Volume 36

Bay Brokers Limited

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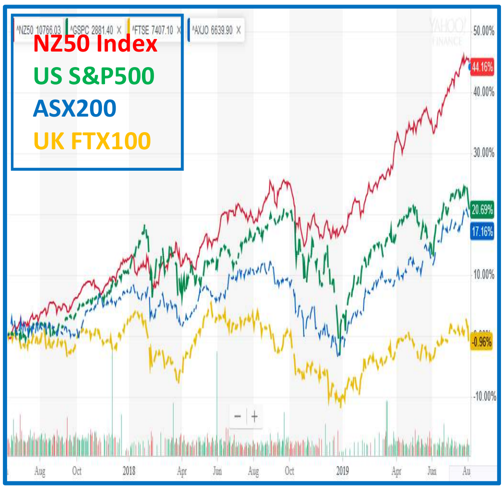
INVESTMENT STRATEGIES

AUGUST 2019

Equity Markets around the globe are stalling, as fears of Trump's Trade War with China start to get serious.

Locally, we have a government that seems paralysed – preferring to use spin rather than address our economic uncertainty. These are worrying times….

NZX50 CONTINUES TO OUTPERFORM



We have a "Part-time" Prime Minister, who needs to step up, and immediately. We have a dysfunctional Deputy Prime Minister, who thinks it's acceptable to hold political grudges; a Trade Minister, who doesn't like to travel; and a Cabinet that is totally out of its depth.

Our "rock star" economy is in tatters, and locally we have a City Council that is equally dysfunctional. Add to that a Regional Council that is "bloated and porphyrized" – And on top of that all, we were robbed in the World Cup Cricket. No wonder we are all feeling pessimistic.

However, the Netball was a blast, and let's hope the World Cup Rugby gives a positive outcome. There is plenty to be positive about, but then again - I am a "*glass half full*" kind of guy!

CONTENTS

CONTENTS	PAGE
Statistics NZ Data	1
Local Body Politics	2
Our Political Climate	3
Let's talk productivity	7
Jarden's 'Year of Delivery' a Hoax	7
New Zealand's Housing Bubble	9
The World at a Glance	10
The Global Economic Outlook	11
Commodities	14
Agribusiness	15
NZ Equities	16
Stocks to Watch – NZ	17
NZ Equities – Reporting Calendar	20
NZ Listed Equities Forecasts	21
Australian Equities Forecasts	22
Global Equities	23
Jarden's Global Equities Portfolios	24

STATISTICS NZ DATA

Estimated population at 5-August-2019:	4,975,149
Births March 2019 year:	58,4556
Deaths March 2019 year:	33,147
Total Fertility Rate December 2018 year ↓	1.71
Net long-term migration Apr-19 year:	55,800
- 50,200 in Apr-18 ↑ (5,600) ↑ 11.1%	
Visitor arrivals Annual at Mar 2019 (↓ 0.35%)	**3,864,018**
Employment	
Total employed March-19: (↓0.3% Mar Q)	2,658,000
Unemployment rate Jun-19 quarter:(↑0.3%)	4.5%
Tauranga City Unemployment Mar-19 quarter:	**4.7%**
Employment rate Mar-19 quarter: (↓0.3%)	67.5%
Wage rate increase Mar-19 quarter: (↑0.1%)	2.0%
Ave weekly earnings Dec-18 quarter:	$1,244
Average ordinary time hourly earnings: (↑37c)	$32.00
Net Household Wealth (NZ Median)	$340,000
Net Wealth (Top 20%) (↑9.7% pa over last 3 years)	$1.75m
Median Net Wealth – Individual Europeans	$138,000
Median Net Wealth – Individual Maori	$29,000
Consumer Price Index Jun19 year: (↑0.2%)	1.7%
The size of the NZ Economy /Mar-19 year:	**$296 bn**
GDP per person year ended Dec-18:	**$58,778**
GDP per capita year ended Dec-18:	**0.9%**
GDP Growth (volume) Mar-19 year: ↓	**2.5%**

WEBSITE:
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2019 COUNCILLOR PROFILE – ANDREW VON DADELSZEN

A Tauranga resident for 31 years, Justice of the Peace, and 3rd term Regional Councillor, I need your vote. My hard-work makes a real difference on behalf of ratepayers. Please vote for sensible Councillors, who believe in SCIENCE-BASED decision making - not fluffy rhetoric. This Council is great at “hui” but short on the “doey”.

Stop the PC nonsense, and get on with environmental sustainability. We need Councillors that “Walk, not Talk” – “ACTION not WORDS”. Why declare a Climate Emergency, when there is little evidence that our Regional Council is seriously addressing its own emissions.

I am passionate about reversing the degradation of our harbour, and I chair the Rotary Centennial Trust for the restoration of the Kopurererua Valley. A qualified Resource Hearings Commissioner (Chair certified), I am also a Director of Crown Research Institute, Plant & Food. Qualified with an MBA, my strengths include strong governance. **VOTE VOND**

HOW YOU CAN HELP MY RE-ELECTION CAMPAIGN

We can’t afford to allow the loony left dominate our Regional Council.

HELP ME TO HELP YOU:

1. Allow one of my 900x600 signs on your property
2. Help distribute some of my flyers
3. Tell your neighbours & friends to support me
4. Like & <u>share</u> my Facebook page & posts
5. Donate to my re-election campaign

Look out for my large Billboard on Hewletts Road

LOCAL GOVERNMENT IS NO JOKE

Source: Peter Dunne

“After years of mutual suspicion, it is time for the Government to shed its patronising approach and take the local government sector more seriously”, says Peter Dunne.

Local government is one of the lost souls of our system of government. In part, this is because the quality of some of the decision-making of local government, not to mention some of the personalities within it, have been less than stellar over the years. (The recent appalling performance of the Greater Wellington Regional Council on reforming the region’s bus services, and the emerging gridlock that now seems to typify the Auckland Council would be among the obvious current examples, while the presence of eccentric personalities holding sway at council tables is legendary and ongoing.) [*We aren’t exempt in Tauranga either*].

These sorts of examples make it too easy to readily dismiss local government as a bit of a joke, not all that relevant to the lives of most of us, and the poor turnout at local government elections every three years is often held up as confirmation of that.

Yet local government is an important part of our national landscape. Our 78 local authorities (comprising 11 regional councils, and 67 other territorial authorities – unitary authorities, city and district councils, and within them, community boards – permeate most areas of daily life. Their public equity in 2018 was just under $124 billion, and their capital and operating expenditure more than $15 billion. Indeed, most likely, local government and the services it provides, has a far more direct impact on the lives of New Zealanders than does central government.

The dysfunctional relationship between central and local government is becoming intolerable. It has been building up for most of the last 30 years under previous National and Labour-led governments, and is by no means the responsibility of the current Government alone, although, like its predecessors, it seems little inclined to want to do too much to address it. After all, power sharing is also credit sharing, something this Government is not at all into.

It is imperative, though, that a clearly defined role for local government be established. It has to be more than fixing drains and potholes, or running buses and trains. Otherwise, voter turnout will remain low, the calibre of people seeking election will steadily decline, and overall public satisfaction with performance will reduce further. While the local government sector needs to up its game by sharpening its focus on the things it can do more constructively at the local level, as well as raising issues about the judicious devolution of properly resourced service areas that it could take on, central government has to shed its historical patronising approach in favour of taking the sector far more seriously than at any point since the 1989 reforms.

Sadly, on the evidence of the recent Local Government conference, LG seems set to remain looking like lost souls, which, the Government, as it starts to contemplate next year’s election with not too many success stories to campaign on so far, will be quite happy about.

FATE NEWS – BUT A BIT OF FUN

Prime Minister Jacinda Ardern to visit New Zealand

29/07/2019 | Anna Bracewell-Worrall · Tova O'Brien

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Credits: Newshub.

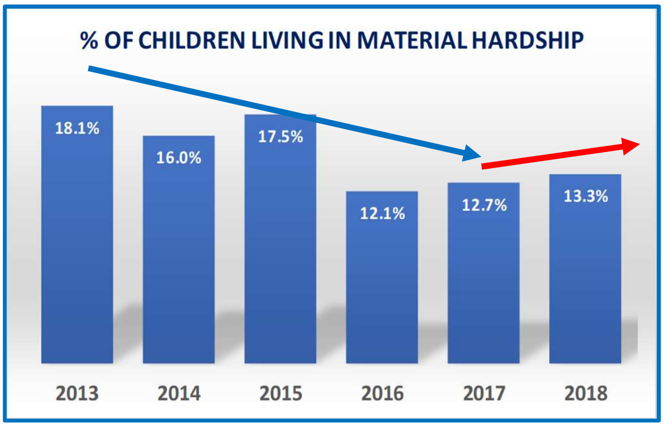
Jacinda Ardern will make a whirl-wind visit to New Zealand next week. The Prime Minister will take a break from her busy global tour of virtue signalling. The UN has expressed disappointment at Ardern's visit, and the Prime Minister's staff refused to clarify whether she will be available to answer questions about local issues.

STATS NZ

Stats NZ has missed another deadline as Census 2018's Independent Review report, due out in July, still hasn't surfaced. Last year's Census resulted in a historically low national response rate of 83.3%, down from 92.2% in 2013. New Zealanders deserve to know why it was such a disaster. Stats NZ tried to bump up the numbers by quietly changing how they calculated the response rate, but even when counting people who had only filled in their name and date of birth rather than full responses, the national response rate was still only 87.5%. Using the original method, the response rates for Māori and Pacific Islanders was just 68.2% and 65.1% respectively, compared with 88.5% and 88.3% in the 2013 Census. The response rate for the Asian population also dropped 10% to 81.7%. This is just another example of a government completely out of its depth.

OUR WELLBEING MEASUREMENTS

Statistics NZ has released its first "Wellbeing" data. Jacinda's 'transformational' start has backfired, with the percentage of New Zealand children living in hardship having reversed its downward trend.



GREENS ROAD SAFETY PLAN ALARMIST

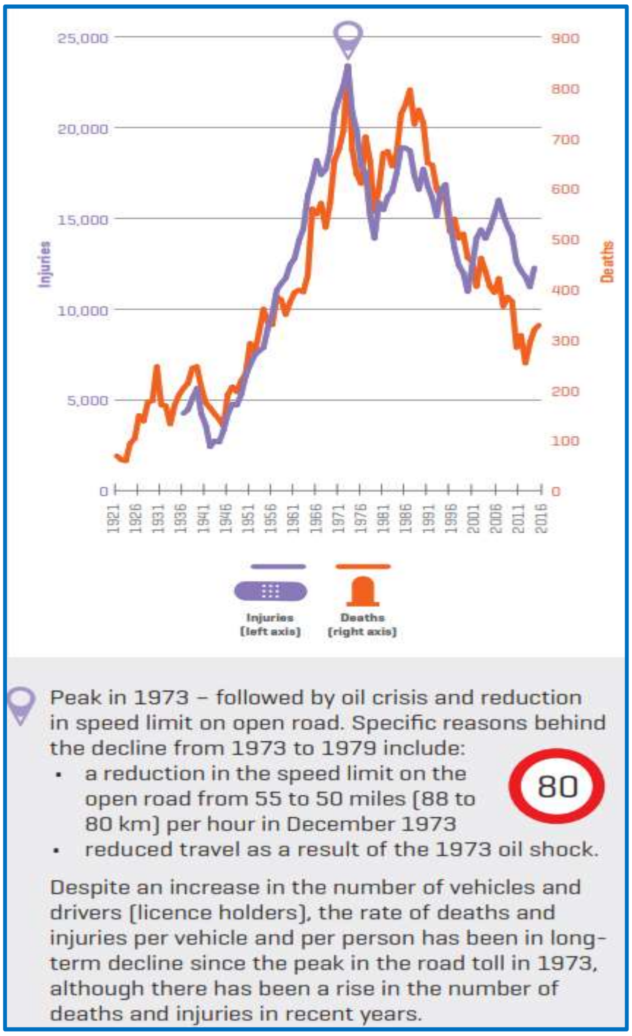
Julie Anne Genter is using our poor road safety record as an excuse to spend nothing on new roading infrastructure.

Like so much of the Greens policy, this is plain alarmist – and fake news.

Below are two graphs that show the true state of road safety, albeit that there has been a slight upturn since 2016 – this is not a "Crisis"!!!

The truth is that Road Deaths per vehicle on the road continues to fall. Genter wants us all to walk, cycle or take public transport, and this is a worthy desire – but we have to also be realistic – New Zealanders do need their cars and work utes to enjoy the way of life that makes New Zealand the great place to live (and raise a family) that is the envy of most of the world.

ROAD DEATHS & INJURIES



SOURCE: Ministry of Transport, NZTA

Genter's primary answer to preventing accidents is cut the speed limit. Yes – if she you lower the speed to zero, there will be no accidents – but of course that is plain ridiculous. Road safety shouldn't be one dimensional – we also need to up our roading infrastructure spend on new roads.

ROAD DEATHS

A September 2018 NZTA publication show that the Bay of Plenty is "being punished" with regards to PT funding – and this is on top of the fact that there is not one single dollar for any new roading infrastructure for the Western Bay of Plenty, in NZTA's latest planning programme.

NLTP Public Transport Funding

- Auckland 61% (35%)
- Wellington 20% (11%)
- Canterbury 6% (13%)
- Waikato 2.4% (9.6%)
- **Bay of Plenty 2.2%** (6.3%)

Tauranga-WBOP alone = **5%** of NZ's population with bus service.

Yet only gets about 1/3 of its per capita share of national funding.

NZTA IS TOTALLY DYSFUNCTIONAL

Sir Brian Roche

Each year the NZTA conducts an "ask our team" survey which takes the mood of the organisation's staff. The organisation has begun conducting smaller "pulse" surveys, the most recent of which had been leaked to *Stuff.*

More than half of NZTA's staff expressed dissatisfaction with the organisation's leadership, with just 48% saying the leadership's actions are "consistent with our organisation's DNA". Other questions regarding leadership also drew negative responses. The chaos continued after Gammie's departure, with controversial Board Chair Michael Stiassny resigning after serving just one year of a 3-year term. The appointment of new chair Sir Brian Roche, should help stabilise the organisation.

DECRIMINALISATION OF ALL DRUGS

A war of words is raging over the war on drugs, as the Health Select Committee reports back on the most significant piece of drug reform legislation in 40 years. It's just one clause in the Misuse of Drugs Amendment Bill, but it marks the biggest change to New Zealand drug law in 40 years. Political division has seen this bill being reported back from the select committee without National's support.

The police discretion clause will effectively decriminalise personal use and possession of all controlled drugs, and the National Party is not OK with what's it's calling "*de facto decriminalisation by stealth*".

But the driving force behind the bill, the Greens' Chloe Swarbrick, says there's nothing stealthy about it. The Government has binding, high-level public commitments to decriminalise personal possession and drug use, in favour of a therapeutic approach. The problem is between the political war of words, many Kiwis have probably missed this significant shift in drug policy.

Labour, including the Prime Minister and the Health Minister, have pushed back on National's categorisation that this bill creates "*de facto decriminalisation by stealth*", saying it doesn't take away the power to prosecute, and police would do so when needed. Instead, Labour and New Zealand First have been trying to draw attention to the tougher measures against suppliers of synthetics, that the bill contains.

The National members of the health committee have produced a minority report on the bill, opposing what the party refers to as the de facto decriminalisation.

National said it supported the intent of the majority of the bill, including the ability to temporarily classify substances as controlled drugs and classify the two most prevalent chemicals used in synthetics as Class A drugs. However, the Party's opposition to de facto decriminalisation, through the discretion clause, means National refused to support the bill overall.

GREEN MP CLAIMS JESUS WASN'T JEWISH

Source: Stuff

Golriz Ghahraman, the Green Party MP, has been accused of antisemitism by the New Zealand Jewish Council. The MP has come under fire after responding to a tweet which suggested Mary and Joseph, the mother and father of Jesus, according to the New Testament, were refugees.

Ghahranan stated *"They were literally Palestinian refugees. And she (Mary) normally had her hair covered because that's what modesty looked like in her culture…"*

This level of bigotry and ignorance is stunning, especially in a New Zealand Member of Parliament.

Claiming Mary and Joseph (and hence Jesus) were "literally" Palestinian refugees (and hence not Jewish) is twisted. Both the Bible and the Quran describe Mary as Jewish.

If this is the best that the Greens can produce, God help our democracy!

DEAL STRUCK FOR FARMERS ENTRY TO THE ETS

Winston Peters marginalised both National and the Greens, by doing a deal with Labour, that will see farmers getting a 95% free allocation of their Carbon emissions, under the proposed Zero Caron Bill.

Neither the Interim Climate Change Commission nor the Ministry mentioned treating biological emissions differently to fossil fuel emissions under the ETS, as the Parliamentary Commissioner for the Environment suggested in a comprehensive **report** released in March.

Average cost at an emissions price of $25/tonne of CO2e with 95% free allocation			
Per dairy cow	$4.60	Per kg of milk solids	$0.01
Per head of non-dairy cattle	$2.30	Per kg of beef	$0.01
Per sheep	$0.47	Per kg of sheep meat	$0.03
Per deer	$0.86	Per kg of venison	$0.04
Per tonne of urea	$2.92		

JONES SUPPORTS GENE EDITING

Forestry Minister Shane Jones has spoken in favour of gene editing technologies to help reduce agricultural emissions, and said more tree planting is needed to buy time for emissions reductions elsewhere.

"I look forward to Farm Leaders coming and working constructively on the projects currently covered in the Budget. Forestry has an incredibly important role to play not only in biodiversity, not only in catchment consolidation, not only in employment and exports but in providing an option to buy time while the heavy emitters—the heavy industry—seek ways to invest in science, technology, and improvements to their business in the context of our new climate change challenges."

He said if "*we don't have focused research and technology investment in areas such as gene editing, it's very difficult to see where the farming community, where the agribusiness community is going to find the solution. So, I look forward to working with them. There's considerable scope in that regard.*"

THE PROVINCIAL GROWTH FUND

Source: Brian Gaynor, NZ Herald

The controversial PGF has been handing out taxpayers' money at a great rate of knots. Its first funding commitment was announced on 23rd February 2018 and it had allocated a massive $1.97bn for 296 projects by the end of June 2019.

PGF's Largest Projects

KiwiRail allocation (Budget)	$300m
National tree planting project	$244m
Tairāwhiti roading package (Gisborne)	$137m
Additional tree planting projects	$87m
Whenua Māori (Ministry of Maori Development)	$83m
KiwiRail working capital	$50m
Energy allocation (Budget)	$40m
KiwiRail Coastal Pacific upgrade	$40m
KiwiRail TranzAlpine upgrade	$40m
Waste allocation (Budget)	$40m
Central North Island regional growth hub	$40m

The fund continues to make commitments at a breakneck pace and has announced the following funding since the end of June:

- $40 million to convert waste, including plastic waste, into materials and products useful to businesses and consumers
- $421,050 to prepare young women for training and employment in the forestry sector
- $3.3m for manufacturing and tourism activities in the Kāpiti area
- $948,000 for youth training in the Wairarapa
- $200,000 for tourist initiatives in Manawatū
- $15m to Geo40 Ltd to build a silica extraction plant near Taupō
- $7m to Eco Gas Ltd Partnership to build a demonstration biogas plant in Reporoa - 41km south of Rotorua
- $27.1m to support wood processing, medical research and social enterprise in Gisborne
- $3.3m for Gisborne's road network

- $3.6m to enable Riverland Fruit Company Limited, a Gisborne-based family owned business, to expand and create more fulltime orchard jobs
- $5m to address environmental issues in the East Cape
- $450,000 to support "a Māori Incorporation in the Gisborne District to move to a more productive and sustainable land-use model".

As the original objective was to commit $1bn per annum over a three-year period, the fund is expected to allocate a further $1bn before next year's general election. This would bring the total figure to the anticipated $3bn.

These are massive figures, as Callaghan Innovation, the government agency supporting hi-tech businesses, dispersed grants of only $202m in the June 2018 year and $169m in the previous year.

Information regarding the 300-plus Provincial Growth Fund projects is sparse and it is difficult to know if the disbursements will be squandered or if taxpayers will get full value for their money.

Auditor-General John Ryan has noted that the PGF needs careful scrutiny because "*the speed with which the fund was established and continues to be developed, the nature of many of the funding proposals, and the high level of public interest have meant that the processes and types of funding provided might be different from traditional public sector arrangements*".

PGF's website states: "*We are committed to proactively releasing information about the Provincial Growth Fund, and funding decisions. As careful stewards of public money, we recognise the importance of keeping you informed and engaged about the work we do*".

This objective hasn't been achieved, as it is extremely difficult to assess the larger projects, never mind the 180 projects that have been allocated $1m or less.

How does the fund monitor the $56m allocated to these 180 projects? Does it or some other government agency have the capability to ensure this money isn't squandered or spent on unproductive projects?

There was considerable interest in several fund announcements in mid-July. The first was the revelation that it would give $15m to Geo40 to build a silica extraction plant near Taupō. The fund announced that the commitment was in the form of a loan and convertible notes, with the latter converting into shares before Geo40 listed on the Australian sharemarket in the next 12 months.

How many of the Provincial Growth Fund's commitments are in the form of loans and equity investments, and why is it providing pre-listing funding to a company that plans to list on the ASX when the private sector normally provides this facility? In addition, three of Geo40's five directors live in Australia.

The fund also revealed this week that Eco Gas Ltd Partnership will receive a $7m loan from the fund "to build a demonstration biogas plant near Reporoa".

The biogas plant will be a partnership between Eco Gas and T&G Global, the NZX-listed company that is 74% owned by a German multinational.

Information on the PGF's Geo40 and Eco Gas allocations beg more questions than answers, as do most of the other PGF allocations. Taxpayers deserve far more information on the activities of the PGF than they are receiving.

ELECTRIC VEHICLES IN GERMANY EMIT MORE CARBON DIOXIDE THAN DIESEL VEHICLES

The Institute for Energy Research reported that A study by the IFO think tank in Munich found that electric vehicles in Germany emit 11% to 28% more carbon dioxide than their diesel counterparts. The study considered the production of batteries as well as the German electricity mix in making this determination. Germany spent thousands of euros on electric car subsidies per vehicle to put a million electric vehicles on the road, but those subsidies have done nothing to reach the country's greenhouse gas emission targets. The researchers compared the carbon dioxide output for a Tesla Model 3 (electric) and a Mercedes C220d sedan (diesel). The Mercedes releases about 141 grams of carbon dioxide per kilometre driven, including the carbon emitted to drill, refine, and transport its fuel. The Tesla releases between 156 and 181 grams, including battery production. Mining and processing the lithium, cobalt, and manganese used for batteries consume a lot of energy. A Tesla Model 3 battery, for example, represents between 11 and 15 metric tons of carbon dioxide. Given a battery lifetime of 10 years and an annual travel distance of 15,000 kilometres, 73 to 98 grams of carbon dioxide are emitted per kilometre.

This is just the latest example of government programmes expecting one outcome and getting quite another, instead. To some it is ironic; to others it is funny. At IER, they believe it to be sad, as it is a waste of time and money that could be better put to use solving real problems.

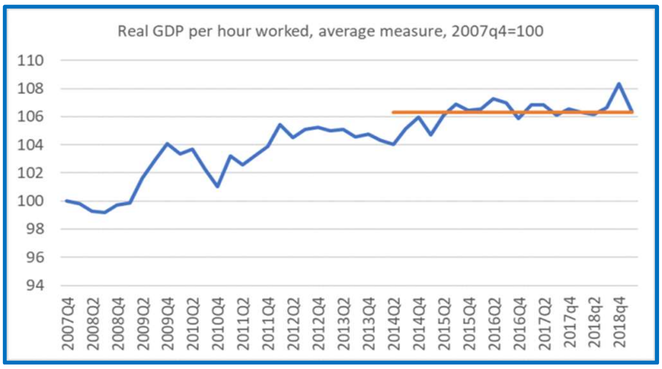
Does this sound familiar – ideology over pragmatism…

You can't go back and change the beginning,
but you can start where you are, and change the ending."

C.S. Lewis

LET'S TALK PRODUCTIVITY

Labour productivity has been pretty woeful for the last couple of decades. To be fair, the last National Government only achieved 1% average annual growth in GDP per Capita, but since 2016 that has flatlined, and now looks to be once again tanking.



SOURCE: Croaking Cassandra, Michael Reddell

The bottom line is that through the John Key years 1% real GDP growth per hour worked was, in itself, poor – but under this current Labour/NZ First Greens shambles, it isn't even achieving that.

This country will not address the issue of genuine sustained growth in material living standards, including economic inequality and poverty, unless it takes increased productivity seriously. Unfortunately, this government is held hostage by the Union movement, and thinks just increasing wages (and adding more taxes and compliance) will suffice. It just won't.

I am looking into the eyes of new National Party spokesperson, Paul Goldsmith, to see if he really recognises that as a key economic issue; and if he has the wear-with-all to turn our economy around.

Both this government, and the last, relied on high immigration to drive our economic growth. Yes – this country should be able to sustain a population of at least 5 million - but only if we seriously increase the infrastructure spend needed to support our population growth. Phil Twyford has said that "*New Zealand has overspent on infrastructure*" for decades. This just shows his incompetence, and his unsuitability to be a Minister of the Crown.

We know that this current Government does not have a Cabinet with the required acumen to run a country, but the challenge now is for National to show that it does. The National Party will soon be releasing an "Economic Policy Discussion Document" and hopefully that will give me confidence that National is ready to regain the government benches.

JACINDA ARDERN'S 'YEAR OF DELIVERY' IS A HOAX

SOURCE: Article by Matthew Hooton, NZ Herald

The failure of Jacinda Ardern's "year of delivery" creates a major PR challenge for the Beehive, but also for the Opposition.

For those still committed to reality-based politics, Ardern's "year of delivery" is as credible as her earlier promise to be "transformational".

KiwiBuild, the Billion Trees programme and the Provincial Growth Fund handing out only 3 per cent of the money Shane Jones has paraded are the most risible.

More seriously, Ardern appointed herself Minister for Child Poverty Reduction and declared it the reason she entered politics, yet by some measures it has worsened.

Beneficiary numbers and state-house waiting lists are up, with just 656 new state houses completed in 2018/19, compared with 1043, 466 and 732 over the previous three years.

The promise to deliver a Wellbeing Budget based on the Treasury's Living Standards Framework turned out to be a hoax, with Grant Robertson putting his Budget together in exactly the same way as his predecessors. His decision to increase the Government's debt limit by $16 billion suggests Steven Joyce was right, pre-election, to talk about a $12b fiscal hole.

The $1.9b finally poured into mental health has yet to expand services and came only after 18 months of report shuffling. The Government won't establish new measures around suicide to measure its efficacy.

Immigration from countries other than Australia is as high as ever, still above 100,000 a year, a massive number for a country of just 5 million people with already failing infrastructure.

At least in Auckland, there is no bold programme to address that infrastructure deficit, with vast bureaucratic effort going into analysing vanity projects like the airport tram rather than radically expanding the existing rail system and optimising the roading network.

The completion of Christchurch's anchor projects is no closer than ever.

NZ First's work to rationalise the North Island's ports and improve intercity rail proceed glacially.

On climate change — which Ardern called her generation's "nuclear-free moment" — spin continues to trump substance, with agriculture potentially going into the Emissions Trading Scheme but with 95 per cent subsidies. Who knew Ardern's climate "emergency" could be solved by dairy farmers paying just 1c per kilogram of milk solids?

As yet, no decisions have been made on reforming water allocation rights and cleaning up lakes and rivers. Plans for a water tax have gone the same way as Michael Cullen's capital gains tax.

On law and order, only 659 of Stuart Nash's 1800 new police have eventuated in net terms and violent crime is rising. Prisoner numbers are creeping back up despite Kelvin Davis' commitment to reduce them. The percentage of prisoners who are Māori has increased over the last year.

In contrast to Chris Finlayson's cracking pace, Andrew Little has signed just three Treaty of Waitangi deeds of settlement and made no progress with Ngāpuhi. No human remains will ever be recovered from Pike River, whatever Little tells the families.

In health, paying some DHB capital charges doesn't address their debt crisis and there has been no update on Heather Simpson's work to streamline them.

In education, the fees-free policy cost a fortune but first-year enrolments dropped. It has not been extended into a second year. There has been no rationalisation of provincial polytechnics nor the signalled nationalisation of industry training.

Better progress is evident in schools, with Chris Hipkins settling the teacher strikes, toughening the NCEA with more exams, and set to reject proposals for new regional bureaucracies to take over the legal functions of Boards of Trustees.

On economic policy, David Parker's Industry Accord Development Groups and Industry Transformation Plans are reminiscent of Joyce's Business Growth Agenda.

Business has not been delivered a liberalised Resource Management Act nor an extended Auckland Metropolitan Limit.

Unions wait in vain for the repeal of the Hobbit laws and the rollout of so-called Fair-Pay Agreements.

In foreign policy, Parker's failures on market access are forgivable given the global environment. But Winston Peters' talk of a US-NZ Free Trade Agreement is absurd, especially with Ardern directly criticising President Trump this week.

Ardern's Christchurch Call to eliminate violent extremist content online worked politically for her and embattled French President Emmanuel Macron, but is non-binding and includes only 15 other countries and not the US or China.

On ethical issues such as complying with the Official Information Act, answering parliamentary questions and managing conflicts of interest, the Ardern ministry has complied with the maxim that each Government is worse than the one before.

In a reality-based political environment, this record would make a mockery of Ardern's "year of delivery" but the arrival of both Trump and Ardern underlines the fact that we are now in a post-truth era.

Ardern may cultivate a brand of almost naive sincerity but those around her are at least as cynical as those around John Key.

They know it will be enough for Ardern to take to social media to declare the year of delivery a triumph and to thank New Zealanders for making it happen. "The Government didn't do this alone!" the Prime Minister will gush. "We all did this together!"

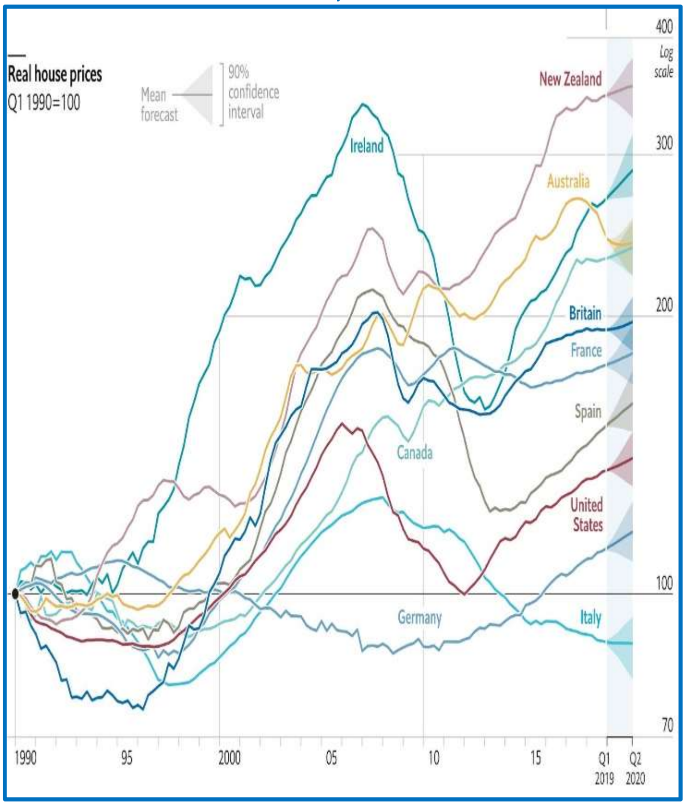
It will be amplified by those in the traditional media for whom challenging Ardern's narrative remains verboten. Those who break the taboo will be criticised for not embracing the vibe. Such negativity, her cheerleaders will tell us, is not who we are now.

In the post-truth era, the Opposition pointing out the sheer emptiness of the Prime Minister's utterances will achieve no more than the Washington Post frantically fact-checking Trump's. If Simon Bridges challenges the Prime Minister's account, he will be ridiculed for looking angry.

Combating Ardern's inevitable declaration of success will require a deft touch National hasn't demonstrated since Key stood down.

Global economic news authorities *The Economist* and Bloomberg Economics have both declared New Zealand houses to be vastly over-valued relative to both rents and incomes. They describe New Zealand as in bubble territory similar to those seen in other countries before the Global Financial Crisis and vulnerable to the sort of 30-40% price crash seen in the likes of Ireland and parts of the US through 2007 to 2010.

ONE DECADE AFTER THE GFC, HOUSE PRICES AT NEW HIGHS



SOURCE: THE ECONOMIST

In 2008, New Zealand's house prices were more over-valued than even America at that stage, and our economy was staring down the barrel of a similarly large recession. Our banks were also very exposed to the short-term credit markets in London and New York that froze repeatedly through late 2008 and early 2009. Many also feared a sharp rise in interest rates as the global economy recovered would deflate our bubble.

But the market didn't slump nearly as much here as overseas. Instead, prices fell just 10% through 2008 and then rebounded to fresh record highs by early 2012 for a variety of reasons. Then a series of automatic stabilisers kicked in and a structural change in the global economy towards ever-lower inflation supported prices.

The Reserve Bank helped the big four Australian banks avoid a cash crunch by lending them more than $7bn over late 2008 and 2009 to make sure they could roll over their own short-term loans from US and European banks. Our Government also provided a guarantee for $10.4bn worth of bonds issued by the New Zealand arms of the big four Australian banks and, obviously, Kiwibank. Unlike in Ireland, Spain and America, our banks did not collapse and therefore there were no receivers forcing mortgagee sales through to cover bank debts.

New Zealand also got lucky with China's immediate and effective response to the GFC, which was to unleash a wave of state-funded infrastructure spending on roads, apartments, railways and airports. That ramped up iron ore and coal prices because they are used to make concrete and steel. Australia was the largest supplier of both to China and Australia was our largest trading partner at the time. China was our second largest trading partner back then, and the combined effect of China's astonishing growth for the last decade and Australia's unending growth (it has not had a recession since 1991) delivered a double whammy that cushioned the blow of the GFC. That all unleashed another wave of middle-class spending by Chinese households. Our then National Government also borrowed over $60bn to spend on infrastructure and supporting incomes from 2008 to 2014 through the GFC and the two Christchurch earthquakes.

Furthermore, our population growth from migration has been twice as fast as Australia, Britain, Ireland and America over the last decade. Other countries with flat to falling house prices, such as Spain, Japan and France, also have flat to falling populations.

We started the GFC with a structural shortage of houses, built up over 30 years of systematic under-building connected to the end of state house building, the end of Government subsidies for home loans and house building, the onset of restrictions linked to the RMA and a growing reluctance by both the Government and councils to fund new infrastructure for houses.

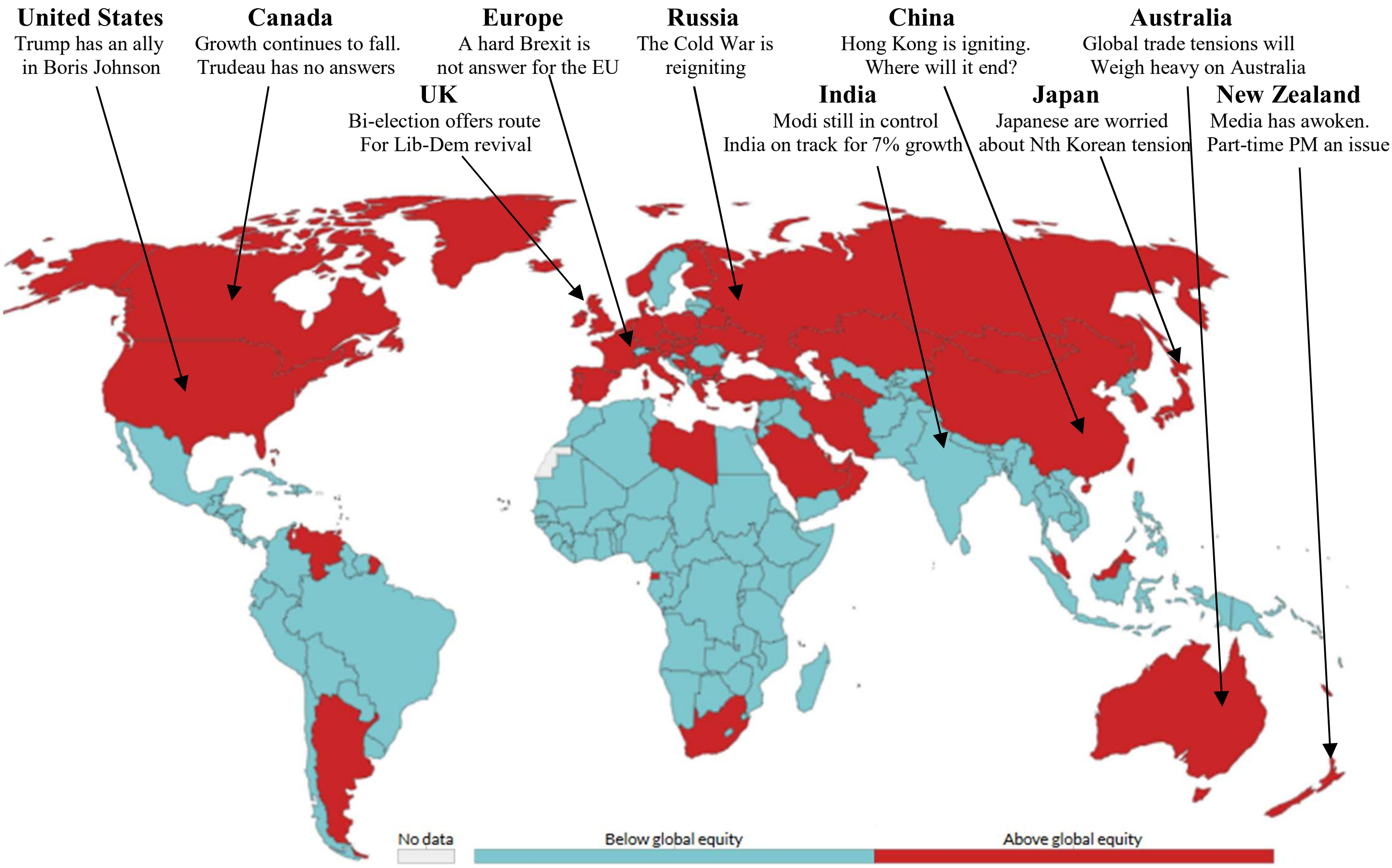
THE BANKS COULD EASILY COPE WITH A HOUSE PRICE SLUMP

The last Reserve Bank stress test of the banking system in 2017 found a 35% fall in house prices and a rise in the unemployment rate to 11% would reduce aggregate bank profits over the following five years to $4bn from $36bn, which would leave banks well above minimum capital levels. They would not even lose money over that period, let alone chew heavily into their capital. And that test was done before house prices rose another 6.9% and home owners' equity rose another $77bn in the last two years.

Finally, the Government is bringing in a formal term deposit guarantee, which further reduces the chance of a bank collapse. The Reserve Bank also stands ready again help banks with cash shortages as the lender of last resort, and the Government would no doubt offer a wholesale debt guarantee again if global financial markets froze.

I STRONGLY RECOMMEND THAT YOU "GET OFF THE BEATEN TRACK" IN JAPAN (I DID SO IN THE 80'S). TOKYO IS NOT JAPAN. PLEASE SUPPORT JAPAN CUSTOM TOURS – YOU WON'T REGRET IT.

THE WORLD AT A GLANCE – Per capita CO_2 Emissions, 2017



U.S. AND CANADA

Markets will still be reverberating not just to the trade war, but to last week's payrolls report and to the Fed's decision to cut interest rates. Monday's index on services will provide insight into whether that sector is being infected by the slowdown in manufacturing. Factory gate inflation data on Thursday will do the same and may show how much scope the central bank has to keep easing monetary policy. Canada releases jobs data on Friday too.

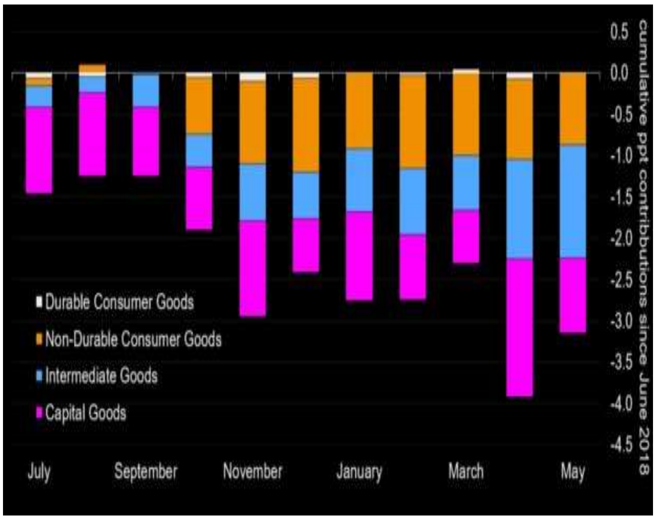
ASIA INCLUDING AUSTRALASIA

Central banks in Australia, New Zealand, India, Thailand and the Philippines will set interest rates and assess the global monetary outlook in the wake of the Fed's rate reduction. All except Thailand have already cut rates at least once this year, with India, New Zealand and the Philippines seen as likely to act again this week. On the data front, gross domestic product releases from Indonesia, the Philippines and Japan will be closely watched, as will trade and inflation numbers from China.

EUROPE, MIDDLE EAST AND AFRICA

Euro-area economic data has continued to disappoint, underlining the urgency for policy makers to do something about it when they return from the beach. Recent industrial production data from Germany illustrates the state of the economy there at the end of the second quarter. Unlike most of the euro zone, Europe's biggest economy has yet to reveal what happened to growth in the three months through June, when the Bundesbank reckoned it contracted.

GERMAN WEAKNESS SPREAD ACROSS CATEGORIES



Source: Bloomberg Economics, Eurostat

In the U.K., Bloomberg Economics is predicting the economy likely shrank in the second quarter although it will probably rebound in the subsequent three months. Romania and Serbia set interest rates but aren't expected to shift.

Russia's economy probably grew 0.8% in the second quarter, according to the median estimate in a Bloomberg survey of economists ahead of data to be released. Bloomberg Economics expects the downturn this year to be brief, with a rebound in 2020 as consumers adjust to higher prices and a fiscal boost is backed by stimulus from monetary easing.

TURKEY INFLATION AND RATES

LATIN AMERICA

Following a decisive 50 basis-point cut to Brazil's rate on July 31, investors will scour the minutes of the country's central bank for guidance on the length and depth of its monetary easing cycle. In Mexico, economists expect July inflation to further slow in data to be released, supporting the case for lower rates in coming months.

Chile's central bank may also find another reason to lower its key rate in September when activity data for June is released, likely showing a weakening economy.

NEW ZEALAND'S ECONOMIC OUTLOOK

The New Zealand economy has been gradually slowing as key economic tailwinds and headwinds duke it out, and it's still not entirely clear which will be on top by year-end. ANZ expects the tailwinds will regain the upper hand, seeing growth bottom out shortly. While these two opponents are closely matched, help is undoubtedly on the way. The RBNZ has already cut the OCR, and expect they'll do so again in August and November; the NZD remains around 2% below late-March levels; and Budget 2019 included a little extra fiscal stimulus. All up, ANZ sees annual growth slowing to 2% in Q2, before gradually lifting towards 3% in 2021. They say that it's not going to drive a strong inflation pulse, but they expect it will be sufficient to keep core inflation elevated close to the target midpoint.

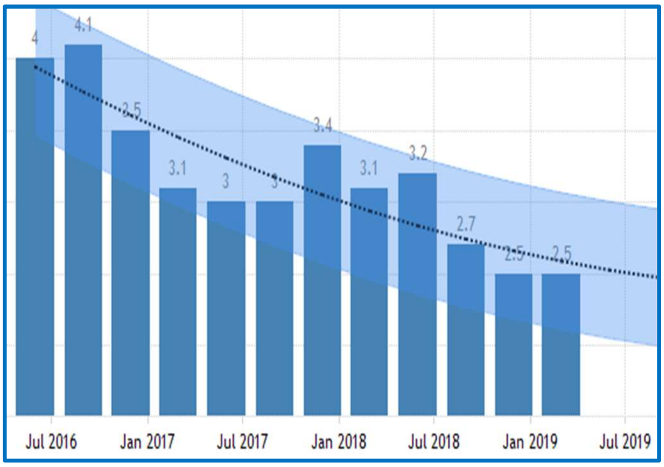
The latest ANZ Consumer Confidence survey shows Kiwi consumers are feeling more pessimistic as the economy continues to slow, job creation stalls and the cost of living continues to rise. National's Finance Spokesperson, Paul Goldsmith said "*At a time when New Zealand should be doing well, consumer confidence fell six points in July to a level now below its long-term average. Of particular concern is the increase in the number of New Zealanders who think economic conditions will worsen in the next year under the economic management of Grant Robertson and the Labour Government. It is no surprise pessimism is rife when the Government has hammered consumers with more costs and higher taxes, including increased petrol excise taxes, a regional fuel tax, cancelled tax relief, an Amazon tax and now the prospect of a car tax*."

Falling consumer confidence follows the sharp fall in business confidence to levels not seen since the depths of the GFC. "*The Government needs to take responsibility as it has continued to add costs to businesses, has created massive uncertainty and has demonstrated incompetence in critical areas, most famously with KiwiBuild,*" Goldsmith said.

All main economic indicators are getting worse. Economic growth is slowing, per person growth has stalled, job creation is in decline and benefit numbers have risen rapidly. A slower economy means fewer opportunities for Kiwis to get ahead, to gain well-paying, satisfying jobs, and less ability for our country to afford quality healthcare and public services.

"*This Government needs to stop taking economic growth for granted and dial back its anti-growth agenda, while getting on with delivering the infrastructure this country needs*."

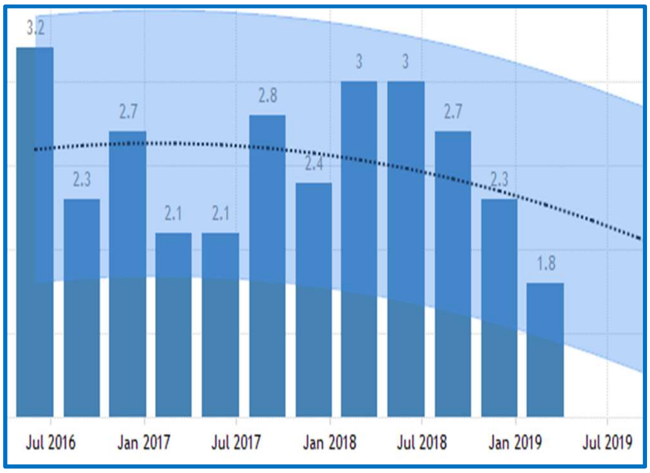
NEW ZEALAND - ANNUAL GDP GROWTH RATE



AUSTRALIAN ECONOMIC OUTLOOK

Growth appears to have remained subdued in the second quarter, after feeble domestic demand weighed on the economy in the first quarter. Anemic retail sales, an uptick in the unemployment rate, and still-falling house prices point to continued weakness in private consumption, while survey-based data signals downbeat investment activity. That said, surging foreign shipments in April-May, propelled by soaring commodity exports, are a testament to the strength of the external sector. Moreover, in June, home prices in Sydney and Melbourne showed early signs of bottoming out. In the political arena, Prime Minister Scott Morrison scored an outstanding victory, with the Senate passing the government's tax cuts plan on 4 July. The tax rebates for low/middle-income earners included in the bill should sustain consumer spending in the second half and alleviate pressure on the Central Bank to stimulate the economy.

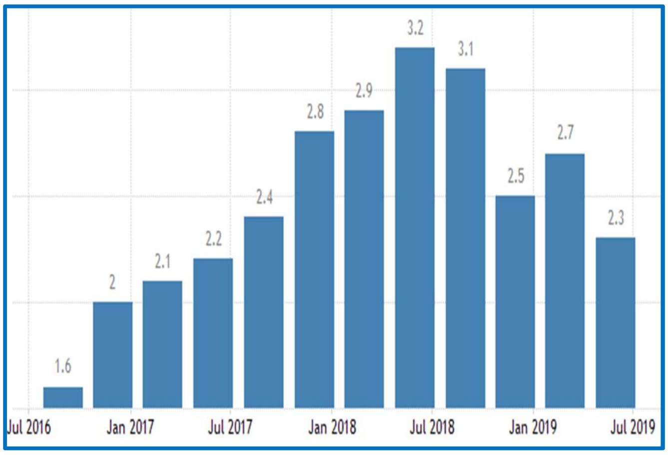
AUSTRALIA - ANNUAL GDP GROWTH RATE



UNITED STATES ECONOMIC OUTLOOK

Despite facing challenges at the domestic level along with a rapidly transforming global landscape, the U.S. economy is still the largest and most important in the world. The U.S. economy represents about 20% of total global output, and is still larger than that of China. Moreover, according to the IMF, the U.S. has the sixth highest per capita GDP (PPP). The U.S. economy features a highly-developed and technologically-advanced services sector, which accounts for about 80% of its output. The U.S. economy is dominated by services-oriented companies in areas such as technology, financial services, healthcare and retail. Large U.S. corporations also play a major role on the global stage, with more than a fifth of companies on the Fortune Global 500 coming from the United States.

UNITED STATES ANNUAL GDP GROWTH



President Trump's unexpected decision to escalate the trade war is casting a darker pall over the world economy. The back and forth between China and the

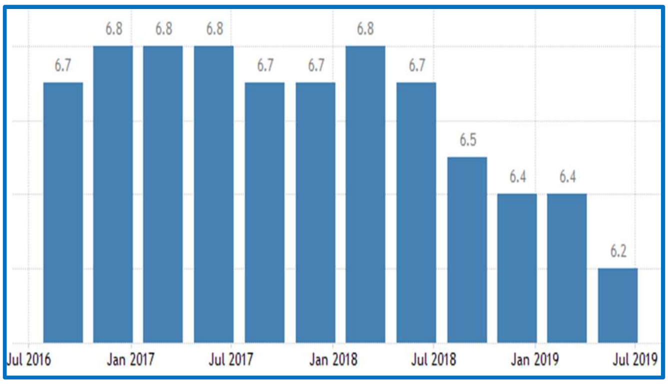
U.S. will likely continue as economists seek to work out what another 10% tariff on a further US$300 billion in Chinese imports will mean for global growth.

Bloomberg reckons that tariffs at the current level are enough to inflict a drag on Chinese gross domestic product of about 0.2% and 0.4% respectively with the cost peaking in 2021. Additional U.S. levies and a response from China would lift those numbers to 0.4% and 0.6%. *"If all-out trade war hammers business and market confidence we'd anticipate a further 75 basis points in rate cuts by the Fed by year-end, with the People's Bank of China moving in the same direction,"* Bloomberg said.

Chinese Economic Outlook

Chinese economic growth slowed to 6.2% in the June quarter, which was in line with forecasts and the lowest annual rate since quarterly data started being published in 1992. However, monthly retail sales and industrial production figures were a bit ahead of forecasts, suggesting China's stimulus is beginning to work.

CHINA - ANNUAL GDP GROWTH RATE



United Kingdom Economic Outlook

Don't underrate Boris Johnson – he is educated (an Oxford graduate) and intelligent. He has outlined a series of pledges on Brexit and domestic issues since being elected to lead the UK little more than a week ago. The new PM has promised new infrastructure projects, improvements for education and 20,000 new police officers, in speeches that resemble "*a pitch usually made to voters during an election campaign*".

Although Johnson has ruled out calling a snap poll in the autumn, the by-election in Brecon has left his party with a majority of just one in Parliament. "*The result might increase speculation that Johnson can't govern, and that he will need to call a general election to try to win a majority for his version of Brexit,*" says Bloomberg. Don't under-estimate Boris' ability to maintain control, under either option.

As the new PM continues to outline his pledges for the future, what can we learn from his past record? Looking at his voting history in the House of Commons gives a better understanding of what he is thinking:

Europe

Johnson has generally voted against more EU integration and was for a referendum on the UK's membership ahead of the Brexit vote in 2016. He resigned as foreign secretary in July 2018 over Theresa May's plans for Brexit, and subsequently voted against her draft withdrawal agreement in the first two meaningful votes, on 15 January and 12 March. However, Johnson finally backed it in the third vote, on 29 March, saying he had reached the "sad conclusion" that it was the only way to ensure Brexit happened.

Foreign conflict

Johnson backed the 2003 vote to use "*all means necessary to ensure the disarmament of Iraq's weapons of mass destruction*", which led to the Iraq War. But he has since described the invasion as a "*tragic mistake*" and a "*misbegotten folly*", and voted for investigations into the conflict. He also backed air strikes against Isis in Syria in December 2015.

Tax and business

Boris has voted for raising the threshold at which people start to pay income tax, and for reducing the rate of corporation tax. He has a mixed record on measures to reduce tax avoidance, and has consistently voted for a reduction in spending on welfare benefits. Johnson has also consistently voted against higher taxes on banks, and has generally backed having more restrictive regulation of trade union activity.

Environment

The new PM has opposed several measures intended to reduce climate change. These included a vote in March 2016 on setting a decarbonisation target for the UK within six months of June 2016, with annual reviews. One issue on which he has been in agreement with many environmental campaigners is the planned third runway at Heathrow. Johnson has long opposed the expansion - famously saying that he would "*lie down in front of those bulldozers*" - but failed to turn up to a crunch vote on whether to approve the project in June 2018. Looking further back at his record, he consistently voted against the hunting ban, which was eventually given royal assent in 2004 under Labour.

Social issues and home affairs

Johnson has generally voted in favour of a stricter asylum system, stronger enforcement of immigration rules and mass surveillance of people's communications and activities. He has a mixed record on voting for the rights of EU nationals living in the UK, despite promising last week that they would be protected following Brexit.

Johnson backed equal marriage as London mayor and also "*rebelled against his own party on several occasions to back LGBTQ+ rights measures"* while serving as MP for Henley, from 2001 to 2008.

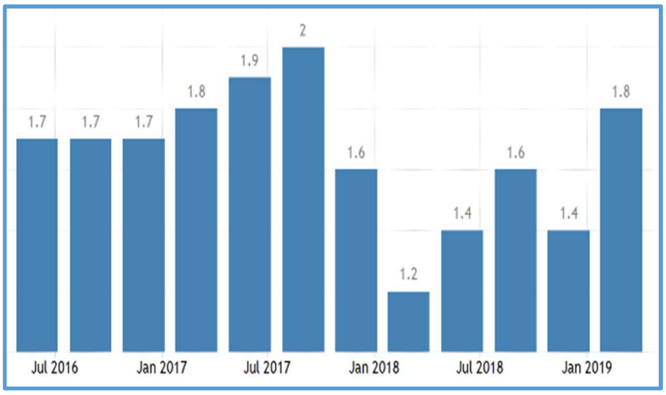
Health and Education

Johnson has generally voted against smoking bans and was against allowing terminally ill people to be given assistance to end their life. He has backed academies and measures to give greater autonomy for schools. Finally, while he backed the Lib Dem campaign to abolish university tuition fees in 2004, he voted against scrapping them in 2017.

The Irish Backstop

Boris is adamant that the backstop must go, saying it could trap the UK indefinitely in a customs union. However, he is also adamant that Britain will leave the EU on 31st October. Brexiteers argued that leaving the EU would result in an immediate cost saving, as the country would no longer contribute to the EU budget. In 2016, Britain paid in £13.1bn, but it also received £4.5bn worth of spending, said Full Fact, "*so the UK's net contribution was £8.5bn*". What was harder to determine was whether the financial advantages of EU membership, such as free trade and inward investment, outweighed the upfront costs.

UK - Annual GDP Growth Rate

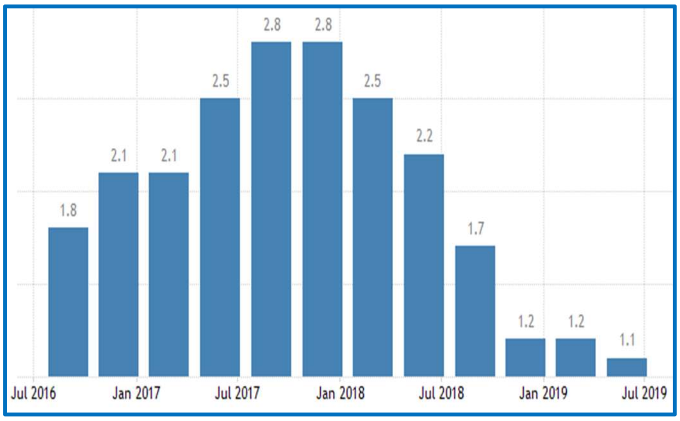


European Economic Outlook

Growth is expected to have lost steam in the second quarter, after a healthy expansion at the start of the year. The latest data continues to point to a two-speed economy, with lingering weakness in the manufacturing sector contrasting relatively robust services sector activity. In Q2 the manufacturing PMI recorded its worst quarter since Q1 2013, and a sharp downturn in industry confidence caused economic sentiment to fall to a near three-year low in June. However, the unemployment rate fell to a new over one-decade low in May and the services business activity index rose to a seven-month high in June. The European Council President Christine Lagarde, and Ursula von der Leyen, who heads the European Commission, represent a largely pro-European integration stance and also the continued influence of Germany and France, although ultimately policy will be spearheaded by heads of states.

Quantitative easing is about to ramp again, particularly in Europe. Italy recently announced it had received €17bn of orders for a new 50-year bond offering 2.8% per year. It had only offered €3bn of the bonds. And Italy is seen as the weakest large Euro bond issuer with a net debt of 128% of GDP. Earlier in July, Austria sold a 100-year bond with a yield of 1.2%. It has net debt of 38% of GDP.

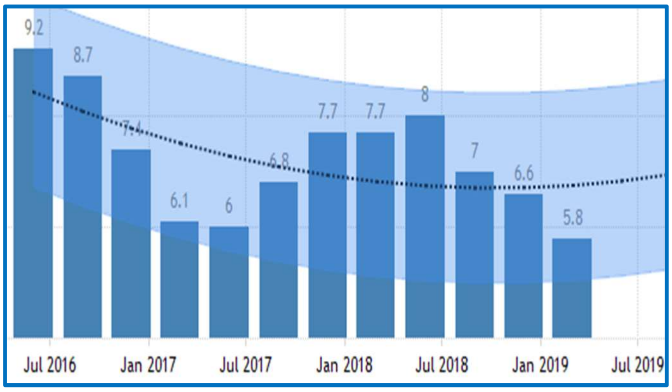
EURO AREA - ANNUAL GDP GROWTH RATE



Indian Economic Outlook

The economy should regain momentum in the coming months, especially if monsoon rains pick up in July-September. Fixed investment should benefit from greater policy certainty following the elections, in addition to lower interest rates. Weak public finances, problems in the shadow banking sector and a shaky global economy pose downside risks, however. Expect GDP growth of 6.9% in FY 2019, which is down 0.1% from last month's estimate, and 7.1% in FY 2020.

INDIA - ANNUAL GDP GROWTH RATE



Commodities

OIL: West Texas (1 Year chart)

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

FROM COWS TO ORCHARDS

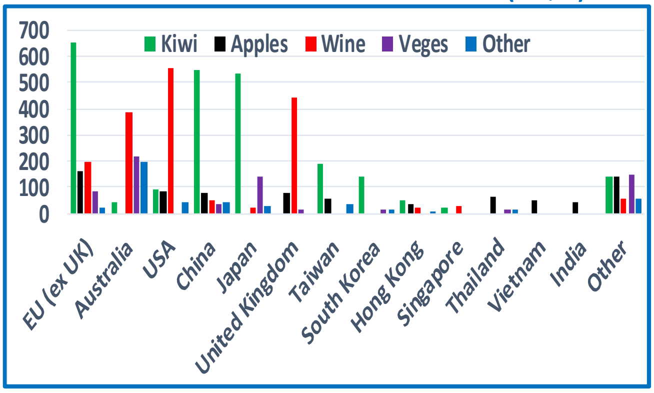
ANZ rural economist Susan Kilsby expects dairy production to level out from here, and she says overseas buyers may be in for a rude shock when they discover New Zealand can no longer make up the difference when global supply runs short.

"*My view is that it will be relatively stable going forward*," Kilsby says. "*Any ups and downs will be associated with the weather — a good season versus a poor season — as opposed to the industry changing a whole lot*." She expects production to be flat for the next five years.

In terms of other land uses eclipsing dairy, the returns really need to be demonstrably higher, she says. "*Horticulture certainly offers that, and we've seen that in the Bay of Plenty and Northland*." While dairy land in the Bay of Plenty is going into kiwifruit, in Hawke's Bay it is being turned into apple orchards.

In 2018/19, producing hectares of 12,747 were planted in kiwifruit and the industry is aiming to have another 7,000ha planted by 2025. Kiwifruit production is expected to jump from 158 million trays in 2018/19 to 190 million trays in 2027, while the industry's revenue is expected to double from $3bn in 2018 to $6bn by 2030.

HORTICULTURE EXPORT REVENUE 2019 (NZ$M)



ORGANIC DAIRY PRODUCTS

The astonishing success of organic baby formula in the China market, and rapid take up of organic dairy products by the richest consumers, has changed the views of many in the industry. The rise of Lewis Road's organic products on supermarket shelves has been a game changer. Where once Fonterra shut down its organic collection programme (in 2011), it has had to ramp up its premium and plead for more supplies since 2017. Its latest forecast is for a premium for organic milk of $1.85/kg, up from $1.10/kg last season. That could take the total payout as high as $8.45/kg.

FORESTRY

OVER SUPPLY DRIVER OF LOWER PRICES

NZ has increased log exports to China dramatically in recent years. In 2019, 79% of our logs are being exported to China (up from 70% in 2016). A lift in the supply of logs and lumber into China relative to current demand is the main reason why log prices have corrected (around 20% in the last 2 months). Underlying demand still appears to be steady with logs moving from the wharves at normal rates.

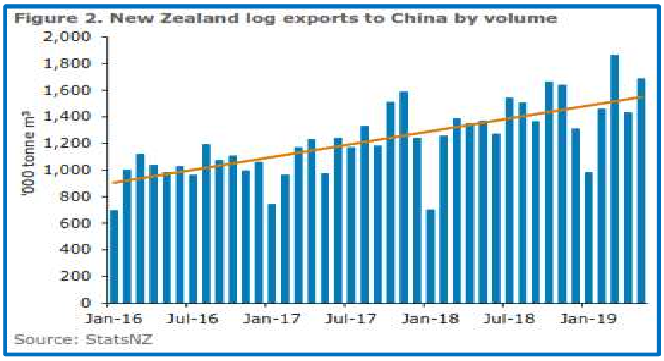
RADIATA LOG PRICE (A-GRADE)

In just a few months, "A" grade log prices have gone from US$140 a tonne to US$110 a tonne, and could sink as low as US$100/tonne. NZ Forest Owners Association president Peter Weir said about five million tonnes of logs — mostly from New Zealand — are sitting on wharves in China, unsold. Logs are our third biggest export by value and earned $5.2 billion last year. Weir said the log harvest needs to go on hold for at least six months to allow prices to recover.

New Zealand has steadily increased its share of the China log market in recent years to become the largest supplier of logs to China. New Zealand held 27% of the market in 2018, while Russia has at the same time decreased its market share to 16%. Other major suppliers of logs to China include Australia and the Pacific North West (Canada and United States).

China's total log imports during the first quarter were on-par with last year. But New Zealand exports this year to date have increased by 22%.

NZ LOG EXPORTS TO CHINA BY VOLUME



LISTED PROPERTY SECTOR AS AT 30TH JULY 2019

Market pricing further cap rate compression: The NZ LPV sector has seen NTA/share growth of 60% on average since bottoming out in FY12 (CAGR: +6.8%), primarily on cap rates firming ~230bp on average over the same period. Despite cap rates at record lows, spreads to bond yields remain well above pre-GFC levels. As such, direct property still offers relative value, and with a backdrop of declining bond yields, cap rates may firm further near-term. The LPV sector certainly believes so, trading 18% above NTA and pricing a further ~70bp of cap rate firming on average.

When the cycle turns: While cap rates may move lower near term, at some point, the real estate cycle will turn. As such, Jarden assesses the impact of a widespread softening in cap rates. A reversion to FY14 cap rates would deliver an average 33% decline in NTA/share, while a softening to FY10 levels would see a 43% fall. Interestingly, the majority of the sector would see NTAs below reported NTA at the time. We note changes in portfolio composition and structural sector re-ratings may see cap rates hold up relative to historical levels. Nevertheless, a reversion would be material for pricing, with 100bp of softening to drive an average 20% fall in NTA/share.

A problem for pricing rather than balance sheets: Most LPVs have committed gearing below or within target gearing ranges. As such, even a reversion to FY10 cap rates would not be a concern for balance sheets.

However, gearing would become 'tight' for ARG, SPG, and KPG. At the more comfortable end of the scale, GMT's balance sheet could easily absorb a softening to historical levels while remaining within its target range. In contrast, VHP has elevated committed gearing and our estimates suggest limited scope to absorb a moderate reversion in cap rates.

Figure 1: Valuation

	Rating	Market cap (NZ$mn)	Price ($)	Target price ($)	P/NTA (x)	AFFO yield (%)	Net DPS yield (%)	Gross yield (%)
APL	OUTPERFORM	104	$0.65	$0.69	0.93x	5.8%	5.6%	7.8%
ARG	UNDERPERFORM	1,150	$1.39	$1.20	1.14x	4.3%	4.5%	6.3%
AUG	OUTPERFORM	122	$1.39	$1.23	1.30x	4.7%	4.7%	7.0%
GMT	UNDERPERFORM	2,637	$2.03	$1.55	1.29x	3.1%	3.3%	4.6%
IPL	NEUTRAL	484	$1.86	$1.58	1.09x	4.0%	4.1%	5.7%
KPG	NEUTRAL	2,340	$1.62	$1.52	1.13x	4.1%	4.4%	6.0%
PCT	NEUTRAL	2,339	$1.78	$1.48	1.19x	3.5%	3.5%	4.8%
PFI	UNDERPERFORM	1,135	$2.28	$1.67	1.28x	3.6%	3.4%	4.7%
SPG	NEUTRAL	826	$2.26	$2.05	1.10x	3.9%	4.4%	6.1%
VHP	NEUTRAL	1,167	$2.62	$2.13	1.10x	4.1%	3.4%	4.8%
Weighted average					**1.18x**	**3.7%**	**3.8%**	**5.3%**

Source: Company data, Jarden estimates

Figure 2: Portfolio metrics

	Sector	Property (NZ$mn)	Occupancy (%)	WALT (yrs)	Cap rate (%)	Implied cap rate (%)	Implied mvmt (bp)	FY +1-3 lease exp (%)
APL	Off/Ind/Retail	153	96.7%	5.5	6.8%	7.9%	-108bp	27.0%
ARG	Off/Ind/Retail	1,578	97.8%	6.1	6.7%	6.1%	54bp	29.2%
GMT	Industrial	2,633	98.2%	5.2	5.8%	4.7%	105bp	28.0%
IPL	LFR	742	99.9%	12.4	6.1%	5.7%	31bp	5.2%
KPG	Retail/Office	3,207	99.3%	5.2	6.0%	5.5%	49bp	25.0%
PCT	Office	2,641	100.0%	8.5	5.5%	4.9%	62bp	16.4%
PFI	Industrial/Office	1,319	99.3%	5.4	6.2%	5.2%	99bp	26.7%
SPG	Off/Ind/Retail	916	97.6%	4.8	6.4%	5.6%	77bp	41.3%
VHP	Healthcare	1,840	99.4%	18.0	5.6%	5.1%	47bp	6.0%
Weighted average			**99.0%**	**7.4**	**5.9%**	**5.2%**	**70bp**	**23.1%**

Source: Company data, Jarden estimates

Figure 3: Debt metrics

	Debt ($mn)	Gearing (%)	Committed gearing	ICR (x)	WACD (%)	WATE (yrs)	% hedged (%)	% non-bank debt (%_
APL	40	37.5%	25.7%	3.2	5.4%	2.8	80%	-
ARG	505	35.6%	36.0%	3.2	4.8%	2.7	53%	15%
GMT	585	19.7%	23.8%	3.6	4.9%	5.0	76%	65%
IPL	317	41.8%	40.3%	2.9	4.4%	3.1	96%	27%
KPG	1,002	31.0%	34.7%	3.9	4.8%	3.2	83%	36%
PCT	710	24.3%	30.8%	2.1	5.4%	3.6	82%	36%
PFI	398	30.3%	31.2%	3.9	4.9%	4.0	54%	42%
SPG	332	34.4%	38.4%	2.9	4.6%	2.8	77%	-
VHP	743	43.7%	44.3%	3.2	4.5%	2.6	68%	-
Weighted average		**30.6%**	**35.0%**	**3.3**	**4.9%**	**3.6**	**74%**	

STOCKS TO WATCH

NEW ZEALAND NOTE: THESE ARE ALL ONE YEAR GRAPHS **Prices as at 5th August 2019**

Stocks covered are only those updated by Jarden since my last Newsletter

a2 Milk Company

A2 currently commands a 5% market share in the lucrative US$20 billion Chinese infant milk formula market, and has the potential to double that over time. a2's management has done an excellent job of managing the nuances of this channel, where others, like Australian firm Bellamys, have failed. They have also successfully grown Chinese distribution into conventional channels including key eCommerce websites and 6700 physical stores. This is an incredible story of recognising opportunity and having the strategic vision and operational smarts to take advantage of it. You just can't afford to be uninvested in ATM if you want to keep pace with the NZ50 Index. **This is one of my annual picks.**

2020 P/E: 35.9 2021 P/E: 28.3

NZX Code:	**ATM**
Share Price:	**$17.00**
12mth Target:	**$14.00**
Projected return (%)	
Capital gain	-17.7%
Dividend yield (Net)	0.0%
Total return	**-17.7%**

Rating: NEUTRAL

52-week price range: 8.67-18.04

AFT Pharmaceuticals

AFT has successfully been achieving a number of milestones that begin to de-risk the investment proposition (moving through breakeven, initial steps to diversify funding, development of Maxigesic dose forms largely complete, etc.). Outside of the ANZ business Jarden's have historically adopted 10-30% probability weightings. While they are unlikely to transition to 100% probability weights over time (e.g., patent cliffs in pharmaceutical products life cycles), they believe a modest increase in selected probability weights is warranted. **This is another of my annual picks.**

2020 P/E: 66.0 2021 P/E: 15.8

NZX Code:	**AFT**
Share Price:	**$315**
12mth Target:	**$2.80**
Projected return (%)	
Capital gain	-11.1%
Dividend yield (Net)	0.0%
Total return	**-11.1%**

Rating: NEUTRAL

52-week price range: 1.70-3.19

Auckland International Airport

Jarden's12-month target price increases from NZ$5.50 to NZ$5.95 per share, with a lower assumed beta for AIA's Retail segment partly offset by negative revisions to medium-term Retail earnings. The recent downward trend in bond rates has coincided with outperformance by defensive names including AIA. They run valuation scenarios applying alternative cost of capital assumptions to our mid-cycle estimates and conclude that AIA continues to trade at a material relative premium to the broader market. Jarden's have retained a rating of UNDERPERFORM. – **I continue to rate AIA as a core portfolio stock**

20019 P/E: 41.1 2020 P/E: 41.8

NZX Code:	**AIA**
Share Price:	**$9.53**
12mth Target:	**$5.95**
Projected return (%)	
Capital gain	-37.6%
Dividend yield (Net)	2.4%
Total return	**-35.2%**

Rating: ~~UNDERPERFORM~~

My Rating: NEUTRAL

52-week price range: 6.69-9.85

Contact Energy

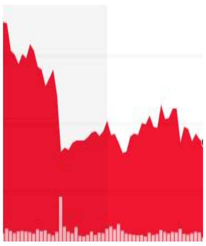
While CEN appears relatively expensive on an earnings multiple basis, it has a reasonable dividend yield and appears to offer the best value amongst the electricity generation companies. The electricity companies have all performed well on the back of lower interest rates. In particular CEN has a forecast gross dividend yield of 7.1%. In recent quarters the electricity generation sector has benefited from higher than usual electricity prices. Jarden regards CEN as well positioned by its strategy to be relatively safe from regulatory and supply/demand interruptions (adopting a cost-lite fast-follower retail strategy) and with strong options to participate in renewable growth and industrial electrification..

2019 P/E: 32.6 2020 P/E: 35.5

NZX Code:	**CEN**
Share Price:	**$7.78**
12mth Target: ↑	**$7.01**
Projected return (%)	
Capital gain	-9.9%
Dividend yield (Net)	5.0%
Total return	**-4.9%**

Rating: UNDERPERFORM

52-week price range: 7.35-8.08



Fletcher Building

FBU maintained its guidance for FY19 earnings (EBIT) of $620-650m with the core NZ business operating well. With Australia performing so poorly the FY19 EBIT result will be achieved with ~ $30m of above normal land development EBIT and ~ 15m lower Group overheads. If we normalise for this and assume core NZ performance in FY20 is similar to FY19 and International is stripped out ($80m in FY19), we get base adjusted FY19 EBIT of $525m at the top end of the FY19 guidance range vs our previous forecast of $583m highlighting the need to revise FY20 downwards on Australia and overheads. With NZ and Australia unlikely to show any real upside through the next 12 months if cautious outlook commentary is right, we see the outlook remaining benign for a stock that we think is broadly valued at reasonable midcycle levels, albeit with a constructive long-term view on Australia also Embedded in that value despite evidence that remains quite to the contrary.

2019 P/E: 12.2 2020 P/E: 13.7

NZX Code:	**FBU**
Share Price:	**$5.85**
12mth Target:	**$5.17**
Projected return (%)	
Capital gain	6.6%
Dividend yield (Net)	5.5%
Total return	**12.1%**

Rating: NEUTRAL

52-week price range: 4.54-7.13

Fonterra Shareholders Fund

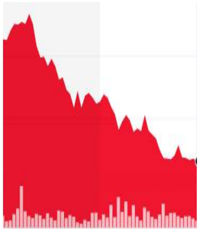
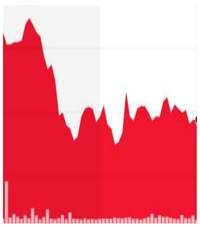
As a co-operative, FSF's access to capital is limited. The ability for outside investors to agitate for a change in direction and greater transparency should they desire does not exist due to the ownership structure which provides them with an economic interest only. Jarden's reservations and a cautious approach to the investment case continue to be appropriate, with FSF continuing to disappoint on the level of earnings, volatility in those earnings and inability to convert significant growth investment into sustainable earnings growth. The first signs of a change in approach to non-core investment look encouraging but it is early and solving FSF's issues will be complex and take time.

2020 P/E: 23.8 2021 P/E: 13.0

NZX Code:	**FSF**
Share Price:	**$3.75**
12mth Target:	**$4.39**
Projected return (%)	
Capital gain	17.1%
Dividend yield (Net)	3.9%
Total return	**21.0%**

Rating: NEUTRAL

52-week price range: 3.45-5.14

	**Genesis Energy** GNE is New Zealand's largest electricity retailer and thermal electricity generator. GNE's profit is very exposed to retail electricity competition and the electricity price (thermal electricity generators have to pay for the fuel they use as opposed to hydro, wind and geothermal whereas the fuel is essentially free). If electricity prices fall due to new electricity generation being profitable at lower prices, due to lower funding costs, then we would expect GNE's earnings to be impacted more severely than any of the other electricity generators. Around 25-30% of GNE's earnings come from the Kupe gas field. In time the earnings from Kupe will start to decline as the gas field is depleted before being completely depleted in around 15 years. GNE appears very expensive on all the valuation measures used. 2019 P/E: 47.9 2020 P/E: 35.7	**NZX Code:** **GNE** **Share Price:** **$3.36** **12mth Target:** ↓ **$2.17** **Projected return (%)** Capital gain -31.5% Dividend yield (Net) 5.0% **Total return** **-26.5%** **Rating: UNDERPERFORM** 52-week price range: 2.34-2.60
	**Infratil** IFT has lifted its FY20 earnings guidance by $20m as it expects to complete the acquisition of Vodafone NZ a month earlier than expected. The revised guidance for $655-$695m of underlying EBITDA and changes in financial instruments follows clearance from the Overseas Investment Office for the deal. IFT says the new figures take into account an eight-month contribution from Vodafone, given the $3.4 billion deal - being done in partnership with Brookfield Asset Management - is now expected to complete on July 31. 2020 P/E: 37.3 2021 P/E: 31.5	**NZX Code:** **IFT** **Share Price:** **$4.69** **12mth Target:** **$4.23** **Projected return (%)** Capital gain -9.8% Dividend yield (Net) 3.2% **Total return** **-6.6%** **Rating: NEUTRAL** 52-week price range: 3.34-4.77
	**Metlifecare** MET's attractive balance sheet and modest near-term financing requirements provide the company with flexibility to advance its strategy and address the share price/value disconnect. Three potential alternatives: First, investors to wait out the lull in the housing cycle with MET likely to continue to gain some support on cautious delivery of its land bank through this period. Second, utilise the company's balance sheet and undertake a share buyback. Third, put the business up for sale or actively consider merger options. MET continues to have a high embedded resale gain bank, strong operating cash flows and a well-positioned portfolio. 2020 P/E: 11.2 2021 P/E: 9.7	**NZX Code:** **PPH** **Share Price:** **$4.30** **12mth Target:** **$7.00** **Projected return (%)** Capital gain 62.8% Dividend yield (Net) 2.8% **Total return** **65.6%** **Rating: OUTPERFORM** 52-week price range: 4.28-6.51
	**Michael Hill International** MHJ has reported its 4Q19 trading with FY19 revenue of $563.4m which is 2.5% ahead of Jarden forecast. This was delivered by better NZ same-store sales and more favourable currency translation. However, was fully offset by further retail margin deterioration. FY19's gross margin of 61.1% was 100bps below forecast and down -170bps YoY. Management noted that this margin decline reflected a combination of company-driven inventory management activity, forex and competitor pressure. Importantly, same-store sales momentum at the group level consistently improved through FY19 (-11% /-2.9% / -1.5% / +0.1%) led by consistent improvement in the key Australian market. 2019 P/E: 8.7 2020 P/E: 7.7	**NZX Code:** **MHJ** **Share Price:** **$0.52** **12mth Target:** **$0.85** **Projected return (%)** Capital gain 63.5% Dividend yield (Net) 9.7% **Total return** **73.2%** **Rating: OUTPERFORM** 52-week price range: 0.51-1.08
	**Port of Tauranga** Stronger underlying margin performance within the Port Operations segment In 1H19 was identified. Jarden's view POT as a high-quality infrastructure asset that is very well positioned to benefit from structural change as the New Zealand container trade progressively moves towards a hub and spoke model. However, given POT trades well above Jarden's valuation, they retain an Underperform rating. **This should be a core portfolio stock. It does look expensive, but hopefully you already own it!** 2019 P/E: 41.8 2020 P/E: 39.1	**NZX Code:** **POT** **Share Price:** **$6.07** **12mth Target:** **$4.30** **Projected return (%)** Capital gain -29.2% Dividend yield (Net) 2.3% **Total return** **-26.9%** **Rating: ~~UNDERPERFORM~~** **My Rating: NEUTRAL** 52-week price range: 4.74-6.40
	**Sanford** SAN is trading on modest multiples given a diverse portfolio of growth opportunities (with meaningful leverage as margins/returns expand from a low base) and a solid asset backing. SAN's growth opportunities include a number of unique propositions (successful commercialisation of the coveted King salmon species with water space to grow, exclusive access to the SPATnz hatchery for a period of time to drive mussel productivity growth, cross functional teams with the potential to sell King salmon and premium wild catch species such as toothfish to the same customer sets, etc.). 2019 P/E: 14.4 2020 P/E: 13.3	**NZX Code:** **SAN** **Share Price:** **$6.71** **12mth Target:** **$7.57** **Projected return (%)** Capital gain 12.8% Dividend yield (Net) 3.4% **Total return** **16.2%** **Rating: OUTPERFORM** 52-week price range: 6.35-8.05
	**Skellerup** SKL continues to demonstrate strong earnings momentum. While top-line growth is evident in a number of target markets (e.g. potable water), strong growth is also being achieved in Exploration & Mining (with a lack of visibility to assess whether Industrial division margin expansion is a function of by higher-margin commodity-driven sales or underlying operational improvements). In addition, the Australia housing cycles and dairy commodity prices are considered near-term risks. 2019 P/E: 15.3 2020 P/E: 14.3	**NZX Code:** **SKL** **Share Price:** **$2.34** **12mth Target:** **$2.13** **Projected return (%)** Capital gain -18.8% Dividend yield (Net) 5.9% **Total return** **-12.9%** **Rating: NEUTRAL** 52-week price range: 1.91-2.45

Sky Television

Sport is SKT's beachhead and its best chance of retaining a long-term business is to have as big an audience as possible. SKT is making its full package of sport available Over the Top (OTT) on a platform with on demand functionality and at pricing which could see sub-momentum shift, but cannibalisation of revenue increase. This move is an important part of SKT's defence (the price it pays for Sports rights will be the other leg of that). The already low chances of Spark competing head-on for premium sport with SKT in a meaningful way reduces with the moves we are seeing SKT take to defend its business. The reduction of sport pricing means SKT's business is set to undergo several more years of earnings pressure with uncertainty remaining on where things settle.

2019 P/E 5.4 2020 P/E: 6.4

NZX Code:	**SKT**
Share Price:	**$1.23**
12mth Target:	**$1.74**
Projected return (%)	
Capital gain	41.5%
Dividend yield (Net)	5.8%
Total return	**47.3%**
Rating: OUTPERFORM	
52-week price range: 1.15-2.71	

Spark NZ

SPK is executing on its strategy to address the earnings headwinds resulting from ongoing declines in high margin legacy fixed revenues, which remain substantial. SPK looking to hold market share and grow margin in mobile and broadband (fixed wireless a key plank of this strategy which will see SPK continue to look for network advantage in upcoming spectrum auctions) and supplement that with investment (including small bolt-on M&A to enhance capability) in IT Services where it is generating good organic growth in Cloud, Security and Services. At the same time SPK has taken considerable labour cost out of the business through its focus on simplification.

2019 P/E: 18.6 2020 P/E: 17.5

NZX Code:	**SPK**
Share Price:	**$4.03**
12mth Target:	**$3.39**
Projected return (%)	
Capital gain	-15.9
Dividend yield (Net)	6.3%
Total return	**-9.6%**
Rating: UNDERPERFORM	
52-week price range: 3.54-4.35	

Summerset Group

Slow sales activity continues through 1H19 - Both new sales (65 units) and resales (76 units) activity was below Jarden's required run-rate to meet previously published FY19 sales forecasts. They believe one important constraint on new sales activity in 1H19 has been the concentration of new sales inventory across four sites (Casebrook / Rototuna / Ellerslie / Hobsonville). Within this, roughly half of new sales stock delivered in December (~65 of 113 units) was at the Ellerslie development. While unit resales in the year-to-date track also disappointed it is important to note that this reflects limited availability of new stock rather than lack of demand with inventory in-line with historic levels..

2019 P/E 12.4 2020 P/E: 12.9

NZX Code:	**SUM**
Share Price:	**$5.55**
12mth Target: ↓	**$6.67**
Projected return (%)	
Capital gain	20.2%
Dividend yield (Net)	3.2%
Total return	**23.4%**
Rating: OUTPERFORM	
52-week price range: 5.35-7.95	

Trustpower

Jarden continues to be impressed by TPW's retail execution and strategy, but also still expect its top-of-market netback to gradually normalise, potentially accelerated by the government's response to the EPR report (expected "imminently"). Their $5.23/sh risk-weighted, spot-DCF and TP (Tiwai exit assigned a 15% chance) assumes 33-50% decline in the ACOT revenue, and retail margins to fall to a 5% EBITDAF margin by FY25. They think the current 30-35cps ordinary dividend track looks sustainable. With TPW trading 44% above their risk-weighted spot-DCF estimate, Jarden retains an underperform.

2020 P/E 24.8 2021 P/E: 26.7

NZX Code:	**TPW**
Share Price:	**$7.65**
12mth Target:	**$5.39**
Projected return (%)	
Capital gain	-29.5%
Dividend yield (Net)	4.6%
Total return	**-24.9%**
Rating: UNDERPERFORM	
52-week price range: 5.67-7.65	

Z Energy

Management has a proven record of identifying and delivering operational and strategic gains which have continued to offset those trends. While today's fuel market continues to see independent supplier growth, ZEL's focus on (1) a distinctive and increasingly innovative retail offering attractive to customers outside of price-led discounting, and (2) a commercial fuel business leverages scale, wide network and upstream efficiency opportunities to sustain commercial margins and competitiveness.

2020 P/E 12.7 2021 P/E: 12.0

NZX Code:	**ZEL**
Share Price:	**$6.42**
12mth Target:	**$6.30**
Projected return (%)	
Capital gain	-1.9%
Dividend yield (Net)	8.3%
Total return	**6.4%**
Rating: NEUTRAL	
52-week price range: 5.18-7.45	

NEW ZEALAND EQUITIES

REPORTING CALENDAR - AUGUST 2019

Code	Company	Price (NZ$)	Tgt (NZ$)	Rtg	Est Date	Report	Normalised EBITDA Fcst	Normalised EBITDA Growth	Normalised EBIT (NZ$mn) Fcst	Normalised EBIT (NZ$mn) Growth	Normalised NPAT (NZ$mn) Fcst	Normalised NPAT (NZ$mn) Growth	Adjusted EPS (NZ¢) Fcst	Adjusted EPS (NZ¢) Growth	DPS (NZ¢) Fcst	DPS (NZ¢) PCP
VHP	Vital Healthcare Property Trust	2.60	2.13	N	8-Aug	FY19	81.2	6.8%	81.2	6.8%	43.5	-5.6%	9.8	-7.6%	8.8	8.6
CEN	Contact Energy	7.79	7.01	N	12-Aug	FY19	520.2	8.1%	318.3	21.9%	173.0	32.9%	24.1	32.8%	39.4	32.0
NZX	NZX	1.15	1.11	N	13-Aug	1H19	14.1	1.6%	10.2	-8.2%	6.9	-8.8%	2.5	-8.8%	3.0	3.0
PGW	PGG Wrightson	0.56	N/A	N/A	13-Aug	FY19	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SUM	Summerset Group Holdings	5.60	6.67	O	13-Aug	1H19	N/A	N/A	N/A	N/A	45.1	-0.2%	20.0	-2.0%	7.0	6.0
SKC	Sky City Entertainment Group	3.98	3.85	N	14-Aug	FY19	339.0	0.2%	242.2	-0.7%	164.5	-3.1%	24.2	-3.1%	20.0	20.0
HGH	Heartland Bank	1.69	1.43	N	15-Aug	FY19	111.2	12.4%	106.0	12.4%	75.3	11.5%	13.4	7.2%	9.5	9.0
MHJ	Michael Hill International	0.53	0.85	O	16-Aug	FY19	53.2	-25.3%	34.5	-34.3%	23.0	-38.3%	5.9	-38.3%	5.0	5.0
PCT	Precinct Properties New Zealand	1.77	1.48	N	16-Aug	FY19	83.3	-2.2%	83.3	-2.2%	79.3	3.5%	6.4	0.6%	6.0	5.8
PFI	Property For Industry	2.20	1.67	U	19-Aug	1H19	36.4	1.0%	36.4	1.0%	21.2	0.7%	4.3	0.7%	3.6	3.6
CVT	Comvita	3.20	3.77	N	20-Aug	FY19	0.3	-97.9%	-6.0	-158%	-6.2	-196%	-13.0	-192%	0.0	6.0
MCY	Mercury NZ	4.62	3.47	U	20-Aug	FY19	494.1	-11.9%	296.2	-18.8%	158.7	-19.8%	11.7	-19.8%	15.6	15.1
ATM	The a2 Milk Company	16.66	14.00	N	21-Aug	FY19	416.8	47.3%	414.2	47.5%	292.4	49.4%	39.9	47.7%	0.0	0.0
FBU	Fletcher Building	5.09	5.17	N	21-Aug	FY19	859.8	223.2%	645.5	1141%	361.0	-702%	42.3	-625%	25.0	0.0
SPK	Spark New Zealand	3.95	3.39	U	21-Aug	FY19	1060.7	-1.5%	580.1	-2.7%	390.8	-2.3%	21.3	-2.4%	25.0	25.0
AIA	Auckland International Airport	9.57	5.95	U	22-Aug	FY19	556.1	10.3%	456.6	9.9%	276.4	5.0%	23.0	5.0%	22.5	21.8
AIR	Air New Zealand	2.69	2.60	N	22-Aug	FY19	930.6	-12.6%	360.6	-33.2%	268.9	-31.1%	23.9	-31.1%	22.0	22.0
EBO	Ebos Group	23.79	21.00	N	22-Aug	FY19	249.9	-0.1%	217.4	-0.3%	140.8	2.6%	90.8	0.5%	61.3	62.9
NZR	New Zealand Refining Company	2.14	2.38	N	22-Aug	1H19	56.0	13.2%	4.5	39.0%	-2.9	1.8%	-0.9	101.8%	2.3	3.0
SKT	Sky Network Television	1.15	1.74	O	22-Aug	FY19	236.9	-17.1%	142.0	-22.6%	91.8	-22.9%	23.6	-22.9%	15.0	15.0
DGL	Delegat's Group	11.80	9.34	U	23-Aug	FY19	99.1	7.4%	83.6	8.4%	51.0	13.4%	50.4	13.4%	17.1	15.0
SEK	Seeka Kiwifruit Industries	4.85	5.91	O	23-Aug	1H19	21.7	-8.5%	16.1	-16.0%	10.0	-14.3%	31.5	-52.7%	12.0	12.0
SKL	Skellerup Holdings	2.40	2.13	N	23-Aug	FY19	50.5	6.9%	43.2	8.5%	29.9	9.5%	15.4	8.9%	13.0	11.0
STU	Steel & Tube Holdings	0.96	1.21	N	23-Aug	FY19	23.4	8.2%	15.5	13.8%	8.6	10.6%	5.2	-40.3%	4.5	7.0
VCT	Vector	3.85	3.27	U	23-Aug	FY19	474.9	1.0%	310.4	0.0%	130.7	-14.6%	13.1	-15.0%	16.5	16.3
CNU	Chorus	5.65	4.77	N	26-Aug	FY19	636.0	-2.8%	244.6	-8.4%	62.6	-27.3%	14.3	-28.8%	23.0	22.0
FRE	Freightways	8.44	7.85	N	26-Aug	FY19	114.0	5.8%	96.0	4.6%	62.0	4.0%	40.0	4.0%	33.0	29.8
MEL	Meridian Energy	4.82	3.22	U	26-Aug	FY19	834.9	25.4%	543.3	42.2%	323.8	59.5%	12.6	59.5%	19.5	19.2
MET	Metlifecare	4.31	7.00	O	26-Aug	FY19	N/A	N/A	N/A	N/A	83.5	-4.6%	39.1	-4.9%	11.3	10.0
NZM	NZME	0.54	0.47	U	27-Aug	1H19	20.4	-12.1%	9.7	-4.1%	5.0	-9.7%	2.5	-9.7%	0.0	2.0
GNE	Genesis Energy	3.49	2.17	U	28-Aug	FY19	359.3	-0.3%	173.5	15.9%	74.6	40.6%	7.3	38.0%	17.2	16.8
POT	Port of Tauranga	6.13	4.30	U	28-Aug	FY19	168.7	9.8%	141.2	10.0%	100.9	7.7%	14.8	7.7%	14.0	12.7
SCL	Scales Corporation	4.68	4.68	U	28-Aug	1H19	48.7	6.3%	43.6	4.8%	31.2	9.0%	22.3	9.0%	10.4	9.5
NZK	New Zealand King Salmon	1.95	2.28	N	29-Aug	FY19	25.4	-3.1%	19.3	-8.5%	13.2	-8.4%	9.6	-8.5%	5.0	5.0
VGL	Vista Group International	5.60	4.10	U	29-Aug	1H19	13.4	2.2%	11.0	-2.1%	6.8	28.1%	4.1	27.5%	2.5	1.6

Source: Company data, Jarden

NZ LISTED COMPANIES		Mrkt Cap	Price	Target Price	Price Earnings (x)		Net Yield (%)	
5th August 2019			05-Aug-19					
Source: Jarden, CSFB Estimates	Ticker	(NZ$m)	(NZ$)	(NZ$)	FY19	FY20	FY19	FY20
COMMUNICATION SERVICES								
Chorus	CNU	2,394	5.45	4.77	38.2	59.1	4.2%	4.4%
NZME	NZM	112	0.57	0.47	7.0	7.1	0.0%	0.0%
Sky Network Television	SKT	486	1.25	1.74	5.3	6.2	12.0%	6.4%
Spark NZ	SPK	7,400	4.03	3.39	18.9	17.7	6.2%	6.2%
CONSUMER DISCRETIONARY								
Kathmandu	KMD	477	2.11	2.75	9.8	9.1	7.6%	8.1%
Michael Hill International	MHJ	194	0.52	0.81	8.4	7.5	10.0%	10.0%
Restaurant Brands NZ	RBD	1,244	9.97	7.65	29.4	28.1	0.0%	0.0%
SKYCITY Entertainment Group	SKC	2,723	4.05	3.85	16.7	17.8	4.9%	4.9%
The Warehouse Group	WHS	794	2.29	2.20	11.5	10.5	6.6%	7.7%
CONSUMER STAPLES								
Comvita	CVT	152	3.05	3.77	-23.4	25.4	0.0%	0.0%
Delegat Group	DGL	1,214	12.00	9.34	23.8	21.3	1.4%	1.6%
Fonterra Shareholders' Fund	FSF	386	3.75	4.39	22.4	12.2	0.0%	4.0%
New Zealand King Salmon Co	NZK	255	1.84	2.28	19.2	17.8	2.7%	2.9%
Sanford	SAN	627	6.71	7.57	14.4	13.4	3.4%	3.4%
Scales Corporation	SCL	633	4.53	4.68	18.5	17.8	4.6%	4.8%
Seeka	SEK	165	5.15	5.91	29.9	16.8	4.7%	4.7%
Synlait Milk	SML	1,796	10.02	7.95	20.5	16.8	0.0%	0.0%
The a2 Milk Company	ATM	12,966	17.64	14.00	44.2	34.9	0.0%	0.0%
ENERGY								
NZ Refining	NZR	666	2.13	2.38	-98.6	12.4	3.1%	10.6%
Z Energy	ZEL	2,608	6.52	6.30	14.4	13.4	6.6%	7.8%
FINANCIALS								
Heartland Group Holdings	HGH	900	1.58	1.43	11.8	11.2	6.0%	6.3%
NZX	NZX	327	1.19	1.11	21.9	19.5	5.2%	5.3%
HEALTH CARE SERVICES								
AFT Pharmaceuticals	AFT	308	3.17	2.80	-127.1	79.1	0.0%	0.0%
Ebos Group	EBO	3,839	24.68	21.00	26.1	22.2	2.6%	3.1%
Fisher & Paykel Healthcare	FPH	9,383	16.35	13.15	44.8	38.1	1.4%	1.8%
HEALTH CARE VILLAGES								
Metlifecare	MET	926	4.34	7.00	11.1	9.6	2.6%	2.8%
Oceania Healthcare	OCA	629	1.03	1.08	12.5	11.7	4.6%	4.7%
Ryman Healthcare	RYM	6,495	12.99	9.80	28.6	24.6	1.7%	2.0%
Summerset Group Holdings	SUM	1,274	5.64	6.67	12.6	13.2	2.8%	3.4%
INDUSTRIALS								
Metro Performance Glass	MPG	69	0.37	0.62	4.8	4.6	0.0%	0.0%
Skellerup Holdings	SKL	464	2.38	2.13	15.4	14.5	5.5%	5.9%
TRANSPORT & LOGISTICS								
Air New Zealand	AIR	3,065	2.73	2.60	11.4	11.0	8.1%	8.1%
Auckland Airport	AIA	11,326	9.35	5.95	40.7	41.3	2.4%	2.4%
Freightways	FRE	1,328	8.55	7.85	21.4	19.4	3.9%	4.4%
Mainfreight	MFT	4,238	42.09	30.10	30.0	25.9	1.3%	1.5%
Port of Tauranga	POT	4,183	6.15	4.30	41.5	38.8	2.3%	2.4%
INFORMATION TECHNOLOGY								
EROAD	ERD	209	3.06	3.40	-41.9	122.6	0.0%	0.0%
Gentrack Group	GTK	528	5.35	5.15	34.5	27.4	2.6%	3.1%
Vista Group International	VGL	1,006	6.05	4.10	47.1	37.8	1.1%	1.3%
MATERIALS								
Fletcher Building	FBU	4,181	4.90	5.17	11.6	13.1	5.1%	5.7%
Steel & Tube	STU	156	0.94	1.21	18.1	11.7	4.8%	6.9%
REAL ESTATE								
Argosy Property	ARG	1,170	1.42	1.20	20.4	21.9	4.4%	4.4%
Asset Plus	APL	103	0.64	0.69	20.7	17.0	5.7%	5.7%
Augusta Capital	AUG	130	1.48	1.23	16.7	21.9	4.1%	4.4%
Goodman Property Trust	GMT	2,703	2.08	1.55	27.0	30.6	3.2%	3.2%
Investore Property Limited	IPL	492	1.89	1.58	23.6	23.4	4.0%	4.0%
Kiwi Property Group	KPG	2,333	1.62	1.52	23.1	22.4	4.3%	4.4%
Precinct Properties NZ	PCT	2,339	1.78	1.48	28.0	26.5	3.4%	3.5%
Property for Industry	PFI	1,137	2.28	1.67	26.3	24.7	3.3%	3.5%
Stride Property Group	SPG	829	2.27	2.05	21.4	21.9	4.4%	4.4%
Vital Healthcare Property Trust	VHP	1,163	2.61	2.13	26.5	24.3	3.4%	3.5%
UTILITIES								
Contact Energy	CEN	5,677	7.92	7.01	32.8	35.7	5.0%	4.9%
Genesis Energy	GNE	3,501	3.42	2.17	47.0	35.0	5.0%	5.1%
Infratil	IFT	3,080	4.67	4.23	25.6	37.1	3.7%	3.2%
Mercury NZ	MCY	6,525	4.79	3.47	41.1	40.2	3.3%	3.3%
Meridian Energy	MEL	12,366	4.83	3.22	38.2	45.7	4.0%	4.1%
TILT Renewables	TLT	1,198	2.65	2.21	98.3	n.m.	0.6%	0.4%
TrustPower	TPW	2,375	7.59	5.39	23.1	25.0	9.7%	4.5%
Vector	VCT	3,860	3.86	3.27	29.5	27.2	4.3%	4.3%
MARKET AVERAGE*					**23.8**	**22.6**	**3.7%**	**3.9%**

**PE ratios exclude: AFT, CVT, ERD, NZR, TLT*

Australian Forecasts 5-August-19 Source: CSFB estimates	Ticker	Market Cap (A$m)	Price ######## (A$)	Target Price (A$)	ice Earnings		Net Yield (%)	
					FY19	FY20	FY19	FY20
COMMUNICATION SERVICES								
carsales.com.au	CAR	3,597	14.72	15.00	27.4	24.8	3.1%	3.1%
Nine Entertainment	NEC	3,351	1.97	2.10	15.1	13.0	5.1%	5.4%
REA Group	REA	12,894	97.89	77.60	42.1	37.5	1.3%	1.5%
Telstra Corporation	TLS	47,335	3.98	3.25	20.1	15.5	4.0%	4.0%
TPG Telecom	TPM	6,430	6.93	5.60	17.3	23.8	0.6%	0.6%
CONSUMER DISCRETIONARY								
Aristocrat Leisure	ALL	19,361	30.32	30.00	22.9	20.1	1.8%	2.0%
Crown	CWN	8,160	12.05	11.00	23.0	22.1	5.0%	5.0%
Domino's Pizza Enterprises	DMP	3,223	37.64	38.06	22.1	19.3	3.4%	3.6%
Flight Centre	FLT	4,619	45.68	52.91	18.0	15.4	3.4%	3.7%
JB Hi-Fi	JBH	3,359	29.24	23.27	14.4	17.0	4.6%	3.9%
Star Entertainment Group	SGR	3,605	3.93	4.90	15.8	15.0	5.2%	4.8%
Tabcorp Holdings	TAH	8,925	4.42	5.05	22.6	23.4	5.0%	5.0%
Wesfarmers	WES	44,061	38.86	32.55	22.9	22.8	4.3%	3.6%
CONSUMER STAPLES								
Treasury Wine	TWE	12,520	17.41	19.85	28.1	24.1	2.3%	2.7%
Coca-Cola Amatil	CCL	7,595	10.49	8.90	20.1	18.9	4.5%	4.5%
Coles Group	COL	18,702	14.02	11.97	21.4	22.0	2.1%	3.9%
Woolworths	WOW	45,023	35.77	30.96	26.7	25.0	2.9%	2.9%
ENERGY								
Beach Energy	BPT	4,535	1.99	2.02	7.6	8.3	1.0%	2.0%
Caltex Australia	CTX	6,687	26.78	32.22	19.0	15.4	3.3%	3.9%
Oil Search	OSH	7,195	6.94	4.88	16.1	13.5	2.8%	3.3%
Origin Energy	ORG	13,403	7.61	8.50	13.2	11.7	2.6%	5.3%
Santos	STO	9,984	7.05	4.54	9.8	9.6	1.9%	1.2%
Whitehaven Coal	WHC	3,642	3.55	5.00	6.6	9.1	12.1%	8.2%
Woodside Petroleum	WPL	21,520	33.81	26.53	16.1	15.0	5.0%	5.3%
WorleyParsons	WOR	7,904	15.23	18.20	29.9	16.7	2.1%	3.6%
FINANCIALS								
Capital Markets								
AMP	AMP	5,407	1.84	1.90	8.0	10.3	3.0%	6.8%
ASX	ASX	17,269	89.20	60.00	34.5	34.1	2.6%	2.6%
Challenger Limited	CGF	4,244	6.94	7.50	12.2	13.3	4.7%	4.5%
Macquarie Group	MQG	42,892	126.01	135.00	14.9	14.8	4.6%	4.6%
Magellan Financial Group	MFG	10,753	60.72	42.90	29.4	26.5	3.1%	3.4%
Pendal Group	PDL	2,447	7.58	7.65	15.0	13.3	5.8%	6.3%
Commercial Banks								
ANZ Banking Group	ANZ	78,773	27.79	27.80	11.9	12.2	5.8%	6.0%
Bank of Queensland	BOQ	3,729	9.19	9.70	12.1	12.4	7.3%	7.1%
Bendigo and Adelaide Bank	BEN	5,537	11.29	10.25	14.4	14.9	6.2%	6.2%
Commonwealth Bank Australia	CBA	144,947	81.88	79.00	17.5	16.5	5.3%	5.3%
National Australia Bank	NAB	82,195	28.51	27.90	13.8	12.6	5.8%	5.8%
Westpac	WBC	100,580	28.82	28.60	14.6	12.8	6.5%	6.5%
Insurance								
Insurance Australia Group	IAG	19,528	8.45	7.80	18.6	21.2	4.1%	3.8%
Medibank Private	MPL	9,804	3.56	2.50	21.3	22.1	3.7%	3.5%
QBE Insurance Group	QBE	11,102	12.42	8.82	14.1	14.6	4.5%	4.5%
Suncorp Group	SUN	17,387	13.39	13.70	72.5	15.8	5.2%	5.3%
HEALTH CARE								
Ansell	ANN	2,414	26.84	19.88	17.2	15.3	2.6%	2.9%
Cochlear	COH	12,882	223.19	168.00	48.6	45.1	1.4%	1.5%
CSL	CSL	71,486	232.03	138.82	37.5	35.8	1.2%	1.3%
Ramsay Health Care	RHC	14,536	71.93	65.00	25.3	23.3	2.1%	2.2%
ResMed Inc	RMD	24,234	19.46	13.89	41.5	39.6	1.1%	1.2%
Sonic Healthcare	SHL	13,432	28.34	24.20	24.8	23.3	3.0%	3.1%

Australian Forecasts 5-August-19 Source: CSFB estimates	Ticker	Market Cap (A$m)	Price ######## (A$)	Target Price (A$)	ice Earnings		Net Yield (%)	
					FY19	FY20	FY19	FY20
INDUSTRIALS								
ALS	ALQ	3,367	6.98	7.40	18.8	17.3	3.2%	3.5%
Brambles	BXB	14,378	13.31	9.34	22.9	20.5	4.6%	2.5%
CIMIC Group	CIM	11,595	35.76	35.00	15.2	15.6	4.0%	3.8%
Cleanaway Waste Management	CWY	4,867	2.38	2.15	35.2	28.1	1.6%	2.1%
Downer EDI	DOW	4,478	7.53	7.10	17.5	14.7	4.0%	4.4%
Reliance Worldwide	RWC	2,734	3.46	4.40	18.8	17.2	2.5%	2.8%
Seek	SEK	7,382	20.97	19.25	39.4	34.9	2.3%	2.7%
TRANSPORT & LOGISTICS								
Aurizon	AZJ	11,622	5.84	6.00	25.9	21.0	3.9%	4.8%
Atlas Arteria	ALX	5,760	8.43	7.15	41.6	33.3	3.6%	3.9%
Qantas	QAN	9,156	5.83	6.40	10.6	9.5	4.1%	4.1%
Qube Holdings	QUB	5,076	3.16	2.55	41.3	39.4	2.1%	2.1%
Sydney Airport	SYD	19,591	8.68	6.65	50.1	48.8	4.5%	4.6%
Transurban	TCL	42,912	16.04	12.20	71.1	60.9	3.7%	3.9%
INFORMATION TECHNOLOGY								
Computershare	CPU	5,733	15.53	11.98	14.9	15.3	3.0%	3.0%
Link Administration Holdings	LNK	2,606	4.88	5.85	13.1	13.3	3.7%	3.8%
Xero	XRO	9,640	65.68	43.25	n.m.	488.0	0.0%	0.0%
MATERIALS								
Amcor	AMC	17,240	15.63	10.96	17.6	16.4	4.3%	4.4%
Boral	BLD	6,131	5.23	4.40	12.7	12.0	5.0%	5.2%
Incitec Pivot	IPL	5,572	3.47	3.78	26.9	13.7	2.0%	3.8%
James Hardie Industries	JHX	5,951	19.79	16.45	19.8	17.4	2.7%	3.0%
Orica	ORI	8,468	22.25	21.22	23.4	22.6	2.4%	2.9%
Orora	ORA	3,994	3.31	3.45	18.5	17.4	3.9%	4.0%
METALS & MINING								
Alumina	AWC	4,425	2.26	1.91	10.9	11.1	9.3%	8.1%
BHP Group	BHP	125,008	38.78	27.20	13.9	10.5	5.9%	4.8%
BlueScope Steel	BSL	6,318	12.29	15.00	7.0	12.2	1.1%	1.1%
Evolution Mining	EVN	8,740	5.15	2.60	46.8	31.0	1.2%	1.6%
Fortescue Metals Group	FMG	15,993	7.64	5.56	5.0	3.5	15.7%	18.5%
Iluka Resources	ILU	3,836	9.08	10.00	10.0	15.6	1.5%	0.0%
Newcrest Mining	NCM	19,154	36.66	14.11	32.8	26.6	0.8%	1.0%
Northern Star Resources	NST	8,033	12.56	6.30	49.7	26.8	1.0%	1.2%
OZ Minerals	OZL	3,213	9.92	9.50	15.5	18.5	2.3%	2.3%
Rio Tinto	RIO	90,966	94.77	62.55	9.1	9.3	7.8%	6.4%
South 32	S32	10,142	2.98	2.48	10.2	10.2	4.8%	3.9%
REAL ESTATE								
Goodman Group	GMG	27,771	15.31	14.04	29.8	26.5	2.0%	2.2%
GPT Group	GPT	12,408	6.37	5.88	19.5	18.7	4.2%	4.3%
Lend Lease	LLC	8,197	14.53	16.20	17.8	12.5	3.7%	4.1%
Mirvac Group	MGR	13,077	3.33	2.85	19.5	19.1	3.5%	3.6%
Scentre Group	SCG	21,800	4.10	4.19	15.9	15.5	5.5%	5.6%
Stockland Group	SGP	11,135	4.67	3.17	14.4	14.1	5.9%	6.0%
Vicinity Centres	VCX	9,958	2.64	2.67	14.4	14.8	6.1%	5.8%
UTILITIES								
AGL Energy	AGL	13,412	20.45	19.20	13.3	14.1	5.7%	5.7%
APA Group	APA	13,179	11.17	8.75	45.5	36.8	4.2%	4.4%
AusNet Services	AST	6,568	1.78	1.80	25.4	25.0	5.5%	5.7%
Spark Infrastructure Group	SKI	3,986	2.37	2.30	44.5	53.0	6.3%	6.3%
Market Average					**22.2**	**19.8**	**3.9%**	**4.0%**

Alibaba Group Holdings (BABA.N)

OUTPERFORM US$161.00 **TARGET:** RESTRICTED

52-week range: US$129.77 – US$195.72

ALIBABA GROUP HLDG (BABA), through its subsidiaries, provides online and mobile commerce businesses in the People's Republic of China and internationally. It operates in four segments: Core Commerce, Cloud Computing, Digital Media and Entertainment, and Innovation Initiatives and Others.

Although China's penetration rate is only 60%, its sheer scale means that it has almost 3 times the number of internet users as the United States. In mobile payments the gap is even wider – more people pay with their phones in China than there are people in the US.

RECOMMENDATION

Jarden's believe Baba's comprehensive value proposition is one of its key advantages over peers, which positions it perfectly to capture consumer trading-up. Given the renewed strategic focus on cash sales channel "Juhuasuan", we expect the annual active buyers to exceed 800m by 2020, up from 654m in 1Q19. The GMV of Tmall is likely to double from its Rmb2.6 tn in FY19, in three years.

Jarden's project retail GMV to grow 24%/20% in FY20/21E, boosting total revenue to rise by 34%/27%, respectively. Albeit slight margin dilution as Tmall supermarket moves to the 1P model, they expect core commerce adjusted EBITA margin to stay above 35% in FY20.

Looking at the June-quarter preview, Jarden's expect revenue to grow by 39% to Rmb112 bn on the back of 678m active buyers (or a 24m addition QoQ). Adjusted EBITA and net income are estimated to be Rmb27.9b n and Rmb26.4 bn, respectively.

Jarden's have a RESTRICTED rating on this stock, but I rate BABA a BUY. This is driven by multiple strengths, such as its robust revenue growth, largely solid financial position with reasonable debt levels by most measures, impressive record of earnings per share growth, compelling growth in net income and expanding profit margins. I feel its strengths outweigh the fact that the company has had lacklustre performance in the stock itself.

HIGHLIGHTS

The revenue growth came in higher than the industry average of 21.4%. Since the same quarter one year prior, revenues rose by 36.5%. Growth in the company's revenue appears to have helped boost the earnings per share.

BABA's debt-to-equity ratio is very low at 0.27 and is currently below that of the industry average, implying that there has been very successful management of debt levels. Along with the favourable debt-to-equity ratio, the company maintains an adequate quick ratio of 1.16, which illustrates the ability to avoid short-term cash problems.

BABA reported significant earnings per share improvement in the most recent quarter compared to the same quarter a year ago. The company has demonstrated a pattern of positive earnings per share growth over the past two years. We feel that this trend should continue. During the past fiscal year, BABA increased its bottom line by earning $4.97 versus $3.91 in the prior year. This year, the market expects an improvement in earnings ($47.14 versus $4.97).

The net income growth from the same quarter one year ago has significantly exceeded that of the S&P 500 and the Internet & Catalogue Retail industry. The net income increased by 166.4% when compared to the same quarter one year prior, rising from $1,528.50 million to $4,071.33 million.

45.6% is the gross profit margin for BABA which is considered to be strong. Regardless of BABA's high profit margin, it has managed to decrease from the same period last year. Despite the mixed results of the gross profit margin, BABA's net profit margin of 27.2% significantly outperformed against the industry.

BABA.N Year to 31 Mar		2018A	2019AF	2020F	2021F
Adjusted NPAT	Rbm m	85,766	100,740	123,862	140,554
Earnings /share	Rbm	32.86	38.41	47.17	53.47
PE Ratio	x	36.3	31.1	25.3	22.3
Dividend Yield	%	0.0	0.0	0.0	0.0

The Global and Global Plus portfolios

Ticker	Security Name	Global	Global Plus	Exposure
CTY.LN	City of London Investment Trust	5.0%	5.0%	UK
DXJ.US	WisdomTree Japan Hedged Equity Fund	4.0%	4.0%	Japan
IEUX.LN	iShares Europe ex-UK Fund	16.5%	16.5%	Europe
IVV.US	iShares S&P 500 Index Fund	45.0%	39.0%	US
IXG.US	iShares Global Financials Fund	4.0%	4.5%	Financials
IXJ.US	iShares Global Healthcare Fund	4.0%	5.5%	Healthcare
IXP.US	iShares Global Communications Services Fund	4.0%	4.0%	Communications
KXI.US	iShares Global Consumer Staples Fund	4.0%	4.0%	Consumer Staples
PCT.LN	Polar Capital Technology Trust		5.0%	Technology
VGT.US	Vanguard US Information Technology Fund	4.0%	5.0%	Technology
VWO.US	Vanguard FTSE Emerging Markets Fund	9.5%	7.5%	Emerging Markets
		100.0%	100.0%	

Global Direct Equities Portfolio

Ticker	Security Name	Weight	Sector
1299.HK	AIA Group	6.0%	Financials
AAPL.US	Apple	8.0%	Info Tech
AIR.FP	Airbus	8.0%	Industrials
AMZN.US	Amazon	6.0%	Cons Discretionary
BP/.LN	BP	6.0%	Energy
C.US	Citigroup	8.0%	Financials
CAT.US	Caterpillar	6.0%	Industrials
DIS.US	Walt Disney	8.0%	Comm. Serv
DTE.GE	Deutsche Telekom	6.0%	Comm. Serv
INTC.US	Intel	6.0%	Info Tech
MA.US	Mastercard	6.0%	Info Tech
MC.FR	LVMH	6.0%	Cons Discretionary
MRK.US	Merck & Co	6.0%	Health Care
MS.US	Morgan Stanley	6.0%	Financials
UNH.US	UnitedHealth Group	8.0%	Health Care
		100.0%	

Limitations and Disclaimer