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Investment Strategies

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Credit Suisse now forecast 2017 to be the fastest year global economic growth since 2011. Helping to drive this is Donald Trump in the US and Chinese fiscal expansion. This is expected to lead to accelerated earnings growth, including in Australia. So far higher earnings growth has been concentrated on the resource companies. However, expect this to broaden as the global economic recovery takes hold. In this environment you can expect fund managers to shift their focus from stocks which offer earnings growth and earnings certainty to companies offering value with low relative returns on equity. Have a look (under Australian Equities – page 21) at a list of stocks which match these criteria.

The annual NZ Herald stock picks were published during the summer break. FNZC's picks for this year are **Synlait, F&P, Xero, Contact Energy** and **Tegel**. As always there were a number of other stocks that did not quite make the top 5 but look to have good prospects - these included **Fonterra, Turners** and **Tilt Renewables** (ex Trustpower).

My picks for 2017 are:

- **Port of Tauranga**
- **Synlait Milk**
- **Trustpower**
- **Xero**
- **Z Energy**

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Statistics NZ Data

NEXT CENSUS DUE: 2018

Population	
Estimated population at 30 Sept 2016:	4,718,700
Births June 2016 year (Dec 14: 57,242)	58,992
Deaths June 2016 year (Dec 14: 31,063)	31,389
Net migration December 2016 year	70,588
Employment	
Total employed December 2016 quarter:	2,510,000
Change in employed since Sept quarter:	+16,000
Unemployment rate Dec 2016 quarter:	5.2%
Ave weekly earnings Dec 2016 quarter:	$1,129.72
Wage inflation December 2016 quarter:	1.6%
Cost Price Index December 2016 quarter:	0.4%
Intern. Investment Position Sept quarter:	**-$166.2 Bn**
Change from last quarter:	**$55m**
GDP per capita year ended Sept 2016	**$54,842**
GDP Growth for 2016 year to June	**3.6%**
Visitor arrivals 2016 year to Sept +11.4%	**3,386,685**

Source: Statistics New Zealand

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"Risk comes from not knowing what you are doing."

Warren Buffet, Chair of Berkshire Hathaway Inc

The FUTURE is approaching faster than most can handle...

In 1998, Kodak had 170,000 employees and sold 85% of all photo paper worldwide. Within just a few years, their business model disappeared and they went bankrupt. What happened to Kodak will happen in a lot of industries in the next 10 years and, most people won't see it coming. Did you think in 1998 that 3 years later you would never take pictures on film again? Yet digital cameras were invented in 1975. The first ones only had 10,000 pixels, but followed Moore's law for computers.

So as with all exponential technologies, it was a disappointment for a time, before it became way superior and became mainstream in only a few short years. It will now happen again with Artificial Intelligence, health, autonomous and electric cars, education, 3Dprinting, agriculture and jobs. Welcome to the 4th Industrial Revolution. Welcome to the Exponential Age.

Software will disrupt most traditional industries in the next 5-10 years. **Uber** is just a software tool - they don't own any cars, and are now the biggest taxi company in the world. **Airbnb** is now the biggest hotel company in the world, although they don't own any properties.

Artificial Intelligence: Computers become exponentially better in understanding the world. This year, a computer beat the best Go-player in the world, 10 years earlier than expected.

Lawyers: In the US, young **lawyers** already don't get jobs. Because of IBM's Watson, you can get legal advice (so far for more or less basic stuff) within seconds, with 90% accuracy compared with 70% accuracy when done by humans. So if you study law, stop immediately. There will be 90% less lawyers in the future, only specialists will remain. Watson already helps nurses diagnosing cancer, its 4 times more accurate than human nurses.

Facebook now has a pattern recognition software that can recognize faces better than humans. In 2030, computers will become more intelligent than humans.

Autonomous cars: In 2018 the first self-driving cars will appear for the public. Around 2020, the complete industry will start to be disrupted. You don't want to own a car anymore. You will call a car with your phone, it will show up at your location and drive you to your destination. You will not need to park it, you only pay for the driven distance and can be productive while driving. Our kids will never get a driver's licence and will never own a car. It will change the cities, because we will need 90-95% less cars for that. We can transform former parking spaces into parks.

1.2 million people die each year in car accidents worldwide. We now have 1 accident every 100,000km, with autonomous driving that will drop to 1 accident in 10m km. That will save a million lives each year.

Most car companies will probably become bankrupt. Traditional car companies try the evolutionary approach and just build a better car, while tech companies (Tesla, Apple, Google) will do the revolutionary approach and build a computer on wheels. Many engineers from Volkswagen and Audi; are completely terrified of Tesla.

Insurance companies will have massive trouble because without accidents, the insurance will become 100x cheaper. Their car insurance business model will disappear.

Real estate will change. Because if you can work while you commute, people will move further away to live in a more beautiful neighbourhood.

Electric cars will become mainstream about 2020. Cities will be less noisy because all new cars will run on electricity. Electricity will become incredibly cheap and clean: Solar production has been on an exponential curve for 30 years, but you can now see the burgeoning impact.

Solar Energy: Last year, more solar energy was installed worldwide than fossil. Energy companies are desperately trying to limit access to the grid to prevent competition from home solar installations, but that can't last. Technology will take care of that strategy. With cheap electricity comes cheap and abundant water.

Desalination of salt water now only needs 2kWh per cubic meter (@ 0.25 cents). We don't have scarce water in most places, we only have scarce drinking water. Imagine what will be possible if anyone can have as much clean water as he wants, for nearly no cost.

Health: The Tricorder X price will be announced this year. There are companies who will build a medical device (called the "Tricorder" from Star Trek) that works with your phone, which takes your retina scan, your blood sample and you breath into it. It then analyses 54 bio-markers that will identify nearly any disease. It will be cheap, so in a few years everyone on this planet will have access to world class medical analysis, nearly for free Goodbye, medical establishment.

3D printing: The price of the cheapest 3Dprinter came down from $18,000 to $400 within 10 years. In the same time, it became 100 times faster. All major shoe companies have already started 3D printing shoes. Some spare airplane parts are already 3D printed in remote airports. The space station now has a printer that eliminates the need for the large amount of spare parts they used to have in the past. At the end of this year, new smart phones will have 3D scanning possibilities. You can then 3D scan your feet and print your perfect shoe at home. In China, they already 3D printed and built a complete 6-storey office building. By 2027, 10% of everything that's being produced will be 3D printed.

Business opportunities: If you think of a niche you want to go in, first ask yourself: "In the future, do I think we will have that?" and if the answer is yes, how can you make that happen sooner? If it doesn't work with your phone, forget the idea. And any idea designed for success in the 20th century is doomed to failure in the 21st century.

Work: 70-80% of jobs will disappear in the next 20 years. There will be a lot of new jobs, but it is not clear if there will be enough *new* jobs in such a short time. This will require a rethink on wealth distribution.

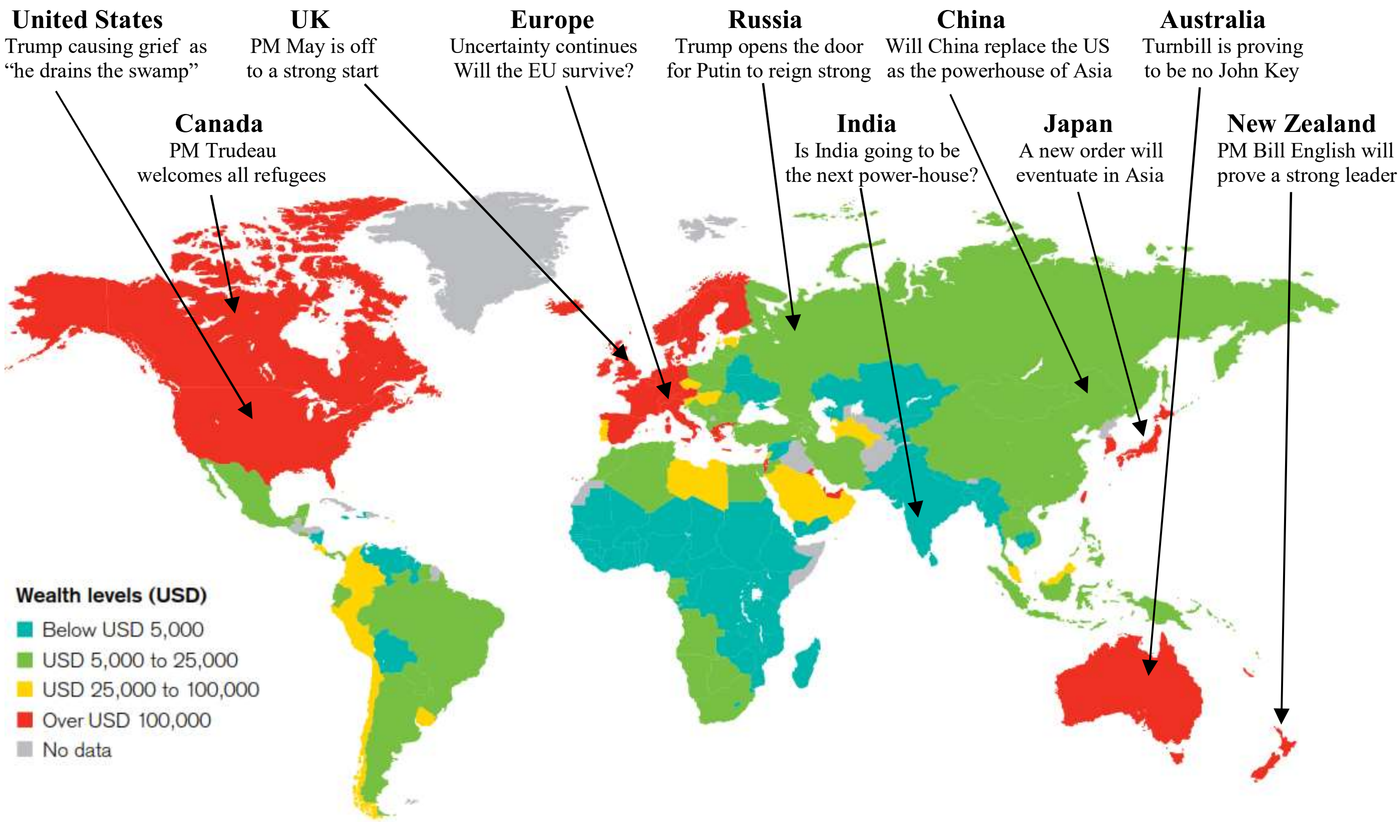
Agriculture: There will be a $100 agricultural robot in the future. Farmers in 3rd world countries can then become managers of their field instead of working all day on their fields.

Aeroponics will need much less water. The first Petri dish produced veal, is now available and will be cheaper than cow produced veal in 2018. Right now, 30% of all agricultural surfaces is used for cows. Imagine if we don't need that space anymore.

There are several start-ups who will bring insect protein to the market shortly. It contains more protein than meat. It will be labelled as "alternative protein source" (because most people still reject the idea of eating insects).

There is an app called "moodies" which can already tell in which mood you're in. By 2020 there will be apps that can tell by your facial expressions, if you are lying. Imagine a political debate where it's being displayed when they're telling the truth and when they're not.

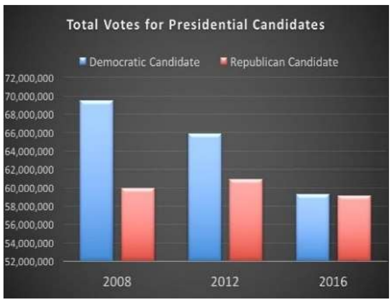
THE WORLD AT A GLANCE – including World wealth levels 2016, Credit Suisse



US ELECTIONS

I am not a Trump fan per se, but I despise a media that is just so biased. Trump led in the total popular vote for all states except California and New York. Hillary won California 5,860,714 to Trump's 3,151,821. 61.6% to 33.1%, exclusive of the other candidates. Thus California gave Hillary the popular vote for all states as claimed by the Democrats and their media stooges.

But deduct her California vote from her national vote leaving her with 54,978,783, and deduct Trump's California vote from his national total, leaving him with 57,113.976, he wins in a landslide in the other 49 states, 51.3% to her 48.7%.



So, in effect, Hillary was elected president of California and Trump was elected president of the rest of the country, by a substantial margin.

This exemplifies the wisdom of the Electoral College, to prevent the votes of any one populace state from overriding the votes of the others.

New Zealand businessman Chris Liddell appointed to Trump's team

I met Chris Liddell at a Bluegreens Strategy Day in Wellington in December, and he certainly has an impressive persona.

Chris Liddell, the Kiwi joining Donald Trump's administration as an assistant to the President and director of Strategic Initiatives, is one of New Zealand's leading businessmen. At 58-years-old his CV includes stints as the chief financial officer of Microsoft and General Motors. While at GM, he helped engineer its US$23 bn float in 2010 - at the time one of the biggest sharemarket listings in history.

Chris has now stood down as Chair of accounting software maker Xero, and has previously held positions as the CFO of International Paper, a chief executive of Carter Holt Harvey and co-CEO of investment bank Credit Suisse First Boston. A companion to the New Zealand Order of Merit, Liddell also chairs Next Foundation - an $100m+ environmental and education fund.

In 2012, Liddell was Executive Director of Transition Planning for the Romney Presidential Campaign. Liddell is a recognized authority on presidential transitions and the author of Romney Readiness Project: Retrospectives and Lessons Learned. He also was a director and treasurer of the Romney for President fundraising campaign, a joint fundraising vehicle with the Republican National Committee (RNC).

Inside Trump's Team

THE new game in Washington (under Donald Trump) is about "balanced trade", not free trade. Chris Liddell's contention is that despite the president-elect's less charming qualities, Trump is on the money when it come to the need for the United States to get a better deal out of its trading agreements. Liddell contends that the days of unbridled free trade and unbridled free markets are over. He said he thought there would be a new, circular trend towards a much more restrained free market. This is clearly a major shift.

The United States has forged several agreements with other nations, think Panama for instance, which are more focused on shoring up its strategic interests than increasing its own trade.

It has been said that America's US$2bn trade surplus with Mexico has turned into a US$50bn deficit since the North American Free Trade Agreement went into effect. Instead of shrinking, America's trade deficit with China, which stood at US$80bn in 2011, has ballooned to nearly US$400bn. America's free trade agreement with South Korea has seen US. exports decline, imports double and 11,000 jobs quickly lost.

Who is Jared Kushner? *He is Trump's son-in-law; named his senior adviser*

He's gone from New York businessman to top political aide, but what role does he really play in the president-elect's life?

Jared Kushner has been named a senior adviser in his father-in-law Donald Trump's new administration. His appointment to such a major position without any political background indicates "Trump intends to adopt the management style of a New York real estate empire, with family at the pinnacle and staff members, however trusted or talented, at the bottom."

Like Trump himself, Kushner was born into a family of New York real estate developers. Raised in an Orthodox Jewish family in New Jersey, he entered the family business straight out of Harvard University.

He started dating Ivanka Trump in 2005 and after a brief split, the couple married in 2009. They now have three children together: Arabella, five, Joseph, three, and Theodore, who turns one in March.

Ivanka converted to Judaism to marry Kushner – a fact Trump has repeatedly referenced both to bolster his pro-Israel credentials and deflect accusations his campaign has flirted with anti-Semitic elements of the so-called "alt right".

What role will Kushner play in the White House?

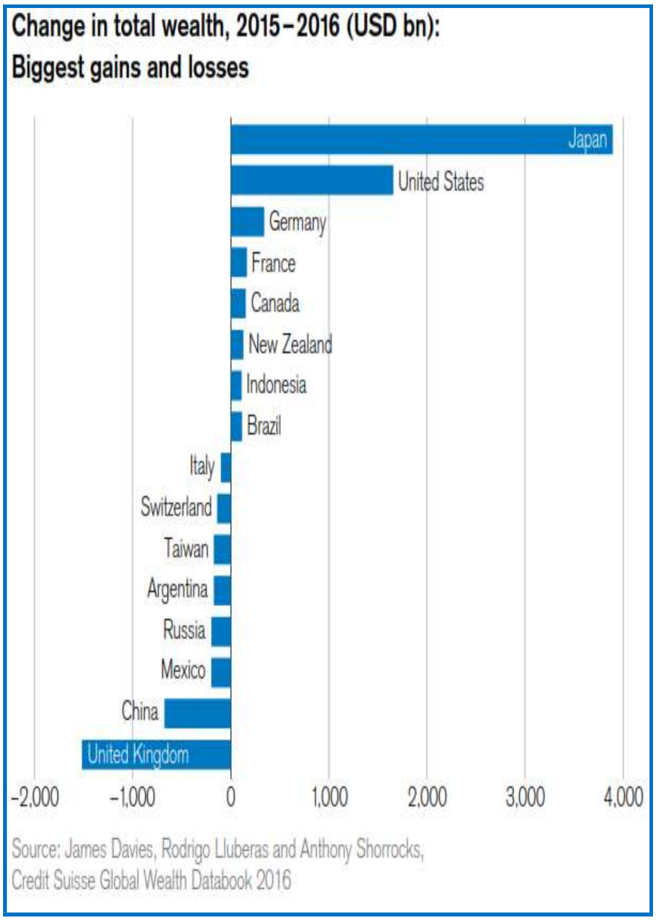
As senior adviser, it is believed that Kushner "will initially focus on trade policy and the Middle East." Regardless of official titles, Kushner and Ivanka were always going to represent a formidable power couple in any future Trump administration Kushner has long been one of his father-in-law's closest advisers, while Ivanka – Trump's self-professed favourite child – was intimately involved in the election campaign and is said to exert an unmatched influence over the president-elect.

What has the reaction been?

US anti-nepotism law bars government officials from hiring relatives, but Trump's lawyers argue the legislation does not apply to White House staff - and that, in any case, Kushner's role will be unpaid and therefore exempt. Despite concerns, Kushner's appointment offers a glimmer of hope to those disturbed by the incoming president's outlandish and often contradictory statements. The businessman is considered a "steady and stabilising presence".

Global wealth 2016: The year in review

Now in its seventh edition, the Credit Suisse Global Wealth Report is the most comprehensive and up-to-date source of information on global household wealth. The United States continued its unbroken spell of wealth gains since the financial crisis, but Japan added more to its stock of wealth.



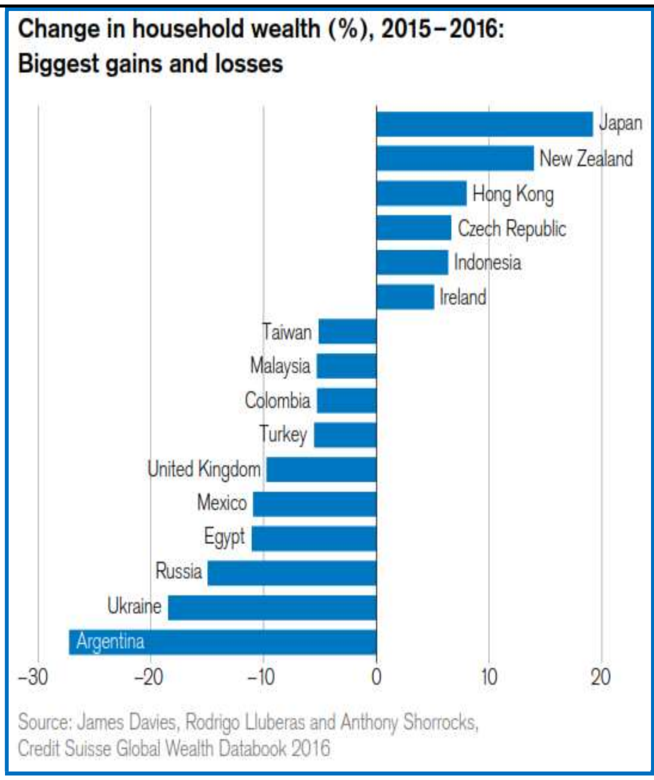
The United Kingdom was the main loser, losing USD 1.5 trillion in the aftermath of the vote to leave the European Union. The share of financial assets fell for the first time in many years, but it is too early to tell if this will halt the upward trend in wealth inequality which has pushed the share of the top 1% of wealth holders to above 50%.

The pattern of market capitalization displayed is broadly representative of the rest of the world. However, a few countries experienced more extreme results. **Market capitalization rose by more than 10% in Hungary and in Vietnam, and by more than 20% in New Zealand and in Slovakia.**

The removal of sanctions meant that Iran was an outlier, with market capitalization almost tripling during the period. Losers included Saudi Arabia, Egypt and Ireland, who each fared a little worse than China, but nowhere near as badly as Ukraine, which recorded a drop of 97%.

“Hope is not a strategy”

USAF Special Ops pilot



PRESIDENT OBAMA TAKES OFFICE 2009		PRESIDENT OBAMA LEAVES OFFICE 2017
$10.6 TRILLION	NATIONAL DEBT	$20 TRILLION
$31,000	DEBT PER U.S. CITIZEN	$61,340
65.8%	LABOR FORCE PARTICIPATION RATE	62.8%
67.3%	HOME OWNERSHIP RATE	63.5%
$57,744	REAL MEDIAN HOUSEHOLD INCOME	$54,045
$12,680	AVERAGE HEALTH INSURANCE RATE - FAMILY PLAN	$18,142
<40%	TAX TO BENEFITS RATIO	>60%
32 MILLION	FOOD STAMP DEPENDENTS	43.6 MILLION
38 MILLION	PERSONS LIVING IN POVERTY	45 MILLION

SOURCES: U.S. TREASURY DEPT. U.S. BUREAU OF LABOR STATISTICS U.S. DEPT OF AGRICULTURE U.S. CONGRESSIONAL BUDGET OFFICE

The Legatum Prosperity Index™ Rankings 2016

Australian economist Jason Murphy noted (in December 2016) *"New Zealand is 'smoking' the lucky country when it comes to having a healthy economy. I am not happy. New Zealand has beaten us again. Not in Rugby. I'd be fine with that. They have the All Blacks but we beat them in cricket so it all evens out. This is much bigger. New Zealand apparently beats us in prosperity. The Legatum Institute's annual prosperity index has* ***New Zealand at number one****. Australia languishes at sixth."*

Rank	Country	Economic Quality	Biz Environment	Governance	Education	Health & Safety	Security	Personal Freedom	Social Capital	Natural Environment
1	**New Zealand**	**1**	**2**	**2**	**15**	**12**	**19**	**3**	**1**	**13**
2	Norway	7	10	3	5	13	6	11	6	5
3	Finland	12	8	1	3	21	18	8	11	2
4	Switzerland	4	9	6	1	3	8	18	16	8
5	Canada	13	3	9	14	16	22	2	3	19
6	**Australia**	**15**	**7**	**13**	**4**	**8**	**20**	**12**	**2**	**14**
7	Netherlands	2	14	4	2	5	12	7	13	36
8	Sweden	3	13	5	13	6	10	14	18	9
9	Denmark	6	11	7	12	23	5	13	7	18
10	**United Kingdom**	**10**	**5**	**11**	**6**	**20**	**13**	**15**	**12**	**10**
11	Germany	5	12	10	16	10	7	21	9	6
12	Luxembourg	9	29	8	27	1	2	1	23	3
13	Ireland	25	15	14	7	24	16	5	10	25
14	Iceland	18	17	12	28	22	4	4	5	17
15	Austria	11	20	15	11	25	9	23	15	12
16	Belgium	16	19	16	9	11	30	9	24	26
17	**United States**	**14**	**1**	**22**	**8**	**32**	**52**	**26**	**4**	**35**
18	France	17	18	23	18	14	28	22	49	4
19	Singapore	8	6	18	10	2	1	97	31	11
20	Slovenia	30	60	38	23	35	14	20	22	1
21	Spain	38	42	35	22	17	15	16	29	15
22	Japan	19	21	17	20	4	3	49	101	48
23	Hong Kong	20	4	27	21	7	11	45	53	98
24	Malta	33	73	21	42	18	17	17	8	90
25	Portugal	35	40	28	61	41	25	10	42	27
26	Estonia	27	26	20	29	55	43	32	71	7
27	Czech Republic	26	30	34	24	27	27	28	78	32
28	Uruguay	40	39	19	73	38	55	6	27	67
29	Costa Rica	62	38	31	51	33	67	19	39	40
30	Mauritius	42	32	26	63	43	36	29	40	62
31	Chile	57	43	25	36	51	49	34	63	20
32	Italy	43	68	49	26	34	24	27	51	60
33	Cyprus	39	33	29	57	42	26	35	32	77
34	Poland	37	45	36	33	47	21	39	85	46
35	South Korea	29	36	41	17	19	29	73	105	91
36	Slovakia	46	49	48	30	46	23	43	86	34
37	Latvia	34	34	39	32	82	42	57	94	16
38	Malaysia	23	16	40	31	37	58	112	33	49
39	Panama	47	22	56	69	72	75	31	26	42
40	Israel	32	25	24	19	9	94	91	46	133

The Economic Quality sub-index ranks countries on the openness of their economy, macroeconomic indicators, foundations for growth, economic opportunity, and financial sector efficiency.

The Business Environment sub-index measures a country's entrepreneurial environment, its business infrastructure, barriers to innovation, and labour market flexibility.

The Governance sub- index measures a country's performance in three areas: effective governance, democracy and political participation, and rule of law.

The Education sub-index ranks countries on access to education, quality of education, and human capital.

The Health sub-index measures a country's performance in three areas: basic physical and mental health, health infrastructure, and preventative care.

The Safety & Security sub-index ranks countries based on national security and personal safety.

The Personal Freedom sub-index measures national progress to- wards basic legal rights, individual freedoms, and social tolerance.

The Social Capital sub-index measures the strength of personal relationships, social network support, social norms, and civic participation in a country.

The Natural Environment sub-index measures a country's performance in three areas: the quality of the natural environment, environmental pressures, and preservation efforts

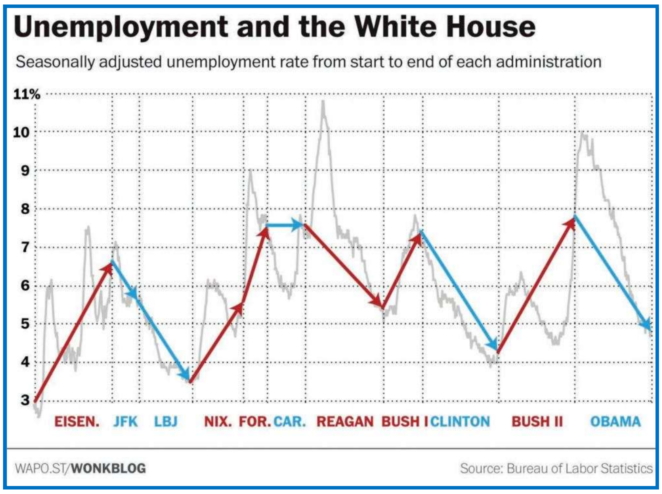
The Global Economic Outlook

The main event on the global stage has been the election of Donald Trump. While the new administration's policies are still taking shape, announcements to date, including increased infrastructure spending, imply a sizeable boost to US demand and inflation. This has resulted in upwards pressure on US and global term interest rates. However, it will be some time before any new policies can be implemented, and there is the risk that markets are disappointed. Global economic activity more generally is expected to remain modest. Many developed economies continue to face lingering softness in both domestic demand and investment spending. However, we are seeing some more positive signs emerging in China, while Australian growth is expected to firm.

United States Economy

Utilities are closing U.S. nuclear-power plants at a rapid clip as they face competition from cheaper sources of electricity (fracking-natural gas) and political pressure from critics. Nuclear plants generated 20% of U.S. power in the past 12 months, following natural gas at 35% and coal at 30%, according to federal energy data. The remaining balance was 7% hydro, 6% wind and 1% solar (WSJ)

Outgoing President Obama's performance appears to be measured on both the US strengthening economy since the GFC, and the falling unemployment levels.



Using unemployment data is a little misleading. As Obama took office amid the depths of the recession, the unemployment rate was 7.8 per cent. In December, it was 4.7 per cent. Although it was a large drop, average unemployment during Obama's presidency was relatively high, at 7.4 per cent. Another mitigating factor is because some workers have stopped looking for work. The U.S. government only counts people as "unemployed" if they do not have a job and they have actively looked for work in the past month. "Discouraged workers" -- who could work but are no longer searching -- are not counted as unemployed.

With regards to the strengthening US economy, one should not under estimate their lessening reliance on imported oil. The increase in oil production, thanks to the introduction of fracking should not be underrated. That reduced oil prices 25% in 2014 and 2015. The good news for the economy is that it also lowered the cost of transportation, food, and raw materials for business. That raised profit margins. It also gave consumers more disposable income to spend. The slight slowdown is because both businesses and families are saving instead of spending.

United Kingdom Economic Outlook

The GBP (pound) slid to its lowest level versus the USD since October after Theresa May warned there was no prospect of Britain keeping "bits" of EU membership and "*It will be a new relationship because we won't be members of the EU any longer*". This indicates that hard Brexit concerns are mounting.

German Economy

German exports jumped more than expected in November, posting their steepest monthly rise in four-and-half years and pushing up overall industrial production which drove growth in Europe's biggest economy in the final quarter. The data, recently released by the Federal Statistics Office and the Economy Ministry, reaffirmed expectations for a strong rebound in the fourth quarter of 2016 after the economy halved its quarterly growth pace in the third due to weaker exports.

Chinese Economy

Ongoing concerns remain regarding China's persistent capital outflows. Foreign exchange reserves for China continued to contract and fell by another US$40bn across December to just US$3.01trn. The persistent depreciation pressure continues, and demand for USD from local citizens is likely to remain strong after the yearly reset of the annual individual conversion quota of US$50,000. As such, after this temporary consolidation is over, expect a gradual depreciation of the CNY to 7.00 within 3 months and 7.30 in 12 months against the USD.

"……it's not a question of if but when China's financial system will face a reckoning" Henry Paulson, "Dealing with China".

"The actions of the Peoples Bank of China in the offshore yuan market are an indication of weakness, not strength", Peter Redward.

Australian Economic Outlook

The Australian economy unexpectedly contracted 0.5% in the third quarter of 2016, compared to an upwardly revised 0.6% growth in the June quarter and missing market consensus of a 0.3% expansion. It was the first contraction since the March quarter 2011 and the fastest fall since the December quarter 2008. Through the year, the economy grew by 1.8%, slowing sharply from a 3.3% expansion in the June quarter.

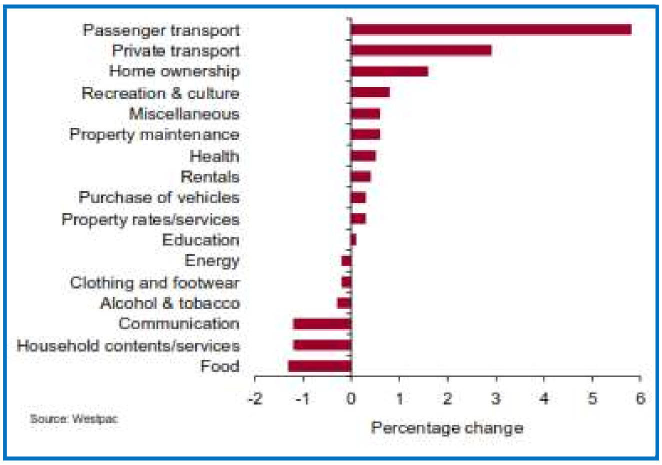
AUSTRALIA'S GDP GROWTH RATE

New Zealand's Economic Outlook

Expect a 0.2% rise in the Consumer Price Index for the December 2016 quarter. This would take annual inflation above 1% for the first time in more than two years. A rebound in fuel prices accounts for most of the rise in the annual rate. Setting this aside, inflation has been gradually picking up from its lows over the past year.

The Reserve Bank will take some comfort from a return to the 1-3% target band. But the renewed strength of the New Zealand dollar means that inflation will remain subdued for some time yet.

COMPONENTS OF QUARTERLY INFLATION FORECAST



Strong economic activity is boosting labour demand...

The New Zealand economy had a pretty solid innings over 2016. This strength in economic activity has seen the New Zealand labour market continuing to firm.

NZ'S UNEMPLOYMENT RATE

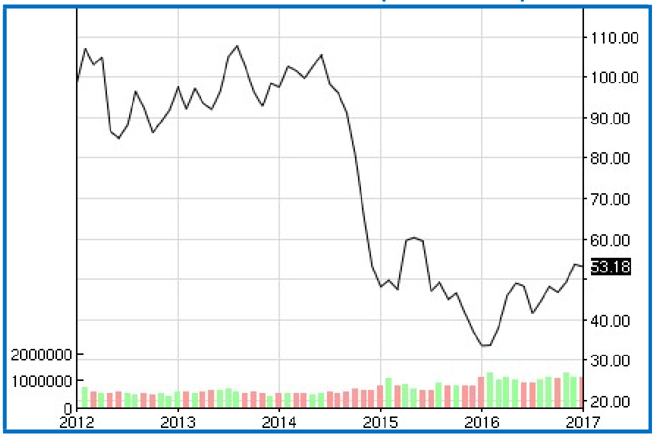
Commodities

The Organization of Petroleum Exporting Countries (OPEC) is poised to meet non-OPEC nations in with the hope that they will also agree to follow the cartel and cut supply for the first time since 2008.

At their meeting last month, OPEC pledged to cut oil production by 1.2 million barrels per day (b/d) from January 2017, and the 14-member cartel hopes non-OPEC nations can also agree to limit supply to further prop up oil prices.

Russia has said it is prepared to commit to a 300,000 b/d production cut which should, in theory, mean all of the other non-OPEC countries combined would only have to match Russia's pledge in order for OPEC to hit its target. However, only five of the 14 non-OPEC oil producing countries have agreed to attend the upcoming meeting.

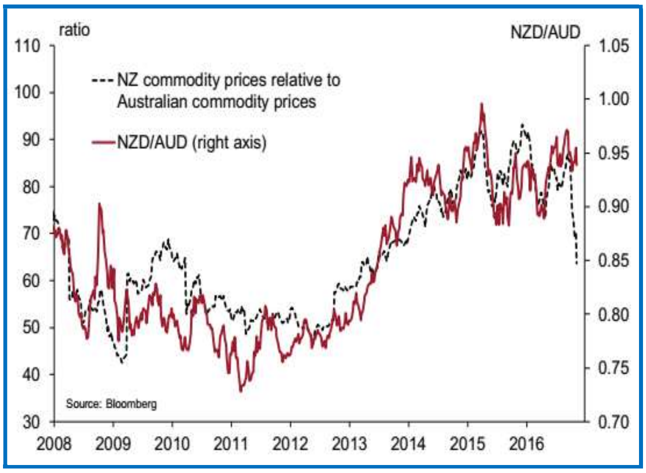
OIL: WEST TEXAS CRUDE (5 YEAR CHART)



Currency

NZD V USD – 9 MONTH VIEW

NZD V AUD & RELATIVE COMMODITY PRICES



Productivity – New Zealand v Australia comparison

The data used in this comparison starts in 1996, as this is when the industry coverage of the series are comparable. New Zealand experienced higher rates of growth in capital productivity and MFP than Australia over the long-run average of the period 1996–2015. Australia had relatively higher growth in labour productivity over the period, with growth in capital-to-labour ratio that was more than double that of New Zealand's.

Australia and New Zealand productivity[1]		
Average annual growth rates 1996-2015		
Variable	Australia	New Zealand
	Percent	
Output	3.4	2.6
Labour productivity	2.2	1.4
Capital productivity	-1.7	-0.3
Multifactor productivity	0.6	0.7
Labour input	1.1	1.2
Capital input	5.2	2.9
Total inputs	2.8	2.0
Capital-to-labour-ratio	4	1.7

[1.] Australia's market-sector industries aggregate, compared with New Zealand's measured sector series.

We don't have recent OECD data, but the 2012 data shows that while New Zealanders worked around the OECD average hours per annum, our productivity (in GDP terms) lags most (see table below). Comparing the 2015 figures with Australia, shows that while we work longer hours than our Australian cousins, we were still seriously lagging their productivity performance.

	GDP, current prices, USD millions	Average hours worked per person	Total employment (number of persons engaged)	Hours worked for total employment	GDP per hour worked, current prices, USD	GDP per hour worked as % of NZ (NZ=100)
Germany	3,377,541	1,393	41,608	57,973	58.3	1.5
Norway	329,438	1,418	2,682	3,804	86.6	2.3
France	2,371,906	1,479	26,956	39,873	59.5	1.6
Ireland	200,034	1,529	1,839	2,811	71.2	1.9
Euro area	12,014,962	1,557	145,828	227,043	52.9	1.4
Switzerland	426,092	1,619	4,779	7,738	55.1	1.5
Sweden	410,929	1,621	4,635	7,512	54.7	1.4
United Kingdom	2,368,261	1,654	29,519	48,815	48.5	1.3
Australia	**1,035,788**	**1,685**	**11,594**	**19,538**	**53**	**1.4**
Canada	1,445,916	1,711	17,851	30,541	47.3	1.3
New Zealand	**146,190**	**1,739**	**2,225**	**3,869**	**37.8**	**1.0**
Japan	4,490,501	1,745	64,161	111,974	40.1	1.1
Italy	2,017,023	1,752	24,661	43,212	46.7	1.2
United States	**16,244,600**	**1,790**	**141,529**	**253,326**	**64.1**	**1.7**
Russian Federation	3,373,163	1,982	70,944	140,611	24	0.6
OECD Total	**46,052,707**	**1,769**	**556,956**	**985,344**	**46.7**	**1.2**

SOURCE: OECD Data, 2012

Procrastination

While procrastination comes naturally to most us, have you ever wondered why it can be so hard to shake off the shackles of inertia and get moving? Here are three common reasons:

1. You aim too high

This is an interesting one – you may have never thought of procrastination as a by-product of ambition. However, often a key reason we get stuck in life is that we aim to accomplish tasks that are too overwhelming, intimidating and downright complex from a standing start.

Mark Twain said 'The secret to getting ahead is getting started. The secret to getting started is breaking your overwhelming tasks into small manageable tasks then starting with the first one.'

So rather than trying to achieve the audacious, start with the simple and even the fun items on your to-do list. Accomplishing these simple things isn't necessarily about getting those things done much as it is about getting yourself moving.

2. You wait till you feel like it

Motivation is often overrated. Sure, it feels good to be inspired, but sometimes we've simply got to summon up our willpower, set out in a positive direction and let our fickle emotions catch up. Nike's slogan really ought to be a motto for life: Just do it.

Relying on emotion to spur action is profoundly disempowering because it puts you at the mercy of the fickle whims of emotion and sentiment.

The simple message is while it's great to be inspired, don't make inspiration a prerequisite for getting started. Remember, motion precedes emotion. Just get started doing something and let the feelings catch up.

3. You are too focused on *what* you need to do

Focus on the WHY. If you are not making the progress that you would like to make and are capable of making, it is simply because your goals are not clearly defined. Very few of us lack the knowledge of what to do or how to build success and momentum in our lives, but we often lack a clear enough sense of *why* to do it.

The best way to stay inspired and on track is to have a clear and conceivable vision to be focusing on. On the contrary, where there is a will, there is a way – and you'll only have the will if you have a strong and clear why.

If you are caught in the procrastination trap right now, there's no need to beat yourself up. Just remember - getting off go and building positive momentum in life is as simple as being realistic, choosing not to be emotion-controlled, and knowing the goal you're working towards. Not rocket science, but it works!

Agribusiness – Looking from the outside in

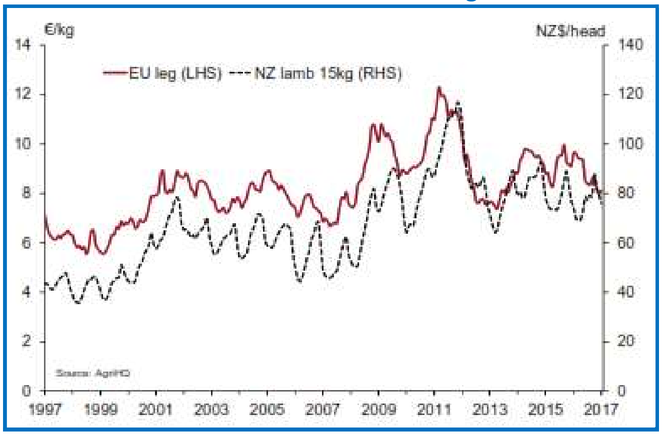
Meat & Wool Sector

Tight supplies of lamb are helping to underpin lamb prices. New Zealand's spring 2016 lamb crop was down 1.3% according to Beef and Lamb New Zealand, which was the smallest crop in over 60 years. In addition, slow lamb growth due to cool and damp spring conditions resulted in very low levels of lambs processed in the Oct-Dec period, although there will be some catch-up in early 2017.

Australia saw solid growth in lamb exports through the end of 2016, although poor lambing conditions will weigh on exports in 2017.

At the same time, the demand picture remains murky. Although demand from China for some of the cheaper cuts of sheep meat has been more positive recently, the implications of Brexit are already creating challenges in the UK market. The substantially weaker pound has eroded the competitiveness of New Zealand's lamb exports, making our exports more expensive and UK lamb exports to Europe cheaper. Further out, market access is uncertain.

NZ versus EU Lamb Pricing



Dairy Sector

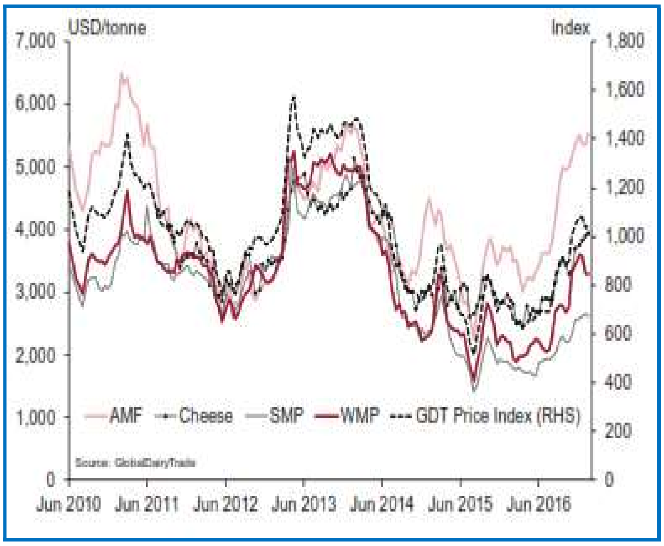
It's been a lacklustre start to the year for dairy prices, after last year's remarkable rebound that saw global prices rise more than 50% over the second half of the year.

Whole milk powder prices have fallen 8% so far this year, reversing the gains from November and December, and taking prices back just under \$3,300/tonne. Markets looked to have run ahead of fundamentals through the latter part of last year, so some retracement shouldn't have come as a surprise. Expect prices will ease a bit further in coming months, as global supply begins to stabilise. Westpac are forecasting a farm gate milk price of \$6.20 for this season, which should be well above break-even levels for most farmers.

New Zealand's milk production has been and will remain a crucial influence on global prices. An unusually wet spring in many parts of the North Island impacted pasture quality and saw the New Zealand season off to a very poor start, with milk production down nearly 4% in the first half of the season (through to November). While some retrenchment in supply was expected this year due to a smaller national herd and reduced reliance on supplementary feed, the extent of deterioration was a surprise and in turn, helped to underpin higher dairy prices.

Westpac are less pessimistic than many about how the full season will shape up. They are forecasting nationwide production to be down 3-4% this season. This compares to Fonterra's widely-publicised forecast for its own milk collections to be down 7%. Part of the difference in forecasts reflects Fonterra's declining market share, as well as Fonterra being overweight in the North Island which suffered the largest declines in spring production (Fonterra's collections in the season to November and December were down 5.7% and 5.5% respectively).

Global Dairy Prices

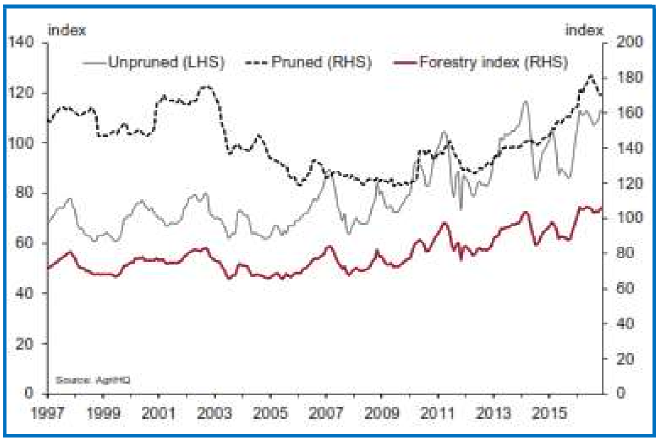


Forestry

2016 was a bumper year for the forestry sector. NZ's booming construction sector continued to underpin high prices in the domestic market, while improved demand from China saw log export prices hover at elevated levels and export volumes surge. Reports of stable inventories in China will help underpin export prices in the near term. In addition, as the Chinese government heads towards the all-important 19th

National Congress they will be determined to keep public investment growing rapidly, and this in turn will help to support log demand. However, at the same time, such high prices are likely to encourage an increase in global supply which will eventually have a moderating influence on prices.

FORESTRY PRICES



Kiwifruit

The horticulture sector, and kiwifruit in particular, has been a standout performer amongst New Zealand agricultural exporters of late. Export volumes and prices have risen strongly over the past two years, on the back of robust consumer demand and the success of new gold cultivars developed following Psa bacterial virus. Although the pace of volume growth will be more gradual from here, the industry should continue to perform strongly provided it can maintain its comparative advantage in meeting the tastes and preferences of Asian markets in particular. The current weather is likely to be detrimental to yield, albeit the long term outlook remains robust.

KIWIFRUIT VOLUME & PRICE

What is Landcorp's role in 2017

According to Landcorp's website *"Our purpose is clear – to transform New Zealand farming. We understand the privileged nature of what we do and where we farm. Landcorp has long been New Zealand's largest farmer – but we must also be its best."*

Reading its 2016 Annual Report, it states *"Landcorp Farming Limited is a State-Owned Enterprise and one of New Zealand's largest farming organisations, farming 144 properties. Landcorp is a leader in New Zealand agriculture and strives for best practice in dairy, sheep, beef and deer farming, for sustainable use of resources and continuous improvement in livestock genetics and farm systems."*

To get a sense it's size, the 2015/16 report said it owned 158,561 hectares of land, and leases a further 226,942 hectares (total farmed is 385,503 hectares). It had 1.56m stock units, including 530,165 sheep, 78,797 beef cattle, 78,491 dairy cows and 95,160 deer, and employed 704 staff. It's currently selling 10 farms totaling 11,650ha. The company has had it tough lately as a slump in volatile dairy-commodity prices weighed on earnings, which has seen it forgo paying dividends to the Crown for the past two years. It reported a net operating loss of $9.4m for the year ended June 30, compared with a $4.9m operating profit the previous year. Revenue fell $15m to $209m.

The Government has said it has no plans to sell Landcorp, despite then-Finance Minister Bill English labelling it a "poor investment" in the middle of last year. CEO Steven Carden said that Landcorp is constantly discussing strategy with the Government.

"The last thing they want to do is have a whole bunch of farm assets that are stranded producing commodity products that are really volatile," he said. *"They want a consistent return off their assets and if we can show a path to achieving that, which means migrating our business model over time, they will be supportive."*

Landcorp played an important role in the 20th century, building excellence in turning unproductive land into financially viable units, that were then sold to young farmers, under the Farm Ballot Scheme. Today this is no longer their "reason to be," and I question the need for Central Government to own and operate such a large tract of productive farmland (and at a very low level of return to its shareholder – us taxpayers).

LANDCORP FINANCIAL DATA		2015/16	2014/15	2013/14	2012/13	2011/12
Total revenue	$m	209	224	247	203	216
Net operating profit	$m	(9)	5	30	13	27
Total shareholder return	$m	(96)	(8)	116	(2)	8
Net profit on equity investment (share capital and retained earnings)	%	(3.7%)	1.9%	11.8%	5.3%	10.8%
Total shareholder return / Average shareholders' funds[1]	%	(6.8%)	(0.5%)	7.5%	(0.1%)	0.5%
Dividend declared	$m			7	5	20
Total assets	$m	1,786.30	1,774.70	1,748.50	1,694.90	1,662.90
Shareholders' funds	$m	1,411.20	1,412.90	1,427.40	1,316.00	1,332.00
Bank debt	$m	219.6	210.7	172.4	228.4	171.3
Shareholders' funds / Total assets	%	85.0%	85.7%	87.8%	84.6%	87.2%
[1] Includes redeemable preference shares						
LANDCORP OPERATING DATA		**2015/16**	**2014/15**	**2013/14**	**2012/13**	**2011/12**
Total hectares farmed (owned & leased)		385,503	383,996	385,086	376,942	375,681
Total stock units		1,563,790	1,612,460	1,632,233	1,571,448	1,486,115
Permanent employees at 30 June		704	715	692	668	573

New Zealand Equities

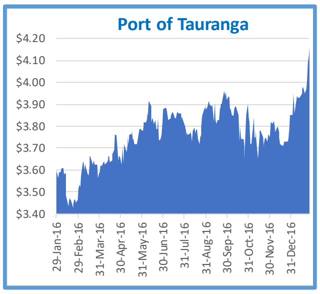
The annual NZ Herald stock picks were published during the summer break. FNZC's picks for this year are **Synlait, F&P, Xero, Contact Energy** and **Tegel.** As always there were a number of other stocks that did not quite make the top 5 but look to have good prospects - these included **Fonterra, Turners** and **Tilt Renewables** (ex Trustpower).

My top 5 picks for 2017 include:

Port of Tauranga,
Synlait Milk,
Trustpower,
Xero and
Z Energy.

PORT OF TAURANGA (POT.NZ)

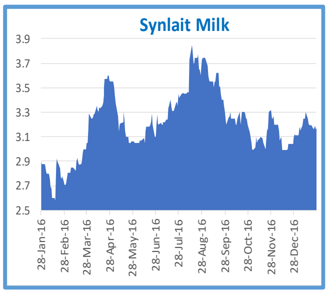
OUTPERFORM $4.16 **MY TARGET:** $4.70



Port of Tauranga has been a stellar share market performer for many years, and 2017 will be no exception. The investment ($350m) to allow mega container ships (9,600 TEUs) is already starting to pay huge dividends. Tauranga is now the only container port in Australasia to accommodate these ships, and is already being used as a hub port for this Asian & North American trade. Containers are being trans-shipped from Australian ports to then head from Tauranga to the North Hemisphere.

SYNLAIT MILK (SML.NZ)

OUTPERFORM $3.15 **TARGET:** $3.80



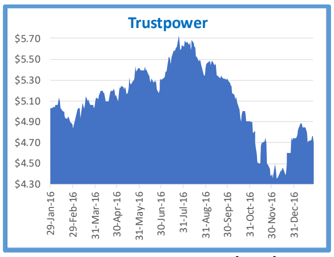
FY16 was a watershed year for SML. It completed its recent expansionary capex phase (total investment to date of ~$500m) and enjoyed its first year of material success in its nutritionals strategy on the back of A2's infant formula success. This highlighted the profit potential associated with increasing finished infant formula sales (likely ~50% of gross profit attributable to ~15% of total sales volume). But it is important to highlight two things: that those sales are still largely dominated by one customer with a relatively short track record of its own; and visibility on gross margins is low and there are a number of factors that influence them. With some further success in nutritionals (increased volume and improved customer diversity) SML looks set to embark on a further $300m of expansionary capex over FY17 – FY19 associated with additional infant formula capacity and a fourth dryer. The returns generated in FY16 highlight the potential but building a track record will be similarly important. With SML trading down following a recent equity raise FNZC has upgraded to outperform but note that their forecasts remain measured at this point. It is important that SML avoids deploying material additional capacity in the absence of further demonstrated sales success and greater diversity in the customer base.

SML Year to 31 July		2016A	2017F	2018F	2019F
Adjusted Earnings (NPAT)	NZ$m	33	38	49	52
Earnings /share (Adjust)	NZc	22.4	21.0	27.3	29.2
EPS Growth	%	167.5	(5.9)	30.0	6.9
Price / Earnings Ratio	x	14.1	15.0	11.5	10.8
Cash Per Share	NZc	59.5	33.9	38.7	42.3
Net Div / Share	NZc	0.0	0.0	13.7	19.0
Net Div Yield	%	0.0	0.0	4.3	5.9
Gross Div Yield	%	0.0	0.0	5.9	5.9
Interest Cover	x	4.2	6.8	13.3	18.4

Source: Company data; NZX; First NZ Capital Estimates

Trustpower

OUTPERFORM $4.70 **MY TARGET:** $5.50



TPW's demerger has consumed more cost, time and management attention than executives would have feared. But with separation into TPW and TLT completed, staff can now return to the business of navigating the highly competitive retail market.

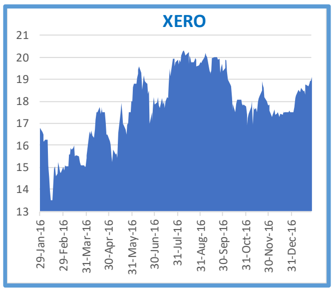
FNZC's FY17 EBITDAF forecast lifts 8% to $215m (FY18 $234m) but with relatively high uncertainty over the first full year result. TPW hasn't provided EBITDAF or retail performance guidance at time of writing, and the impact of ongoing retail growth (+20k customers targeted) confers some uncertainty.

TPW Year to 31 March		2016A	2017F	2018F	2019F
Adjusted Earnings (NPAT)	NZ$m	98	80	113	118
Earnings /share (Adjust)	NZc	31.2	25.7	36.3	37.8
EPS Growth	%	(7.1)	(17.8)	41.1	37.8
Price / Earnings Ratio	x	14.1	17.2	12.2	11.7
Cash Per Share	NZc	65.5	56.1	49.3	51.6
Net Div / Share	NZc	19.0	32.8	37.7	39.0
Imputation	%	28.6	77.5	100.0	100.0
Net Div Yield	%	4.3	7.4	8.5	8.8
Gross Div Yield	%	4.8	9.7	11.9	12.2
Interest Cover	x	3.0	5.3	5.9	5.4

For me, TPW has extremely strong dividend earnings potential, combined with very good forward growth potential. Integrating broadband with electricity should reward their retail operations. My 12-month target is $5.50, whereas FNZC has a target of $4.62.

Xero (XRO.NZ)

OUTPERFORM $19.10 **TARGET:** $21.00

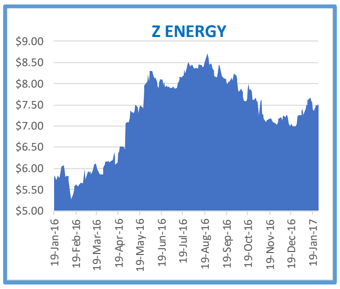


XRO continues to demonstrate underlying momentum in Australasia, and the region continues to be a stabilising influence (funding source) for international markets. Evidence the UK may be accelerating is a welcome addition to this, as is the continued easing of cost growth which provides further confidence that cash flow targets will be met. In contrast, uncertainty remains in North America and is somewhat compounded by management changes. Slow growth is not a new revelation, while the size and maturity of the market suggest large opportunities remain to build a profitable business. Moreover, the consequence of slower-than expected growth need not be highly destructive cash flows. We expect most news (ex- currency) to be good: strong A/NZ growth, continued progress in the UK and a clear path to breakeven.

XRO Year to 31 March		2016A	2017F	2018F	2019F
Adjusted Earnings (NPAT)	NZ$m	(82.5)	(75.3)	(43.1)	4.9
Earnings /share (Adjust)	NZc	(60.4)	(54.8)	931.0)	3.5
Cash Per Share	NZc	(55.7)	(50.5)	(26.5)	7.7
Net Debt/ EBITDA	x	3.1	2.8	-10.2	-1.0
Interest Cover	x	9.8	11.0	15.6	14.9

Z Energy (ZEL.NZ)

OUTPERFORM $7.50 **TARGET:** $8.10



Following the recent share price weakness, ZEL has been trading at its cheapest level on a price-to-earnings basis relative to the broader NZ equity market since listing in 2013. ZEL has a solid earnings growth profile as it integrates the Chevron NZ acquisition, with the potential for merger synergies to exceed expectations. In the short term ZEL will focus on reducing acquisition related debt to a more sustainable level.

This should allow the dividend pay-out ratio to increase resulting in 10% pa dividend growth over the next three years. The competitive environment looks positive for maintaining current fuel margin levels due to a more rational approach from competitors BP and Mobil. In addition, ZEL is benefiting from the improved profitability of NZ Refining. Longer term concerns for ZEL include potential regulation of fuel prices and increased electric vehicle (EV) penetration.

Don't underrate ZEL's capability to introduce EV services. Buy for both earnings and dividend growth.

ZEL Year to 30 June		2016A	2017F	2018F	2019F
Adjusted Earnings	NZ$m	143	215	258	279
Earnings /share (Adjust)	NZc	35.7	53.7	64.5	69.9
EPS Growth	%	18.0	50.5	20.0	8.4
Price / Earnings Ratio	x	20.7	13.8	11.5	10.6
Cash Per Share	NZc	31.8	43.3	82.1	87.8
Net Div / Share	NZc	26.6	29.3	32.2	35.5
Imputation	%	100	100	100	100
Gross Div Yield	%	5.0	5.6	6.1	6.7

Tilt Renewables (TLT.NZ)

OUTPERFORM $1.86 **TARGET:** $2.49

TLT is an attractive Australian renewables play

TLT has a large portfolio of existing wind assets (583MW, 1,922GWh p.a.) and prospective wind & solar development opportunities (>2,000MW, >6,000GWh). Nearly all its revenue is set by long-term PPAs with TPW in NZ (~30% of revenue) and ORG in Australia (~70%). Its O&M contracts ensure relatively stable generation production costs.

FNZC forecasts EBITDAF of NZ$129m in FY17, and NZ$137mn in FY18: the existing portfolio provides a stable earnings base for investors, and helps support aggressive development rates for the option portfolio Australian wind build opportunity is unquestionably large. TLT is targeting 900MW build over five years, and fast deployment matters. FNZC estimate TLT could secure between $1/share and $2/share upside. They expect it to rely on new equity raisings to fund its expansion programme (FNZC model 70% equity-financing via 15% discounted pro-rata equity rights issues). Perhaps surprisingly, their initial analysis suggests the dilution effect may not be as large as might be expected for such large equity raising required, partly due to the value uplift expected from new projects.

Our initial "point estimate" for spot-DCF value is $2.37/share (consisting of $2.07/share for existing windfarms, plus $0.30/share option value for new Australian windfarms).

FNZC think the current trading price may overestimate future equity-raising dilution and/or TECT sell-down, and yet does not recognise the potential value uplift available from TLT's new wind programme.

A key catalyst for rerating is likely to be financial prospects for any new windfarm commitment, and the value gain it seems likely to secure. FNZC has set a DCF-based NZ$2.49/share target price, and initiate with an OUTPERFORM rating.

TLT Year to 31 March		2017F	2018F	2019F
Adjusted Earnings	NZ$m	18	22	43
Earnings /share (Adjust)	NZc	5.9	7.0	13.7
EPS Growth	%		20.4	94.1
Price / Earnings Ratio	x	31.8	26.4	13.6
Cash Per Share	NZc	33.7	30.7	37.4
Net Div / Share	NZc	6.5	9.5	33.7
Imputation	%	0.0	0.0	0.0
Gross Div Yield	%	3.5	5.1	18.1

STOCKS TO WATCH NEW ZEALAND

NOTE: THESE ARE ALL ONE YEAR GRAPHS

Prices as at 27th January 2017

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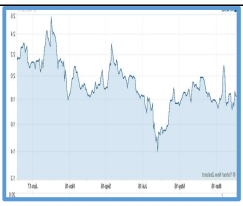
Auckland International Airport

Domestic passenger growth of 11.2% year to date benefited from both Jetstar's regional launch that began in December 2015 and a significant uplift in capacity by Air New Zealand on the Auckland-Queenstown route. Demand was once again stimulated by lower airline yields and connectivity for international passengers between the Auckland hub and other New Zealand regions. FNZC has lifted their forecast for AIA's aeronautical segment EBITDA compound growth from 4.7% to 7.3% p.a. between FY16 and FY22.

20017 P/E: 33.4 2018 P/E: 30.5

NZX Code:	**AIA**
Share Price:	**$6.77**
12mth Target:	**$5.35**
Projected return (%)	
Capital gain	-20.9%
Dividend yield (Net)	3.0%
Total return	**-17.9%**
Rating:	**NEUTRAL**
52-week price range:5.50-7.75	



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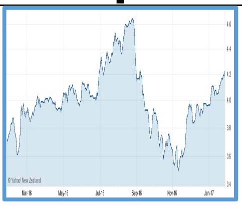
The a2 Milk Company

ATM is evolving from a branded Australian liquid milk company to become a global dairy nutrition company: Just as the advent of the organic approach to food production (including dairy) created a marketing platform for products and price differentiation, the A/1A2-type milk hypothesis and digestive benefit claims are similarly generating opportunities for ATM. FNZC's view on ATM is premised on successful execution of the company's A2-type fresh milk products in Australia, the UK, the US, and in the Australia and China IF markets.

20017 P/E: 25.7 2018 P/E: 20.5

NZX Code:	**ATM**
Share Price:	**$2.18**
12mth Target:	**$2.57**
Projected return (%)	
Capital gain	17.9%
Dividend yield (Net)	0.0%
Total return	**17.9%**
Rating:	**NEUTRAL**
52-week price range: 1.38-2.61	



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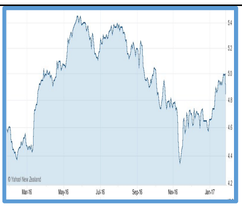
Chorus

The UFB2 extension was announced with CNU securing ~85% of a 200,000 premise extension of fibre build. CNU's participation was essential and provided the post 2020 regulatory framework is fair, the ability to get a Crown subsidy for the build could be positive. The upsized scale of the build and higher cost guidance see UFB2 take 25cps off FNZC's DCF valuation (partially off-set in roll-forward of our valuation). The government is the key winner from UFB2 but we still view the deal CNU negotiated as good in the circumstances, and also note that FNZC does not expect UFB2 to impact their dividend trajectory.

20017 P/E: 14.2 2018 P/E: 15.9

NZX Code:	**CNU**
Share Price:	**$4.19**
12mth Target:	**$4.27**
Projected return (%)	
Capital gain	1.8%
Dividend yield (Net)	5.1%
Total return	**7.0%**
Rating:	**NEUTRAL**
52-week price range: 3.49-4.65	



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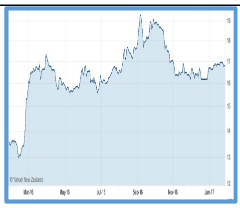
Contact Energy

CEN is New Zealand's second largest electricity generator and second largest energy (gas, LPG and electricity) retailer. Electricity is generated through a diversified range of generation assets (hydro, geothermal, gas fired thermal plant) located throughout New Zealand. It also has options to build wind generation. The catalyst for CEN's rerating still looks like mid-2017 commitment to lift payout. While FNZC still think a Tiwai exit has a low likelihood, earlier suggestions of the possibility to trade medium term load certainty in exchange for cheaper gas prices passed on to smelter as electricity price discounts have sadly borne no fruit.

20017 P/E: 20.2 2018 P/E: 19.6

NZX Code:	**CEN**
Share Price:	**$4.85**
12mth Target:	**$6.26**
Projected return (%)	
Capital gain	29.1%
Dividend yield (Net)	5.3%
Total return	**34.4%**
Rating:	**OUTPERFORM**
52-week price range: 4.35-5.49	



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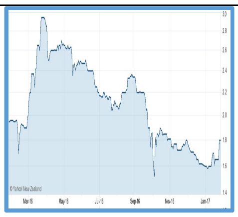
Ebos Group

Despite the recent decline in the share price EBO currently appears reasonably fully valued when compared to the broader NZ equity market. EBO's share price has performed strongly on the back of solid market share and earnings growth in pharmacy wholesale, consumer products and pharmacy retail across NZ and Australia. EBO achieved synergy benefits from the $1.1bn acquisition of Symbion in Australia, and has made further acquisitions in the animal care sector (which now represents 16% of group revenue) and the Australian pharmacy sector. EBO has fine profit margins as can be seen from its earnings (EBITDA) margin which has fluctuated between 3.05% and 3.32% since 2010.

2017 P/E: 24.2 2018 P/E: 21.8

NZX Code:	**EBO**
Share Price:	**$16.80**
12mth Target:	**$14.88**
Projected return (%)	
Capital gain	-9.7%
Dividend yield (Net)	3.1%
Total return	**-6.6%**
Rating:	**NEUTRAL**
52-week price range: 13.00-19.40	



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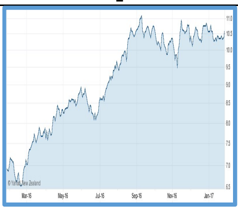
EROAD

FNZC value ERD by assessing a base value for the ANZ operation and then apply half the assessed value for the US operation to set FNZC's target price. This reflects the more established and still growing ANZ operation and the potential but early nature of the US operation. The latter appears heavily dependent on the successful commercial launch of ERD's Electronic Logging Device (ELD) product. FNZC continue to believe ERD's current share price is undervaluing the ANZ operation and the market is attaching no, or negative, value to what they believe is the very real growth option ERD has in front of it in North America.

2017 P/E: N/A 2018 P/E: 28.0

NZX Code:	**ERD**
Share Price:	**$1.80**
12mth Target:	**$2.60**
Projected return (%)	
Capital gain	57.6%
Dividend yield (Net)	0%
Total return	**57.6%**
Rating:	**OUTPERFORM**
52-week price range: 1.45-2.98	



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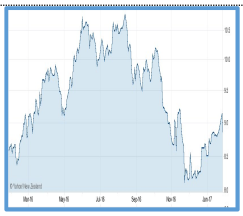
Fletcher Building

The outlook remains positive but is largely priced in: FBU is now four years into a seven-year earnings up-cycle. The company is set to further lift its EBIT by a total 25% between FY16A and FY19F, from $682m in FY16A to $750m in FY17F, and further to c$850m by FY19F. This is driven by ongoing strong and still rising activity level in NZ, as well as contribution from the company's self-help initiatives. In FNZC's view, the risk-reward is relatively balanced at current levels.

2017 P/E: 15.8 2018 P/E: 14.6

NZX Code:	**FBU**
Share Price:	**$10.44**
12mth Target:	**$10.10**
Projected return (%)	
Capital gain	-3.3%
Dividend yield (Net)	4.3%
Total return	**1.0%**
Rating:	**NEUTRAL**
52-week price range: 6.56-11.14	



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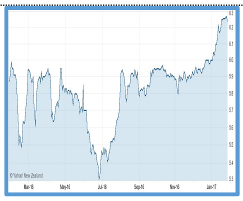
Fisher & Paykel Healthcare

The US election result has raised concerns around FPH's outlook which saw a share price correction. The concerns are focused on Trump's dissatisfaction with products manufactured in Mexico and sold in the US, and potentially repealing, or more likely "fixing" Obamacare. Modification of Obamacare represents a threat to a portion of FPH's OSA products and to its RAC products through an adverse impact on hospital admissions. FPH's Mexican production facility accounts for 32% of total production. Under a worst case scenario, FPH would supply the US market from its NZ facilities, and redirect Mexican production to service Europe and rest of world

2017 P/E: 28.0 2018 P/E: 23.9

NZX Code:	**FPH**
Share Price:	**$8.87**
12mth Target:	**$10.25**
Projected return (%)	
Capital gain	17.6%
Dividend yield (Net)	2.5%
Total return	**20.1%**
Rating:	**OUTPERFORM**
52-week price range: 8.13-10.93	



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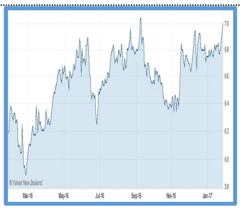
Fonterra Shareholder Fund

FSF's ability to stabilise and grow from the strong FY16 base underpins an important component of FNZC's forecasts. While they expect some variability in performance they have a better appreciation on the base regulated returns Ingredients can generate and what drives a large EBIT opportunity over that and what FSF can do to influence it. Investment in NZ capacity in FY15/16 has positioned FSF for a better upside skew to stream returns while FNZC better understands the materiality of price realisation across RCP/non-RCP products and how FSF can positively influence this (including investment priority) to improve returns.

2017 P/E: 11.3 2018 P/E: 10.0

NZX Code:	**FSF**
Share Price:	**$6.24**
12mth Target:	**$6.11**
Projected return (%)	
Capital gain	-2.1%
Dividend yield (Net)	6.5%
Total return	**-4.4%**
Rating: NEUTRAL	
52-week price range: 5.31-6.30	



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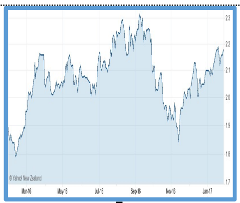
Freightways

FRE is a nationwide provider of express package services throughout New Zealand (approximately 40% share) with complementary business servicing the information management and business mail sectors. Key brands include New Zealand Couriers, Poste Haste, Sub 60 and Castle Parcels. Freightways has grown organically and via acquisition, with the most recent expansion being document destruction and information storage facilities in Australia.

2017 P/E: 18.4 2018 P/E: 16.7

NZX Code:	**FRE**
Share Price:	**$7.00**
12mth Target:	**$6.15**
Projected return (%)	
Capital gain	-10.7%
Dividend yield (Net)	4.3%
Total return	**-6.4%**
Rating: NEUTRAL	
52-week price range: 5.90-7.05	



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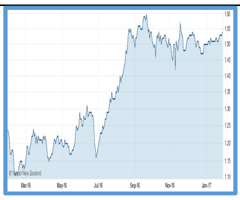
Genesis Energy

GNE's new strategy, comprising three broad initiatives are intended to transform from a yield stock into a "yield + growth" play. Its new financial targets are achievable and the refreshed executive team appears galvanised by the promising new strategy. Although its strong yield is often cited as a reason for supporting a higher trading price outlook, we also note that GNE is exposed to material risks in the form of Tiwai exit or the introduction of higher carbon costs. With some unwind of the yield-trade accelerated by the US election result, and the promise of additional earnings uplift from its new strategy, we now believe GNE is trading very near underlying value.

2017 P/E: 27.4 2018 P/E: 25.5

NZX Code:	**GNE**
Share Price:	**$2.18**
12mth Target:	**$1.97**
Projected return (%)	
Capital gain	-1.7%
Dividend yield (Net)	8.7%
Total return	**7.0%**
Rating: UNDERPERFORM	
52-week price range: 1.76-2.33	



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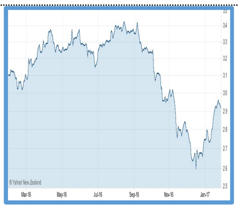
Heartland Bank

HBL was formed on 7 January 2011 as a result of the amalgamation of CBS Canterbury, Marac Finance Ltd and Southern Cross Building Society. HBL became a registered bank in December 2012 and currently has an investment grade BBB (outlook stable) credit rating from Fitch which was re-affirmed in November 2015. HBL performed relatively well in December, having undertaken a $20 million institutional placement at $1.46 per share, to bolster its balance sheet in order to support continued asset growth.

2017 P/E: 12.4 2018 P/E: 11.7

NZX Code:	**HBL**
Share Price:	**$1.54**
12mth Target:	**$1.59**
Projected return (%)	
Capital gain	5.3%
Dividend yield (Net)	6.2%
Total return	**11.5%**
Rating: NEUTRAL	
52-week price range: 1.09-1.60	



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Infratil NZ

Rebuilding the portfolio means it will likely take some time to realise step-change value growth: Lumo took roughly ten years, ZEL about five (and it was fast). We note historic IFT trading suggests that even those successful investments were not recognised in IFT's trading prices until very near the time sale/sell-down became likely. We expect TLT to be the "fastest" investment platform story to play out. There is nearer term upside potential, if market views of the appropriate valuations for higher visibility assets improve, such as TLT re-rating (on FID for new Australian windfarm build) or WIAL (say, on speculation for any hint of prospective sell down at listed-airport multiples).

2017 P/E: 45.4 2018 P/E: 23.7

NZX Code:	**IFT**
Share Price:	**$2.92**
12mth Target:	**$3.02**
Projected return (%)	
Capital gain	3.5%
Dividend yield (Net)	5.8%
Total return	**9.3%**
Rating: OUTPERFORM	
52-week price range: 2.57-3.45	

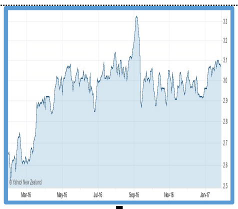
➔

Mainfreight

An extensive distribution network and infrastructure platform along with strong service capabilities and longstanding customer relationships have combined to support MFT's position as an increasingly dominant market leader in New Zealand. However, the competitive advantages that exist in MFT's home market are much less evident in the offshore operations, where MFT does not have scale or first mover advantage over its competition. In the Americas, MFT must successfully execute its strategy whereby the line haul route network is gradually broadened and utilisation increases towards critical mass. Potentially significant global growth options remain within reach for MFT; however that will require further significant investment in operating costs and capital to be realised.

2017 P/E: 19.9 2018 P/E: 17.7

NZX Code:	**MFT**
Share Price:	**$21.12**
12mth Target:	**$18.20**
Projected return (%)	
Capital gain	-13.8%
Dividend yield (Net)	2.0%
Total return	**-12.8%**
Rating: NEUTRAL	
52-week price range:14.45-21.57	



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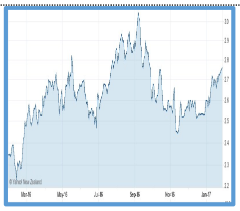
Mercury

MCY has good fundamentals but new earnings growth opportunities should be limited for some time. It currently focuses on longer term value growth strategies, by promoting electrical vehicles in NZ, growth in Metrix deployment (its metering business) and recent purchase of a small rooftop solar PV company. MCY has ceased all offshore geothermal growth intentions. MCY has now become NZ's second 100% renewable generator, after closing its 140MW (formerly 175MW) Southdown gas-fired station in December 2015.

2017 P/E: 26.7 2018 P/E: 26.4

NZX Code:	**MCY**
Share Price:	**$3.02**
12mth Target:	**$2.70**
Projected return (%)	
Capital gain	-10.6%
Dividend yield (Net)	5.2%
Total return	**-5.4%**
Rating: UNDERPERFORM	
52-week price range: 2.53-3.34	



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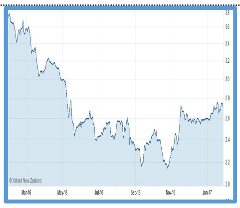
Meridian Energy

FNZC's FY17F EBITDAF falls 2.5% to $667m, after revising their forecasts to reflect the last five months operating statistics which show MEL's NZ energy margin tracking 1.1% ($4.5m) above pcp, but 1.6% ($6.7m) below forecast, despite availability of extra storage. They revise to reflect lower outlook for spot prices over 2H17 as high hydro storage levels continue. MEL's valuation is virtually unchanged, with spot DCF $2.50/share and a 12-month target price of $2.53.

2017 P/E: 28.4 2018 P/E: 28.8

NZX Code:	**MEL**
Share Price:	**$2.76**
12mth Target:	**$2.53**
Projected return (%)	
Capital gain	-8.3%
Dividend yield (Net)	7.6%
Total return	**0.7%**
Rating: NEUTRAL	
52-week price range: 2.23-3.07	



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NZ Refining

Indications are that after the OPEC output deal was announced, Singapore refining margins fell away from the very strong levels observed throughout November. While indicator refining margins do remain robust, the lower December conditions point to a less bullish view for the final FY16 Gross Refining Margin print. FNZC's outlook for FY17 is virtually unchanged. NPAT forecast falls by 20% to $35.5m, and FNZC has reduced their FY16 dividend forecast by the same percentage, to 8cps (i.e., by assuming a final 5cps declared).FNZC's rating has moved from Outperform to Neutral.

2017 P/E: 10.6 2018 P/E: 11.7

NZX Code:	**NZR**
Share Price:	**$2.72**
12mth Target:	**$2.66**
Projected return (%)	
Capital gain	-2.2%
Dividend yield (Net)	5.6%
Total return	**3.4%**

Rating: NEUTRAL

52-week price range: 2.15-3.78

↑

NZX

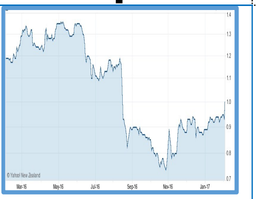
FNZC retain their positive investment view of NZX and believe its strong business franchise, projected earnings growth and a potential increase in its dividend payout should be supportive for its share price. While we await the appointment of a new CEO, the potential for a review of operating costs could add incrementally to our earnings expectations over the next few years. NZX will release its FY16 result before the market opens on 14 February 2016.

2017 P/E: 27.6 2018 P/E: 16.6

NZX Code:	**NZX**
Share Price:	**$1.11**
12mth Target:	**$1.17**
Projected return (%)	
Capital gain	5.4%
Dividend yield (Net)	5.8%
Total return	**11.2%**

Rating: OUTPERFORM

52-week price range: 0.97-1.12



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Opus International Consultants

OIC 2H16A operating EBIT of $17.7m was c.12% ahead of FNZC's estimate. They note this includes c.$6m of restructuring cost and provisions incurred largely in 2H in Australia and Canada. The outperformance in NZ operations through a combination of back office cost efficiency and higher utilisation rate was more than sufficient to offset the underperformance in other regions. Perhaps this is the start of a comeback from OIC.

2017 P/E: 7.9 2018 P/E: 7.0

NZX Code:	**OIC**
Share Price:	**$0.94**
12mth Target:	**$1.00**
Projected return (%)	
Capital gain	6.4%
Dividend yield (Net)	5.2%
Total return	**11.6%**

Rating: NEUTRAL

52-week price range: 0.74-1.36

↑

Orion Health

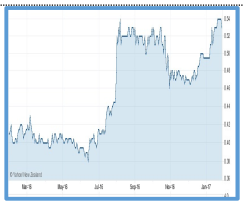
OHE recently reported a disappointing 1H17 loss with lower revenue growth than expected resulting in a higher cash burn of $31.7m. Consequently OHE's net cash position declined from $58.6m at 31 March 2016 to $24.2m at 30 September 2016. While management is confident that 2H17 revenue growth will improve it is reliant on executing new contracts in North America which have been patchy to date. The Trump presidency has added uncertainty. This precarious period for OHE raises the question whether it will have sufficient cash to see it through to cash flow breakeven in FY18 or whether delays in revenue growth in the near term could mean OHE has to raise equity capital. This makes OHE a higher risk investment.

2017 P/E: 9.9 2018 P/E: 7.5

NZX Code:	**OHE**
Share Price:	**$1.98**
12mth Target:	**$3.00**
Projected return (%)	
Capital gain	51.5%
Dividend yield (Net)	0.0%
Total return	**51.5%**

Rating: NEUTRAL

52-week price range: 1.56-5.35



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PGG Wrightson

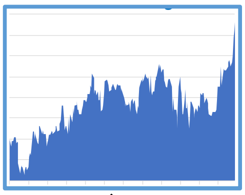
FNZC continue to like management's growth strategy , and with dairying picking up, and horticulture (particularly kiwifruit and apples) in a "sweet spot," Over the past three years, PGW has transformed into a robust and resilient enterprise, poised for high growth in benign environments and able to sustain profitability in tough conditions. Don't expect anything dramatic, but a steady result, with NPAT in the high $30m's, will justify FNZC's confidence. Buy for an ongoing 10% gross dividend yield.

2017 P/E: 10.8 2018 P/E: 10.1

NZX Code:	**PGW**
Share Price:	**$0.53**
12mth Target:	**$0.65**
Projected return (%)	
Capital gain	22.6%
Dividend yield (Net)	7.4%
Total return	**30.0%**

Rating: OUTPERFORM

52-week price range: 0.38-0.54



↑My rec

Port of Tauranga

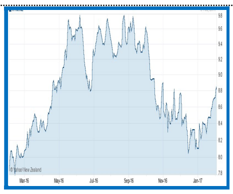
For so long most research analysts has unrated the strength of POT's strategy. Credit must go to both the Board and the senior management team for thinking strategically, and building such a robust business. POT is an industry leader, and even Australian ports are feeling the pressure of POT's fast and efficient ship turn-around times. This remains my favourite core portfolio stock, and expect it to surpass the $5 per hare ($25 pre-split price) before years end. FNZC retains an underperform but I say: Just own it…And the accompanying graph tells you I am right!

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

NZX Code:	**POT**
Share Price:	**$4.15**
12mth Target:	**~~$3.51~~**
Projected return (%)	
Capital gain	-5.6%
Dividend yield (Net)	7.4%
Total return	**1.8%**

Rating: ~~UNDERPERFORM~~

52-week price range: 3.56-4.21



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Ryman Healthcare

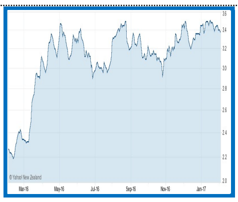
RYM is well positioned to benefit from its highly attractive business model, and compelling demographic tailwinds. RYM's relatively full valuation should be balanced against the potential for substantial long-term growth in both assets and earnings. This growth is underpinned by operational execution, capital efficiency, compelling demographics, and pent-up earnings momentum. RYM's foray into Australia is still to be tested, and this needs to be weighed against how much future value is currently being priced into the stock.

2017 P/E: 23.8 2018 P/E: 20.0

NZX Code:	**RYM**
Share Price:	**$8.10**
12mth Target:	**$9.10**
Projected return (%)	
Capital gain	12.3%
Dividend yield (Net)	2.9%
Total return	**15.2%**

Rating: NEUTRAL

52-week price range: 7.78-9.86



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Scales Corporation

In December SCL raised EBITDA guidance for twelve months to 31 December 2016 to between $66m and $69m. NPAT is expected to be between $37.2m and $39.4m. All divisions expected to trade ahead of 2015 actual results. Looking ahead to 2017 financial year, directors expect EBITDA to be between $55m and $62m. FNZC's projection is for SCL to deliver circa 10% pa growth in earnings per share (EPS) in FY18F and FY19F.

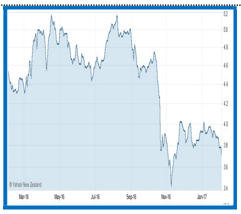
2017 P/E: 13.3 2018 P/E: 12.1

NZX Code:	**SCL**
Share Price:	**$3.27**
12mth Target:	**$4.00**
Projected return (%)	
Capital gain	22.3%
Dividend yield (Net)	5.1%
Total return	**27.4%**

Rating: NEUTRAL

52-week price range: 2.16-3.55

Sky City Entertainment



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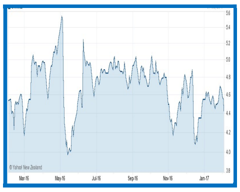
A slowdown in growth momentum during 2H16 has evolved into negative growth for SKC in 1Q17. Importantly, it appears that competitive pressure has been a key driver of the below trend growth profile during the period, and FNZC therefore believe that SKC may have to re-invest in its marketing and promotion cost lines in order for performance to return to acceptable levels. Given the expected benefit from New Zealand International Convention Centre (NZICC) related concessions, there is no question that the revenue outcome at SKC Auckland in 1Q17 presented a significant negative surprise. Indeed, when applying their base case modelling,

2017 P/E: 16.6 2018 P/E: 15.6

NZX Code:	**SKC**
Share Price:	**$3.78**
12mth Target:	**$3.65**
Projected return (%)	
Capital gain	-3.4%
Dividend yield (Net)	5.4%
Total return	**2.0%**
Rating: NEUTRAL	
52-week price range: 3.44-5.19	

Sky Network Television



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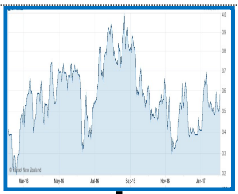
For now, with the possibility of a VodaSKT merger, FNZC's rating remains NEUTRAL but they note the stock is currently at levels which have a negative risk-reward bias ahead of decision—something magnified if the ComCom says no. 12-month PT $4.47 (incl. 30cps merger benefit) from $4.84 on forecast revisions. Risks remain its structural pressures, and the merger decision.

2017 P/E: 15.1 2018 P/E: 17.2

NZX Code:	**SKT**
Share Price:	**$4.70**
12mth Target:	**$4.47**
Projected return (%)	
Capital gain	-4.9%
Dividend yield (Net)	6.4%
Total return	**1.5%**
Rating: NEUTRAL	
52-week price range: 3.91-5.55	

Spark NZ



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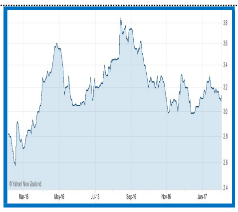
SPK's multi-pronged strategy, looking to gain market share in mobile; stabilising retail access and broadband revenues; significant focus on simplification aimed at taking cost out of the business and making SPK more market responsive; and investing in IT services where it already had a presence. This is adding capability through acquisition and infrastructure investment. However it still does not appear to warrant inclusion in your portfolio.

2017 P/E: 16.8 2018 P/E: 16.0

NZX Code:	**SPK**
Share Price:	**$3.60**
12mth Target:	**$3.04**
Projected return (%)	
Capital gain	-15.6%
Dividend yield (Net)	7.1%
Total return	**-8.5%**
Rating: UNDERPERFORM	
52-week price range: 3.10-4.01	

Synlait Milk



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Notwithstanding the success in FY16 we think it is important that SML is cautious about the basis from which it commits to the next material round of capex. Regulation-led reorganisation of the customer base sees modest growth guidance for finished IF in FY17 and we think important gating items to the decision to invest be premised on a combination of further sales traction by A2; signs that Munchkin is making sufficient traction; and confidence in the capability of the third customer—with two niche customers already. There is upside associated with material nutritionals growth and asset expansion, but view it as too early to factor into our analyst's base case forecasts.

2017 P/E: 15.1 2018 P/E: 11.5

NZX Code:	**SML**
Share Price:	**$3.17**
12mth Target:	**$3.80**
Projected return (%)	
Capital gain	19.9%
Dividend yield (Net)	0%
Total return	**19.9%**
Rating: OUTPERFORM	
52-week price range: 2.50-3.87	

Tilt Renewables

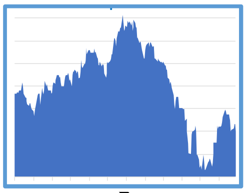
↑3 months

Tilt has a large portfolio of existing wind assets (583MW, 1,922GWh p.a.) and prospective wind & solar development opportunities (>2,000MW, >6,000GWh). Nearly all its revenue is set by long-term PPAs with TPW in NZ (~30% of revenue) and ORG in Australia (~70%). Its O&M contracts ensure relatively stable generation production costs. FNZC think the current trading price may overestimate future equity-raising dilution and/or TECT sell-down, and yet does not recognise the potential value uplift available from TLT's new wind programme.

2017 P/E: 34.8 2018 P/E: 29.4

NZX Code:	**TLT**
Share Price:	**$2.36**
12mth Target:	**$2.49**
Projected return (%)	
Capital gain	5.5%
Dividend yield (Net)	5.0%
Total return	**10.5%**
Rating: OUTPERFORM	
52-week price range: 1.80-2.37	

Trustpower



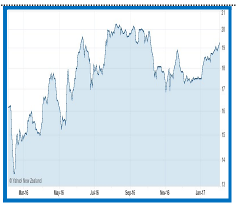
➔

Trustpower demerger has consumed more cost, time and management attention than executives or shareholders would have feared. But with separation into TPW and TLT completed, management can now return to the business of navigating the highly competitive retail market. While FNZC retains a NEUTRAL rating, I believe that if TPW sticks to its knitting (integrating a combined electricity and broadband sales platform) it will regain shareholder confidence, with its share price reflecting this confidence. My 12-month target is $5.50, whereas FNZC has a target of $4.62.

2017 P/E: 17.2 2018 P/E: 12.2

NZX Code:	**TPW**
Share Price:	**$4.70**
12mth Target:	**$4.62**
Projected return (%)	
Capital gain	3.8%
Dividend yield (Net)	8.2%
Total return	**12.0%**
Rating: NEUTRAL	
52-week price range: 4.34-4.75	

Xero



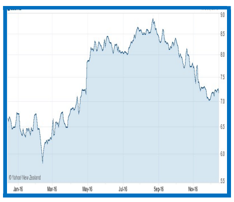
↑

XRO has announced Graham Smith will replace Chris Liddell (who has been appointed a key strategist for US President, Donald Trump). XRO continues to show strong growth, and continued leverage. 1H revenue of $137m was in line with expectations and +48% YoY or +55% in constant currency terms. Bright spots included strong additions in A/NZ, seasonally better UK momentum and group EBITDA margin improvement of 17%.

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

NZX Code:	**XRO**
Share Price:	**$19.10**
12mth Target:	**$21.00**
Projected return (%)	
Capital gain	9.9%
Dividend yield (Net)	0%
Total return	**9.9%**
Rating: OUTPERFORM	
52-week price range: 13.30-22.40	

Z Energy



↑

ZEL has recorded some positive earnings momentum which appears attractive when combined with a share price which currently appears to offer good value when compared to the NZ equity market. In part this probably represents an increase in earnings associated with its holding in NZ Refining (NZR). We observe that ZEL's share price has largely tracked that of Caltex Australia's (CTX). ZEL has introduced a progressive dividend policy which is expected to generate 10%pa growth in the dividend. Consequently, the forecast gross dividend yield increases from 5.8% in FY17 to 6.9% in FY18. At the same time net debt is forecast to reduce by around $140m per annum.

2017 P/E: 13.5 2018 P/E: 11.2

NZX Code:	**ZEL**
Share Price:	**$7.04**
12mth Target:	**$8.10**
Projected return (%)	
Capital gain	15.1%
Dividend yield (Net)	4.0%
Total return	**19.1%**
Rating: OUTPERFORM	
52-week price range: 5.82-8.90	

COMPANY	RATING	PRICE (NZ$)	GROSS DIVIDEND YIELD FY-1	FY0	FY1	FY2	DIVIDEND COVER FY-1	FY0	FY1	FY2	NET DEBT/ EQUITY[1]
Steel & Tube	N	$2.44	12.8%	12.8%	13.4%	13.4%	1.0	1.1	1.1	1.2	33.3%
Air New Zealand	N	$2.20	28.4%	11.4%	11.4%	11.4%	1.2	1.7	1.3	1.4	17.0%
Genesis Energy	N	$2.16	9.9%	10.9%	11.6%	12.4%	0.6	0.4	0.4	0.6	26.1%
Tower	N	$0.83	19.2%	10.2%	0.0%	13.0%	-0.2	-1.5		1.3	-41.2%
PGG Wrightson	O	$0.54	9.6%	9.6%	10.3%	10.3%	1.4	1.3	1.3	1.4	17.4%
Spark	U	$3.49	10.0%	9.3%	9.3%	10.0%	0.8	0.8	0.9	0.9	28.7%
Sky Network Television	N	$4.54	9.2%	9.2%	9.2%	9.2%	1.3	1.2	1.0	1.2	14.5%
Trustpower	N	$4.43	n.a.	9.0%	11.0%	11.4%	n.a.	0.8	1.0	1.0	27.2%
Kathmandu	N	$1.88	8.1%	8.9%	8.9%	9.2%	1.5	1.5	1.7	1.6	8.0%
Meridian Energy	N	$2.74	7.9%	8.7%	8.6%	8.2%	0.5	0.5	0.5	0.5	14.8%
Argosy Property	O	$1.05	8.6%	8.7%	8.8%	9.0%	1.0	1.1	1.1	1.1	35.8%
Heartland Bank	N	$1.53	7.7%	8.2%	8.6%	9.1%	1.3	1.4	1.4	1.4	84.0%
Methven	O	$1.32	8.9%	8.1%	9.9%	11.6%	1.3	1.3	1.3	1.3	22.6%
Goodman Property Trust	N	$1.25	7.9%	7.9%	7.9%	7.9%	1.2	1.2	1.2	1.2	27.6%
Skellerup	N	$1.58	7.9%	7.9%	8.2%	8.7%	1.2	1.2	1.3	1.3	10.4%
NZX	O	$1.07	7.8%	7.8%	8.0%	8.1%	0.8	0.6	1.0	1.1	-11.1%
Infratil	O	$2.95	6.7%	7.3%	7.5%	7.6%	0.5	0.4	0.7	1.1	38.9%
Tegel	O	$1.34	0.0%	7.3%	7.6%	8.5%	0.0	1.5	1.5	1.5	14.1%
Kiwi Property Group	N	$1.45	6.8%	6.9%	7.4%	7.5%	1.2	1.1	1.1	1.1	32.7%
Chorus	N	$4.20	6.6%	6.9%	7.3%	7.9%	1.1	1.4	1.2	1.1	39.4%
Scales Corporation	O	$3.43	6.7%	6.9%	6.9%	6.9%	1.5	1.6	1.5	1.6	12.5%
Property For Industry	N	$1.60	6.8%	6.8%	6.9%	6.9%	1.0	1.0	1.0	1.1	31.3%
Vector	U	$3.27	6.7%	6.8%	6.9%	7.0%	0.7	0.8	0.9	0.9	39.5%
Precinct Properties	N	$1.24	6.5%	6.8%	6.9%	7.3%	1.1	1.1	1.1	1.1	24.8%
Contact Energy	O	$4.99	6.2%	6.7%	6.4%	6.7%	0.9	0.9	1.0	1.0	28.6%
Mercury NZ	U	$3.08	7.5%	6.6%	6.7%	6.9%	0.6	0.7	0.7	0.7	18.4%
Fonterra	N	$6.27	6.4%	6.4%	7.2%	8.0%	1.3	1.5	1.4	1.4	32.7%
Opus	N	$0.92	16.6%	6.0%	6.8%	8.3%	1.3	1.8	1.9	2.1	10.5%
Restaurant Brands	N	$5.39	5.4%	5.9%	7.3%	7.9%	1.2	1.3	1.3	1.3	33.8%
Fletcher Building	N	$10.38	4.5%	5.8%	6.2%	6.4%	1.6	1.5	1.6	1.6	22.5%
Freightways	N	$6.90	5.5%	5.6%	6.5%	7.4%	1.3	1.3	1.3	1.2	29.9%
Metro Performance Glass	N	$1.90	5.6%	5.6%	7.4%	7.6%	1.6	1.8	1.8	1.8	29.5%
Z Energy	N	$7.47	4.9%	5.4%	6.0%	6.6%	1.3	1.8	2.0	2.0	48.7%
Trademe	U	$4.92	4.7%	5.2%	6.7%	7.3%	1.2	1.3	1.1	1.1	9.3%
Michael Hill International	O	$1.40	4.9%	5.2%	5.2%	5.2%	1.2	1.9	2.0	2.2	12.5%
Turners Limited	O	$3.79	3.4%	5.1%	6.2%	7.6%	1.9	2.0	2.1	1.9	40.6%
Sanford	N	$6.99	4.6%	4.8%	5.0%	5.0%	1.9	1.9	2.1	2.3	15.0%
Arvida	N	$1.36	4.2%	4.5%	6.2%	6.9%	1.4	1.4	1.3	1.3	8.7%
New Zealand Refining Company	N	$2.75	12.6%	4.0%	7.4%	6.8%	1.9	1.8	1.7	1.7	18.6%
Auckland Airport	U	$6.81	3.6%	4.0%	4.2%	4.7%	1.0	1.0	1.1	1.0	32.5%
Port of Tauranga	U	$4.09	5.3%	3.8%	4.2%	4.5%	0.7	1.1	1.1	1.1	28.0%
Fisher & Paykel Healthcare	N	$9.09	2.6%	3.1%	3.8%	4.5%	1.5	1.5	1.4	1.4	3.6%
Delegat's Group	U	$5.85	2.8%	3.1%	3.6%	4.2%	3.0	3.0	3.3	3.3	43.3%
Tilt Renewables	O	$2.30	n.a.	2.8%	4.1%	14.7%	n.a	0.9	0.7	0.4	41.5%
Mainfreight	N	$21.05	2.4%	2.8%	3.3%	3.8%	2.4	2.4	2.3	2.3	15.2%
MEDIAN			**6.5%**	**6.4%**	**6.9%**	**7.5%**	**1.2**	**1.2**	**1.2**	**1.2**	**22.5%**

Source: First NZ Capital The Net Debt/Equity ratio is calculated as Gross Debt less cash holdings divided by total shareholder funds. Negative ratios indicate a net cash position.

NZ LISTED COMPANIES 30th January 2017 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (NZ$)	Price 30-Jan-17 (NZ$)	Target Price (NZ$)	Price Earnings (x)		Net Yield (%)	
					FY17	FY18	FY17	FY18
OIL & GAS & CONSUMABLE FUELS								
NZ Refining	NZR	856	2.74	2.66	11.2	12.2	5.3%	4.9%
Z Energy	ZEL	2,992	$7.48	$8.10	13.9	11.6	3.9%	4.3%
INDUSTRIALS								
Fletcher Building	FBU	7,259	10.46	10.10	15.9	14.6	4.1%	4.4%
Steel & Tube	STU	226	2.49	2.25	9.8	9.5	9.0%	9.4%
Metro Performance Glass Ltd	MPG	352	1.90	2.20	14.0	10.3	4.0%	5.4%
Methven	MVN	96	$1.31	$1.50	11	10	6.9%	7.6%
Opus International Consultants	OIC	141	$0.94	$1.00	10.8	8.2	4.8%	5.9%
Skellerup Holdings	SKL	308	1.60	1.55	15.1	13.8	5.6%	5.8%
Agriculture								
Fonterra Shareholders' Fund	FSF	778	$6.27	$6.22	10.7	9.7	6.4%	7.2%
PGG Wrightson	PGW	408	$0.54	$0.65	11.2	10.5	6.9%	7.4%
Scales Corporation	SCL	482	$3.45	$4.00	13.9	12.7	4.9%	4.9%
Synlait Milk Limited	SML	568	$3.17	$3.80	15.1	11.6	0.0%	4.3%
The a2 Milk Company	ATM	1,575	2.17	2.57	24.4	19.5	0.0%	0.0%
Airlines								
Air New Zealand	AIR	2,408	$2.15	$2.05	7.2	9.4	8.4%	8.4%
Transportation								
Airwork Holdings	AWK	261	$5.00	$5.15	9.7	8.9	4.4%	6.3%
Freightways	FRE	1,085	7.00	6.25	18.8	17.3	4.0%	4.6%
Mainfreight	MFT	2,126	$21.11	$18.20	20.6	18.4	2.0%	2.3%
Transport Infrastructure								
Auckland Airport	AIA	8,140	6.84	5.35	33.7	30.8	2.9%	3.0%
Port of Tauranga	POT	2,824	$4.15	$3.51	33.8	30.7	2.7%	3.0%
CONSUMER DISCRETIONARY								
Retailing								
Katmandu	KMD	379	$1.88	$1.98	10.4	9.4	6.4%	6.4%
Michael Hill International	MHJ	535	$1.38	$1.51	14.6	13.5	3.6%	3.6%
Hotels, Restaurants & Leisure								
SKYCITY Entertainment Group Ltd.	SKC	2,560	$3.87	$3.65	15.6	14.8	5.4%	5.4%
Restaurant Brands New Zealand	RBD	688	$5.60	$5.73	19.3	15.5	4.1%	5.1%
Media								
Sky Network Television	SKT	1,802	$4.63	$4.84	12.9	15.4	6.5%	6.5%
CONSUMER STAPLES								
Delegat Group	DGL	602	5.95	5.95	15.3	12.0	2.2%	2.5%
New Zealand King Salmon Co Ltd	NZK	189	$1.37	$1.49	18.8	16.5	2.6%	3.0%
Sanford	SAN	660	$7.05	$6.50	15.8	13.4	3.4%	3.5%
Tegel	TGH	491	$1.38	$2.00	12.8	12.2	5.1%	5.3%
HEALTH & AGED CARE								
Pacific Edge Ltd	PEB	199	0.52	0.70	-16.9	-37.8	0.0%	0.0%
Fisher & Paykel Healthcare Corp.	FPH	5,033	8.87	9.70	29.9	25.5	2.3%	2.8%
Arvida	ARV	455	1.36	1.25	21.1	17.3	3.3%	4.6%
Orion Health Limited	OHE	317	1.98	3.00	-9.7	-16.3	0.0%	0.0%
AFT Pharmaceuticals	AFT	261	2.70	3.05	-14.2	-34.1	0.0%	0.0%
FINANCIAL								
NZX	NZX	301	1.12	1.17	17.2	15.6	5.5%	5.8%
Turners Ltd	TNR	288	3.87	3.90	13.6	11.1	3.6%	4.4%
Heartland Bank	HBL	778	$1.54	$1.59	12.4	11.7	6.1%	6.4%
PROPERTY								
Argosy Property Ltd	ARG	858	1.05	1.13	15.5	16.0	5.8%	5.9%
Goodman Property Trust	GMT	1,607	$1.26	$1.29	15.7	16.2	5.3%	5.3%
Kiwi Property Group Limited	KPG	1,878	$1.45	$1.46	19.9	18.8	4.7%	5.0%
Precinct Properties NZ	PCT	1,490	$1.23	$1.26	19.8	19.5	4.6%	4.6%
Property for Industry Ltd	PFI	728	$1.61	$1.62	21	20.5	4.6%	4.6%
INFORMATION TECHNOLOGY								
EROAD	ERD	108	1.80	2.60	n.m.	29.3	0.0%	0.0%
Vista Group International	VGL	459	5.60	6.15	25.9	18.3	1.9%	2.8%
Xero	XRO	2,615	$19.00	$21.00	-34.7	-61.4	0.0%	0.0%
Trade Me Group	TME	3,953	$4.93	$4.17	21.2	18.8	3.8%	4.8%
TELECOMMUNICATION SERVICES								
Chorus	CNU	1,705	4.19	4.27	14.2	15.9	5.0%	5.3%
Spark NZ	SPK	6,542	$3.57	$3.04	17	16.2	7.0%	7.0%
UTILITIES								
Contact Energy	CEN	3,506	$4.90	6.26	21.1	20.3	5.3%	4.9%
Genesis Energy	GNE	2,155	$2.16	$1.97	30.6	28.1	7.9%	8.4%
Infratil	IFT	1,658	$2.96	$3.02	49.8	25.5	5.2%	5.3%
Mercury NZ	MCY	4,242	$3.08	$2.70	27.6	27.3	5.1%	5.4%
Meridian Energy	MEL	7048	$2.75	2.53	30.8	31.3	7.0%	7.0%
TILT Renewables	TLT	739	$2.36	$2.49	40.3	33.5	2.8%	4.0%
Trustpower	TPW	1,487	$4.75	$4.62	18.5	13.1	6.9%	7.9%
Vector	VCT	3,170	$3.17	$3.48	23.5	21.9	5.0%	5.1%
MARKET AVERAGE (excluding ATM, ERD, OHE, PEB & XRO)					**18.5**	**16.4**	**4.2%**	**4.6%**

Australian Equities

On Asset Allocation

- Over the next 7 year business cycle total returns are going to be lower relative to the experience of the past 30 years.
- This can be attributed to a combination of elevated starting valuations across a majority of asset classes and more subdued long term structural growth and inflation trends (as demographics and innovation dampen labour force growth and productivity gains stall).
- The bottom line is investors are going to have to revise down their total return expectations. The bull market in fixed income is over, cash rates are low and expected to peak at only 3.5% (nowhere near the average 4.6% rate of the past 20 years) and equities are at elevated starting valuations.
- Volatility and correlations are expected to rise. Most asset classes are trading below their long term median volatility while correlations between equities and fixed income are likely to rise over the cycle. As a result, we expect the diversification benefit of fixed income to be dampened.

…In a world of modest returns it is very important to get the right sector and the right country allocations. 2017 may not be a year where a rising tide lifts all boats.

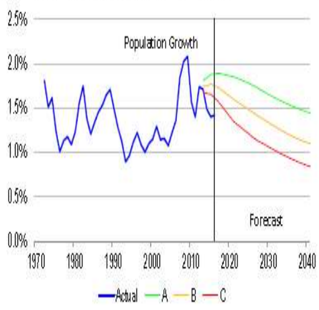
Investment outlook: Key calls for 2017

- Economic growth is off to a good start. In stark contrast to 2016, the global economy is starting 2017 on a reasonably robust footing. Expect the US Federal Reserve (Fed) to hike interest rates twice this year, while central banks in most other developed markets are likely to stick to their current policies.
- After their rally, global equity markets have reached rich valuations, and further gains must be supported by positive corporate earnings growth. Following two years of declines, we expect earnings to have grown in the low single digits in 2016 and to grow modestly in 2017. Single-digit returns are likely for global equity markets. Within equities, our analysts strongest conviction in terms of sectors is healthcare and technology. Healthcare (Pfizer, shire, Thermo Fisher) offers some of the strongest corporate fundamentals, while Technology (Intel, Salesforce.com, SAP) is continuing to grow in areas such as cybersecurity, robotics and virtual reality.
- Given the prospects of moderate growth and accelerating inflation, the outlook for fixed income is challenging. Expected returns for the overall asset class are close to zero.
- In 2017, expect hedge funds to provide modest single-digit returns supported by an environment of benign volatility. In contrast to hedge funds, private equity continues to grow rapidly. The asset class is related to the performance of listed equities, but additionally provides a sizeable illiquidity premium.
- Commodities should have moderate upside potential in 2017, as the oversupply situation that has plagued many markets is easing. Our analysts prefer energy commodities, as this development is most advanced in this market.
- The USD should have upside potential against most major currencies in 2017. Assuming that the Fed continues its hiking cycle, the currency should be able to appreciate. With US yields at more attractive levels, Euro, Swiss franc and sterling-based investors could increase exposure to unhedged USD assets.

Australian Economics - Demography and productivity. The age of prosperity, or the age of entitlement?

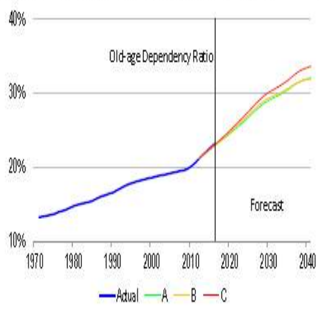
- Productivity growth is a function of age structure. Over the past century, we find that trend growth in real GDP per capita can be modelled almost exclusively using demographic factors. Growth in the young-working-age population boosts productivity, while growth in the retiring population subtracts from it. Demography, rather than technology seems to be the binding constraint on productivity growth.
- Demographics support an uplift in productivity growth. Over the past decade, trend productivity growth has slowed to 0.9% per annum, because of accelerating growth in the old-age population segment. But going forward, expect productivity growth to reaccelerate to above 2% per annum, as growth in the old-age segment slows, and as migrant families add meaningfully to the young-working age population.
- Perversely, more policy easing may be required. Potential real GDP growth should pick up to above 3.5% per annum, from 2.75% currently. But to realize this potential, it will require a demand-friendly policy mix. The risk is that policy settings are inappropriate to absorb the growing slack in the economy, resulting in wasted potential, and material disinflation.

Figure 8: Population growth forecasts



Source: Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service, Thomson Reuters Datastream

Figure 9: Old age dependency ratio forecasts



Source: Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service, Thomson Reuters Datastream

Credit Suisse's list of Australian stocks looking positive

"The stocks that reeked, but now that is the aroma of positive alpha"

Credit Suisse covered stocks not Underperform rated with spot price-to-book less than seven year average, spot RoE less than seven year average net debt to EBITDA less than 2x.

	Industry	Mkt Cap	12mth Fwd PE	12mth Fwd FCF Yield	Net Debt to EBITDA	Price to Book	Average Price to Book	RoE	Average RoE
AMP	Div Fins	15.5	16.0	n.a.	n.a.	2.1	2.1	13%	14%
ANZ	Banks	91.9	13.7	n.a.	n.a.	1.5	1.5	12%	14%
Boral	Materials	6.4	16.5	3.3%	1.0	1.1	1.1	6%	6%
Crown	Gaming	8.4	22.9	0.4%	-0.6	1.4	2.0	6%	11%
FlexiGroup	Div Fins	0.9	9.0	n.a.	n.a.	1.4	2.4	16%	22%
Flight Centre	Cons Services	3.2	13.4	7.4%	-1.1	2.2	2.8	16%	21%
Henderson	Div Financials	1.7	12.9	8.0%	-1.2	2.3	2.6	18%	21%
Mayne Pharma	Pharma	2.0	18.5	4.8%	0.0	1.4	2.2	8%	10%
Myer	Retailing	1.1	12.7	5.9%	0.4	1.0	1.4	8%	13%
Nine Entertainment	Media	0.9	10.8	5.6%	0.5	0.8	1.0	7%	10%
Perpetual	Div Fins	2.3	16.6	4.9%	-0.9	3.7	3.9	22%	24%
QBE Insurance	Insurance	12.6	15.5	n.a.	n.a.	1.2	1.2	8%	11%
Seven West Media	Media	1.3	7.7	17.3%	1.7	1.0	1.6	12%	17%
Vocus Communications	Telecoms	2.6	11.5	8.4%	1.7	0.7	2.1	6%	11%
Woolworths	Cons Staples	31.4	20.6	2.0%	0.8	3.2	3.7	15%	24%

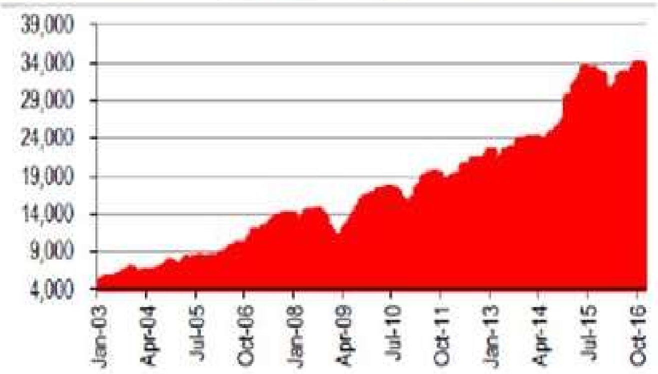
Source: Company data, Credit Suisse estimates

Alumina (AWC.AX)

NEUTRAL A$1.90 **TARGET:** A$1.70

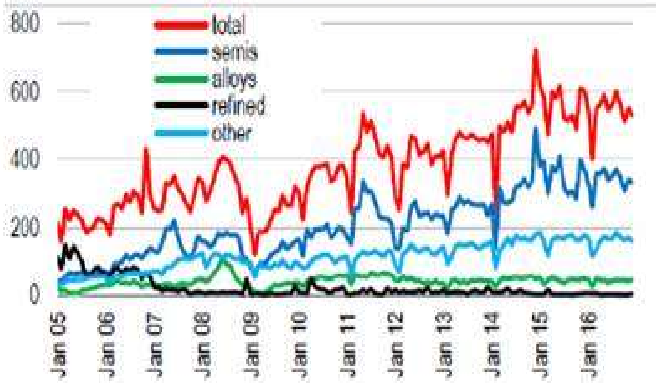
China is the world's largest producer of aluminum (50% of global production) and alumina, much of which is exported. In order to reduce winter air pollution, Chinese authorities are considering closing 3.3mt (5% of world supply) of aluminum capacity. This should support the aluminum and alumina prices.

Figure 1: China's Al production surge (ktpa annualised)...



Source: China Customs, Antaike.

Figure 2: ...metal surplus exported – (China exports, kt/mth)



Source: China Customs, Antaike.

Caltex Australia (CTX.AX)

OUTPERFORM A$28.60 **TARGET:** A$39.70

A look at the rejection of Caltex/Mobil

With the benefit of hindsight Caltex might perhaps feel that they could have taken a different approach (offering to divest more sites one would think) to the failed bid for Mobil's 302 sites in 2009. In the end, Mobil sold to 7Eleven before we got a chance to see whether Caltex would have chosen to challenge the decision or whether that challenge would have been successful.

What about BP/Woolworths?

When looking at the BP/Woolworths deal from an ACCC perspective we think it is very important to distinguish, from an equity market perspective at least, between two considerations. Firstly the profitability of the industry itself, then the reduction in competition that a merger of BP/Woolworths could bring.

Whilst we never got volumes for the 302 Mobil sites it would be fair to say that the relative prices between that bid and the BP/Woolworths one goes a long way to showing what has happened to industry profitability since then.

Despite the fact that 200 of the Mobil sites were freehold, and none of the Woolworths ones are, Mobil were being offered ~$1m per site vs Woolworths at ~$3.4m per site (to be clear this is pre-lease adjustments so the delta is even more profound). Both deals have/had the added carrot of taking over the wholesale supply.

CTX.AX Year to 31 Dec		2016A	2017F	2018F
Adjusted Earnings (NPAT)	A$m	535	604	554
Earnings /share (Adjust)	A$	2.05	2.32	2.12
EPS Growth	%	(11.8)	13.0	(8.4)
Price / Earnings Ratio	x	14.7	13.0	14.2
Dividend / Share	A$	1.03	1.16	1.06
Dividend Yield	%	3.4	3.9	3.5
Net Det/Equity	%	19.6	16.8	9.3

Australian Equities – Net Dividend Yield

prices at 2nd February 2017

COMPANY	RATING	PRICE (AU$)	DIVIDEND YIELD				DIVIDEND COVER				NET DEBT/ EQUITY
			FY-1	FY0	FY1	FY2	FY-1	FY0	FY1	FY2	CURRENT
Crown	O	$11.39	6.4%	10.1%	4.4%	4.7%	0.6	0.4	1.0	1.0	38.9%
Tatts Group	N	$4.29	4.1%	8.7%	3.8%	3.3%	1.0	0.4	1.0	1.0	35.7%
Qantas	O	$3.34	2.1%	8.1%	8.4%	7.5%	7.0	1.8	2.0	2.0	68.3%
DUET Group	N	$2.60	8.4%	6.6%	6.8%	6.9%	0.4	0.6	0.5	0.5	168.8%
National Australia Bank	O	$30.46	6.5%	6.5%	6.5%	6.5%	1.2	1.2	1.3	1.3	-59.7%
Bank of Queensland	N	$11.82	6.4%	6.4%	6.5%	6.6%	1.2	1.2	1.2	1.3	
Spark Infrastructure Group	N	$2.36	5.1%	6.1%	6.5%	6.8%	0.7	0.5	0.4	0.4	8.6%
Vicinity Centres	N	$2.88	6.2%	6.1%	6.3%	6.6%	1.1	1.1	1.1	1.1	35.9%
Telstra Corporation	U	$5.07	6.1%	6.1%	6.1%	6.1%	1.1	1.1	1.2	1.2	66.5%
Harvey Norman	U	$4.91	6.1%	6.1%	4.3%	4.2%	0.9	1.1	1.6	1.6	19.1%
CSR	N	$4.44	5.4%	6.1%	5.0%	3.6%	1.4	1.4	1.4	1.5	-5.4%
Fortescue Metals Group Ltd	N	$6.61	2.1%	6.1%	2.8%	1.8%	2.9	2.5	2.5	2.5	61.7%
Westpac	N	$31.99	5.9%	5.9%	5.9%	5.9%	1.2	1.3	1.3	1.4	-29.2%
Perpetual Limited	N	$46.17	5.5%	5.8%	6.0%	6.4%	1.1	1.1	1.1	1.1	-31.6%
Stockland Group	N	$4.39	5.6%	5.8%	6.2%	6.6%	1.1	1.2	1.1	1.1	35.7%
IOOF Holdings	O	$8.98	6.1%	5.8%	6.6%	7.2%	1.1	1.1	1.1	1.1	1.4%
ANZ Banking Group	N	$29.44	5.4%	5.8%	5.8%	5.9%	1.2	1.4	1.4	1.4	-84.0%
Adelaide Brighton	N	$5.14	3.7%	5.5%	5.8%	4.3%	1.7	1.1	1.1	1.4	24.6%
Suncorp Group Limited	O	$13.18	5.2%	5.5%	5.5%	5.5%	1.2	1.3	1.3	1.3	59.3%
Ausnet Services	N	$1.60	5.3%	5.5%	5.6%	5.7%	1.1	0.8	0.8	0.8	161.5%
Bendigo and Adelaide Bank	N	$12.54	5.4%	5.4%	5.6%	5.7%	1.2	1.3	1.3	1.3	-20.7%
AMP	N	$5.05	5.5%	5.3%	5.6%	6.0%	1.3	-0.3	1.1	1.2	151.7%
Aurizon	N	$5.07	4.9%	5.3%	5.5%	5.9%	1.0	1.0	1.0	1.0	59.8%
Sydney Airport	U	$5.91	4.3%	5.2%	5.8%	6.3%	0.5	0.5	0.5	0.5	594.2%
Commonwealth Bank Australia	N	$82.02	5.1%	5.2%	5.3%	5.6%	1.3	1.3	1.3	1.3	-38.5%
APA Group	U	$8.46	4.9%	5.1%	5.4%	5.5%	0.4	0.5	0.5	0.6	242.1%
GPT Group	N	$4.66	4.8%	5.1%	5.3%	5.6%	1.3	1.3	1.2	1.2	38.1%
Mirvac Group	O	$2.04	4.9%	5.1%	5.3%	5.4%	1.3	1.4	1.4	1.4	34.3%
Macquarie Group	N	$84.64	4.7%	5.1%	5.2%	5.4%	1.5	1.4	1.5	1.5	0.0%
Tabcorp Holdings	O	$4.75	5.1%	5.1%	5.1%	5.3%	0.9	0.9	1.0	1.0	56.5%
Henderson Group PLC	O	$3.51	4.9%	5.0%	5.4%	5.6%	1.7	1.4	1.6	1.6	-22.2%
Dexus Property Group	U	$8.03	4.8%	5.0%	5.1%	5.1%	1.4	1.4	1.4	1.3	48.3%
Lend Lease	O	$14.28	4.2%	4.9%	5.8%	6.5%	2.0	1.9	1.8	1.7	18.2%
Transurban	O	$10.34	4.4%	4.9%	5.5%	6.3%	0.0	0.3	0.4	0.4	188.4%
Wesfarmers	N	$40.66	4.8%	4.9%	4.8%	4.8%	1.1	1.3	1.3	1.4	26.2%
Scentre Group	O	$4.42	4.7%	4.8%	5.1%	5.4%	1.1	1.1	1.1	1.1	57.4%
Insurance Australia Group	U	$5.63	6.2%	4.8%	4.8%	5.1%	0.7	1.2	1.3	1.3	25.0%
BHP Billiton	N	$27.08	1.5%	4.7%	4.5%	4.0%	0.8	1.6	1.5	1.4	43.5%
QBE Insurance Group	N	$12.50	3.8%	4.7%	4.3%	4.8%	1.4	1.3	1.5	1.5	33.8%
Alumina Limited	U	$1.94	4.3%	4.7%	8.2%	5.7%	0.5	0.4	1.0	0.9	5.1%
Flight Centre	N	$29.93	5.1%	4.6%	5.2%	5.5%	1.6	1.6	1.6	1.6	-31.4%
Coca-Cola Amatil	N	$9.78	4.4%	4.5%	4.6%	4.7%	1.2	1.2	1.2	1.2	48.6%
Medibank Private Limited	N	$2.70	4.1%	4.5%	4.2%	4.2%	1.4	1.3	1.2	1.3	-27.8%
Fairfax Media	O	$0.90	4.4%	4.4%	4.4%	4.4%	1.4	1.5	1.4	1.4	-3.5%
Investa Office Fund	N	$4.58	4.3%	4.4%	4.6%	4.6%	1.4	1.5	1.4	1.5	36.0%
JB Hi-Fi	N	$27.15	3.7%	4.4%	4.7%	4.9%	1.5	1.6	1.5	1.5	14.3%
South 32	N	$2.75	0.0%	4.4%	3.9%	3.1%		2.5	2.5	2.5	-3.3%
Vocus Communications	O	$3.87	4.4%	4.3%	5.0%	5.7%	1.7	2.0	2.0	2.0	23.9%
Navitas Ltd	N	$4.48	4.4%	4.3%	4.8%	5.3%	1.2	1.2	1.2	1.2	26.8%
ASX	N	$50.24	3.9%	4.1%	4.1%	4.2%	1.1	1.1	1.1	1.1	-85.7%

FNZC's Australian Focus List

as at 31st January 2017

Index / Stock Name	Stock Code	Current Price $	Target Price $	Target Gross Return %	Gross Stock Performance %			
					Fortnight	Month	Quarter	Year
ASX100 Index	ASX100	13,924			1.5	3.8	6.7	20.7
Ansell	ANN	24.89	21.65	-10.5%	0.4	1.4	5.3	23.4
Challenger	CGF	11.39	11.50	3.9%	1.1	3.5	6.9	42.9
Commonwealth Bank	CBA	84.82	85.00	5.2%	1.8	5.1	13.7	12.1
Henderson Group	HGG	4.00	4.90	26.8%	-1.0	1.0	-4.3	-28.8
James Hardie Industries	JHX	21.32	21.70	4.5%	-3.1	0.5	3.5	34.3
Lend Lease Group	LLC	14.31	17.00	23.7%	-2.3	3.5	-0.6	11.1
Macquarie Group	MQG	87.74	85.00	1.8%	0.4	2.9	6.8	19.7
Metcash	MTS	2.25	2.54	12.9%	-1.3	5.6	6.1	43.3
Ramsay Healthcare	RHC	71.54	75.00	6.7%	4.4	4.4	-10.8	13.6
Resmed	RMD	8.54	9.00	7.5%	-1.0	4.4	0.7	17.2
Transurban	TCL	10.50	12.50	23.9%	1.1	7.2	1.3	8.4

Stock Code	PE Ratio x		EV/EBITDA x		Net Div Yield %		Return on Equity %
	FY0	FY1	FY0	FY1	FY0	FY1	
ANN	17.1	16.5	11.4	10.8	2.5	2.6	13.2
CGF	17.3	15.7	12.4	11.1	2.9	3.2	13.5
CBA	15.3	14.6	8.5	8.1	5.0	5.1	15.3
HGG	15.9	12.8	6.7	5.5	4.3	4.8	15.6
JHX	26.3	21.9	15.7	13.5	2.7	3.0	-98.4
LLC	11.0	9.8	8.3	7.3	4.9	5.7	13.9
MQG	14.3	13.7	7.8	7.3	4.9	5.0	13.8
MTS	11.4	9.9	7.1	6.4	0.0	6.1	11.1
RHC	27.7	24.6	12.9	12.1	1.8	2.1	28.2
RMD	26.5	23.6	17.0	15.6	2.1	2.3	17.7
TCL	68.8	56.4	21.2	18.9	4.8	5.3	7.2

Source: IRESS, Credit Suisse, FNZC

FNZC's Australasian Equities Portfolio

as at 1st February 2017

	Core Plus	Diversified	Sector
Ansell		5.0%	Health Care
ANZ Banking Group	15.0%	10.0%	Financials
Boral	12.5%	7.5%	Materials
Caltex Australia	10.0%	10.0%	Energy
Challenger	7.5%	5.0%	Financials
Commonwealth Bank of Australia		7.5%	Financials
Computershare	7.5%	5.0%	Info Tech
Contact Energy	7.5%	5.0%	Utilities
CSL	10.0%	7.5%	Health Care
Healthscope	7.5%	7.5%	Health Care
James Hardie Industries	12.5%	10.0%	Materials
Lend Lease Group		5.0%	Real Estate
Metlifecare		5.0%	Health Care
Resmed	10.0%	5.0%	Health Care
Sonic Healthcare		5.0%	Health Care
	100.0%	100.0%	

Source: FNZC

Company Name	31 Dec	31 Jan	PE Ratios (x)		Div Yield % *	Gross Returns %		
	Price ($)	Price ($)	Pros	Pros +1	Pros	Jan-17	1 Year	2 Year pa
Ansell	24.71	23.78	16.8	15.6	2.5	-3.8	21.6	4.9
ANZ Banking Group	30.42	29.29	13.0	12.4	5.6	-3.7	27.8	-0.5
Boral	5.41	5.82	19.5	16.2	4.0	7.6	15.6	9.0
Caltex Australia	30.46	28.60	12.3	13.5	4.1	-6.1	-19.8	-4.0
Challenger	11.24	11.02	16.7	15.2	3.0	-2.0	42.9	35.8
Computershare	12.46	12.89	18.0	15.3	2.6	3.5	27.1	7.9
Contact Energy	4.66	4.77	20.5	19.7	7.0	2.4	10.5	-7.3
CSL	100.41	112.30	28.5	24.2	1.6	11.8	9.6	14.7
Healthscope	2.29	2.19	20.9	19.7	3.2	-4.4	2.4	-7.0
James Hardie Industries	21.97	20.68	26.1	21.6	2.7	-5.9	32.0	28.6
Lend Lease Group	14.62	14.09	10.8	9.6	5.0	-3.6	13.1	-4.4
Macquarie Group	87.12	84.60	13.8	13.3	5.1	-2.9	24.2	22.0
Metlifecare	5.55	5.58	31.0	15.9	1.0	0.5	27.5	8.8
Resmed	8.58	8.93	27.6	25.3	2.0	4.1	12.4	6.6
Sonic Healthcare	21.40	20.82	19.3	17.6	3.7	-2.7	17.2	8.7
Commonwealth Bank of Australia	82.41	81.66	14.8	14.1	5.2	-0.9	9.1	0.6

Prices and returns of Australian stocks are in Australian dollars. * NZ dividend yields are gross while Australian dividend yields are net. Source FNZC

Global Equities – a look at the US, post-election

Manufacturing and Infrastructure

The proposed policy to return manufacturing capacity to the US is likely to take time to gain any traction given the time taken for companies to assess the impact of the proposed policy changes, and to develop appropriate plans. Consequently, it is worth watching a company like **Rockwell Automation (ROK.US)** which is involved in automation.

Another policy which is likely to take time to have an impact is construction of new infrastructure. This is likely to benefit machinery like **Caterpillar (CAT.US)**, engineering and construction companies and companies producing construction materials (in particular cement, aggregates. Consider **Cemex (CX)**, a global cement and aggregate producer with exposure to the US), and steel - **Nucor Corporation (NUE).**

FNZC's Global Equities Portfolio

as at 1st February 2017

		Global	Global Plus	Exposure
AAXJ.US	iShares MSCI Asia ex-Japan Fund		5.0%	Emerging Markets
CTY.LN	City of London	4.5%	4.5%	UK
DXJ.US	WisdomTree Japan Hedged Equity Fund	4.0%	4.0%	Japan
HEDJ.US	WisdomTree Europe Hedged Equity Fund	11.0%	9.5%	Europe
IVV.US	iShares S&P 500 Index Fund	47.5%	33.5%	US
IWM.US	iShares Russell 2000 Fund	6.0%	5.0%	US
IXG.US	iShares Global Financials Fund		5.0%	Financials
JESC.LN	JPMorgan European Smaller Companies Trust	5.0%	5.0%	Europe
PCT.LN	Polar Capital Technology Trust		5.0%	Technology
PKW.US	PowerShares Buyback Achievers		4.5%	US
SJG.LN	Schroder Japan Growth Fund	7.0%	6.5%	Japan
TEM.LN	Templeton Emerging Markets Trust	5.0%		Emerging Markets
VWO.US	Vanguard FTSE Emerging Markets Fund	10.0%	8.0%	Emerging Markets
WWH.LN	Worldwide Healthcare Trust		4.5%	Healthcare
		100.0%	100.0%	

Source: FNZC

NZ Daily Fixed Interest Rate Sheet

PRICES AS AT 3RD FEBRUARY 2017 NOTE: Indicative pricing only

Secondary market	Code	Rating	Type	Maturity/ Reset Date	Coupon	Yield	Price /$100	Accrued Interest	Coupon Freq
ANZ National Bank	ANB180	AA-	Snr	27/02/2019	5.43%	3.20%	$106.81	$2.41	2
ANZ National Bank	ANB150	AA-	Snr	13/03/2019	6.25%	3.21%	$108.65	$2.52	2
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	4.30%	$104.33	$2.15	2
Fletcher Building	FBI130	NR	Cap	15/03/2019	6.45%	4.30%	$106.84	$2.57	2
Contact Energy Limited	CEN020	BBB	Snr	15/05/2019	5.80%	3.55%	$106.21	$1.31	4
Bank of New Zealand	BNZ190	AA-	Snr	25/06/2019	5.57%	3.32%	$105.78	$0.66	2
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	5.30%	$103.35	$0.40	2
Westpac New Zealand	WPAC1050	AA-	Snr	12/07/2019	5.61%	3.31%	$105.72	$0.39	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	4.80%	$106.55	$1.52	4
Christchurch Int Airport	CIA1010	BBB+	Snr	6/12/2019	5.15%	3.59%	$105.05	$0.88	2
Auckland Intl Airport	AIA120	A-	Snr	13/12/2019	4.73%	3.32%	$104.51	$0.71	2
University of Canterbury	UOC010	NR	Snr	15/12/2019	5.77%	4.10%	$105.29	$0.84	2
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	4.50%	$115.30	$4.04	4
Fletcher Building	FBI140	NR	Cap	15/03/2020	5.80%	4.40%	$106.32	$2.31	2
Trans Power	TRA010	AA-	Snr	10/06/2020	6.95%	3.44%	$112.12	$1.11	2
Rabobank Nederland	RBO010	A+	Snr	10/06/2020	4.59%	3.65%	$103.68	$0.73	2
Bank of New Zealand	BNZ105	AA-	Snr	18/06/2020	4.43%	3.69%	$102.91	$0.61	2
ANZ National Bank	ANB100	AA-	Snr	25/09/2020	4.03%	3.83%	$102.16	$1.49	2
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	4.01%	$108.65	$0.89	2
Bank of New Zealand	BNZ090	BBB+	Tier 2	17/12/2020	5.31%	5.35%	$100.63	$0.75	4
Fletcher Building	FBI150	NR	Cap	15/03/2021	4.75%	4.70%	$102.08	$1.89	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	4.30%	$109.56	$2.20	4
Westpac New Zealand Ltd	WPAC0421	AA-	Snr	28/04/2021	3.80%	4.00%	$100.26	$1.05	2
Chorus Limited	CNU010	BBB	Snr	6/05/2021	4.12%	4.20%	$100.72	$1.05	2
Auckland Intl Airport	AIA130	A-	Snr	28/05/2021	5.52%	3.79%	$107.87	$1.07	2
ASB Bank	ABB040	AA-	Snr	26/05/2021	4.25%	4.00%	$101.79	$0.84	2
Fonterra Co-operative Group	FCG030	A-	Snr	20/10/2021	4.33%	4.02%	$102.59	$1.30	2
Contact Energy Limited	CEN030	BBB	Snr	15/11/2021	4.40%	4.35%	$101.22	$0.99	4
Precinct Properties Limited	PCT010	NR	Snr	17/12/2021	5.54%	4.55%	$105.04	$0.78	2
Genesis Power Limited	GNE030	BBB+	Snr	18/03/2022	4.14%	4.30%	$100.88	$1.61	2
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	5.71%	$106.22	$1.01	4
Goodman Property Trust	GMB030	BBB+	Snr	23/06/2022	5.00%	4.60%	$102.52	$0.62	2
Sky City Bond	SKC040	BBB-	Snr	28/09/2022	4.65%	4.85%	$100.69	$1.68	4
Air New Zealand Limited	AIR020	NR	Snr	28/10/2022	4.25%	4.20%	$101.42	$1.18	2
Trustpower	TPW150	NR	Snr	15/12/2022	4.01%	4.80%	$96.58	$0.59	4
Trans Power	TRA090	AA-	Snr	15/03/2023	5.45%	4.16%	$109.04	$2.17	2
Fonterra Co-operative Group	FCG040	A-	Snr	7/03/2023	4.42%	4.35%	$102.23	$1.86	2
Meridian Energy	MEL030	BBB+	Snr	14/03/2023	4.53%	4.40%	$102.49	$1.81	2
Wellington Intl Airport	WIA030	BBB+	Snr	12/05/2023	4.25%	4.70%	$98.57	$1.01	2
Bank of New Zealand	BNZ115	AA-	Snr	15/06/2023	4.10%	4.49%	$98.49	$0.60	2
Infratil	IFT210	NR	Bnd	15/09/2023	5.25%	5.70%	$99.63	$2.09	4
Infratil	IFT230	NR	Bnd	15/06/2024	5.50%	5.90%	$98.43	$0.81	4

Floating Rate/Perpetual Bonds	Code	Rating	Type	Reset Date	Coupon	Price /$100	Margin to SWAP	Maturity	Coupon Freq
ASB Bank Basel III compliant	ABB030	BBB+	Tier 2	15/06/2019	6.65%	4.90%	280	Perpetual	4
ANZ National Bank	ANBHA	BBB+	Tier 2	18/04/2018	5.28%	102.30	280	Perpetual	2
ANZ National Bank	ANBHB	BBB-	Tier 1	25/05/2020	7.20%	104.50	440	Perpetual	2
ASB Bank	ASBPA	BBB	Tier 1	15/11/2017	3.42%	0.77	250	Perpetual	4
ASB Bank	ASBPB	BBB	Tier 1	15/05/2017	3.20%	0.76	240	Perpetual	4
Credit Agricole S.A.	CASHA	BB+	Tier 1	19/12/2017	5.04%	93.00	290	Perpetual	4
Fonterra Co-operative Group	FCGHA	BBB+	Perp	10/07/2017	4.38%	93.00	210	Perpetual	4
Genesis Power Limited	GPLFA	BB+	Cap Bond	15/07/2018	6.19%	102.20	350	Perpetual	4
Infratil	IFTHA	NR	Perp	15/11/2017	3.63%	64.50	360	Perpetual	4
Quayside Holdings Ltd	QHLHA	NR	Perp Pref	12/03/2017	5.88%	98.00	210	Perpetual	4
Rabobank Nederland	RBOHA	BBB-	Tier 1	8/10/2017	2.88%	97.00	740	Perpetual	4
Rabobank Nederland	RCSHA	BBB-	Tier 1	18/06/2019	8.34%	105.90	440	Perpetual	4
Works Infrastructure Finance	WKSHA	NR	RPS	15/06/2017	7.21%	104.50	400	$101.45	4

Limitations and Disclaimer