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Volume 23

Investment Strategies

MARCH 2018

RRP $5.00

WEBSITE:
vond.co.nz

Stock market declines don't cause recessions, and they do a pretty poor job of predicting whether one is coming. So, while a market plunge might rattle investors and ding consumer confidence, it is not a sign that the economy is in trouble.

The Nobel prize winning economist Paul Samuelson once said: "*The stock market has forecast nine of the last five recessions*." He meant that there have been plenty of times when the economy continued to grow even as the market turned sharply lower.

The stock market crash of 1929 is widely linked to the Great Depression that followed. But the Depression wasn't caused by the market crash alone.

In fact, the "Black Monday" crash on October 19, 1987, when the Dow plunged an unthinkable 22.6% in a day, came when the U.S. economy was growing at a blistering 6.8%. The economy didn't fall into a recession until July 1990, by which time markets had already more than recovered the losses from that day.

NZ50 GROSS INDEX (LAST 15 YEARS)

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STATISTICS NZ DATA

NEXT CENSUS DUE: 2018

Population	
Estimated population at 31 Dec 2017:	4,844,200
Births Sept 2017 year:	58,494
Deaths Sept 2017 year:	33,240
Net migration October 2017 year:	70,694
Employment	
Total employed Sept 2017 quarter:	2,593,000
Unemployment rate Sept 2017 quarter:	4.6%
Ave weekly earnings Sept 2017 quarter:	$1,174.64
Wage inflation September 2017 quarter:	1.9%
Cost Price Index September 2017 quarter:	0.5%
Intern. Investment Position Dec quarter:	**-$156.7 bn**
Change from last quarter:	**+$0.5 bn**
GDP per capita year ended June 2017:	**$56,482**
GDP Growth September 2017 quarter:	**0.6%**
Visitor arrivals Annual October 2017 +7.9%	**3,688,013**

Source: Statistics New Zealand

Please remember that investment views are provided for general information purposes only. To the extent that any such information, and views, constitute advice, they do not take into account any person's particular financial situation or goals and, accordingly, do not constitute personalised financial advice under the Financial Advisers Act 2008, nor do they constitute advice of a legal, tax, accounting or other nature to any person. I recommend that recipients seek advice specific to their circumstances from their investment adviser before making any investment decision or taking any action. E&OE.

SIMON WINS THE NATIONAL PARTY LEADERSHIP

Having the Leader of the National Party based in Tauranga is indeed exciting. I have been Simon's Campaign Manager for the past three elections, and I can tell you that Simon is an incredibly hard worker, with an extremely high intellect. I have no doubt that he will be a most effective Opposition Leader and will use his adversarial skills (learnt as a Crown Prosecutor in his previous life) to hold this dysfunctional left-wing coalition government to task.

Jacinda Ardern met her match when she sparred with Simon previously, in their "Young Guns" Breakfast TV slot; and I am sure she will struggle to match his holding her government to account in this current parliamentary term.

The Party was very supportive of Bill English, but he is now gone, and I am sure that the Caucus will remain firmed united behind Simon's leadership. I also think the selection of Amy Adams as Finance Spokesperson is a smart move. Steven Joyce (Mr. Fix-it man) was extremely solid, but he espoused ingrained, inflexible views, and was not seen as the answer for a win in 2020. Steven has been a great strategist for National, but "Pretty legal" was not his finest moment.

THE 1ST 100 DAYS FOR OUR LABOUR / NZ FIRST / GREENS GOVERNMENT

The new Government's first 100 days have been marked by policy backflips and the creation of 14 inquiries and working groups, that are the hallmark of a weak and confused Government that has no idea what to actually do across a range of policy areas.

The 100 days have been characterised by a number of policy backflips as the three disparate parties try and work out who is on top in policy areas as diverse as justice, immigration, employment, water storage, and the environment.

Among the 17 policies was setting up a royal commission of inquiry into abuse of children in state care, and an inquiry into mental health services.

Backflips included Labour's promise to:

1. Slash immigration by 20,000 to 30,000
2. Setting up a new housing ministry
3. Repeal of 90-days trials for all new employees.

No-one knows what the Government's immigration policy is.

The Government has:

1. Overseen a large fall in business confidence.
2. Failed to set meaningful targets for action on child poverty.
3. Done away with the social investment approach, that would have delivered real improvements in the lives of New Zealanders.

The child poverty reduction targets of Jacinda Ardern included a goal to reduce poverty by 100,000 on one measure (before housing costs) within 10 years – whereas National, during the election campaign, had promised the same level of reduction in one term of Government.

The trouble is that it only gets worse from here. At least for the first 100 days there was a checklist. From here on they have to deal with very tight fiscal constraints and a widely divergent set of views on the priorities and the policy areas that should be funded.

This is a weak Government, with no real momentum. Unlike Trump, they have the media kissing their butt.

LABOUR/NZ FIRST FRONT BENCH LACKS BIZ EXPERIENCE

The front bench is almost devoid of people who have done anything except politics or public sector work. In order they are:

1. Jacinda Ardern – political staffer then MP.
2. Winston Peters – MP since 1978.
3. Kelvin Davis – teacher then MP.
4. Grant Robertson – student politician, political staffer then MP.
5. Phil Twyford – Oxfam then MP.
6. Megan Woods – does have a private sector background.
7. Chris Hipkins – student politician, political staffer then MP.
8. Andrew Little – student politician, unionist then MP.

SIMON BRIDGES NATIONAL SPOKESPEOPLE LLIST - MARCH 2018

1	**Hon Simon Bridges** Leader of the Opposition	National Security & Intelligence	M	
2	**Hon Paula Bennett** Opposition Deputy Leader	Social Investment & Social Services	F	
		Tertiary Education, Skills and Employment		
		Women		
3	**Hon Amy Adams**	Finance	F	
4	**Hon Judith Collins**	Housing & Urban Deevelopment	F	
		Planning (RMA Reform)		
5	**Hon Todd McClay**	Foreign Affairs & Trade	M	
		Tourism		
6	**Hon Jonathan Coleman**	Health	M	
		Sport & Recreation		
7	**Hon Mark Mitchell**	Justice	M	
		Defence		
		Disarmament		
8	**Jami-Lee Ross**	Infrastructure	M	
		Transport		
9	**Hon Paul Goldsmith**	Economic and Regional Development	M	
		Renenue		
		Associate Arts, Culture and Heritage		
10	**Hon Nikki Kaye**	Education	F	
11	**Hon Gerry Brownlee**	Shadow Leader of the House	M	
		GCSB		
		NZSIS		
		America's Cup		
12	**Hon Nathan Guy**	Agriculture	M	
		Biosecurity		
		Food Safety		
13	**Hon Michael Woodhouse**	Immigration	M	
		Workplace Relations and Safety		
		Deputy Speaker of the House		
14	**Hon Louise Upston**	Social Development	F	
15	**Hon Alfred Ngaro**	Children	M	
		Community and Voluntary Sector		
		Pacific Peoples		
16	**Hon Chris Finlayson**	Shadow Attorney-General	M	
		Crown-Maori Relations		
		Pike River Re-entry		
17	**Hon Scott Simpson**	Environment	M	
18	**Hon Jacqui Dean**	Local Government	F	
		Small Business		
19	**Melissa Lee**	Broadcasting, Communications and Digital Media	F	
		Ethnic Affairs		
20	**Sarah Dowie**	Conservation	F	
		M	12	60%
		F	8	40%
			20	

	Hon Anne Tolley	Deputy Speaker	F
21	**Rt Hon David Carter**	State Owned Enterprises	
22	**Hon David Bennett**	Corrections	M
		Land Information	
		Associate Infrastructure	
23	**Jonathan Young**	Energy and Resources	M
		Regional Development (North Island)	
24	**Hon Maggie Barry ONZM**	Seniors	F
		Veterans	
		Associate Health	
25	**Hon Nick Smith**	Forestry	
		Aquaculture	
26	**Barbara Kuriger**	Nominee for Senior Whip	F
27	**Matt Doocey**	Mental Health	M
		Nominee for Junior Whip	
28	**Simon O'Connor**	Customs	M
		Associate Housing (Social)	
		Associate Social Development	
29	**Kanwaljit Singh Bakshi**	Internal Affairs	M
		Associate Justice	
30	**Hon Tim Macindoe**	ACC	M
		Associate Foreign Affairs & Trade	
31	**Brett Hudson**	Commerce & Consumer Affairs	M
		Government Digital Services	
		Associate Transport	
32	**Stuart Smith**	Earthquake Commission	M
		Civil Defence	
		Viticulture	
33	**Todd Muller**	Climate Change	M
34	**Dr Jian Yang**	Statistics	M
		Associate Ethnic Communities	
35	**Parmjeet Parmar**	Research, Science and Innovation	M
36	**Nuk Korako**	Māori Development	M
		Treaty of Waitangi Negotiations	
37	**Chris Bishop**	Police	M
		Youth	
38	**Ian McKelvie**	Seniors	M
		Veterans	
39	**Hon Nicky Wagner**	Arts. Culture & Heritage	F
		Greater Christchurch Regeneration	
40	**Andrew Bayly**	Building & Construction	M
		Associate Finance	
41	**Dr Shane Reti**	Data & Cybersecurity	M
		Greater Christchurch Regeneration	
		Associate Health	
42	**Alastair Scott**	Forestry	M
		Associate Finance	
43	**Joanne Hayes**	Whanau Ora	F
		Maori Education	
class of 2017	**Simeon Brown**	Associate Education	M
	Andrew Falloon	Regional Development (South Island)	M
	Harete Hipango	Maori Tourism	F
	Matt King	Rural Communities	M
	Denise Lee	Local Government (Auckland	F
	Chris Penk	Courts	M
	Erica Stanford	Associate Environment	F
	Tim Van de Molen	Nominee for Third Whip	M
	Hamish Walker	Associate Agriculture	M
	Lawrence Yule	Horticulture	M
	Maureen Pugh	Associate Children	F
	Nicola Willis	Early Childhood Education	F

CHRIS LIDDELL TIPPED TO BE DONALD TRUMP'S TOP ECONOMIC ADVISER


New Zealand businessman Chris Liddell is tipped to become Donald Trump's top economic adviser after Gary Cohn's exit from the White House.

A story published by the *New York Times* said the President was "strongly considering" Christopher P. Liddell, who works as an assistant to Trump and director of strategic initiatives, for the job.

Two people briefed on the discussions claimed Trump had not made a firm decision, but said Liddell was the "front-runner" to replace departing top economic adviser, Gary Cohn, the story read.

Cohn announced his resignation in the first week of March, after an unsuccessful effort to block Trump from imposing sweeping new tariffs on steel and aluminum imports.

TECT PROPOSAL - TRUSTPOWER *-THESE ARE MY PERSONAL VIEWS ONLY*

The current TECT (Tauranga Electricity Consumer Trust) proposal to transfer the assets of their Trust to a separate TECT Charitable Trust, so that customers will no longer receive their annaul distribution (averaging around $500 each year) appears flawed to me.

The vision of one charitable foundation (possibly centred around the current Acorn structure) for all community distributions in the Western Bay has been mooted. If this is the case, then I am absolutely opposed to it. For one small group of trustees to control all the community grants is plain dangerous. This would give a handful of people huge power!

I also salute the three previous TECT Trustees (including the past Chair) for publicly coming out against this proposition; including questioning its legitimacy. The reality is that Trustpower's Western Bay consumers own the shares in Trustpower, and the TECT Trustees are just the guardian of their shareholding.

Yes, Trustpower needs to step up, and become more competitive in its Western Bay electricity pricing; and yes, Infratil (as a 51% shareholder of Trustpower), has also had a "free ride" on the back of TECT consumers but this is not the way to force Trustpower to step up.

I well remember when Williams & Kettle was to strongest, 100% farmer owned stock and station company (Hawke's Bay based) in the country; and Whakatu Freezing works (again, 100% farmer owned, was by far the best freezing works – also Hawke's Bay based). Farmers accepted a short-sighted monetary carrot from Selwyn Cushing, and within a couple of years both institutions were lost -to the long-term detriment to Hawke's Bay farmers. The same scenario is likely here.

Trustpower assets are worth around $15,000 to every one of the 56,000 Western Bay consumers, and yet TECT is trying to lure you to accept just $3,940 (over a 5-year period) for your asset. Don't be hoodwinked by TECT Trustee ambitions. This is not fair and equitable; and our community will be the long-term losers.

You don't have to sell off the golden egg to get a better deal from Trustpower. Trustpower has a loyal customer base, partly because of TECT's annual distribution, which has allowed it to charge above average prices to customers. TECT trustees should be using its 26.4% shareholding to better protect our community – not putting our community at risk. Certainly, increase the ratio of funds that are used for community purposes, but don't jeopardise it all. There is a better solution.

Investors' response to the proposal has been negative, and Trustpower's share price fell 12%, from $5.92 to $5.16, immediately following the announcement. What were the TECT Trustees thinking – this appears to be a poorly executed, and flawed, strategy.

Trustpower

	Market value	Dividend	Shareholders	Consumer	Trust
2017	$3045m	$108.9m	$123.8m	12,655	26.8%
2016	$2431m	$89.1m	$131.0m	12,357	26.6%
2011	$2283m	$112.4m	$119.7m	13,171	32.9%
2006	$2235m	$81.4m	$67.8m	12,895	28.6%
2001	$584m	$23.5m	$31.2m	17,321	24.5%
1996	$231m	$11.1m	$6.9m	27,664	35.4%

The 2017 market value, net profit and dividend figures combine Trustpower and Tilt Renewables.

SOURCE: NZ Herald, Bloomber

FACT-CHECKING BILL ENGLISH'S BIG "STATE OF THE NATION" SPEECH

In his annual State of the Nation speech to business leaders on 31st January, Bill English trumpeted the success of National's economic policies over the past nine years. He also used the occasion to criticise Labour's child poverty initiatives, calling them "all intention and no substance" and expressed concern about proposed changes to industrial relations law.

ECONOMY

English stated that the incoming Government had inherited a strong economy; one that would be resilient enough to allow "*the Government to muddle along with inconsistent, poorly thought out policies for some time*". He said "*The economy has been growing at around 3.5 per cent a year for the last five years and is expected to continue growing strongly well into the 2020s.*"

FACT: The average annual change in GDP the five years to September (the most recent GDP figures available), is 3.4% cent. To put that into context, the average annual change in each quarter back to June 1988 is 2.8%.

English went on to claim: "*recently revised GDP numbers show that New Zealand's productivity growth has been significantly better than anyone thought*." Labour productivity has been an awkward thorn in National's rosy economic story in recent years. It measures how much workers are producing for each hour worked, but the graph on page 6 shows that it hasn't been as bad as some say.

FACT: What are the revised GDP numbers English is talking about? Towards the end of 2017 Statistics NZ announced they were upgrading some past estimates of GDP growth due to a new methodology that captured economic activity that had gone undetected. The economy actually grew by about one per cent more than initially thought in the years to March 2016 and March 2017, they said. This was attributed to more revenue for firms, and more consumer spending. As a result, labour productivity is probably also higher than previously thought.

CHILD POVERTY

While both parties shared the goal of reducing child poverty, National leader Bill English said the Government's new legislation on the issue was "all intention and no substance".

Labour abolished the Better Public Services targets within its first 100 days. These targets were set up in 2012 and revised in 2017. English claimed Labour only canned them "because they were introduced by National". English said there were 85,000 fewer children living in material hardship than in 2011.

"*That's 85,000 fewer children in households that struggle to pay the bills or to go to the doctor when they need to*," he said. Correct - as data collected in the New Zealand Household Economic Survey (NZHES), which informed the Child Poverty Monitor, showed in 2016 there were 135,000 children in material hardship, and in 2011 there were 220,000. The number of children in households with incomes below the selected thresholds in 2016 was 290,000. In 2011, that number was 305,000.

When National came into power in 2008, the number of children in material hardship was 170,000. In 2009 it was 180,000, in 2010 it was 190,000 and by 2011 it was 220,000. However, the number has consistently dropped each year since 2011, to 135,000 in 2016.

National promised in 2017 to lift 100,000 children out of poverty within the next three years, and Labour promised to match that.

INDUSTRIAL RELATIONS

National and Labour are intrinsically opposed in the area of employment. English says the labour-market experiment, Labour and its union supporters are planning, will have a significant negative impact on jobs and workers. He continued to say Labour's plans to remove the starting out wage and 90-day trials in the name of supporting workers will make it much harder for young, unskilled and vulnerable workers to find employment, as will the *I expect the Government has received the advice we received from [the Ministry of Business, Innovation and Employment]; that a rapid increase to $20 per hour would cost tens of thousands of jobs rapid increase in the minimum wage to $20 per hour*."

An MBIE spokeswoman said the Ministry's advice did point out that the 2016 projection of a minimum wage set at $19.80 could cost 28,000 jobs. English said over 2.6m NZers are working, and the proportion of working age Kiwis in work is the highest it has ever been, and the **third highest** in the developed world.

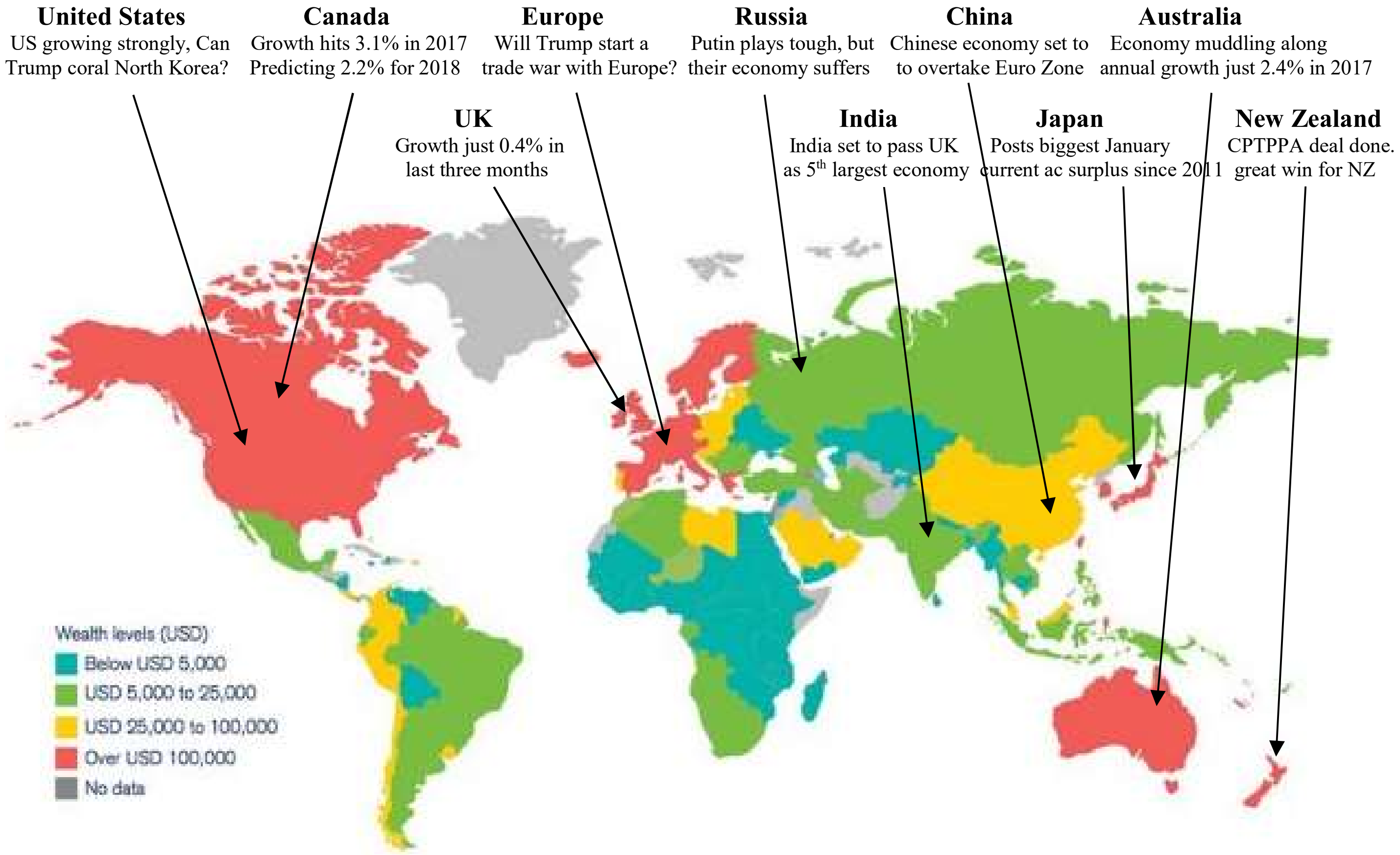
"*The average wage continues to grow - much faster than inflation - and someone working full time on the minimum wage has seen their annual income rise from $25,000 in 2008 to $33,000 now*," English said.

FACT: Working New Zealanders are earning the most they have in a decade, but they are also being forced to spend more. Statistics NZ figures from 2017 show Kiwis are earning on average $50,000 a year from salaries and wages - about $12,000 more than they were in 2007, or about an extra $230 a week. Other statistics show rising household expenses and suggest that extra money is not staying in your pocket.

Before the election Labour said its fair pay agreements (FPA) policy was designed to "*set fair, basic employment* *conditions across an industry based on the employment standards that apply in that industry*".

However, Jacinda Ardern is already backtracking, reassured business that Labour is in no rush to pass controversial "fair pay" laws that appear to have contributed to a slump in business confidence. Legislation on fairness in the work place was set to be introduced before the end of Labour's first 100 days, on February 2.

THE WORLD AT A GLANCE – including World wealth levels 2017



THE GLOBAL ECONOMIC OUTLOOK

Global GDP growth

OECD countries	2017 forecast	2016	2015	2014	2013
Australia	2.5%	2.4%	2.4%	2.8%	2.1%
Euro area	1.8%	1.7%	1.5%	1.2%	-0.2%
New Zealand	3.1%	3.9%	3.1%	2.8%	2.1%
UK	1.6%	1.8%	2.2%	3.1%	1.9%
United States	2.1%	1.6%	2.6%	2.4%	1.7%
Other countries					
China	6.6%	6.7%	6.9%	7.3%	7.8%
India	7.3%	7.1%	7.9%	7.2%	6.5%
South Africa	0.8%	0.3%	1.3%	1.7%	2.5%

Source: OECD / Herald graphic

The IMF revised up its global growth outlook for 2018 and 2019 to 3.9%. China surpassed expectations growing at 6.9% in 2017, while the US only grew at 2.5% the year to December. The rise in global bond yields reflects increased confidence for continued growth in demand, as the global economy recovers and US fiscal stimulus boosts investment. This should eventuate into higher inflation, which currently remains subdued.

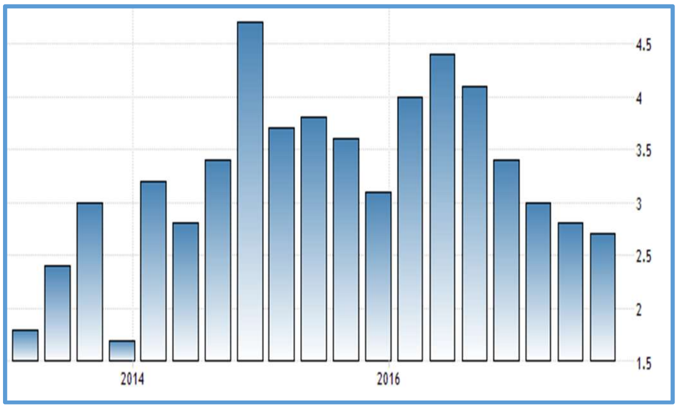
IMF revisions reflect a recovering global economy and the expectation that US tax cuts will boost investment.

New Zealand's Economic Outlook

So far, indicators for the December quarter have been mixed. Business confidence fell materially in the December quarter, possibly reflecting uncertainty in the election and government formation period. Consumer confidence has also fallen but remains relatively strong.

GDP grew 0.6% in the September quarter, with solid construction growth. Revisions to GDP showed stronger growth over the past two years.

NEW ZEALAND'S GDP ANNUAL GROWTH RATE



Early indicators for the December quarter are mixed, with solid electronic card spending but falls in confidence measures.

The current account deficit narrowed in the September quarter, the goods deficit narrowing to a three-year low. Recent trade data shows the annual goods deficit will narrow further in the December quarter.

Tax revenue was up to November 2017, coming in ahead of Treasury's forecast. The Government's Financial Statements for the five months ended 30 November 2017, showed that core crown tax revenue was $500 million above HYEFU forecasts. GST and source deductions were each up $200 million vs. forecast. This has allowed a bit of extra breathing room for this Labour Coalition Government's ambitious spending plans.

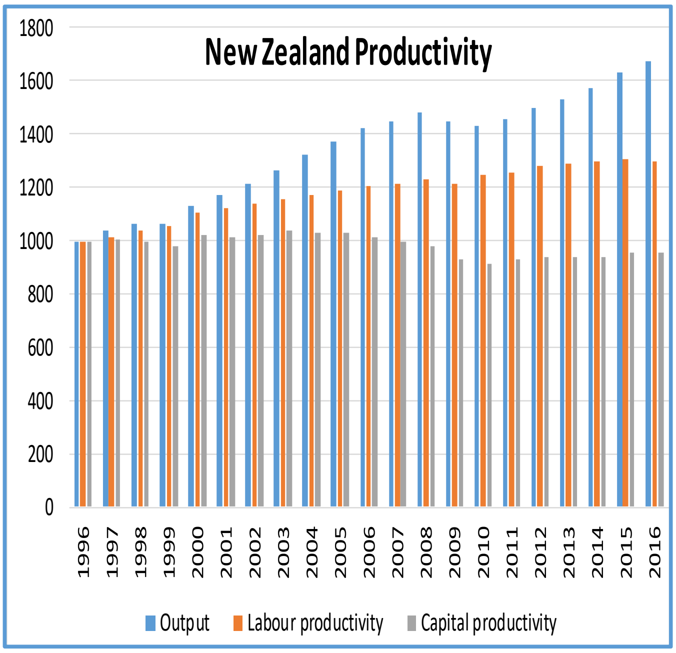
NZ's Annual Inflation

Annual inflation is expected to fall to around 1% in the March year 2018, as the impact of earlier petrol price increases drop out of the annual calculation, and some policy changes (including to tertiary education) are expected to result in low inflation in the quarter. Over 2018 and 2019 inflation is expected to gradually pick up as capacity pressures bind further and global inflation begins to normalise.

The December outturn was below the Reserve Bank's November MPS forecast of 1.8% annual inflation. Most analysts have pushed out their forecasts of any OCR increase until 2019 with market expectations now showing a 25-basis point increase not priced in until the first quarter of 2019.

Productivity

Latest data out from Stats NZ indicates that New Zealand's Output Productivity continues to grow strongly (see table above). However, Labour Productivity is flat, and we are losing efficiency with our business capital investment. There has been a lot of talk over the past few years about New Zealand's poor performance in productivity; but the graph above shows that the key indicator (Output Productivity) continues to grow.

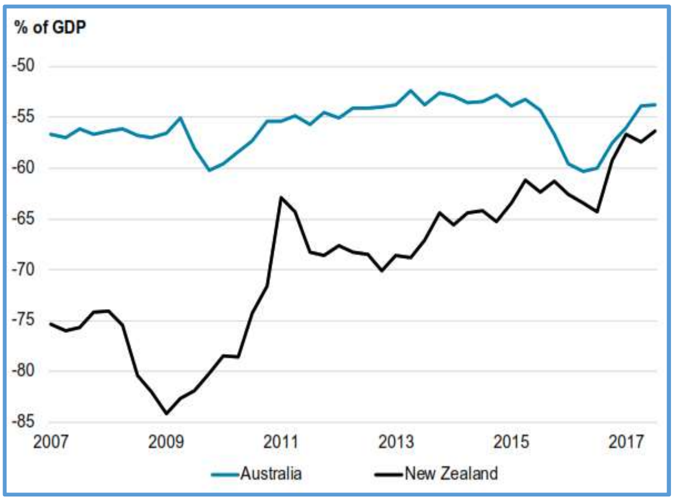


SOURCE: Statistics NZ

NZ's net international investment Position

NZ's net international investment position (NIIP) improved $0.5bn to -$156.7bn (-56.3% of GDP) with the value of New Zealand's international assets declining by less than its liabilities in the quarter. In part, this was driven by net market price changes, reflecting the performance of overseas stock indices. The improvement in the NIIP confirms a recent trend with the NIIP improving from -84% of GDP in 2009 to the current -56%. The improvement reduces New Zealand's exposure to an external shock and, if it continues, New Zealand's NIIP may soon pass Australia's (see graph).

NET INTERNATIONAL INVESTMENT POSITION



SOURCE: Stats NZ, Haver

Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP)

In addition to trade in goods and services, the CPTPP addresses other important aspects such as labour and environmental standards, government procurement, and intellectual property. New Zealand will gain from improved export market access, and for the first time, will establish trade agreements with Canada, Japan, Mexico and Peru. The CPTPP has now been signed in Chile, and despite Labour's rhetoric, this is virtually unchanged from that negotiated by National.

Australian Economic Outlook

The Australian labour market has performed strongly over the past year. 34,700 new jobs were added in December, bringing the annual increase in employment to 403,000. Three-quarters of the jobs filled throughout the year were full-time positions.

Despite strong employment growth, the unemployment rate rose slightly to 5.5%, up from 5.4% in November. This reflected a rise in the participation rate to 65.5%, as more people begin to look for work. Positive employment data has not translated into higher wages, where growth continues to be stagnant. Higher labour supply may reduce upward pressure on wages and inflation, particularly as the underemployment and underutilisation rates remain stubbornly elevated.

AUSTRALASIAN UNEMPLOYMENT

SOURCE: Haver

In Australia, the December quarter CPI release showed headline CPI inflation grew 1.9%, up from 1.8% in the previous quarter. Underlying inflation was stable at 1.9%, below the Reserve Bank of Australia's 2-3% target range. With spare capacity in the labour market expected to persist for some time, wage growth is likely to remain historically low, and the Australian dollar higher than a year ago. Core inflation is likely to remain subdued over the year ahead.

Solar Energy for Australia

Tesla has called for Australia's outdated electricity network to evolve and prepare for a transition to a new power system as part of the Australian Energy Market Commission's review into the grid's reliability. Tesla founder and CEO, Elon Musk wants Australia to change its power grid to get ready for more big batteries. Having deployed the world's largest battery in South Australia and shot a Tesla Roadster into space, the US billionaire's company now wants to change the face of Australia's National Electricity Market.

UNITED STATES ECONOMY

The US economy grew 2.5% in the year to December, a little slower than expected, although consumer spending grew at its strongest pace in 3 years. Growth in imports has offset a rise in exports, which was driven by a weaker US dollar. The global recovery and promises of large tax cuts have contributed to the strong domestic demand.

UNITED STATES GDP ANNUAL GROWTH RATE

Consumer confidence and investment sentiment are improving, with transportation equipment leading an increase in durable goods orders. This year, these factors will continue to weigh-in on GDP growth, along with rising oil prices and fiscal stimulus, although only modestly boosting growth.

Trump's Tax plans are encouraging US corporations to both repatriate funds and expand their US production bases. Disney (DIS) announced it will pay over 125,000 employees a one-time cash bonus of US$1,000 because of the passage of a tax bill. The company will also make a US$50m investment into a new employee education programme.

UNITED KINGDOM ECONOMIC OUTLOOK

UNITED KINGDOM'S GDP ANNUAL GROWTH RATE

The EU is on the verge of political chaos and Britain could be the loser. For the UK to secure a vital free-trade agreement, it needs both Angela Merkel and a stable Italy.

However, Angela Merkel is embattled, wounded and clinging to power. The German Chancellor has much in common with her UK counterpart. Having led the world's fourth largest economy since 2005, Merkel is a political giant. But her Christian Democrats (CDU) stumbled badly in last September's election and "Mutti" could soon be out of office.

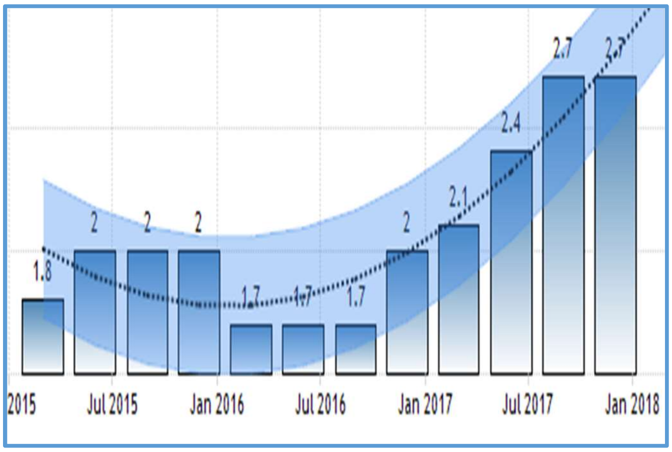
Some Brexiteers, given the tough line Berlin has taken in Article 50 talks, take pleasure in Germany's political misfortune. Such gloating is wrong. Germany, EU's commercial powerhouse and paymaster, has been without a government for almost five months, and has not been good for Brexit.

Britain's best hope of securing the UK-EU free trade agreement that is in everyone's interests is to get beyond the technocratic, grand-standing Commission and negotiate with the member states, the most important of which is obviously Germany.

However, the EU will freeze negotiations with the UK to agree a Brexit trade deal until the Irish border issue is solved, European Council President Donald Tusk has warned. Tusk said talks would be a case of "Ireland first" and that *"the risk of destabilising the fragile peace process must be avoided at all costs. We know today that the UK government rejects a customs and regulatory border down the Irish Sea, the EU single market, and the customs union,"* Tusk added that until Britain formulates an alternative plan, *"it is very difficult to imagine substantive progress in Brexit negotiations"*.

European Economy

Euro Area GDP Annual Growth Rate



The economies of the European Union grew at their fastest pace for a decade last year, according to revised figures from Eurostat. Data from the EU statistics office shows the EU economy expanded by 2.5% in 2017, its strongest performance since 2007 and the start of the financial crisis.

The 19-nation strong Eurozone grew by 0.6% in the final quarter, mirroring growth in the bloc's biggest economy, Germany. The numbers offer a "sharp contrast" to the situation in the UK, where the economy grew by 1.8% last year and has been slowing over the past 12 months as inflation stemming from the fall in the value of sterling after the Brexit vote eroded household income.

Germany

Germany's economy is in surplus and growing fast. The country has run a surplus annually since 2014. Their next government is expected to post a consolidated budget surplus of roughly €50bn between now and 2021, according to German finance ministry calculations. The German government never had so much money or so many ideas about how to spend it.

Italy

Italian banks are selling off their domestic sovereign debt at unprecedented rates, leading to concerns that they will be hit hard when the European Central Bank ceases quantitative easing. Italian banks reduced their holdings of sovereign debt by €12.6bn ($21.45bn) in December, and by €40bn in the final three months of 2017, equivalent to 10.5% of stock. The latest sell-off comes as the EU's third largest economy prepares to head to the polls in a close-run general election on March 4.

There are also fears that the robust growth in manufacturing seen in the recent months could weaken as the euro gains strength, dampening the appetite for Italian exports which have driven economic growth.

Chinese Economy

The Chinese economy grew 6.9% in 2017 up from 6.7% in 2016, the first increase in calendar year growth in seven years. A recovery in exports and resilience in the property market underpinned the economy's performance.

As output in heavy industries sector slows, services, parts of the manufacturing sector, and high-tech industries are expected to pick up the slack. 2016 might have seen China's weakest growth in almost three decades, but forecasts predict lower growth will persist in the coming years.

Commentators speculate whether the country can balance economic stability against the potential of a sharp deceleration. US trade protectionism, like recent tariffs imposed on imported solar panels and washing machines, adds concerns to China's future growth potential. Chinese authorities are increasingly focused on reducing environmental and financial sector risks, which could further dampen growth.

Chinese ambitious infrastructure investment (US$900bn New Silk Road project) has had a boost with its US$13bn railway line from Dakar in the West, to Djibouti in the East, getting underway.

China clearly intends to be a global trading leader in this 21st century. Trump seems to have opened the door with his protective policies, but don't underrate India's ability to match China. The Chinese "one child" policy will open the door for India to come from behind, and possibly overtake China in the second quarter of this century.

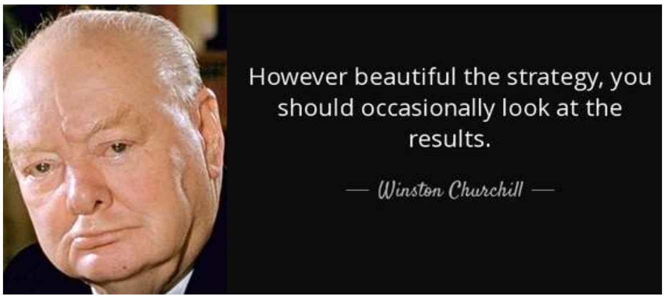
NEW ZEALAND – CHINESE TOURISM

INDIAN ECONOMY

Prime Minister Narendra Modi's has just announced an ambitious plan to give hundreds of millions of people greater access to hospitals. He plans to cover hospital treatment costs of up to 500,000 rupees ($7,800) per year for 100 million "poor and vulnerable" families. That's more than 15 times the amount poor families in India can currently claim from the government. If this programme is fully taken up, it would cost close to US$780 billion, a huge sum for India's $2.4 trillion economy.

Access to healthcare is a major problem in India. Public hospitals are few in number and often underfunded and understaffed. India has just over 1 million registered doctors and fewer than 15,000 state hospitals for its 1.3 billion people, according to government data released last year. Total spending on healthcare in India averaged $267 per person in 2014 -- the latest year for which data is available -- compared to $9,403 in the United States, $3,377 in Britain and $731 in China, according to the World Bank.

Many Indians have no choice but to use private hospitals, where treatment is unaffordable for someone earning the average annual wage of less than $2,000.



COMMODITIES

A key question for 2018 is – Can the oil price exceed US$80/barrel? Yes, although it will require a number of factors to align. For much of 2016 and 2017 the oil price (Brent) fluctuated in a 10% band around US$50/barrel. However, more recently it increased to US$70/barrel.

OIL: WEST TEXAS CRUDE (1 YEAR CHART)

Factors contributing to this rise include increased oil demand on the back of higher global economic growth, the fall in the US dollar, on-going supply discipline by oil producers lead by OPEC (these producers aim to maintain production cuts of 1.8 million barrels/day until the end of 2018) and one-off supply disruptions such as the North Sea oil pipeline shut down, due to a crack.

UBS estimate that an oil price of US$60-80/barrel is needed to incentivise new conventional oil production. While new US shale oil production does not require such a high price to be profitable, analysis suggests that incremental shale oil production isn't enough to meet incremental demand. Furthermore, shale oil companies are being encouraged to focus on investment returns not just production. Over the past three years development of replacement oil fields to replace those that have been depleted has been inadequate as capital expenditure has been cut. Replacement oil production will only occur if the oil price justifies it, which helps underpin oil at the current price.

CURRENCY

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

SOURCE: Westpac

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

PRIMARY INDUSTRY EXPORT REVENUE 2004-2018[F]

Units - NZ$m	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018[F]
Dairy	6,093	5,982	6,986	7,849	10,359	11,037	10,313	12,913	13,379	13,139	17,792	14,049	13,289	14,637	17,350
Meat & wool	6,847	6,760	6,659	6,776	6,940	7,826	7,111	7,836	7,781	7,794	8,160	9,001	9,200	8,355	8,480
Forestry	3,295	3,243	3,249	3,647	3,294	3,615	3,923	4,578	4,327	4,526	5,199	4,681	5,140	5,488	5,760
Horticulture	2,212	2,269	2,326	2,649	2,897	3,338	3,279	3,382	3,560	3,547	3,794	4,173	4,987	5,148	5,410
Seafood	1,257	1,266	1,278	1,311	1,272	1,460	1,406	1,562	1,545	1,546	1,500	1,563	1,768	1,744	1,850
Arable	92	89	109	110	142	157	144	153	173	224	228	177	205	191	205
Other primary sector[3]	1,114	1,299	1,337	1,490	1,526	1,586	1,544	1,681	1,783	1,940	1,910	2,315	2,614	2,539	2,560
TOTAL	**20,910**	**20,908**	**21,944**	**23,832**	**26,430**	**29,019**	**27,720**	**32,105**	**32,548**	**32,716**	**38,583**	**35,959**	**37,203**	**38,102**	**41,615**

SOURCE: Ministry of Primary Industries

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

Exports up 11% in 2017

SOURCE: Stats NZ

Annual exports were valued at $53.7 billion for the year ended December 2017, up $5.2 billion (11%) from 2016. Dairy products led the rise, up $2.8 billion to $14.0 billion. Meat rose $706 million to $6.6 billion. Logs, wood, and wood articles rose $546 million to $4.7 billion.

This 11% growth in exports is a huge boost for NZ's economy. It is worth noting that since NZ signed an FTA with China, exports to them have gone from $2 billion to $12 billion. This FTA was campaigned against by the then Foreign Minister Winston Peters and the Greens. They said it was bad for New Zealand and ran advertisements against it.

Fonterra has a huge problem

SOURCE: Newsroom Pro – Rod Oram

What's Fonterra's investment into Chinese Beingmate really worth? The simple answer is a lot less than the $756m Fonterra paid for its 18.8% stake only three years ago. The greater the write-off Fonterra takes in its half-year results due on March 21, the greater will be the impact on its dividend payout.

The bad news from Beingmate began even as Fonterra committed in 2014 to buying its stake in it; and it has only kept getting worse since. Fonterra must decide before 21st March how much of its $1bn Beingmate investment needs to be written down, or whether it should be written off completely and binned.

Either way, Theo Spierings and John Wilson face an uncertain future. Writedowns of similar scale cost Mark Adamson and Ralph Norris their jobs at Fletcher Building.

"The question farmers are asking is - why Fonterra didn't learn any lessons about owning a minority stake in a Chinese business after Sanlu? Did we not learn how difficult it is to actually have influence on a partnership in China? And we went and did the same thing again."

Outlook for Agriculture

Favourable market conditions are set to underpin a second consecutive year of broad-based profitability for New Zealand agriculture, says rural lending specialist Rabobank. In its annual Agribusiness Outlook Rabobank said 2018 should be a profitable year for "most New Zealand producers across an unusually broad base of subsectors".

As the second consecutive good year after a run of tougher years, 2018 looks set to generate a sense of sustained recovery in New Zealand agriculture, the report says. However, where New Zealand's agricultural industry chooses to direct improved cash flow and focus during this sustained positive run will have important ramifications for many years to come, it says.

The world economy is enjoying a broad-based recovery and the prices of the key commodities produced in New Zealand are generally high, while prices for key farm inputs, especially fertiliser, are generally low.

Rabobank predictions for 2018

Dairy: A difficult, dry start to the year, but firm world pricing should ensure a second season of profitability in 2017/18.

Beef: May be some price easing, but farmgate cattle prices should remain above long-term average returns, supported by demand in the US and China.

Sheep meat: Low levels of global lamb inventory, combined with flat New Zealand production and strong prices, will continue to support farmgate returns through 2018.

Wool: Subdued market conditions will prevail, before some improvement in the second half.

Wine: 2018 is shaping up as another profitable year for New Zealand grape growers, as the global market tightens.

Horticulture: In multi-year expansion phase, with market opportunity attracting investment that will likely see another solid growth year in 2018.

Fertiliser: Prices expected to remain low.

MARKET UPDATE

The February 2018 result season modestly surprised on the upside with 48% of companies reporting EBITDA at least +2.0% ahead of FNZC forecasts. Of the 13 companies reporting with market capitalisations exceeding NZ$2bn, ATM (+5.5%), GNE (+3.8%), SKC (+2.7%), SPK (+2.0%), CEN (-2.2%) and VCT (-3.8%) delivered results where the difference between actual normalised EBITDA and FNZC forecasts exceeded 2.0%.

12-MONTH FORWARD MARKET P/E MULTIPLES

The NZX50G index decreased -0.8% across February 2018. FNZC calculate a 12-month forward P/E multiple of 23.0x and, applying our estimate of a 4.6% long-run risk free rate, an implied market risk premium (MRP) of 6.7% as at month modestly, it continues to indicate low relative investor risk aversion when compared to an 8.2% average that we calculate across the historical period from September 2006.

FEBRUARY 2018 REPORTING SEASON SUMMARY NORMALISED EBITDA

Code	Company	Report	Normalised EBITDA Actual	Normalised EBITDA Growth
PGW	PGG Wrightson	1H18	34.2	31.5%
NZK	New Zealand King Salmon	1H18	19.5	167.1%
SKT	Sky Network Television	1H18	153.5	2.4%
SKL	Skellerup Holdings	1H18	21.3	25.7%
THL	Tourism Holdings	1H18	56.4	59.3%
NZR	New Zealand Refining	FY17	220.3	31.7%
ATM	The a2 Milk Company	1H18	142.9	122.9%
DGL	Delegat's Group	1H18	50.9	4.9%
NZX	NZX	FY17	29.0	28.8%
VGL	Vista Group International	FY17	25.0	41.5%
NZM	NZME	FY17	66.1	-1.6%
PCT	Precinct Properties New Zealand	1H18	42.5	3.7%
GNE	Genesis Energy	1H18	199.5	28.1%
SKC	Sky City Entertainment Group	1H18	175.8	4.1%
STU	Steel & Tube Holdings	1H18	16.5	-14.9%
SPK	Spark New Zealand	1H18	464.0	-1.9%
EBO	Ebos Group	1H18	138.5	13.2%
SCL	Scales Corporation	FY17	62.0	-8.6%
PFI	Property For Industry	FY17	65.3	7.1%
FBU	Fletcher Building	1H18	-212.0	-151.5%
MEL	Meridian Energy	1H18	329.0	-6.5%
AIR	Air New Zealand	1H18	585.0	0.9%
MCY	Mercury NZ	1H18	301.0	11.5%
TME	Trade Me Group	1H18	78.8	5.5%
POT	Port of Tauranga	1H18	77.1	13.0%
CNU	Chorus	1H18	329.0	-8.9%
FRE	Freightways	1H18	56.1	8.3%
MVN	Methven	1H18	6.8	0.0%
CEN	Contact Energy	1H18	236.0	-10.6%
HBL	Heartland Bank	1H18	55.9	16.2%
VCT	Vector	1H18	250.0	-2.7%
MHJ	Michael Hill International	1H18	45.9	-8.2%
CVT	Comvita	1H18	8.5	n/a
AIA	Auckland International Airport	1H18	249.7	6.2%
Average				**12.7%**
Median				**5.5%**
Market Cap Weighted				**11.5%**
Market Cap Weighted - excl. ATM & FBU				**5.5%**

Trustpower (TPW.NZ)

CURRENT PRICE: $5.38 **FNZC 1-YR TARGET:** $4.86

CONSUMER TRUST PROPOSES MAJOR CHANGE

TPW Year to 31 March		2017A	2018F	2019F	2020F
Adjusted NPAT	NZ$m	115	142	111	118
Earnings /share	NZc	36.6	45.4	35.5	37.5
PE Ratio	x	15.6	12.6	16.1	15.2
Cash/Share	NZc	44.0	54.9	51.0	51.4
Dividend/share	NZc	33.1	38.0	37.2	37.8
Imputation	%	48.3	100	100	100
Net Div. Yield	%	5.8	6.6	6.5	6.6
Gross Div. Yield	%	6.9	9.2	9.0	9.2

Source: Company data; NZX; First NZ Capital Estimates

FNZC maintains TPW as an UNDERPERFORM

Tauranga Electricity Consumer Trust (TECT) recently presented a proposal to wind up the current trust, after paying out its current 58,000 TPW-customer consumer beneficiaries roughly $3,940 over five years to 2022. TECT would then transfer all its remaining assets into a new charitable trust, for which the future sole beneficiaries would be charitable entities in the Tauranga and Bay of Plenty catchment

A key factor in TPWs overall leading retail profitability has been its relationship with shareholder TECT, which redistributes most of its 26.8% share of TPW dividends to Tauranga residents, but only if they are TPW customers. FNZC estimate current TECT arrangements provide the company a $25m to $30m p.a. benefit at the EBITDAF line (consistent with a $400 p.a. to $500p.a. per customer uplift).

Will current beneficiaries vote to approve the proposal? Maybe, FNZC think - the net benefit from being a TECT eligible consumer may really only be $50-$100 p.a., being the apparent $500 p.a. TECT cheques, less an arguable $400-$close. While their implied MRP estimate has bounced 450 p.a. extra retail margin paid by the customer to TPW.

To the extent TPW is supported by currently strong yield-appetites, FNZC see little threat to the current level of dividends and therefore expect it may continue to trade well regardless of the valuation risks. But their DCF-based target price is now $4.86/share (from $5.33) and continues to sit well below current trading levels.

TECTs stated assets are worth roughly $15,000 per consumer (or $12,000, after allowing for 20% of current TECT distributions which are made to parties other than consumers) so its proposal to instead pay consumers just $3,940 over five years might appear unattractive. But that comparison would ignore the potentially large benefit to each consumer by divorcing TECT payments from choosing TPW as a retailer. Earlier we identified that eligible consumers may currently be paying up to $500 p.a. above the energy rate which might apply in regular market conditions. It's impossible to ascertain an actual average uplift, but we estimate maybe $400-$450 p.a. would be realistic, based on Powerswitch data. In other words, the net benefit from being a TPW customer may really only be $50-$100 p.a. (being the $500 TECT cheque, less the $400-$450 extra retail margin paid to TPW). If we are correct, then the true value of the TECT distributions to a Tauranga consumer may only be worth between $2,000 and $4,000, making the new proposal much more palatable.

FNZC also note it's entirely possible a proportion of consumers will approach this from beyond the narrow self-interested perspective just described, perhaps attaching some value to the wider community benefits of Trust payments shifting towards local charitable causes.

FNZC has previously argued that Tauranga consumers (i.e. the widest definition of TECT beneficiaries) would arguably be better-off by removing the current TPW-customer requirement, allowing unfettered retail competition in the region. TECT cheques would reduce (down to maybe $300p.a.) but consumers would benefit from fully competitive retail energy prices (maybe $400 p.a. cheaper).

TECT process and possible funding

TECT is currently 26.8% shareholder in TPW, its largest investment by some margin, the other holdings being a 26.8% stake in TLT, plus a $167m diversified investment portfolio. Trustees have expressed a desire to indefinitely retain the TPW stake, so one would presume that a partial sell-down of TLT and/or the diversified portfolio is required to satisfy the $145m outlay necessary for TECT's initial $2,500 payment to 58,000 Tauranga and Bay of Plenty consumers.

FNZC expects that sell-down of its TLT stake would make most sense, given its primary focus on Australian wind development, low dividend payout and potential need to raise further equity to proceed with future developments.

Trustees' will meet Trust Deed obligations by consulting with consumers, with submissions accepted until 1 March 2018. They will then consider that feedback, and may then submit a Final Proposal to a consumer vote in late March or early April, voluntarily binding their decision to proceed on a simple majority outcome of voting. They then intend to make a final commitment to proceed subject to obtaining High Court approval by September 2018 (also a voluntary step not required under the Trust Deed).

TPW approval isn't required. If approved, the initial $2,500 payment would be expected to be disbursed by "late 2018."

Fletcher Building (FBU.NZ)

CURRENT PRICE: $6.41 **FNZC 1-YR TARGET:** $8.40

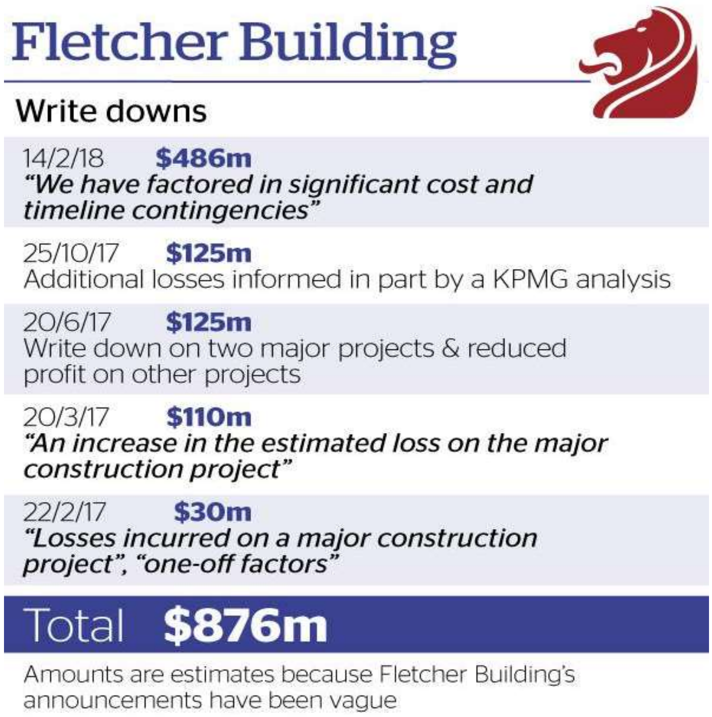
I thought that all the bad news was out – but not to be. That said, Fletcher Building is a very diverse company, with many very profitable divisions.

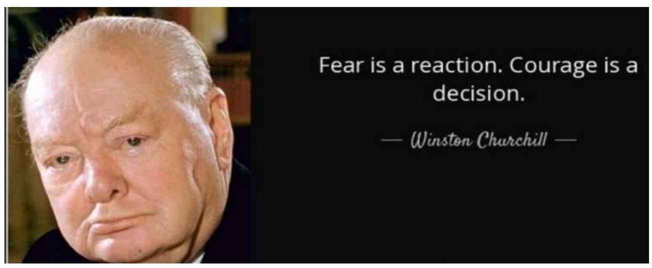
Bryan Gaynor recently wrote "The problem with Sir Ralph Norris, who announced his resignation as Fletcher Building chairman this week, could be that his senior management career was too successful.

Successful people have usually learned from their mistakes but Norris had so few mistakes that he didn't have this experience to draw on when Fletcher Building's construction division hit the proverbial wall.

The other issue with Norris is that he is incredibly loyal to his business organisations and always seemed to accept internal reports even when there was a strong argument that they were inaccurate.

For example, he refused to blame former Fletcher Building chief executive Mark Adamson for the company's construction problems even though Adamson should have had much clearer oversight of this high-risk division."

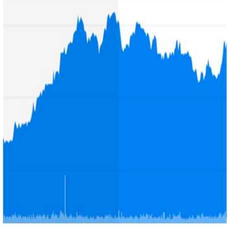




STOCKS TO WATCH NEW ZEALAND

NOTE: THESE ARE ALL ONE YEAR GRAPHS

Prices as at 10th March 2018



Air New Zealand

Our analysts say forward airfare bookings indicates ongoing yield improvement through the course of FY18. In addition, they expect further shorthaul yield support in 2H18 as AIR starts to benefit from Emirates' exit from the trans-Tasman market. Profitabilty gains helped to offset fuel headwinds, in their Interim result. Nornalised pre-tax profits decreased just 1.2% in the 1st half (to $323m).

20018 P/E: 8.6 2019 P/E: 9.3

NZX Code:	**AIR**
Share Price:	**$3.28**
12mth Target:	**$3.00**
Projected return (%)	
Capital gain	-8.5%
Dividend yield (Net)	7.3%
Total return	**-1.2%**
Rating:	**NEUTRAL**

52-week price range:2.22-3.82

Auckland International Airport

Normalised NPAT increased 16.5% to $247.8m. International passenger growth of 11.0% was the key driver. AIA is enjoying a recovery in China passengers back to double digit growth in early 1H18. AIA continues to trade at a significant premium to assessment of fundamental value, but this is a virtual monopoly business model – so I say BUY ON WEAKNESS.

20018 P/E: 31.4 2019 P/E: 30.0

NZX Code:	**AIA**
Share Price:	**$6.27**
12mth Target:	**$5.10**
Projected return (%)	
Capital gain	-18.7%
Dividend yield (Net)	3.3%
Total return	**-15.4%**
Rating:	**NEUTRAL**

52-week price range:6.02-7.36

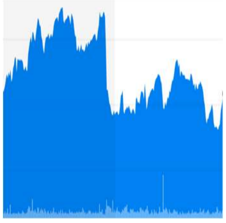
The a2 Milk Company

Our analysts say "Stay long"**.** The a2 Milk Company's (ATM) 1H18A performance delivered as a5-8% beat across the board at the revenue, gross profit, EBITDA and NPAT levels. From a standing start in FY14A, driven by demand in China, ATM now has an annualised US$500m in infant formula revenue. This places the company inside the ten largest early-life nutrition businesses globally. With significant financial capacity and commitment to further invest in marketing and in the brand, we expect the company to double this revenue stream in ten years. Even then, our trajectory could still prove to be conservative.

20018 P/E: 48.0 2019 P/E: 34.1

NZX Code:	**ATM**
Share Price:	**$13.27**
12mth Target:	**$12.75**
Projected return (%)	
Capital gain	-3.9%
Dividend yield (Net)	0.0%
Total return	**-3.9%**
Rating:	**OUTPERFORM**

52-wk price range: 2.54-14.62



Chorus

We see some modest upside to earnings - at least to the upper end of the guidance range as the run-rate on line loss slows in FY18. While it would be a surprise and inconsistent with reasonably clear policy direction, we flag possibility CNU could reconsider approach to dividend through peak capex

20018 P/E: 14.7 2019 P/E: 16.3

NZX Code:	**CNU**
Share Price:	**$4.02**
12mth Target:	**$4.27**
Projected return (%)	
Capital gain	5.2%
Dividend yield (Net)	5.4%
Total return	**10.6%**
Rating:	**NEUTRAL**

52-week price range: 3.67-4.77

Comvita

H18 operating NPAT $4.0m, vs. pcp of -$4.4m. While weaker than expected, this Should be interpreted in the context of a relatively small expected first-half contribution given an expectation for progressive recovery in grey channel activity. 1H/2H seasonality has also been relatively difficult to assess given a collapse in sales in FY17 (China CBEC related) and a change in fiscal year end in FY16.

20018 P/E: 20.7 2019 P/E: 17.8

NZX Code:	**CVT**
Share Price:	**$7.10**
12mth Target:	**$7.83**
Projected return (%)	
Capital gain	-10.3%
Dividend yield (Net)	2.4%
Total return	**-7.9%**
Rating:	**NEUTRAL**

52-week price range: 5.14-9.21

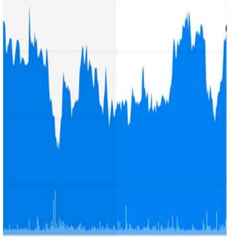
Contact Energy

Dismal hydrology notwithstanding, we think FY18 outlook rather than 1H18 performance may be more of a focus, given Clutha's ongoing inflow misery. While we see continued hydrology-driven negative earnings momentum in 2H18, we see some chance that the elevated spot risk can translate into favourable C&I pricing over the next year. Quantum of dividend uplift in the face of negative earnings risk will be a focus.

20018 P/E: 27.8 2019 P/E: 25.8

NZX Code:	**CEN**
Share Price:	**$5.35**
12mth Target:	**$6.50**
Projected return (%)	
Capital gain	21.5%
Dividend yield (Net)	5.9%
Total return	**27.4%**
Rating:	**OUTPERFORM**

52-week price range: 4.81-5.85



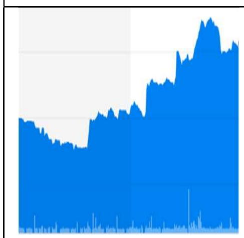
Ebos Group

A good start to the year. EBO's 1H18 result was the last for CEO Patrick Davies and featured many of the strengths built-up in recent years. NPAT of $77m was up 11.5% year-on-year and 3% ahead of our expectations, thanks to Animal Care growth, which overcame the impact of NZ distribution changes. Other bright spots included an uplift from the HPS acquisition, a modest improvement implied for ethical drug growth and record operating cash flow.

2018 P/E: 17.0 2019 P/E: 16.1

NZX Code:	**EBO**
Share Price:	**$18.54**
12mth Target:	**$18.45**
Projected return (%)	
Capital gain	-0.5%
Dividend yield (Net)	4.1%
Total return	**-3.6%**
Rating:	**NEUTRAL**

52-wk price range: 16.55 -18.90



EROAD

ERD's 1H18 result was slightly weaker than expected as restructuring costs and higher US operating costs weighed on near-term earnings. ERD's NZ operation continues to deliver very strong unit and revenue growth and with a reasonable pipeline and momentum in the business this should continue in the near term. Total contracted units growth for the last quarter was 9,853.

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

NZX Code:	**ERD**
Share Price:	**$3.49**
12mth Target:	**$3.30**
Projected return (%)	
Capital gain	-5.4%
Dividend yield (Net)	0%
Total return	**-5.4%**
Rating:	**NEUTRAL**

52-week price range: 1.61-3.99

Fletcher Building

With Ross Taylor commencing as CEO, the risk is that a new pair of lenses may lead to further cost provision in refreshing the business as well as for potential losses for FBU's B&I unit within the Construction Division. Frustrating as it is for shareholders with further NZ$500m (cNZ$0.70ps) losses and provisions made in FBU's Building and Interiors (B&I) unit. The explanation provided by Ross Taylor takes the company closer to the end of a difficult chapter in its history book. The proof in giving management some benefit of the doubt should begin to unveil themselves over the course of the next six to twelve months. FNZC's valuation target had already previously factored in significantly negative valuation for the B&I unit. Accordingly, they retain their OUTPERFORM rating with a revised $8.40 Target Price (from $8.50).

2018 P/E: (76.8) 2019 P/E: 10.4

NZX Code:	**FBU**
Share Price:	**$6.41**
12mth Target:	**$8.40**
Projected return (%)	
Capital gain	31.5%
Dividend yield (Net)	1.0%
Total return	**32.5%**
Rating:	**OUTPERFORM**
52-week price range: 6.38-9.38	

Fisher & Paykel Healthcare

FPH's execution has been faultless in recent years, with the unfortunate consequence of this and an elevated share price that a result still containing many good features generates a 5% sell-off. In FNZC's view, this does however highlight some realities worthy of consideration. FPH is operating at scale but will at times experience growth lulls driven by its product cycle, competitor actions or market conditions. Further, product cadence may be high but penetration of markets can take time.

2018 P/E: 38.8 2019 P/E: 34.2

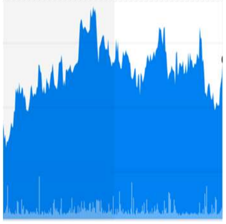
NZX Code:	**FPH**
Share Price:	**$12.98**
12mth Target:	**$12.00**
Projected return (%)	
Capital gain	-7.5%
Dividend yield (Net)	1.8%
Total return	**-5.7%**
Rating:	**UNDERPERFORM**
52-wk price range: .9.41-14.49	

Fonterra Shareholder Fund

Concerns surround two recent developments: The new Government's announcement that it will undertake a comprehensive review of the NZ dairy industry; and signs of a deterioration in FSF's relationship with Australian company, Beingmate. FSF has an 18.8% stake. Following another downgrade from Beingmate in January 2018, FSF highlighted wider issues relating to concerns on some "aspects of Beingmate's financial management and reporting practices."

2018 P/E: 12.9 2019 P/E: 8.9

NZX Code:	**FSF**
Share Price:	**$5.90**
12mth Target:	**$6.12**
Projected return (%)	
Capital gain	-3.7%
Dividend yield (Net)	5.9%
Total return	**-2.2%**
Rating:	**NEUTRAL**
52-week price range: 5.80-6.66	

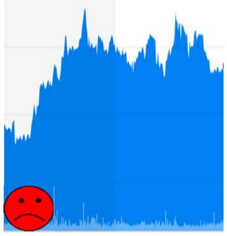


Freightways

The recent trend for higher than expected revenue growth offset by weaker margins in the Express Package division has a reasonable chance of repeating. Currency translation of AUD based Information Management earnings were positive for the 1st half. Normalised EBITDA increased 8.5% to $56.1m, broadly in line with expectations.

2018 P/E: 19.2 2019 P/E: 17.5

NZX Code:	**FRE**
Share Price:	**$7.73**
12mth Target:	**$7.25**
Projected return (%)	
Capital gain	-6.2%
Dividend yield (Net)	4.6%
Total return	**-1.6%**
Rating:	**NEUTRAL**
52-week price range: 6.98-8.19	



Genesis Energy

Our analysts see positive risk to guidance, albeit subject to Tekapo B updates. GNE appears to be in a strong earnings position in electricity, and improving oil price offers a gllimpse of future unhedged Kupe oil sales upside. Progress on early Nova synergies and wider strategy goals will be important. Tekapo B hydro 80MW unit outage (for ~43% of its southern hydro capacity) continues to be extended, and there may be an outside risk that GNE will disclose more bad news for the unit requiring an extended outage and/or capex.

2018 P/E: 23.6 2019 P/E: 21.0

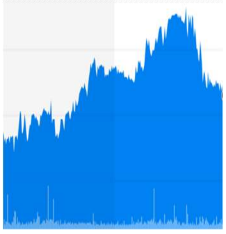
NZX Code:	**GNE**
Share Price:	**$2.36**
12mth Target:	**$2.18**
Projected return (%)	
Capital gain	-7.6%
Dividend yield (Net)	7.3%
Total return	**-0.3**
Rating:	**UNDERPERFORM**
52-week price range: 2.04-2.62	

Heartland Bank

BL's medium term growth outlook remains positive with good momentum across its key business areas and HBL initiating a number of smaller growth options that could grow over time. HBL continues to trade at a premium to Australian bank peers. 1Q18 finance receivable growth was 16% on an annualised basis so it will be interesting to see where it sits in 2H18 (adjusted for AUD impact on Australian book). Impairment levels were slightly higher in 1Q18 and this remains an area of potential risk. Flat EPS due to capital raise.

2018 P/E: 15.6 2019 P/E: 14.6

NZX Code:	**HBL**
Share Price:	**$1.86**
12mth Target:	**$1.83**
Projected return (%)	
Capital gain	-3.7%
Dividend yield (Net)	5.2%
Total return	**1.5%**
Rating:	**NEUTRAL**
52-week price range: 1.58-2.14	

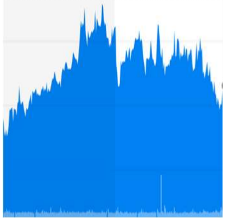


Infratl

FNZC likes IFT's investment strategy, opportunities and history of execution - but investors will recognise that the portfolio is now in a capital investment phase and may require many years to realise gains. In their view, IFT's portfolio of assets offers opportunities that are sufficiently valuable and differentiated to outweigh the inherent inefficiency of overhead and reduced liquidity. FNZC sees potential value accretion from an Australian wind rollout (via Tilt's pipeline) and the potential consolidation and care progression of a fragmented Australian retirement sector. IFT trades at a 9% discount to NAV, in contrast with the long term historical 15% average.

2018 P/E: 31.26 2019 P/E: 22.4

NZX Code:	**IFT**
Share Price:	**$3.05**
12mth Target:	**$3.20**
Projected return (%)	
Capital gain	-4.9%
Dividend yield (Net)	5.3%
Total return	**0.4%**
Rating:	**NEUTRAL**
52-week price range: 2.84-3.37	

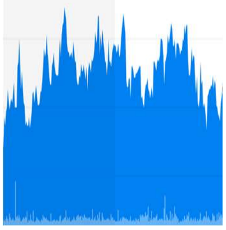


Mercury

FNZC believe the market would expect a signal of preference regarding debt target and dividend policy. MCY remains an attractive pure-play in renewable generation and retailing, and they think it is the most "bond-like" in the sector. However, in FNZC's view, it is also currently trading at a premium to underlying value, which they attribute to the continuing yield trade attraction.

2018 P/E: 25.1 2019 P/E: 28.0

NZX Code:	**MCY**
Share Price:	**$3.25**
12mth Target:	**$3.07**
Projected return (%)	
Capital gain	-4.4%
Dividend yield (Net)	5.2%
Total return	**0.9%**
Rating: UNDERPERFORM	
52-week price range: 3.03-3.60	



Meridian Energy

First reporting period under new CEO, who faces a number of potential adverse factors during FY18 & FY19: weaker retail netback track, growing potential for 2018 hydro shortfall, potential political interference (re:TPM & power market review) and an Australian retail growth programme (alongside recently acquired Hydro assets) in that country's volatile energy regulation space. Clarification required on capex outlay to support Australian growth goals.

2018 P/E: 37.8 2019 P/E: 32.0

NZX Code:	**MEL**
Share Price:	**$2.84**
12mth Target:	**$2.83**
Projected return (%)	
Capital gain	-0.3%
Dividend yield (Net)	6.7%
Total return	**6.4%**
Rating: NEUTRAL	
52-week price range: 2.71-3.02	

Metlifecare

FNZC expect reported profit and embedded value to see a more subdued contribution from unit pricing uplift than we have seen in recent periods as the market cools off; MET may surprise if it is able to push yields higher across the portfolio although we think the market is increasingly focused on getting comfort on orderly resales volumes and maintenance of low inventory volumes.

2018 P/E: 20.5 2019 P/E: 16.9

NZX Code:	**MET**
Share Price:	**$5.84**
12mth Target:	**$7.46**
Projected return (%)	
Capital gain	27.7%
Dividend yield (Net)	1.2%
Total return	**28.9%**
Rating: OUTPERFORM	
52-week price range: 5.23-6.30	

Michael Hill International

Despite announcing the exit from the United States and repositioning of Emma & Roe, these two businesses remain in the near-term areas of ongoing margin uncertainty with the potential to surprise to the downside on reported sales weakness. MHJ profitability is first half focused given it includes the key Christmas trading period, as such, this periods performance will largely determine profitability for the full year.

2018 P/E: 14.9 2019 P/E: 13.1

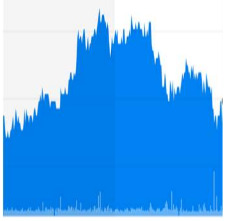
NZX Code:	**MHJ**
Share Price:	**$1.23**
12mth Target:	**$1.36**
Projected return (%)	
Capital gain	10.6%
Dividend yield (Net)	3.8%
Total return	**14.4%**
Rating: NEUTRAL	
52-week price range: 1.10-1.58	

NZ Refining

NZR last guided earnings matrix late September, in theory leaving little room for FY17 result surprises - but we note our matrix-consistent EBITDAF & NPAT forecasts sit 7% below current consensus, possibly due to street normalisations for $13m to $16m guided RAP outage impact on 2H17 EBITDAF (note: FNZC figures don't normalise out those outage impacts).

2018 P/E: 8.8 2019 P/E: 17.3

NZX Code:	**NZR**
Share Price:	**$2.42**
12mth Target:	**$3.02**
Projected return (%)	
Capital gain	24.8%
Dividend yield (Net)	4.7%
Total return	**29.5%**
Rating: OUTPERFORM	
52-week price range: 2.30-2.67	

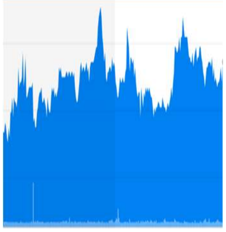


NZX

NZX's December quarter metrics showed stronger than forecast funds growth and Clearing activity. This implies revenues should slightly exceed our forecasts. However, the focus will be on costs and whether this translates to stronger earnings as well. Look for NZX to update on capital structure and on possible impact of new trading prices for DMA clients.

2018 P/E: 17.1 2019 P/E: 16.1

NZX Code:	**NZX**
Share Price:	**$1.09**
12mth Target:	**$1.16**
Projected return (%)	
Capital gain	5.2%
Dividend yield (Net)	5.6%
Total return	**11.1%**
Rating: NEUTRAL	
52-week price range: 1.03-1.24	



Property for Industry

A finish to a productive year. The result was solid, with cost savings driven by internalisation. PFI reported net distributable income of $37.1m (8.08cps), +1.4% above our analysts $36.6m (7.96cps) forecast, and +8.8% on the pcp. Year-on-year improvement reflects lower corporate costs following the internalisation of management in June 2017. Net rental income of $73.5m sat slightly above FNZC's $72.8m estimate.

2018 P/E: 19.6 2019 P/E: 19.0

NZX Code:	**PFI**
Share Price:	**$1.65**
12mth Target:	**$1.64**
Projected return (%)	
Capital gain	-0.4%
Dividend yield (Net)	4.6%
Total return	**4.2%**
Rating: NEUTRAL	
52-week price range: 1.64-1.71	

Port of Tauranga

FNZC analysts continue to miss the mark with POT. NPAT increased 12.6% to $47.1m in the first half. Group EBITDA before associates increased 13% to $77.1m. Strong volume growth was observed for both containers and break bulk, with total trade tonnes increasing 13.4% vs pcp. Port Opex increased 13.4% with annualised benefits from Maersk's decision to include Tauranga in the rotation schedule of its AC1 service between Asia and South America from Oct-16 evident in 1H18 container growth of 15.8% to 591k TEU. Transhipped container growth of 47.6% highlighted that the hub and spoke network strategy is gaining momentum with POT's share of container trade increasing 39.1% in 1H18. Log volume increased 12.5% to 3,282k tonnes in 1H18 and was a key driver of 12.2% growth in total break bulk volume over the period. What a great performing company.

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

NZX Code:	**POT**
Share Price:	**$5.00**
12mth Target:	**$3.80**
Projected return (%)	
Capital gain	-24.0%
Dividend yield (Net)	2.6%
Total return	**-21.4%**
Rating: ~~UNDERPERFORM~~	
52-week price range: 3.70-5.23	

Scales Corp oration

The prospects for SCL's horticulture business in 2018 appear more positive than previously thought. The significantly lower European apple inventory through to mid-2018 and constrained production volume from other southern hemisphere apple exporters should be positive for NZ apple prices. SCL should also benefit from higher production of export grade apples and favourable selling conditions in Asia. In addition, as one of the major independent cold-storage facility operators SCL stands to benefit from ongoing global demand for NZ agricultural products. These factors have the potential to produce earnings over 15% above FNZC's current FY18 earnings forecast.

2018 P/E: 16.1 2019 P/E: 15.1

NZX Code:	**SCL**
Share Price:	**$4.50**
12mth Target:	**$5.00**
Projected return (%)	
Capital gain	11.1%
Dividend yield (Net)	4.3%
Total return	**15.4%**

Rating: OUTPERFORM

52-week price range: 3.20-4.92

Skellerup Holdings

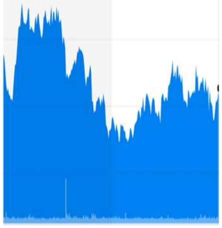
SKL commented at its October ASM that 1Q18 EBIT was in excess of 10% ahead of the pcp. However, seasonal factors can influence performance so we look for some commentary about 2Q18 trading and 3Q18 expectations. We expect Industrial to be the key driver with a small bounce in Agri. If SKL can sustain EBIT growth then suggests ~6% upgrade to our FY18 EBIT forecast and circa 11cps upside to target price.

2018 P/E: 14.2 2018 P/E: 13.1

NZX Code:	**SKL**
Share Price:	**$1.83**
12mth Target:	**$1.90**
Projected return (%)	
Capital gain	3.8%
Dividend yield (Net)	5.9%
Total return	**9.7%**

Rating: NEUTRAL

52-week price range: 1.48-1.95



Sky City Entertainment

During 2Q18 SKC Auckland cycles the strongest quarter of the pcp and our analysts see scope for weaker revenue growth vs their forecast, possibly offset by lower operating costs. Timing of IT spend within corporate costs may impact earnings skew between 1H and 2H18. In their opinion, relative market pricing of SKC is now at least partly compensating investors for elevated earnings and valuation risk attached to the NZICC and Adelaide redevelopment projects.

2018 P/E: 15.6 2018 P/E: 14.9

NZX Code:	**SKC**
Share Price:	**$4.01**
12mth Target:	**$3.75**
Projected return (%)	
Capital gain	-6.5%
Dividend yield (Net)	4.9%
Total return	**-1.6%**

Rating: NEUTRAL

52-week price range: 3.66-4.56

Sky Network Television

Downwards pressure in earnings is unavoidable with ongoing sub pressure and SKT have flagged a material cut in dividend as they looks to maintain balance sheet strength ahead of the next rights renewal cycle. SKT has been losing subs while maintaining a watching brief to this point but has now taken the first step into the unknown with an overhaul of pay-tv pricing. SKT still needs to embrace more of the 55% of the market it doesn't reach if it is to retain content exclusivity in the longer term.

2018 P/E: 9.0 2019 P/E: 12.8

NZX Code:	**SKT**
Share Price:	**$2.29**
12mth Target:	**$2.29**
Projected return (%)	
Capital gain	0.0%
Dividend yield (Net)	6.4%
Total return	**6.4%**

Rating: UNDERPERFORM

52-week price range: 2.26-3.96

Spark NZ

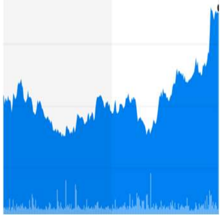
2018 could see some change in the NZ Telco sector with the possibility of an IPO of the number 2 telco, providing a relevant valuation benchmark for SPK and more visibility into the sector, and the potential sale of Vocus NZ presenting some interesting potential changes in industry structure. While FNZC expect SPK to be in the process – the major prize for it (the consumer business) may be challenging on competition grounds.

2018 P/E: 15.8 2019 P/E: 14.7

NZX Code:	**SPK**
Share Price:	**$3.57**
12mth Target:	**$3.17**
Projected return (%)	
Capital gain	-11.2%
Dividend yield (Net)	7.4%
Total return	**-3.8%**

Rating: UNDERPERFORM

52-week price range: 3.32-3.96



Summerset Group

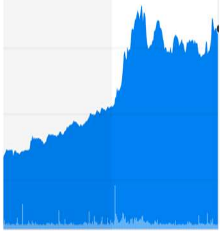
SUM will likely focus on a strong development margin driving ongoing strength in year on year underlying profit growth. As a result it is unlikely to follow MET and move away from underlying profit in setting dividends. Our analysts remain focused on cash flow; gearing and management of inventory levels given the potential impact of a turn in the housing cycle at some point.

2018 P/E: 39.3 2019 P/E: 34.4

NZX Code:	**SUM**
Share Price:	**$6.44**
12mth Target:	**$5.79**
Projected return (%)	
Capital gain	-10.1%
Dividend yield (Net)	1.7%
Total return	**-8.4%**

Rating: NEUTRAL

52-week price range: 4.60-6.52



Synlait Milk

SML has significant momentum in its earnings profile in the next few years as leverage on growing Infant Formula (IF) volumes comes through. Our analyst has expressed some caution about the long-term margin and return on capital implied in market pricing that has been over NZ$8/share. That caution reflects high customer concentration (A2 Milk - ATM), relatively short duration contracts (three years rolling with ATM from August 2018) and risks they see as ATM's business matures that will likely see it diversify its supplier relationships and bring blending/canning in house

2018 P/E: 17.6 2019 P/E: 15.5

NZX Code:	**SML**
Share Price:	**$6.47**
12mth Target:	**$5.98**
Projected return (%)	
Capital gain	-6.5%
Dividend yield (Net)	0%
Total return	**-6.5%**

Rating: NEUTRAL

52-week price range: 3.25-8.25

Tilt Renewables

TLT's existing wind electricity generation assets provide a stable earnings base which helps support its aggressive Australian wind development options. While the development opportunity is unquestionably large, the 'National Energy Guarantee' (NEG) proposed by the Australian Government represents a negative risk for the development of renewable electricity generation. This has justifiably weighed on TLT's share price recently, although management says it is too soon to judge the NEG effect.

2018 P/E: n/a 2019 P/E: 26.8

NZX Code:	**TLT**
Share Price:	**$1.85**
12mth Target:	**$2.03**
Projected return (%)	
Capital gain	9.7%
Dividend yield (Net)	5.0%
Total return	**14.7%**
Rating: OUTPERFORM	
52-week price range: 1.83-2.27	

Tourism Holdings

Visitor arrivals growth has been moderating in FY18, albeit from relatively high levels. Accordingly, we expect THL to carry revenue and earnings momentum into 1H18. Considering the impact the El Monte acquisition and one-off factors (such as the Lions Tour), we view THL's current guidance as relatively undemanding. Given the peak rental season occurs in the US in the first half, key risks include the integration of the recently acquired El Monte business.

2018 P/E: 18.0 2019 P/E: 16.2

NZX Code:	**THL**
Share Price:	**$5.92**
12mth Target:	**$5.23**
Projected return (%)	
Capital gain	-11.6%
Dividend yield (Net)	3.8%
Total return	**-7.8%**
Rating: UNDERPERFORM	
52-week price range: 3.45-6.10	

Trustpower

TPW's combined retail product margin outlook, Avoided Cost of Transmission (ACOT) and the prospects for industry consolidation are the key factors affecting its valuation outlook. However, its strong dividends are likely a focus of attention while the market remains hungry for yield. Expect TPW's valuation to exhibit more volatility (both up and down) than its peers as the outlook for its retail margins and ACOT exposure develop over time. I say HOLD.

2018 P/E: 13.7 2019 P/E: 14.8

NZX Code:	**TPW**
Share Price:	**$5.38**
12mth Target:	**$4.86**
Projected return (%)	
Capital gain	-8.8%
Dividend yield (Net)	7.3%
Total return	**-1.5%**
Rating: UNDERPERFORM	
52-week price range: 4.48-6.05	

Vector

Operating EBITDA came in at $250.0m, down 2.7% on the pcp, and below our $259.9m forecast with the miss primarily from VCT's Technology division and higher maintenance costs on the electricity network. VCT did not disclose the earnings contribution from the Technology businesses acquired during 2017 but did note Smart meters increased their contribution to earnings by $5m.

2018 P/E: 25.1 2019 P/E: 25.8

NZX Code:	**VCT**
Share Price:	**$3.33**
12mth Target:	**$3.60**
Projected return (%)	
Capital gain	9.1%
Dividend yield (Net)	5.1%
Total return	**14.2%**
Rating: NEUTRAL	
52-week price range: 3.11-3.51	

Vista Group

Vista Group is not as well-known but, if you have visited the cinema in recent times, you almost undoubtedly came into contact with one of the firm's solutions. Vista has become world leader in software solutions to the cinema industry, providing cloud-based ticketing and cinema management solutions as well as big data analytics to cinema and movie owners – helping the film industry improve returns. Yes, it's a niche industry but Vista dominates it and is a Kiwi-born global leader you may never have heard of.

2018 P/E: 25.4 2019 P/E: 19.5

NZX Code:	**VGL**
Share Price:	**$2.75**
12mth Target:	**$2.95**
Projected return (%)	
Capital gain	7.3%
Dividend yield (Net)	2.0%
Total return	**9.3%**
Rating: NEUTRAL	
52-week price range: 2.70-6.26	

Xero

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Z Energy

Swiftly rising crude prices have meant lower gross margins on commercial contracts, which are typically sold via lagged crude-linked contract price terms ("m-1" contract prices set the contract sale price at the previous month input cost) expected to continue in 4QFY18 and so reduce 2H18 RC EBITDAF by between -$14m to -$18m, or roughly 0.6cpl across FY18 commercial volumes. Further supply one-off chain disruptions occurred in late 2017, including a precautionary Refinery-Auckland-Pipeline outage leading to "stock-outs" for some products across parts of Auckland. Management estimate a $7m FY18 EBITDAF impact. Management argue these are both "one-off" factors, FNZC agree.

2018 P/E: 14.4 2019 P/E: 13. 1

NZX Code:	**ZEL**
Share Price:	**$6.93**
12mth Target:	**$7.70**
Projected return (%)	
Capital gain	11.1%
Dividend yield (Net)	4.7%
Total return	**15.8%**
Rating: NEUTRAL	
52-week price range: 6.80-8.04	

If you are looking for a
a sharebroker, I recommend
GRAHAM NELSON AFA
Director, Wealth Management Advisor

Graeme works out of First NZ Capital's Wellington office. With modern communications you won't be disappointed...

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D +64 4 496 5318 | M +64 21 447 242
Email: graham.nelson@fnzc.co.nz

NZ LISTED COMPANIES	Ticker	Mrkt Cap	Price	Target Price	Price Earnings (x)		Net Yield (%)	
5th March 2018			5-Mar-18					
Source: First NZ Capital, CSFB		(NZ$000)	(NZ$)	(NZ$)	FY18	FY19	FY18	FY19
CONSUMER DISCRETIONARY								
Restaurant Brands New Zealand	RBD	886	7.17	6.55	21.7	18.9	3.4%	3.8%
Kathmandu	KMD	435	2.15	2.15	10.9	10.3	6.0%	6.3%
Michael Hill International	MHJ	426	1.18	1.36	12.4	12	4.5%	4.5%
NZME Limited	NZM	153	0.78	0.82	6.2	7.1	9.6%	8.3%
Sky Network Television Limited	SKT	914	2.35	2.29	8.3	11.9	6.4%	6.4%
SKYCITY Entertainment Group Ltd.	SKC	2,576	3.82	3.75	15.6	14.9	5.2%	5.2%
The Warehouse Group Limited	WHS	704	2.03	2.05	10.3	9.5	7.9%	7.9%
Tourism Holdings Ltd	THL	726	5.99	5.23	18.3	16.4	3.8%	4.6%
Trade Me Group Ltd	TME	1,716	4.32	4.42	17.9	16.4	4.8%	5.5%
Turners Automotive	TRA	242	2.86	3.6	9.7	9.5	5.2%	5.6%
CONSUMER STAPLES								
Delegat Group	DGL	817	8.08	7.6	19.2	16.8	1.7%	1.9%
Comvita Limited	CVT	353	7.75	7.83	19.7	16.9	2.30%	2.70%
Fonterra Shareholders' Fund	FSF	811	5.95	6.12	12.5	8.9	5.9%	7.9%
Green Cross Health Ltd	GXH	242	1.69	2.22	12.8	12.1	4.10%	4.10%
New Zealand King Salmon Co Ltd	NZK	267	1.93	2.37	18.2	18.7	3.6%	3.5%
PGG Wrightson	PGW	453	0.6	0.61	13	12.3	6.3%	6.3%
Sanford	SAN	712	7.6	8.5	15.3	14.2	3.0%	3.0%
Scales Corporation	SCL	626	4.48	5	16	14.9	4.2%	4.7%
Synlait Milk Limited	SML	1,344	7.5	5.98	19.6	17.2	0.0%	0.0%
Tegel	TGH	367	1.03	1.24	10.8	10.5	6.90%	7.60%
The a2 Milk Company Limited	ATM	9,466	12.94	12.75	53.3	37.9	0.00%	0.00%
ENERGY								
NZ Refining	NZR	756	2.42	3.02	10.0	12.5	6.3%	8.2%
Z Energy	ZEL	2,764	6.91	7.7	12.9	12	4.7%	8.0%
FINANCIALS								
Heartland Bank Ltd	HBL	1,008	1.81	1.83	14.8	13.9	5.2%	5.5%
NZX	NZX	287	1.07	1.16	16.6	15.6	5.8%	5.9%
HEALTH CARE								
AFT Pharmaceuticals	AFT	233	2.39	3.09	-20.3	38.7	0.0%	0.0%
Ebos Group Limited	EBO	2,744	17.99	18.45	18.7	17.6	3.8%	4.0%
Fisher & Paykel Healthcare	FPH	7,706	13.49	12.00	40.3	36.1	1.7%	1.9%
Orion Health Limited	OHE	156	0.8	1.01	-5	-21.6	0.00%	0.00%
Arvida	ARV	505	1.22	1.22	14.7	12.3	3.8%	4.9%
Metlifecare Limited	MET	1,253	5.88	7.86	17.6	15.4	1.7%	3.4%
Oceania Healthcare Ltd	OCA	604	0.99	1.06	11.8	11.7	4.7%	5.0%
Ryman Healthcare Ltd	RYM	5,300	10.6	7.54	48.6	44	1.7%	1.8%
Summerset Group Holdings	SUM	1,411	6.3	5.79	40.8	35.8	1.50%	1.70%
INDUSTRIALS								
Freightways	FRE	1,142	7.36	7.25	19.0	17.3	4.1%	4.9%
Air New Zealand	AIR	3,638	3.24	3	9.3	10	6.80%	6.80%
Mainfreight	MFT	2,402	23.85	21.6	21.4	18.3	1.90%	2.30%
Methven	MVN	79	1.08	1.25	11.6	9.9	6.90%	7.40%
Metro Performance Glass	MPG	156	0.84	1.20	7.2	6.7	7.7%	8.2%
Port of Tauranga	POT	3,437	5.05	3.80	36.1	33.6	2.5%	2.7%
Skellerup Holdings	SKL	362	1.88	1.9	14.2	13.1	5.90%	6.40%
INFORMATION TECHNOLOGY								
Gentrack Group Ltd	GTK	530	6.33	6.10	28.7	23.9	3.0%	3.5%
Vista Group International	VGL	442	2.68	2.95	24.6	19.0	1.9%	2.6%
MATERIALS								
Fletcher Building	FBU	4,538	6.51	8.40	-78.3	10.6	0.0%	1.5%
Steel & Tube	STU	187	2.06	2.00	10.2	10.0	6.8%	6.8%
REAL ESTATE								
Argosy Property Ltd	ARG	852	1.03	1.08	15.7	15.3	6.0%	6.0%
Augusta Capital Ltd	AUG	93	1.07	1.13	13.9	13	5.2%	5.2%
Goodman Property Trust	GMT	1,713	1.33	1.3	17	16.7	5.0%	5.0%
Investore Property Limited	IPL	359	1.37	1.48	17.5	16.4	5.4%	5.8%
Kiwi Property Group Limited	KPG	1,896	1.34	1.43	18.4	17.8	5.1%	5.2%
NPT Limited	NPT	96	0.59	0.66	15.4	16.4	6.1%	6.1%
Precinct Properties NZ	PCT	1,556	1.29	1.32	20.3	19.6	4.5%	4.7%
Property for Industry Ltd	PFI	815	1.64	1.64	19.5	18.8	4.6%	4.7%
Stride Property Group	SPG	617	1.69	1.9	16.1	16.5	5.9%	5.9%
TELECOMMUNICATION SERVICES								
Chorus	CNU	1,584	3.73	4.12	18.6	33.7	5.9%	5.9%
Spark NZ	SPK	6,202	3.38	3.17	16.1	15	7.4%	7.4%
UTILITIES								
Contact Energy	CEN	3,760	5.25	6.5	24.8	19.4	6.1%	7.7%
Genesis Energy Limited	GNE	2,320	2.32	2.16	22.4	19.9	7.3%	7.8%
Infratil	IFT	1,725	3.08	3.2	31.7	22.4	5.4%	5.7%
Mercury NZ	MCY	4,374	3.18	3.07	24.9	27.7	5.3%	5.3%
Meridian Energy	MEL	7,176	2.8	2.83	36.9	31.2	6.80%	6.90%
TILT Renewables	TLT	540	1.85	2.03	-443.1	26.3	3.0%	6.6%
TrustPower	TPW	1,624	5.19	4.86	11.4	14.6	7.30%	7.20%
Vector	VCT	3,260	3.26	3.6	24.8	25.5	5.1%	5.2%
Market Average*					**17.6**	**17.8**	**4.5%**	**4.9%**
**PE ratios exclude: AFT, ERD, FBU, OHE, PEB, TLT*								

FNZC NEW ZEALAND EQUITIES RECOMMENDATIONS

5-MARCH-2018

COMPANY	UNDERPERFORM	NEUTRAL	OUTPERFORM
Hotels, Restaurants	Tourism Holdings (THL)	Restaurant Brands (RBD) Sky City Entertainment (SKC)	
Internet		Trade Me Group (TME)	
Media	Sky Network Television (SKT)	NZME (NZM)	
Retail		Warehouse Group (WHS) Kathmandu (KMD)	Michael Hill International (MHJ)
Beverages		Delegat Group (DGL)	
Food	Synlait Milk (SML)	Fonterra Shareholders' Fund (FSF) PGG Wrightson (PGW) Tegel (TGH)	The a2 Milk Company (ATM) Green Cross Health (GXH) NZ King Salmon (NZK) Sanford (SAN) Scales Corporation (SCL)
Personal Products		Comvita (CVT)	
Oil & Gas		Z Energy (ZEL)	NZ Refining (NZR)
Financials	Heartland Bank (HBL)	NZX (NZX)	
Insurance			Turners Automotive (TRA) CBL Corporation (CBL)
Healthcare	Fisher & Paykel Health (FPH)	Arvida (ARV) Ebos Group (EBO) Orion Health (OHE)	AFT Pharmaceuticals (AFT)
Retirement	Ryman Healthcare (RYM)	Oceania Healthcare (OCA) Summerset Group Holdings (SUM)	Metlifecare (MET)
Transportation	Air New Zealand (AIR) Mainfreight (MFT) Port of Tauranga (POT)	Freightways (FRE)	
Building Products / Industrials		Methven (MVN) Steel & Tube (STU) Skellerup Holdings (SKL)	Metro Perform. Glass (MPG) Fletcher Building (FBU)
Software	Gentrack Group (GTK) Xero (XRO)	Vista Group International (VGL)	
Property		Argosy Property Ltd (ARG) Goodman Property Trust (GMT) Kiwi Property Group Limited (KPG) Precinct Properties NZ (PCT) Property for Industry Ltd (PFI)	Augusta Capital (AUG) Investore Property (IPL) NPT Limited (NPT) Stride Property Group (SPG)
Telecom	Spark NZ (SPK)	Chorus (CNU)	
Energy	Genesis Energy (GNE) Mercury NZ (MCY) TrustPower (TPW)	Infratil (IFT) Meridian Energy (MEL) Vector (VCT)	Contact Energy (CEN) TILT Renewables (TLT)

FNZC AUSTRALIAN EQUITIES RECOMMENDATIONS 5-MARCH-2018

COMPANY	UNDERPERFORM	NEUTRAL	OUTPERFOR
Hotels, Restaurants	Flight Centre (FLT)	Domino's Pizza (DMP) Aristocrat Leisure (ALL) Crown (CWN) Tabcorp (TAH)	Star Entertainment (SGR)
IT Services		Link Administration Holdings (LNK) Computershare (CPU)	
Media		Fairfax Media (FXJ) Harvey Norman (HVN)	
Retail	JB Hi-Fi (JBH)	Woolworths (WOW) Wesfarmers (WES)	
Beverages	Treasury Wine (TWE)		Coca-Cola Aml (CCL)
Food			The a2 Milk Company (A2M) Graincorp (GNC) Perpetual (PPT)
Oil & Gas	Woodside Petroleum (WPL)	Oil Search (OSH)	Caltex Aust (CTX) Origin Energy (ORG) Santos Ltd (STO)
Financials	ASX (ASX)	BT Investment Management (BTT) Janus Henderson Group (JHG) Bank of Queensland (BOQ) ANZ Banking Group (ANZ) Commonwealth Bank Aust (CBA) Bendigo and Adelaide Bank (BEN) Westpac (WBC) Challenger (CGF)	Magellan Financial (MFG) Clydesdale Bank (CYB) National Australia Bank (NAB) AMP (AMP) Macquarie Group (MQG) IOOF Holdings (IFL)
Insurance		Insurance Australia (IAG) Medibank Private Limited (MPL) QBE Insurance Group (QBE)	Suncorp Group Limited (SUN)
Healthcare	Ansell Limited (ANN) Healthscope (HSO)	Cochlear (COH) ResMed Inc. (RMD) Ramsay Health Care (RHC) Sonic Healthcare (SHL)	CSL (CSL)
Industrials	Seek (SEK)	Brambles (BXB) Downer EDI (DOW)	
Chemicals & Materials	Incitec Pivot (IPL)	Orora (ORA) Amcor (AMC) Adelaide Brighton (ABC) Dulux Group (DLX) Orica (ORI) CSR (CSR)	James Hardie Industries (JHX) Boral (BLD)
Metals & Mining	Newcrest Mining (NCM) Northern Star Res (NST) South 32 (S32)	BHP Billiton (BHP) Alumina Limited (AWC) Evolution Mining Limited (EVN) OZ Minerals (OZL)	BlueScope Steel (BSL) Iluka Resources (ILU) Fortescue Metals Group (FMG) Ro Tinto (RIO)
Transportation	Qube Holdings (QUB) Sydney Airport (SYD)		Transurban (TCL.AX) Macquarie Atlas (MQA) Qantas (QAN)
Building Products	CIMIC Group (CIM)		
Software	carsales.com.au (CAR)	REA Group (REA)	
Property	Dexus Property Group (DXS) Charter Hall Group (CHC)	Investa Office Fund (IOF) Goodman Group (GMG) Vicinity Centres (VCX)	Scentre Group (SCG) GPT Group (GPT) Lend Lease (LLC) Mirvac Group (MGR) Stockland Westfield Corporation (WFD) Stockland Group (SGP)
Telecom	TPG Telecom (TPM)		Telstra Corporation (TLS)
Energy	APA Group (APA)	AusNet Services (AST) Spark Infrastructure (SKI)	AGL Energy (AGL)

GLOBAL EQUITIES

BANKERS INVESTMENT TRUST

Bankers ITC has been a solid long-term performer through a value style with an income bias. Unlike most of its Global Growth peers, which are now managed with a single global portfolio, Bankers is managed using a traditional approach with stock selection in regional portfolios delegated to managers at Janus Henderson (resulting in around 200 stocks in total). Historically, the Company has had a "neutral" UK weight of 40%.

The UK weighting has been reduced to 26% in the past 2 years. Performance was strong in 2017 (NAV up 32% in NZ$), helped by significant weightings in Asia, Europe and Japan, as well strong returns from the US portfolio which has adopted a more growth-oriented approach since 2015.Share price performance in 2017 of 46.2% was enhanced by a narrowing of the discount to 1%. In our view, there is some risk that the discount could widen again, as the Company has no firm discount control mechanism. However, Bankers has a low ongoing charges ratio of 0.52% and pays a quarterly yield of 2.1% pa, having increased its dividend has increased for 50 consecutive years. Following the merger of Henderson Global Investors with Janus in May 2017, Alex Crooke has been promoted to co-head of Equities within the group. As a result, he is likely to spend more time travelling to the US for marketing and management meetings (Janus is based in Denver). FNZC understand that Alex remains committed to Bankers, which he has run since mid-2003, and the Company is a sizeable mandate for Janus Henderson with net assets of £1.1bn. However, it was announced recently that Alex has handed over responsibility for stock selection in the fund's UK portfolio to David Smith. They have worked together for a number of years running Henderson High Income, with David taking over a lead manager in mid-2015. Alex remains in charge of overall asset allocation for Bankers.

TEMPLETON EMERGING MARKETS

While we did not expect the retirement of Mark Mobius from the end of January 2018 to have any impact on **Templeton Emerging Markets** (TEMIT), noting that the management transition had already taken place. However, the announcement (see below) of Carlos Herdenberg's resignation at the beginning of February this year, (effective 31 March 2018) and the appointment of Chetan Sehgal as lead manager has taken us, like others, by surprise. We have been impressed by Carlos Hardenberg and his track record has been impressive since taking over TEMIT. As a result, a further change in management inevitably raises some concerns.

Notwithstanding, we understand that there will be no significant change in investment approach given that Carlos and Chetan worked closely together, and they have been jointly managing a number of portfolios. The similarity in approach is highlighted by TEMIT having over a 90% portfolio overlap with Templeton Developing Markets, a $1.7bn US listed fund, for which Chetan is lead manager. TEMIT is currently trading on a c.11.0% discount, and while there may be some volatility in the short-term, the Company's board has typically been active in buying back shares when the discount exceeds 10%.

Since the change in management in 2015, there have been substantial shifts in TEMIT's portfolio. The investment approach remains focused on value through bottom-up stock picking, but the definition of value is now much broader, seeking to factor in companies with long-term competitive advantage as well as strong balance sheets and good corporate governance. This has led to increased exposure to a number of key themes such as improved sentiment towards China and structural growth in the internet. As a result, the portfolio's weighting in Technology stocks is now 31% versus c.6% in mid-2015. In addition, the portfolio is now more diversified, with the number of stocks increased from 56 to 95, although the manager has stressed that it does not mean it is becoming more "index aware". The risk profile of Templeton Emerging Markets has undoubtedly changed over the past two years, and the Company could now be vulnerable to a set-back in the rating of Technology stocks that have surged over the past year (the largest holdings include Samsung Electronics 8.1%, TSMC 4.5%, Alibaba 4.0%, and Tencent 3.4% with a further 5.7% in Naspers).

Current Sector Recommendations:

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

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