013-14	A	8.40	0.10	8.50	9.00	1.32	7.57	0.30	8.31	8.50	8.50*	8.75
2014-15	F	4.40	0.20-0.30	4.60-4.70	6.50		4.90-5.10		4.40-4.60	4.50-4.70	4.60*	

SOURCE: INTEREST.CO.NZ

A focus on the provinces – by Barbara Kuriger, MP

While there is currently high interest on Auckland house prices and the economy of our largest city, we must as a nation continue to focus on the provinces where the majority of our export earnings are derived. While there is a high focus currently on the house prices and the economy of Auckland, we must as a country continue to focus on the provinces where most of our export earnings are derived.

Yes, there is a slump in world-wide dairy prices right now, and this will squeeze hard on our dairy community. What is heartening is seeing the acknowledgement of those that are feeling the effects of the industry in its current state. The extra funding which has gone into Rural Support Services, including mental health services, is commendable. Mental health in the rural sector is a larger scale issue than we have previously been prepared to admit, however we as a country are now combating it. Our farmers work extremely hard for their industry, and it important we realise that depression is very common in all walks of life, it is nothing to be ashamed of and we are able to reach out when times are tough.

Recently I have had the pleasure of visiting producers of farm forestry, poultry, red meat, kiwifruit, seafood, and honey across New Zealand. I have been particularly impressed by the strength of these businesses in our provinces. The focus and strength that these industries have regarding innovation is also what sets provincial New Zealand apart on the world stage, as the recent National Fieldays highlighted, the innovation and tech development coming out of our country is world class.

A hot topic, but the rugby hasn't been the only game in town. I've recently attended the NZ Dairy Industry Awards, the Ballance Farm Environment Awards, and the ANZ New Zealand Young Farmer Contest. I'm always impressed by the skill and talent that is in our primary industries. It is encouraging that more are getting involved in these industries, but it is crucial that we continue to attract more to the sector. To see the Agri-Kids and Teen Ag entrants in action was inspiring – the world will be their oyster should they wish to pursue a career within our industries.

I am encouraged by the focus of our District and Regional Councils in getting their bids in for the Ultra-Fast and Rural Broadband initiatives which will enable our provinces to flourish even further. Connectivity is a critical key to successful business models and we have to ensure people want to live and do business in the most beautiful parts of our country. We all know how much life today operates on being 'in touch'. People will only consider living in our more remote areas if they know it is easy to stay in touch, and having a smart phone in your pocket includes the notion that it must have signal all of the time. (In saying that, I do have a few white baiters, who request I never promote mobile coverage where their spot on the river is!)

I'm proud of my large electorate and most proud of the fantastic New Zealanders who live there. I'll be doing my best as their new electorate MP to advocate on their behalf to ensure things go from good to great!

Barbara Kuriger is a first term Member of Parliament, winning the Taranaki King Country Seat for National in 2014.

Career Coach *– A couple of "life" tips*

How to Work/ Love/Play When No One Has the Time:

- Figure out what is most important to you and schedule that first on your calendars.
- Carve firm boundaries to protect uninterrupted time at work and undisturbed time with family.
- Set aside time to recharge. Don't take your cellphone when you run - the whole purpose is to let your brain relax and wander - that's when you can do some of your most creative thinking.
- Delegate the parts of your job you find less satisfying (if possible).
- Create realistic expectations of what you can and cannot do.
- Clear your desk and office from all the visual clutter. It is overwhelming to walk into each day

Other useful tips

- Control when you check your email. Block the popups and notifications on your computer.
- Never check email first thing in the morning if you have a big project looming. Get that project done first.
- Keep a "worry journal." Free your mind by jotting down all the things you are stressing about, to feel like you captured them and won't forget about them.
- Block off periods of time each day to focus solely on work or home. Switching back and forth is distracting and makes it difficult to accomplish anything well. There is no such thing as multitasking - it is "switch-tasking" and we lose a lot by doing it.
- Focus on the one thing that is most important to do each day and do it as early as possible when you are freshest.
- Look at Facebook only after you have finished work – at the end of the day.

As most everyone who has written on the topic of time management has said, your to-do list will never get done. But what is important is feeling like you are living the life you want; you are making a difference and having an impact; and you are able to get off of the treadmill.

Book Review *– Michael Pantalon's "Instant Influence" reviewed by Bruce Cronin*

The broad thrust of this book (available on Kindle) is that people will do things for their **own** reasons (not for yours or anyone else's) so to influence others to *change or take some particular actions it* is necessary for them to understand and **own** the motivation and decision to act. This is exactly a 1:1 parallel with Neil Rackham's ***SPIN Selling*** proposition.

Michael's 6-step, 7 minute process builds on this need and also uses techniques to not only guide the ***Influencee*** towards the desired frame of mind but in doing so emphasises positives and eliminates (or at least ignores) negatives. An example of this is in Step 3 (below) where a person is asked, "why didn't you choose a **lower** number?" This encourages them to pick up what may be only a little spark of interest and give it oxygen to grow. (By contrast, asking why a higher number was not chosen - which would probably be the normal approach - simply encourages the Influencee to rehearse, repeat and further reinforce all his/her reasons not to act.

"So what works? Here's the secret to Instant Influence: people take action when they hear themselves say why they want to." (loc.267). And...

(loc.336) "we're all subject to the law of psychological reactance, our tendency to resist being told what to do. In fact, when someone tells us that we have to do something, it may set us up for a virtually irresistible compulsion to do the exact opposite."

***Instant Influence:* The 6 Steps...**

1. Why **might** you.... (whatever the desired change is - give up smoking; start going to church; wear a lifejacket, etc)?
2. How ready are you to.... (change) - on a scale from 1 to 10, where 1 means "not ready at all" and 10 means "totally ready"?
3. Why didn't you pick a lower number? (Or if the influencee picked 1, either ask the second question again, this time about a smaller step toward change, or ask, what would it take to turn a 1 into a 2?)
4. Imagine you've... (changed). What would the positive outcomes be?
5. Why are those outcomes important to you? Whatever the answer ask why ("Is THAT important?") digging deeper 5 times over. A great way of becoming really engaged with the Influencee and understanding what really motivates them.
6. What's the next step, **if any**? - still leaves control with the Influencee, nothing is forced.

Three more key points:

1. Focus on **behaviours**, not outcomes - behaviours are always under the influencee's control, outcomes are not.
2. An action plan, preferably written, is a hugely powerful reinforcer and should always be a priority.
3. This very short summary does not do the book justice - it is definitely worth reading in total to fully understand and take advantage of the power of the six steps and the thinking behind them.

http://www.blackbeltinthinking.com/

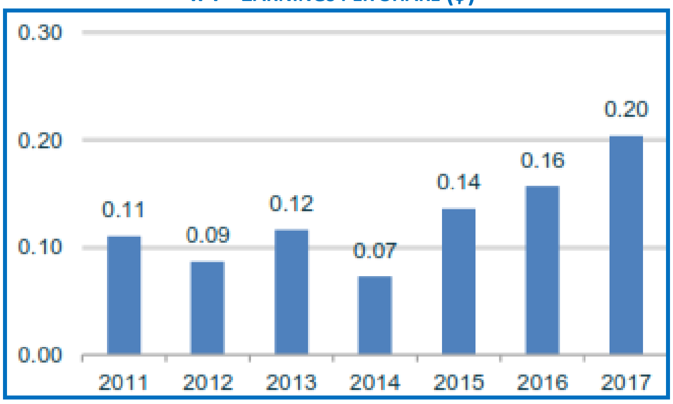
New Zealand Equities

The question is – what will the effect of the global sharemarket volatility mean for New Zealand shares? To answer this question you first need to understand that there is little inter-relationship between China's burgeoning sharemarket (the Shanghai Composite Index has fallen 32% since July, but still remains 45% above where it was one year ago) and our own sharemarket.

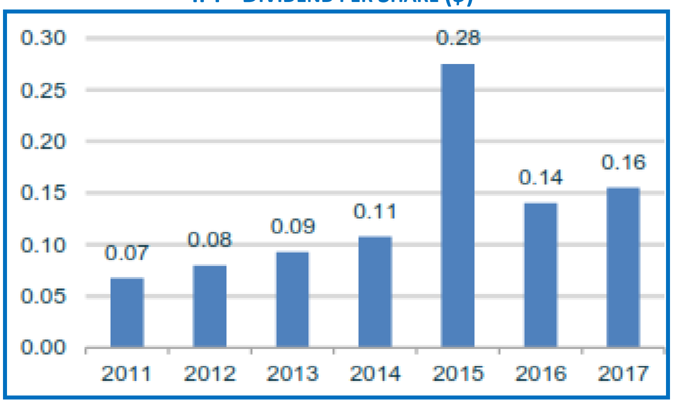
The key for New Zealand investors is to evaluate your exposure to ensure that it will be robust in these volatile times. Historically infrastructure stocks have shown robustness, and **Port of Tauranga** is probably the best example of this. Looking further north we note the outstanding performance of Air New Zealand, with its net profit up 24% to $327 million. Airlines are extremely volatile shares, and not recommended for the faint of heart, but **Auckland International Airport** is an infrastructure stock that is benefiting from the increase in tourism and migration. With Tourism NZ reporting a record 3 million tourists visiting our country annually, the outlook for our primary hub, Auckland International Airport, which has just reported another great result (normalised profit of $176.7m).

Infratil is another infrastructure investor that has consistently outperformed the market. Its latest move into the Australian Retirement Village market (in partnership with the NZ Superannuation Fund) looks to be another good move, jointly owning RetireAustralia.

IFT - Earnings per Share ($)



IFT - Dividend per Share ($)



Tourism

In the last 12 months New Zealand broke the 3 million tourist number. That's fantastic news, and a huge milestone for an industry that continues to excel. Not only are a record number of people visiting New Zealand, they're also staying for longer and spending more than ever before. That's helping to boost our economy – not only in our main cities but also in the regions. Those 3 million visitors spent $8.7 billion, which is up 28 per cent on the previous 12 months.

Dividend payments continue to rise

Similar to the previous earnings seasons, one of the more notable features of the August round has been the rise in dividend payments by firms. In particular, of the 33 companies monitored by FNZC, 70% increased their dividend payment relative to the same period last year. This compares with a relatively modest 9% of firms who undertook a reduction in their dividend payouts relative to last year. In our view, this reflects the continuation of relatively strong company balance sheets, together with a strong reluctance of firms to disappoint investors.

Dividends – Actual versus Previous

Increased	CEN, FRE, HNZ, NPX, STU, OIC, MEL, PCT, IQE, NZR POT, TME, SKT, SPK, AIA GNE, EBO, MET, HBY, SCL AWK, MRP, VCT
Unchanged	ATM, NZX, PFI, SKC, VHP CNU, DGL
Decreased	MHI, PGW, AIR,

Contact Energy (CEN)

OUTPERFORM $5.28 Target: $6.22

CEN's recent result was weak but well signalled. EBITDAF $525m ($587m pcp), underlying NPAT $161m (well below $227m pcp) and reported NPAT $133m ($234m pcp). The key factor in the lower result was CEN's retail netback decline by $6.6/MWh to $85.5/MWh, due to higher takeup of its discount offerings. CEN is now flying solo, unshackled from Australia's Origin Energy. Early decisions point towards a better FY16. Expect CEN to bounce back to $557m EBITDAF.

CEN Year to 30 June		2015A	2016F	2017F	2018F
Adjusted Earnings	NZ$m	161	185	186	170
Earnings /share (Adjust)	NZc	22.0	25.2	25.4	23.2
EPS Growth	%	-29.1	14.8	0.8	-8.8
Price / Earnings Ratio	x	23.9	20.8	20.6	22.6
Cash Per Share	NZc	46.2	50.4	51.1	49.5
Net Div / Share	NZc	76.1	25.0	44.5	39.9
Imputation	%	100	100	100	100
Net Yield	%	14.5	4.8	8.5	7.6
Gross Yield	%	20.2	6.6	10.3	9.9

Source: Company data; NZX; First NZ Capital Estimates

Fonterra Shareholders Fund (FSF)

NEUTRAL $4.86 Target: $5.32

FSF has been added to the NZ Focus List. FSF's rating on our quantitative screen has significantly improved following a stabilization of the share price and a significant lift in forecast earnings. In terms of earnings we acknowledge the risk to FY15 earnings that dairy products produced at $4.40 kg milk solid (MS) are sold at a loss in the final quarter of 2015. FSF has provided guidance for FY16 of 40-50cps. This reflects stronger consumer brand margins in NZ and Asia underpinned by lower NZ farmgate milk prices (the 2015-16 season pay-out has been lowered from $5.25/kgMS to $3.85/kgMS, although it is early in the season and much can change over the course of a year), stronger non-milk powder ingredient returns and cost savings. Stronger stream returns on non-milk powder ingredients represent most of the earnings increase. FSF also expect capital expenditure to fall by $500-600 million in FY16. The earnings from offshore operations benefit from the lower NZ dollar. There is currently no sign of any change in the challenging Australian market. So while there is a lot which could change the outcome for FSF's earnings we are attracted to the restructuring and refocusing of the business which is required due to Fonterra's current debt burden. This should focus on improving efficiency across the group (starting with a significant reduction in head count), ending non-core investment, exiting non-core and underperforming businesses. We acknowledge that we may be too early in our view, given Fonterra's track record and the fact that Fonterra is a co-operative which means that the objectives of the business are not necessarily the same as other publicly listed companies.

FSFN Year to 30 June		2014A	2015F	2016F	2017F
Adjusted Earnings	NZ$m	157	543	694	704
Earnings /share (Adjust)	NZc	9.8	34.0	43.4	44.0
EPS Growth	%	-78.1	246	27.7	1.4
Price / Earnings Ratio	x	49.8	14.4	11.3	11.1
Cash Per Share	NZc	43.5	70.4	81.9	83.4
Net Div / Share	NZc	10.0	22.5	30.4	30.8
Imputation	%	0	0	0	0
Net Yield	%	2.0	4.6	6.2	6.3
Gross Yield	%	2.0	4.6	6.2	6.3

Source: Company data; NZX; First NZ Capital Estimates

Summary of NZ Company Outlooks

Details supplied by FNZC.

Auckland International Airport (AIA)

Management noted that they expected underlying profit after tax (excluding any fair value changes and other one-off items) to be between $182m & $191m.

Air New Zealand (AIR)

AIR guided towards total ASK growth of 11% in FY16, together with significant earnings growth in FY16 (ex. Virgin Australia equity earnings) & based on the known environment.

A2 Milk (ATM)

Management reiterated their FY16F guidance from a month ago.

Airwork Holdings (AWK)

Management noted challenges faced by the Oil & Gas industry may impact on the helicopter division, but they still expect to achieve continued earnings growth in FY16.

Contact Energy (CEN)

Following a disappointing year in FY15, improvements across all areas of the business are expected in FY16.

Chorus (CNU)

Guidance for gross capex for FY16 is $580m-$630mn, while FY16 EDITDA is for a modest decline relative to FY15 EBITDA of $546m.

Diligent Board Member Services (DIL)

DIL provided revenue guidance for the full year in the range of US$98.5m to US$99.2m and announced that the Diligent team is ready to go into Beta phase.

Delegat's Group (DGL)

DGL is well positioned to grow sales and achieve sustainable earnings in the years ahead, and expects 8% sales growth over the 2016 year.

Ebos Group (EBO)

Management is confident of continued growth in their business across both the healthcare & animal care into FY16 on a constant currency basis.

Fletcher Building (FBU)

FNZC is currently restricted with this company.

Freightways (FRE)

While no specific earnings guidance was given, management commented that the express package market was expected to expand at a lower growth rate than in FY15.

Genesis Energy (GNE)

Management expects to report FY16 EBITDAF in line with that reported in FY15 and to increase its total dividend in FY16 in line with the Company's progressive dividend policy.

Hellaby Holdings (HBY)

Management noted that they expect to "once again achieve higher earnings over the year ahead".

Heartland (HNZ)

Expects NPAT for the FY16 year in the range of $51m-$55m, with underlying asset growth to remain strong - although at a lower rate in the Business & Rural divisions.

Intueri Education Group (IQE)

Given that IQE only recently downgraded, there was no change to their EBITDA guidance of $27m-$29m (pre-acquisition costs).

Meridian Energy (MEL)
MEL noted that it would focus on lifting their retail performance in NZ and growing in Australia through Powershop.

Metlifecare (MET)
Management anticipates for FY16 continued growth in the delivery rate of new units, investment in maintaining existing assets & an improving employee value proposition.

Michael Hill International (MHI)
The Australian market continues to be a difficult market and significant focus is being placed on turning this segment around in 2015/16.

Mighty River Power (MRP)
Management guidance expects EBITDAF in the range of $490m-$515m, with dividend guidance of 14.3 cents per share.

Nuplex (NPX)
NPX reiterated its target to achieve US$400m in revenue by year-end FY18. Asian markets are expected to continue to grow, modest growth in Americas & flat in Australasia.

New Zealand Refining (NZR)
Management commented that NZR had a very good start to 2015 and that sticking to their strategy would continue to pay off for the remainder of the year.

NZX (NZX)
Depending on market conditions, NZX expects more listing activity in the second half of 2015 than has been the case in the first half.

Opus International Consultants (OIC)
Outlook across markets is mixed, presenting challenges and opportunities for 2015. The level of economic uncertainty is a key consideration, although NZ is improving.

Property for Industry (PFI)
PFI's portfolio is well positioned to benefit from continued favourable market conditions and momentum in leasing activity provides an opportunity for rental growth.

PG Wrightson (PGW)
No detailed guidance provided as it is too early in the season, although headwinds facing the dairy sector made increasing results for FY16 a genuine "stretch" target.

Port of Tauranga (POT)
Management gave broad guidance of continued growth in FY16, with an expectation of slightly higher trade volumes. A lower dairy pay-out impacts of fertiliser & feed volumes.

Scales Corporation (SCL)
Management reiterated pre-announced FY15F guidance of $52-$56m for EBITDA and $28m-$31m for NPAT.

Sky City Entertainment (SKC)
Momentum from 2H15 has continued into July 2015, despite signs that the NZ economy is slowing.

Sky Network Television (SKT)
Maintains a conservative approach, with a subdued profile for dividend growth while it faces a more challenging environment and increased capital expenditure.

Spark (SPK)
SPK guided to an ordinary dividend of 22cps & a special dividend of 3cps for FY16.

Steel & Tube (STU)
STU remains in a strong shape, although management noted weakness in dairy-linked sectors & oversupplied global steel markets

Summerset (SUM)
Management reaffirmed earnings guidance for their underlying profit in the range of $32m-$34m for the 2015 year.

Trademe (TME)
Management expected to deliver similar revenue growth in FY16, with lower expense growth than FY15 & anticipate their EBITA growth in FY16 will be similar to last year.

Vector (VCT)
Management is "confident" it can meet analyst expectations of FY16 reported EBITDA of $605-$620m, although noted the Gas Wholesale division is facing head winds.

Vital Healthcare Property Trust (VHP)
Management confirmed an increase in cash distribution guidance for the 2016 financial year to 8.1 cents per unit.

NOTE: THESE ARE ALL ONE YR GRAPHS

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Chorus

Regulatory developments continue to remain the single most important factor affecting CNU and its shareholders during the year, with longer-term investment decisions remaining challenging in this context, exacerbated by the absence of a post-2020 regulatory framework.

20016 P/E: 9.3 2017 P/E: 8.5

NZX Code:	**CNU**
Share Price:	**$2.52**
12mth Target:	**$3.22**
Projected return (%)	
Capital gain	27.8%
Dividend yield (Net)	3.3%
Total return	**31.1%**

Rating: NEUTRAL

52-week price range (NZ$)1.64-3.19

🡑

Contact Energy

With high cash generation and low capex needs, this defensive high-yielding sector sometimes sees trading driven by yield-attracted marginal investors, particularly due to low short-dated fixed interest yields. There is renewed interest in CEN, as a major participant recently unshackled from the distractions of a larger parent's wider activities. With the highest free float and potential liquidity among the generators. Its Otahuhu closure decision is a strong start.

20016 P/E: 20.8 2017 P/E: 20.6

NZX Code:	**CEN**
Share Price:	**$5.08**
12mth Target:	**$6.22**
Projected return (%)	
Capital gain	22.4%
Dividend yield (Net)	5.8%
Total return	**28.2%**

Rating: OUTPERFORM

52-week price range (NZ$) 5.16-7.30

➔

Delegat's Group

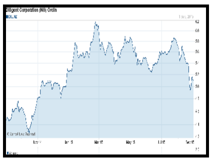
We continue to like the long-term investment case for DGL but note in the short term higher capex spend and debt levels will precede any earnings uplift. This highlights the need for DGL to execute on sales and market expansion given planned volume increases. DGL is only paying out circa 34% of adjusted EPS in dividends and we expect a similar level of pay-out over the next few years. This will present opportunities for capital management initiatives once the debt peak has been passed and as higher earnings from recent and current investment contribute more.

2016 P/E: 13.7 2017 P/E: 10.7

NZX Code:	**DGL**
Share Price:	**$5.28**
12mth Target:	**$5.50**
Projected return (%)	
Capital gain	4.2%
Dividend yield (Net)	2.5%
Total return	**6.7%**

Rating: NEUTRAL

52-week price range (NZ$) 4.20-5.60



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Diligent

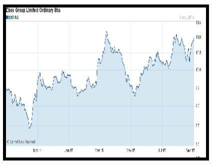
DIL is engaged in Web-based portals for Boards of Directors. Going forward expect greater stability and are encouraged by DIL's reinvestment for growth. Unlike the majority of NZlisted technology / software stocks, DIL has reasonable cash generation. Expect DIL to retain double digit growth at the top line over the next three years, whilst offering some interesting prospective upside from the new DiligentTeams (DT) product.

2016 P/E: 29.8 2017P/E: 20.7

NZX Code:	**DIL**
Share Price:	**$5.11**
12mth Target:	**$6.10**
Projected return (%)	
Capital gain	19.4%
Dividend yield (Net)	0.0%
Total return	**19.4%**

Rating: NEUTRAL

52-week price range (NZ$) 3.84-6.40



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Ebos Group

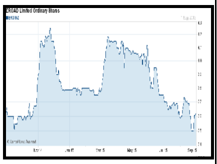
EBO exceeded all expectations when compared to our analyst's estimates, with revenues +5.4% on the pcp (cc +7.2%), EBITDA +10.3%, and earnings +14.9% to $105.9m from $92.1m (cc +16.9%). Healthcare reported cc revenue and earnings growth of 6.8% and 13.1%, respectively. Australia was a highlight, with earnings growth of 14.4%. EBO referred to growth prospects across both its Healthcare and Animal Care portfolio, with reference to both organic and potential acquisition-driven growth.

2016 P/E: 13.7 2017 P/E: 12.3

NZX Code:	**EBO**
Share Price:	**$11.00**
12mth Target:	**$12.00**
Projected return (%)	
Capital gain	9.0%
Dividend yield (Net)	4.9%
Total return	**13.9%**

Rating: OUTPERFORM

52-week price range ($) 8.44-11.20



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EROAD

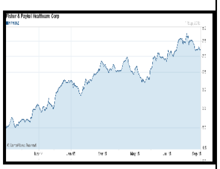
ERD appears well positioned to benefit from other markets in the US with regard to Interstate fuel taxes and electronic driver logging as well as other US states looking at electronic weight mile tax as an option to their road funding issues. 2016 will be a key year for ERD as it executes on its US growth strategy. We look for an update at ERD's first half 2016 result release in November 2015 where we expect a better read of its progress, particularly in Oregon.

2016 P/E: N/A 2017 P/E: 19.2

NZX Code:	**ERD**
Share Price:	**$3.62**
12mth Target:	**$5.05**
Projected return (%)	
Capital gain	39.5%
Dividend yield (Net)	0%
Total return	**39.5%**

Rating: OUTPERFORM

52-week price range (NZ$) 3.40-4.28



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F&P Healthcare

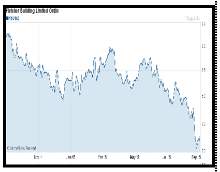
We are expecting FPH to provide earnings guidance for FY16, with an update as to its foreign exchange hedging position. At last count, FPH guided towards revenues of NZ$750m for FY16, with an earnings range of between NZ$125-130m. A great stock, but still looking a touch expensive, trading on excessive P/E multiples.

2016 P/E: 31.1 2017 P/E: 27.7

NZX Code:	**FPH**
Share Price:	**$7.22**
12mth Target:	**$6.25**
Projected return (%)	
Capital gain	-13.4%
Dividend yield (Net)	2.5%
Total return	**-10.9%**

Rating: UNDERPERFORM

52-week price range (NZ$) 4.96-7.82



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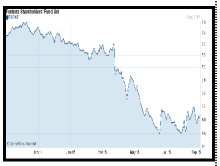
Fletcher Building

FBU continues to struggle in Australia, incurring further asset writedowns. However the weaker NZDUSD is adding value and this, combined with a much improved result for its US investment in Formica, make their US operations looking much more attractive. The pipeline of work in New Zealand remains strong. FBU said that a slowdown in the mining sector of Australia, where it earns 35 percent of total revenues, had weighed on overall earnings.

2016 P/E: 13.5   2017 P/E: 13.5

NZX Code:	**FBU**
Share Price:	**$7.28**
12mth Target:	**R**
Projected return (%)	
Capital gain	%
Dividend yield (Net)	5.1%
Total return	**%**

Rating: RESTRICTED
52-week price range (NZ$) 6.98-9.29



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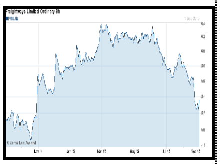
Fonterra Shareholder Fund

FSF made its submission on the ComCom's review of the state of competition in the dairy industry. There is a statutory requirement for this review with the ComCom tasked with finalising it by February 2016, at which point the govt' will determine whether changes are required. Investors will welcome FSF's arguments for an end to open entry but at this stage we still think status quo will likely prevail.

2016 P/E: 11.3   2017 P/E: 11.1

NZX Code:	**FSF**
Share Price:	**$4.86**
12mth Target:	**$5.08**
Projected return (%)	
Capital gain	4.5%
Dividend yield (Net)	6.2%
Total return	**10.7%**

Rating: NEUTRAL
52-week price range (NZ$) 4.58-6.41



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Freightways

Normalised NPAT increased by 15.8% to $49.7mn in FY15. Information Management delivered revenue growth of 18.5% in FY15 assisted in part by acquisitions that we calculate contributed around 10% to overall growth. Management commented that growth both in New Zealand and Australia was consistently strong throughout the period.

2016 P/E: 16.2   2017 P/E: 15.1

NZX Code:	**FRE**
Share Price:	**$5.39**
12mth Target:	**$6.20**
Projected return (%)	
Capital gain	15.0%
Dividend yield (Net)	4.5%
Total return	**19.5%**

Rating: NEUTRAL
52-week price range (NZ$) 4.86-640

→

Genesis Energy

GNE reported results didn't carry any major surprises: FY15 $344.8m EBITDAF at the top end of its 4Q-revised guidance, but well below $363.4m PFI target. Reported NPAT was $104.8m (well above $49.2m in FY14). GNE has signalled its Intention to progressively lift dividends. Cash flows appear to support FY16 increase, but we estimate future dividends could only be imputed to about 55%.

2016 P/E: 19.4   2017 P/E: 19.7

NZX Code:	**GNE**
Share Price:	**$1.79**
12mth Target:	**$2.02**
Projected return (%)	
Capital gain	12.8%
Dividend yield (Net)	8.7%
Total return	**21.5%**

Rating: NEUTRAL
52-week price range (NZ$) 1.64-2.28

↑

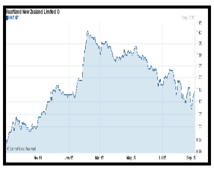
Hallenstein Glasson

While analysts have not reduced earnings in the light of a weaker NZ dollar and weaker consumer confidence we believe that this is very real future risk. The sharp decline in the NZ dollar makes adjustments harder to implement and hence consumers will likely have to pay higher prices for goods, which is expected to see reduced demand. One positive of the lower NZ dollar is that it makes goods bought on-line from overseas less attractive to New Zealanders.

2016 P/E: 11.1   2017 P/E: 10.8

NZX Code:	**HLG**
Share Price:	**$3.30**
12mth Target:	**$4.10**
Projected return (%)	
Capital gain	24.2%
Dividend yield (Net)	8.9%
Total return	**33.1%**

Rating: OUTPERFORM
52-week price range (NZ$) 2.77-3.95



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Heartland New Zealand

NPAT was $48.2m, up from $36.0m in 2014. The final DPS was higher than expected taking the FY15 DPS to 7.5cps fully imputed. HNZ announced it intends to issue a Tier 2 capital instrument this financial year, subject to market conditions, and it will look to buy back shares with the release of Tier 1 capital.

2016 P/E: 10.1   2017 P/E: 9.3

NZX Code:	**HNZ**
Share Price:	**$1.14**
12mth Target:	**$1.38**
Projected return (%)	
Capital gain	21.1%
Dividend yield (Net)	7.4%
Total return	**28.5%**

Rating: NEUTRAL
52-week price range (NZ$) 0.94-1.42

↑

Hellaby Holdings

HBY commented that *"higher earnings are expected in the year to 30 June 2016"*. Underlying drivers include a full contribution from JAS, continued growth from aftermarket sales and NZ Trucks expansion, and reasonably supportive macro conditions. With regards CR, we expect further growth of ongoing work in MENA, the commencement of CHMS work with SASREF (Saudi Arabia and Shell JV) in 1H16, and a steady performance from Australia and New Zealand. The US sector dynamics adds a layer of undesirable volatility to the outlook.

2016 P/E: 8.6   2017 P/E: 8.1

NZX Code:	**HBY**
Share Price:	**$2.87**
12mth Target:	**$3.65**
Projected return (%)	
Capital gain	27.2%
Dividend yield (Net)	8.8%
Total return	**36.0%**

Rating: OUTPERFORM
52-week price range (NZ$) 2.75-3.47

→

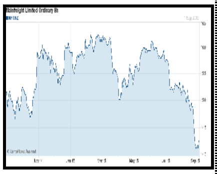
Infratil NZ

Infratil specialises in long-lived, growth infrastructure assets in the energy, airport & public transport sectors in NZ. It also has exposure to the retirement sector through investments in Metlifecare & RetireAustralia. IFT is exposed to interest rate risk, exchange rate risk, and to changes in regulation. The majority of IFT's overseas assets are unhedged. We can't see a catalyst to reduce the discount between the share price and net asset value (usually around 15%).

2015 P/E: 20.5   2017 P/E: 15.8

NZX Code:	**IFT**
Share Price:	**$3.13**
12mth Target:	**$3.24**
Projected return (%)	
Capital gain	3.5%
Dividend yield (Net)	4.4%
Total return	**7.9%**

Rating: NEUTRAL
52-week price range (NZ$) 2.42-3.41



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Mainfreight

We continue to like MFT as an emerging multi-national freight forwarding business. MFT's network of operations across all key regions globally presents a favourable growth outlook across both the short, medium and longterm. Expect MFT to look to replicate its successful domestic operating model in other key markets including Australia and in time North America.

2016 P/E: 15.9 2017P/E: 14.0

NZX Code:	**MFT**
Share Price:	**$14.27**
12mth Target:	**$17.50**
Projected return (%)	
Capital gain	22.6%
Dividend yield (Net)	2.5%
Total return	**25.1%**

Rating: NEUTRAL

52-week price range 14.00-16.35

↓

Meridian Energy

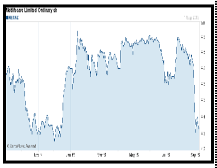
Result very much in line with forecasts. FY15 EBITDAF was $618m ($585m pcp). Reported NPAT was $247m ($230m pcp). Underlying profit was $209m ($195m pcp). Retail energy price declined only slightly, despite tough retail conditions..

2016 P/E: 27.1 2017 P/E: 26.4

NZX Code:	**MEL**
Share Price:	**$2.25**
12mth Target:	**$2.28**
Projected return (%)	
Capital gain	1.3%
Dividend yield (Net)	7.3%
Total return	**8.6%**

Rating: UNDERPERFORM

52-week price range (NZ$) 1.75-2.70



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Metlifecare

Being Auckland centric, this leaves MET more exposed to an eventual property downturn, more so given its villages are more lifestyle-oriented than its peers and hence less "needs-based". MET's financial risk has been significantly de-risked over the past five years due to its de-leveraging, which has also finally given MET the opportunity to pursue an organic growth strategy.

2016 P/E: 16.6 2017 P/E14.3

NZX Code:	**MET**
Share Price:	**$4.33**
12mth Target:	**$5.50**
Projected return (%)	
Capital gain	27.0%
Dividend yield (Net)	1.0%
Total return	**28.0%**

Rating: OUTPERFORM

52-week price range (NZ$) 4.25-4.94

→

Mighty River Power

Lowest hydro inflows in its corporate history saw MRP report $482m EBITDAF ($504m pcp). But result was well flagged, with underlying NPAT at $145m ($185mn pcp). Dividends this year amount to 21.5cps. MRP likes its current debt gearing level, and so any further remaining free cash flow might also be distributed.

2016 P/E: 24.6 2017 P/E: 22.1

NZX Code:	**MRP**
Share Price:	**$2.75**
12mth Target:	**$2.98**
Projected return (%)	
Capital gain	8.4%
Dividend yield (Net)	6.8%
Total return	**15.2%**

Rating: NEUTRAL

52-week price range (NZ$) 2.22-3.43

↑

Opus International Consultants

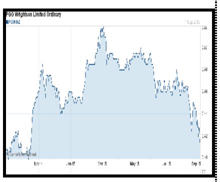
OIC noted that the NZ infrastructure market – especially for roading investment – is projected to grow further in the next few years, while outside of the New South Wales State, market conditions remained challenging in terms of volume work and margin. What an ugly chart – how did our analysts get this one so wrong! However the fundamental remain compelling.

2016 P/E: 7.7 2017 P/E: 7.1

NZX Code:	**OIC**
Share Price:	**$1.25**
12mth Target:	**$1.95**
Projected return (%)	
Capital gain	56.0%
Dividend yield (Net)	6.8%
Total return	**62.8%**

Rating: OUTPERFORM

52-week price range (NZ$) 1.20-1.70



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PGG Wrightson

In the short term, PGW is likely to face considerable headwinds as weakening farm gate returns begin to impact on on-farm spending. In the medium term, anticipate PGW earnings to benefit from some recovery in rural farm gate returns beyond the 2016 financial year. We continue to like the growth strategy employed by PGW's management team under Mark Dewdney's leadership.

2016 P/E: 10.1 2017 P/E: 9.3

NZX Code:	**PGW**
Share Price:	**$0.42**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	19.0%
Dividend yield (Net)	8.8%
Total return	**27.8%**

Rating: NEUTRAL

52-week price range (NZ$) 0.40-0.53

→

Port of Tauranga

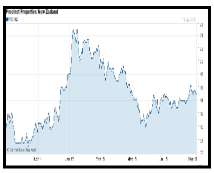
A lower dairy farm gate pay-out is expected to result in lower fertiliser and food supplement volumes. However, growth in kiwifruit and container trade is expected to offset declines elsewhere. About to commence dredging for 6,500 TEU super container ships from August 2016. This is a great stock that never seems to disappoint. Look for a stock split to add shareholder wealth.

2016 P/E: 29.8 2017 P/E: 26.5

NZX Code:	**POT**
Share Price:	**$17.35**
12mth Target:	**$17.80**
Projected return (%)	
Capital gain	2.6%
Dividend yield (Net)	3.5%
Total return	**6.1%**

Rating: NEUTRAL

52-week price range (NZ$15.65-18.35



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Precinct Properties

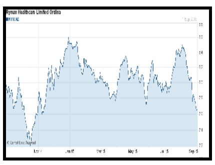
Flat earnings and its dividend pathway means little chance of any positive rerating in the current yield hungry environment. The combination of a below sector average yield, significant risks from a unprecedented long-term development pipeline and an Auckland CBD office market feeling close to the top and heading for oversupply, means PCT now sits in the lower quartile in our sector rankings.

2016 P/E: 18.8 2017 P/E: 19.6

NZX Code:	**PCT**
Share Price:	**$1.15**
12mth Target:	**$1.11**
Projected return (%)	
Capital gain	-3.5%
Dividend yield (Net)	5.5%
Total return	**2.0%**

Rating: UNDERPERFORM

52-week price range (NZ$) 1.05-1.26



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Ryman Healthcare

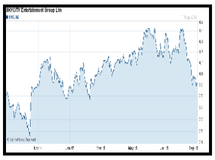
RYM is positioned to benefit from its attractive business model, compelling demographic tailwinds and best-of-breed management/operations/assets. RYM has a relatively full valuation, but with the potential for substantial long-term growth in both assets and earnings.

2016 P/E: 26.1 2017 P/E: 23.9

NZX Code:	**RYM**
Share Price:	**$7.65**
12mth Target:	**$8.25**
Projected return (%)	
Capital gain	7.8%
Dividend yield (Net)	1.9%
Total return	**9.7%**

Rating: NEUTRAL

52-week price range (NZ$) 7.22-8.63



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Sky City Entertainment

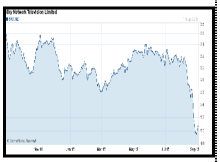
A stronger macro growth across the period from the Auckland region for SKC. Nevertheless, despite current conditions being reasonably good, looking ahead there appeared to be headwinds in the NZ economy.

2016 P/E: 17.2 2017 P/E: 16.2

NZX Code:	**SKC**
Share Price:	**$3.91**
12mth Target:	**$3.75**
Projected return (%)	
Capital gain	-4.1%
Dividend yield (Net)	5.1%
Total return	**-1.0%**

Rating: UNDERPERFORM

52-week price range (NZ$) 3.41-4.49



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Sky Network Television

SKT produced an in line FY15 financial result but an 18k decline in pay-tv subs was a surprise and raises doubt, about the near-term outlook, and also the long term. Increased competition and some disruption in the near-term despite its very strong hold on content are likely to constrain SKT going forward.

2016P/E: 12.1 2017 P/E: 14.5

NZX Code:	**SKT**
Share Price:	**$4.90**
12mth Target:	**$5.86**
Projected return (%)	
Capital gain	19.6%
Dividend yield (Net)	5.6%
Total return	**25.2%**

Rating: NEUTRAL

52-week price range (NZ$) 4.72-6.64

→

Spark NZ

SPK reported FY15 EBITDA of $962m, up 2.8% on FY14. With that and a tailwind from reduced UBA pricing (~$50m) the underlying business continues to tread slightly backwards—this also reflects SPK's decision to reinvest into Digital Ventures (-$30 m at EBITDA in FY15). The result was in-line and included a mix of good and bad as expected.

2016 P/E: 15.4 2017 P/E: 14.6

NZX Code:	**SPK**
Share Price:	**$3.31**
12mth Target:	**$2.88**
Projected return (%)	
Capital gain	-13.0%
Dividend yield (Net)	8.3%
Total return	**-4.7%**

Rating: NEUTRAL

52-week price range (NZ$) 2.64-3.54

↑

Summerset Group Holdings

SUM is well positioned to benefit from its highly attractive business model, compelling demographic tailwinds and strong management. As SUM enters another phase of high growth, successful execution will be critical to increasing the market's confidence in SUM's ambitious growth plans, and therefore valuation. At this juncture, SUM currently offers the highest rate of growth amongst NZ retirement operators for both earnings and build rate. SUM's build rate, the key determinant of earnings growth, is expected to almost double from 2013-2016.

2016 P/E: 21.9 2017 P/E: 17.9

NZX Code:	**SUM**
Share Price:	**$3.75**
12mth Target:	**$4.20**
Projected return (%)	
Capital gain	12.0%
Dividend yield (Net)	0.8%
Total return	**12.8%**

Rating: OUTPERFORM

52-week price range (NZ$) 2.58-4.28

↑

Synlait Milk

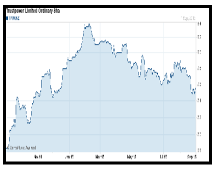
Our analysts don't view factors impacting commodity pricing (SML sells for a manufacturing margin over GDT prices) or farmer suppliers as impacting our near-term earnings forecasts. Growth in earnings is dominated by the increased capacity from Dryer 3 (68% of GM uplift over the next two years) with 25% associated with GM expansion on operational efficiencies and growing nutritionals' sales. Low commodity prices shouldn't impact SML's ability to sell ingredients for a margin, or progress the nutritional strategy.

2016 P/E: 14.1 2017 P/E: 10.1

NZX Code:	**SML**
Share Price:	**$2.22**
12mth Target:	**$2.58**
Projected return (%)	
Capital gain	16.2%
Dividend yield (Net)	0%
Total return	**16.2%**

Rating: OUTPERFORM

52-week price range (NZ$) 2.04-3.75



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TrustPower

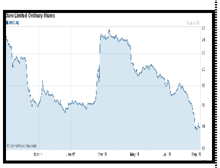
Our analysts don't expect large gains from TPW's NZ business, and think the main goal for its domestic activities is to maintain its industry-leading retail margins. In April 2014 TPW launched a unique multi-utility product offering in Auckland, Hamilton and Wellington, metro markets that it had previously avoided. The combined internet, phone, gas and electricity product has proved attractive, securing more than 15,000 customers over its first year with low churn out.

2016 P/E: 17.9 2017 P/E: 16.2

NZX Code:	**TPW**
Share Price:	**$7.55**
12mth Target:	**$8.18**
Projected return (%)	
Capital gain	8.3%
Dividend yield (Net)	5.3%
Total return	**13.6%**

Rating: NEUTRAL

52-week price range (NZ$) 6.85-8.40



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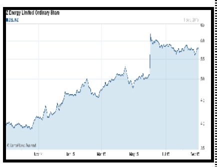
Xero

XRO is the innovation leader of cloud accounting globally. Relative to competitors, XRO has gained the highest penetration of any single market. Whilst we believe that XRO is set to pull away from competition in the Australian and NZ markets, XRO faces much more intense competition in the critical US market. Some missing functionality in the US product is now being addressed. That said, the US is a hard nut to crack. Too volatile for me – avoid.

NZX Code:	**XRO**
Share Price:	**$13.90**
12mth Target:	**$24.50**
Projected return (%)	
Capital gain	76.2%
Dividend yield (Net)	0%
Total return	**76.2%**

Rating: NEUTRAL

52-week price range ($) 12.70-26.49



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Z Energy

ZEL has guided towards an earnings range of $245-$265m for the 2016 financial year. Given that 2015 should be rebased at closer to $230m (commercial contract anomaly), then the upper-end could be a stretch. Upside risks include increased marketing volumes (not our central scenario), a more benign competitive environment (boosts Fuels Gross Margin), and a Gross Refining Margin (GRM) run-rate being maintained at current levels.

2016P/E: 17.2 2017 P/E: 16.5

NZX Code:	**ZEL**
Share Price:	**$5.80**
12mth Target:	**$6.02**
Projected return (%)	
Capital gain	3.8%
Dividend yield (Net)	4.7%
Total return	**8.5%**

Rating: NEUTRAL

52-week price range (NZ$) 3.85-6.21

NZ LISTED COMPANIES 31st August 2015 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (NZ$)	Price 31/08/2015 (NZ$)	Price 30/03/2015 (NZ$)	Target Price (NZ$)	Price Earnings (x)		Gross Yield (%)	
						FY15	FY16	FY15	FY16
OIL & GAS & CONSUMABLE FUELS									
NZ Refining Company	NZR	985	$3.15	$2.60	$3.64	6.5	6.8	5.3%	21.5%
Z Energy	ZEL	2,328	$5.82	$5.00	$6.02	19.2	17.3	5.8%	6.4%
INDUSTRIALS									
Capital Goods									
Fletcher Building	FBU	4,980	$7.28	$8.50	R	15.2	13.5	5.1%	6.2%
Opus International Consultants	OIC	189	$1.26	$1.40	$1.95	8.5	7.3	9.6%	9.9%
Methven	MVN	76	$1.05	$1.15	$1.25	10.4	10.3	10.6%	10.6%
Metro Performance Glass	MPG	252	$1.36	$1.81	$2.20	12.5	11.6	3.7%	9.0%
Steel & Tube Holdings	STU	239	$2.64	$2.85	$2.85	10.5	9.7	10.0%	10.5%
Agriculture									
Fonterra Shareholders' Fund	FSF	511	$4.84	$5.60	$5.32	14.2	11.2	4.6%	6.3%
PGG Wrightson	PGW	317	$0.42	$0.49	$0.50	9.1	9.5	13.2%	13.2%
Airlines									
Air New Zealand	AIR	2,793	$2.49	$2.70	$2.40	8.1	5.4	8.9%	10.6%
Road Rail & Air									
Freightways	FRE	824	$5.33	$6.22	$6.20	16.6	15.3	6.4%	6.6%
Mainfreight	MFT	1,413	$14.19	$16.63	$17.50	16.8	15.0	3.3%	3.8%
Airwork Holdings	AWK	166	$3.30	$3.07	$3.80	10.7	8.5	6.7%	8.1%
Transport Infrastructure									
Auckland International Airport	AIA	5,917	$4.97	$4.54	$4.00	33.5	31.3	4.1%	4.4%
Port of Tauranga	POT	2,337	$17.17	$17.10	$17.80	29.6	29.4	4.2%	4.4%
Infratil	IFT	1,702	$3.03	$3.18	$3.24	22.3	19.3	12.6%	6.4%
CONSUMER DISCRETIONARY									
Hotels, Restaurants & Leisure									
Sky City Entertainment Group	SKC	2,326	$3.96	$4.05	$3.75	17.3	16.2	5.3%	5.3%
Restaurant Brands New Zealand	RBD	387	$3.95	$4.03	$3.83	17.2	15.4	6.7%	7.5%
Media									
Sky Network Television	SKT	1,926	$4.95	$5.90	$5.86	11.2	11.2	8.4%	8.4%
Retailing									
The Warehouse Group	WHS	912	$2.63	$2.86	$2.40	17.1	16.0	8.4%	7.9%
Briscoe Group	BGR	602	$2.77	$2.87	$3.05	15.6	14.6	7.0%	7.3%
Hallenstein Glasson Holdings	HLG	196	$3.30	$3.45	$4.10	11.3	11.1	12.3%	12.6%
Kathmandu Holdings	KMD	349	$1.73	$1.39	$1.90	16.7	13.2	9.6%	6.0%
Michael Hill International	MHI	337	$0.88	$1.20	$1.40	11.4	9.5	5.7%	7.4%
CONSUMER STAPLES									
a2 Milk	ATM	482	$0.73		$1.03	n/a	84.9	0.0%	0.0%
Delegat's Group	DGL	536	$5.30	$4.56	$5.50	15.6	13.7	2.9%	3.4%
Sanford	SAN	463	$4.95	$4.92	$4.70	16.5	13.9	6.5%	6.5%
Synlait Milk	SML	310	$2.12	$2.65	$2.58	24.2	14.4	0.0%	0.0%
HEALTH & AGED CARE									
Ebos Group	EBO	1,633	$10.84	$10.49	$12.00	15.4	13.9	4.8%	5.3%
Fisher & Paykel Healthcare Corporatio	FPH	4,090	$7.31	$6.50	$6.25	36.0	31.4	2.6%	3.7%
Metlifecare	MET	934	$4.40		$5.50	18.2	15.4	1.0%	1.1%
Orion Health Group	OHE	610	$3.80		$5.00	-10.0	-19.3	0.0%	0.0%
Ryman Healthcare	RYM	3,875	$7.75	$7.84	$8.25	28.4	24.6	1.8%	2.0%
Summerset Group Holdings	SUM	837	$3.82	$3.31	$4.20	24.4	20.2	0.7%	0.9%
FINANCIAL									
Diversified Financials									
NZX	NZX	272	$1.03	$1.11	$1.10	18.5	19.8	8.1%	8.1%
Coates Plc (x GPG)	COA	859	$0.61	$0.49	$0.68	26.9	15.4	0.0%	0.0%
Hellaby Holdings	HBY	276	$2.88	$3.28	$3.65	9.7	8.6	10.4%	12.1%
Heartland New Zealand	HNZ	526	$1.12	$1.28	$1.38	10.9	10.1	9.3%	10.2%
Property									
Precinct Properties New Zealand	PCT	1,399	$1.16	$1.18	$1.11	19.3	19.1	7.0%	7.0%
Argosy Property	ARG	897	$1.12	$1.14	$1.14	18.5	18.2	8.0%	8.0%
DNZ Property Fund	DNZ	645	$2.17	$1.94	$2.05	20.2	19.5	7.1%	7.2%
Goodman Property Trust	GMT	1,516	$1.23	$1.20	$1.18	17.5	16.3	7.8%	8.1%
Kiwi Income Property Trust	KIP	1,689	$1.34	$1.29	$1.31	18.9	21.4	7.3%	7.4%
Property For Industry	PFI	623	$1.51	$1.57	$1.48	20.0	20.1	7.2%	7.3%
Vital Healthcare Property Trust	VHP	585	$1.70	$1.68	$1.53	18.2	16.0	7.0%	7.1%
INFORMATION TECHNOLOGY									
Diligent Board Member Services	DIL	451	$5.18	$5.62	$6.10	36.5	27.6	0.0%	0.0%
EROAD	ERD	217	$3.61	$4.15	$5.05	269.4	60.6	0.0%	0.0%
Trade Me Group	TME	1,413	$3.56	$3.77	$3.50	17.6	17.2	6.3%	6.4%
Xero	XRO	1,946	$14.25	$24.50	$24.50	-28.1	-21.7	0.0%	0.0%
TELECOMMUNICATION SERVICES									
Chorus	CNU	1,035	$2.61	$2.89	$3.22	11.4	10.6	0.0%	8.5%
Spark New Zealand	SPK	5,984	$3.27	$2.96	$2.88	16.0	16.7	8.5%	9.9%
UTILITIES									
Contact Energy	CEN	3,865	$5.25	$5.95	$6.22	23.9	20.8	20.1%	6.6%
Genesis Energy	GNE	1,820	$1.82	$2.32	$1.70	19.8	20.2	12.2%	11.3%
Meridian Energy (full paid)	MEL	5,639	$2.20	$2.53	$2.28	27.0	26.5	11.3%	8.9%
Mighty River Power	MRP	3,814	$2.77	$3.16	$2.98	26.3	21.8	10.8%	7.0%
Trustpower	TPW	2,360	$7.54	$8.10	$8.18	19.2	19.2	6.9%	7.3%
Vector	VCT	3,186	$3.20	$3.04	$2.90	21.8	20.1	6.7%	6.8%
MARKET AVERAGE (excluding XRO)						**22.1**	**16.2**	**6.6%**	**7.0%**

New Zealand Listed Companies – Gross Dividend Yields 27th August 2015

COMPANY Source: FNZC, CS Group Estimates	Rating	PRICE (NZ$)	GROSS DIVIDEND YIELD FY-1	FY0	FY1	FY2	DIVIDEND COVER FY-1	FY0	FY1	FY2	NET DEBT/ EQUITY
PGG Wrightson	N	$0.43	12.9%	12.9%	12.9%	12.9%	1.2	1.1	1.2	1.3	18.5%
Infratil	N	$3.03	4.9%	12.6%	6.4%	7.1%	0.7	0.5	1.1	1.3	38.2%
Hallenstein Glasson	O	$3.25	10.3%	12.5%	12.8%	13.0%	1.0	1.0	1.0	1.0	-23.1%
Intueri Education	O	$1.41	7.6%	12.1%	12.9%	14.4%	1.3	1.3	1.5	1.5	27.0%
Genesis Energy	N	$1.79	12.4%	11.5%	12.1%	11.8%	0.6	0.5	0.5	0.5	25.6%
Hellaby	O	$2.82	7.4%	10.0%	12.3%	12.8%	1.9	1.3	1.3	1.4	13.4%
Methven	N	$1.03	10.0%	10.0%	12.1%	12.7%	1.3	1.2	1.2	1.3	22.6%
Heartland	O	$1.07	9.7%	10.7%	11.7%	12.3%	1.4	1.3	1.4	1.3	83.2%
Steel & Tube	N	$2.66	9.9%	10.4%	11.5%	12.3%	1.3	1.4	1.4	1.4	27.2%
Spark	N	$3.12	8.9%	10.3%	9.1%	9.5%	1.0	0.8	0.9	0.9	24.3%
Air New Zealand	N	$2.57	8.6%	10.3%	7.1%	7.4%	1.9	2.4	2.3	2.2	14.5%
Katmandu	N	$1.70	9.8%	9.8%	6.1%	7.1%	1.7	0.9	1.7	1.7	16.0%
Mighty River Power	N	$2.73	6.9%	9.7%	9.5%	9.5%	1.0	0.6	0.7	0.7	20.5%
Opus	O	$1.28	9.7%	9.4%	9.8%	10.3%	2.0	1.7	1.9	2.0	2.8%
Metro Performance Glass	O	$1.36	3.7%	9.0%	11.1%	13.1%	3.0	1.3	1.3	1.3	18.9%
Meridan Energy (Fully Paid)	O	$2.18	11.4%	9.0%	9.6%	8.6%	0.4	0.5	0.5	0.6	15.4%
Chorus	U	$2.54	0.0%	8.7%	10.9%	13.1%	0.0	1.5	1.4	1.3	41.4%
The Warehouse	U	$2.58	10.2%	8.6%	8.1%	8.6%	0.9	1.0	1.1	1.1	21.0%
NPT	U	$0.62	8.5%	8.5%	8.7%	9.0%	1.0	1.1	1.1	1.0	24.6%
Scales Corporation	O	$1.98	2.1%	8.4%	8.4%	9.8%	5.1	1.8	1.6	1.7	11.8%
Goodman Property Trust	N	$1.19	8.1%	8.4%	8.4%	8.5%	1.1	1.1	1.1	1.1	32.4%
Airwork Holdings	O	$3.10	7.2%	8.4%	11.2%	0.0%	1.9	2.0	1.9	0.0	46.2%
Sky Network TV	N	$4.98	8.4%	8.4%	8.4%	8.4%	1.5	1.5	1.2	1.2	12.4%
NZX	N	$1.02	8..2%	8.2%	8.2%	8.2%	0.9	0.9	0.9	1.2	-12.5%
Argos Property	O	$1.11	8.1%	8.1%	8.2%	8.3%	1.0	1.0	1.0	1.0	37.5%
Restaurant Brands	U	$3.80	6.9%	7.8%	8.7%	9.4%	1.2	1.2	1.2	1.2	15.8%
Augusta Capital	N	$0.97	7.3%	7.7%	8.1%	8.2%	1.2	1.6	1.3	1.2	33.5%
Kiwi Property Group	N	$1.31	7.4%	7.6%	7.7%	7.8%	1.1	0.9	1.0	1.0	27.9%
Brisco Group	N	$2.72	7.1%	7.5%	7.8%	8.0%	1.3	1.3	1.3	1.3	-38.6%
DNZ	N	$2.11	7.3%	7.4%	7.8%	7.7%	1.0	1.1	1.1	1.1	34.9%
Fletcher Building	R	$7.08	6.6%	7.4%	8.3%	8.6%	1.4	1.4	1.4	1.5	23.2%
Michael Hill	O	$0.88	5.7%	7.4%	8.1%	11.4%	1.5	1.4	1.4	1.4	10.9%
Nuplex	O	$3.93	6.9%	7.4%	7.6%	7.9%	1.2	1.5	1.7	1.6	12.2%
Property for Industry	U	$1.48	7.3%	7.4%	7.5%	7.5%	1.0	1.0	1.0	1.0	35.4%
Trustpower	N	$7.49	6.9%	7.3%	6.9%	7.1%	1.0	1.1	1.2	1.2	36.9%
Vital Healthcare PT	U	$1.67	7.1%	7.3%	7.4%	7.6%	1.2	1.3	1.3	1.2	35.7%
Tower	N	$2.04	5.4%	7.1%	8.4%	8.4%	1.5	0.9	0.4	1.0	-51.6%
Precinct Properties	U	$1.15	7.0%	7.0%	7.0%	7.0%	1.1	1.1	1.1	1.1	18.6%
Vector	U	$3.12	6.8%	6.8%	6.9%	6.9%	1.1	1.0	1.1	1.2	47.2%
Freightways	N	$5.24	6.5%	6.8%	8.3%	9.5%	1.3	1.4	1.2	1.1	28.9%
Z Energy	N	$5.65	5.9%	6.6%	6.9%	7.1%	1.3	1.3	1.2	1.1	17.0%
Contact Energy	O	$5.28	20.0%	6.6%	10.2%	9.8%	0.3	1.0	0.6	0.6	26.9%
Sanford	U	$4.92	6.5%	6.5%	6.5%	6.5%	1.9	1.3	1.5	2.0	22.3%
Trademe	N	$3.52	6.3%	6.4%	6.5%	7.0%	1.3	1.2	1.3	1.2	13.4%
NZ Refining Company	O	$3.02	0.0%	5.6%	22.5%	19.2%	0.0	4.0	1.0	1.0	14.6%
EBOS	O	$10.69	4.9%	5.4%	6.0%	6.3%	1.5	1.5	1.5	1.5	10.6%
Sky City Entertainment	U	$3.96	5.3%	5.3%	6.3%	6.3%	1.1	1.2	1.3	1.3	34.0%
Fonterra Shareholders	N	$4.75	2.1%	4.7%	6.4%	6.5%	1.0	1.5	1.4	1.4	40.1%
Auckland Airport	U	$4.75	4.3%	4.6%	6.3%	8.1%	1.0	1.0	1.0	1.0	34.7%
Port of Tauranga	N	$16.95	4.3%	4.4%	4.8%	5.4%	1.1	1.1	1.1	1.1	25.2%
Mainfreight	N	$14.15	3.3%	3.8%	4.3%	5.2%	2.5	2.4	2.4	2.3	20.8%
Delegat's Group	N	$5.25	2.9%	3.2%	3.4%	3.7%	2.8	2.9	3.0	3.3	34.9%
F&P Healthcare	U	$7.22	2.7%	3.1%	3.5%	4.3%	1.5	1.4	1.4	1.1	7.2%
Ryman Healthcare	N	$7.82	1.7%	2.0%	2.2%	2.6%	2.0	2.0	2.0	2.0	10.2%
Metlifecare	O	$4.31	0.9%	1.0%	1.1%	1.3%	5.8	5.8	6.0	6.1	4.0%
Summerset	O	$3.87	0.9%	0.7%	0.9%	1.0%	3.2	5.7	5.7	5.7	15.3%
a2 Milk	O	$0.70	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-2.0%
Diligent	N	$4.94	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-67.2%
EROAD	O	$3.50	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-45.2%
Coats Group	U	$0.61	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-13.1%
Orion	O	$3.60	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-25.4%
Synlait Milk	O	$2.09	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	48.2%
Vista Group	N	$5.44	0.0%	0.0%	2.7%	3.4%	0.0	0.0	1.9	1.9	-20.1%
MEDIAN			**6.9%**	**7.4%**	**7.8%**	**7.9%**	**1.2**	**1.2**	**1.2**	**1.2**	**20.5%**

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
5. FY0 represents the current financial year

Dividend yield drives strategy

The recent reporting season has disappointed on profits, but surprised on dividends. Analysts have upgraded ASX200 June 15 and June 16 DPS expectations by 1% and 0.2%, respectively. Dividend upgrades, irrespective of EPS forecast changes, have been a global theme.

Dividend liquidity: ASX 200 companies are expected to pay A$78bn in dividends for the year ending June 2015. Analysts forecast A$82bn for the year ending June 2016. We estimate 40% of Aussie dividends are currently distributed to our pension system.

Capex cuts: Non-financial companies are currently paying out all of their free cash-flow in dividends. Expectations of bigger capex cuts during the next 12 months should finance bigger distributions. We believe further DPS upgrades for June 2016 will ensue if companies deliver on capex reductions and the cost of debt remains low.

The recent market volatility and fall in global government bond yields should further support the global search for yield. This should help re-rate Aussie stocks relative to other assets around the world.

Commercial Bank Stock Picks

Our Analysts have revised their major bank order of preference: WBC (Outperform), ANZ (Outperform), CBA (Outperform), NAB (Neutral). Our ratings reflect a continued positive stance on the sector, reflecting emerging clarity around regulatory capital rules, the completion of "jumbo" capital raisings (for now)and more attractive multiples.

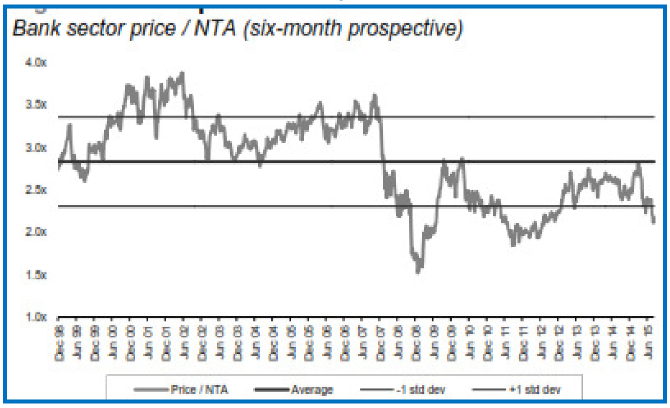
Productivity initiatives to drive the sector, leading to an upgrading of Westpac, and switching out of NAB into WBC. We have upgraded their rating on WBC and elevated WBC in their major bank order of preference from #4 pick to #1 pick. Conversely, they have downgraded NAB from Outperform to NEUTRAL, and have reduced it in order of preference from #1 pick to #4 pick. They expect WBC to lead the industry in structural productivity initiatives. Conversely, a successful business restructuring at NAB is approaching its completion and the stock has re-rated versus its peers in response. EPS upgrades of up to 4%: They have also upgraded their major bank EPS estimates on average by 1-2% in outer years, reflecting a more resilient net interest margin profile (announced and expected future customer re-pricing) and improved productivity metrics (net benefits emerging from FY17E), but also lower system credit growth assumptions and modestly higher bad debt charges (cessation of write-backs & recoveries, further provision re-stocking). They have also adopted marginally lower dividend payout ratio profiles. Their (net) EPS upgrades reflect the view that productivity / restructuring benefits and on-going customer re-pricing will drive sector earnings and DPS in a low growth environment.

Average EPS upgrades of 2%

Credit Suisse changes to bank EPS, target prices and ratings

	Cash EPS changes			Target price		Rating
	FY16E	FY17E	FY18E	Old	New	
ANZ	-1%	-1%		$35.00	$31.00	Outperform (unchanged)
CBA	1%	2%	2%	$88.00	$84.00	Outperform (unchanged)
NAB	2%	1%		$37.50	$33.00	Neutral (from Outperform)
WBC	4%	4%		$34.00	$35.00	Outperform (from Neutral)

Banks Price / NTA 1.4x



Westpac (WBC.AX / WBC.NZ)

OUTPERFORM A$30.42 Target price A$35.00

WBC reported 3Q15 stressed assets (impaired, 90+ days past-due, watchlist & substandard) & total committed exposures decreased by 5bp. WBC stated that asset quality continues to improve, with most portfolios recording a reduction in stress; stress increased in retail (rise in delinquencies), manufacturing and utilities (small number of credits). WBC attributed some increase in retail and manufacturing stress to pressure in the commodity sector.

WBC.AX WBX.NZ Year to 30 September		2014A	2015F	2016F	2017F
Adjusted Earnings	A$m	7,561	7,819	8,094	8,404
Earnings /share (Adjust)	Ac	2.45	2.44	2.57	2.63
EPS Growth	%	7.7	-0.5	5.3	2.2
Price / Earnings Ratio	x	12.3	12.4	11.7	11.5
Net Div / Share	Ac	1.82	1.87	1.89	1.90
Net Yield	%	6.0	6.2	6.3	6.3

Westpac One Year Graph

Woodside Petroleum (WPL.AX)

OUTPERFORM A$32.05 Target price A$37.00

In the context of the oil price environment, Woodside once again delivered a strong operational result. Underlying NPAT of A$679m was above our analysts estimates with strong cash generation seeing net debt sit at ~A$3.8bn. On the back of the lower opex. They have increased FY15 EPS by 4.8%, FY16 by 1.9%.

Woodside results these days are notable by their lack of excitement. This company offers the steady predictability that so few do in the E&P world. FY15 production guidance is unchanged at 8684mmboe.

As returns in the industry continue to come under pressure and we search for a new oil price range, we believe a competitive cost of capital is essential to deliver medium to long term shareholder returns.

Clearly not immune from oil, but a good place to hide: With Woodside frankly priced more off its yield (and balance sheet strength), it cannot be ignored that every $10/bbl is a +/- ~1.8% shift in the net dividend yield. Ex the obvious exogenous factors, Woodside suffers very few operational risks and is stewarded by a world class management team. If you think you should own anything in Energy, Woodside is a logical home for that money.

WPL.AX Year to 31 December		2014A	2015F	2016F	2017F
Adjusted Earnings	US$m	7,076	4,576	5,446	5,541
Earnings /share (Adjust)	USc	292.9	147.1	193.1	202.1
EPS Growth	%	41.3	-49.8	31.3	4.7
Price / Earnings Ratio	x	8.2	16.4	12.5	11.9
Net Div / Share	USc	255	118	154	162
Net Yield	%	10.6	4.9	6.4	6.7

Selected Australian Listed Companies - Earnings Forecast

Australian Forecasts 31st August 2015 Source: CSFB estimates	Ticker	Market Cap (A$m)	Price 31-Aug-15 (A$)	Price 30-Mar-15 (A$)	Target Price (A$)	Price Earnings (x)		Net Yield (%)	
						FY15	FY16	FY15	FY16
BANKS									
ANZ Banking Group	ANZ	82,038	28.53	36.80	31.00	12.4	11.3	5.7%	6.2%
Commonwealth Bank Australia	CBA	129,687	76.36	94.34	84.00	16.3	14.6	4.8%	5.3%
National Australia Bank	NAB	82,918	31.58	38.83	33.00	12.7	14.6	6.0%	6.3%
Westpac Bank	WBC	96,540	30.42	39.80	35.00	12.4	11.7	6.2%	6.3%
Insurance									
AMP	AMP	17,628	5.96	6.51	6.60	23.1	18.4	3.9%	4.4%
QBE Insurance Group	QBE	13,127	13.37	12.82	11.23	-45.7	17.6	3.0%	3.2%
Suncorp Group	SUN	16,739	13.01	13.74	15.05	32.4	13.8	5.8%	8.1%
MATERIALS									
Chemicals									
Incitec Pivot	IPL	5,832	3.46	4.07	3.28	18.9	16	2.7%	2.7%
Orica	ORI	5,759	15.56	20.07	16.34	9.6	9.5	6.0%	6.2%
Materials & Mining									
BHP Billiton	BHP	95,504	25.49		20.65	8	7	6.3%	6.6%
Newcrest Mining	NCM	8,646	11.28	13.65	11.50	19.4	20	1.1%	0.0%
Rio Tinto	RIO	67,137	51.1	56.55	42.72	6.6	7.3	5.2%	5.9%
ENERGY									
Origin Energy	ORG	9,465	8.53	11.71	9.00	12.3	13.3	5.9%	5.9%
Santos	STO	5,323	5.3	7.53	5.60	10.2	9.8	5.7%	5.7%
Woodside Petroleum	WPL	18,936	32.05	35.04	37.00	11.1	7.8	10.8%	11.1%
HEALTHCARE									
CSL	CSL	30,874	92.62	91.85	70.31	27.4	24	1.5%	1.7%
Ramsay Health Care	RHC	12,741	63.05	66.63	72.15	43.9	36.9	1.1%	1.3%
CONSUMER STAPLES									
Woolworths	WOW	34,705	27.4	29.62	27.83	14.5	14	4.9%	5.0%
INFORMATION TECHNOLOGY									
Computershare	CPU	3,989	10	12.80	8.85	13.1	11.9	3.6%	3.8%
TELECOMMUNICATION SERVICES									
Telstra	TLS	71,153	5.82	6.38	5.60	19.5	18	4.8%	5.1%
UTILITIES									
AGL Energy	AGK	11,443	16.96	15.31	18.30	15.3	16.1	3.7%	3.7%
Market Average						**14.9**	**15.8**	**4.4%**	**4.7%**

UK Investment Trusts – Current Sector Recommendations

Category	Investment Trust	Comment
International	RIT Capital Partners	Long term capital growth while preserving shareholder capital. A potential value opportunity if performance continues to improve.
	Monks ITC	A diversified portfolio of growth companies with the "potential to deliver superior operational performance".
America	JP Morgan American	A core holding for investors looking for more than just a benchmarked US play and providing access to enormous research resources.
Japan	Schroder Japan Growth	A well-defined bottom-up investment approach Company providing attractive, low beta exposure to quality, reasonably priced companies.
Europe	JPM European (Growth)	A blue-chip product for retail investors offering a diversified portfolio of Continental European growth and value stocks.
Asia	Schroder AsiaPacific	An experienced, well-resourced team and has a good track record generated from a stock-picking approach.
	Edinburgh Dragon	One of the largest, most liquid Far East ex Japan investment trusts with conservative and strong management.
Emerging Markets	JPMorgan Emerging Markets	Performance driven through stock selection rather than macro exposure.
	Templeton Emerging Markets	Less risky diversified exposure to emerging markets.
Special Situations	Worldwide Healthcare	A diversified portfolio of large cap pharmaceutical companies, and large to mid-cap healthcare companies.

NZ Daily Fixed Interest Rate Sheet

PRICES AS AT 31ST AUGUST 2015   **NOTE: Indicative pricing only**

Secondary market	Code	Rating	Type	Maturity/ Reset Date	Coupon	Yield	Margin to SWAP	Price /$100	Coupon Freq
Fletcher Building	FBI100	NR	Cap	15/03/2017	7.50%	**4.44%**	165	$107.99	2
Vector	VCT070	BB+	Cap	15/06/2017	7.00%	**4.05%**	125	$106.55	2
Trustpower	TPW100	NR	Snr	15/12/2017	7.10%	**4.00%**	110	$108.28	4
Fletcher Building	FBI110	NR	Cap	15/03/2018	7.15%	**4.20%**	140	$110.21	2
Z Energy	ZEL020	NR	Snr	15/08/2018	7.25%	**3.95%**	105	$109.52	4
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	**4.48%**	152	$105.49	2
Contact Energy Limited	CEN020	BBB	Snr	15/05/2019	5.80%	**3.80%**	82	$107.17	4
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	**4.70%**	170	$107.58	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	**4.59%**	155	$108.57	4
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	**4.60%**	153	$116.06	4
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	**4.04%**	87	$111.54	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	**4.40%**	120	$110.22	4
Christchurch International Airport	CIA1020	BBB+	Snr	4/10/2021	6.25%	**4.20%**	100	$113.19	2
Trustpower	TPW120	NR	Snr	15/12/2021	5.63%	**4.30%**	102	$108.53	4
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	**4.64%**	131	$114.27	4

Floating Rate / Perpetual Bonds	Code	Rating	Type	Reset Date	Coupon	Price /$100	Margin to SWAP	Maturity	Coupon Freq
Credit Agricole S.A.	CASHA	BBB-	Tier 1	19/12/2017	5.04%	**79.00**	400	Perpetual	4
Genesis Power Limited	GPLFA	BB-	Cap Bond	15/07/2018	6.19%	**104.50**	180	Perpetual	4
Infratil	IFTHA	NR	Perp	15/11/2014	4.53%	**68.50**	390	Perpetual	4
Quayside Holdings Ltd	QHLHA	NR	Perp Pref	12/03/2017	5.88%	**101.70**	177	Perpetual	4
Rabobank Nederland	RBOHA	A-	Tier 1	8/10/2014	3.71%	**95.50**	280	Perpetual	4
Rabobank Nederland	RCSHA	A-	Tier 1	18/06/2019	8.34%	**109.00**	330	Perpetual	4
Works Infrastructure Finance	WKSHA	NR	RPS	15/06/2015	7.95%	**103.50**	370	Perpetual	4

Limitations and Disclaimer