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Investment Strategies

Volume 14

MAY 2016

A growing discontent

Discontent is a global phenomenon, and New Zealand is not immune. The Trump movement is just a sign of the times – globally we have lost trust in our politicians ability to both keep us safe, and to tell us the truth.

As a nation, New Zealanders are becoming increasingly frustrated by race-based agendas within Central Government, and its inability to address tax manipulation by multinationals, allowing them to "legally" (but not morally) defraud New Zealanders out of their fair share of the tax burden.

Our John Key lead Government needs to recognise this rise in discontent, if it is to win a fourth term in 2017. We might worry about the Zeka virus, but we are breeding a fertile ground for popularists like Winston Peters, who the "haters" love to proclaim as New Zealand's Messiah.

We are now very much a multicultural society, and you only have to walk down Queen Street in Auckland to see this. We have to be inclusive, but that doesn't mean that we have to pander to the left to retain power. Maoridom must learn that we are all New Zealanders, and we all care about our environment. We all love this land, and at the end of the day we are all migrants. Let's embrace our future together.

Think strategically

- ***Uber - the world's largest taxi company owns no vehicles.***
- ***FaceBook - the world's most popular media owner creates no content.***
- ***Alibaba - the world's most valuable retailer has no inventory.***
- ***AirBnB - the world's largest accommodation provider owns no real estate.***

These four statements neatly capture one of the mega trends revolutionising the economy. Over the last 35 years the West has undergone a massive economic inversion. Corporate balance sheets, once cluttered with tangible assets such as property, plant and equipment have been inverted. Airlines don't own aeroplanes anymore. Hotels don't own their buildings. Car manufacturers are now outsourcing production lines.

This begs the question: ***If all the heavy stuff, the tangible assets, are gone - what replaced it?***

The answer is both profound and simple: balance sheets today are dominated by intangible assets: brand, content, data, know how, confidential information, design, inventions, code - in short intellectual property. A recent survey found roughly 80 per cent of the value of USA's S&P500 is now in intangible assets.

RRP $5.00

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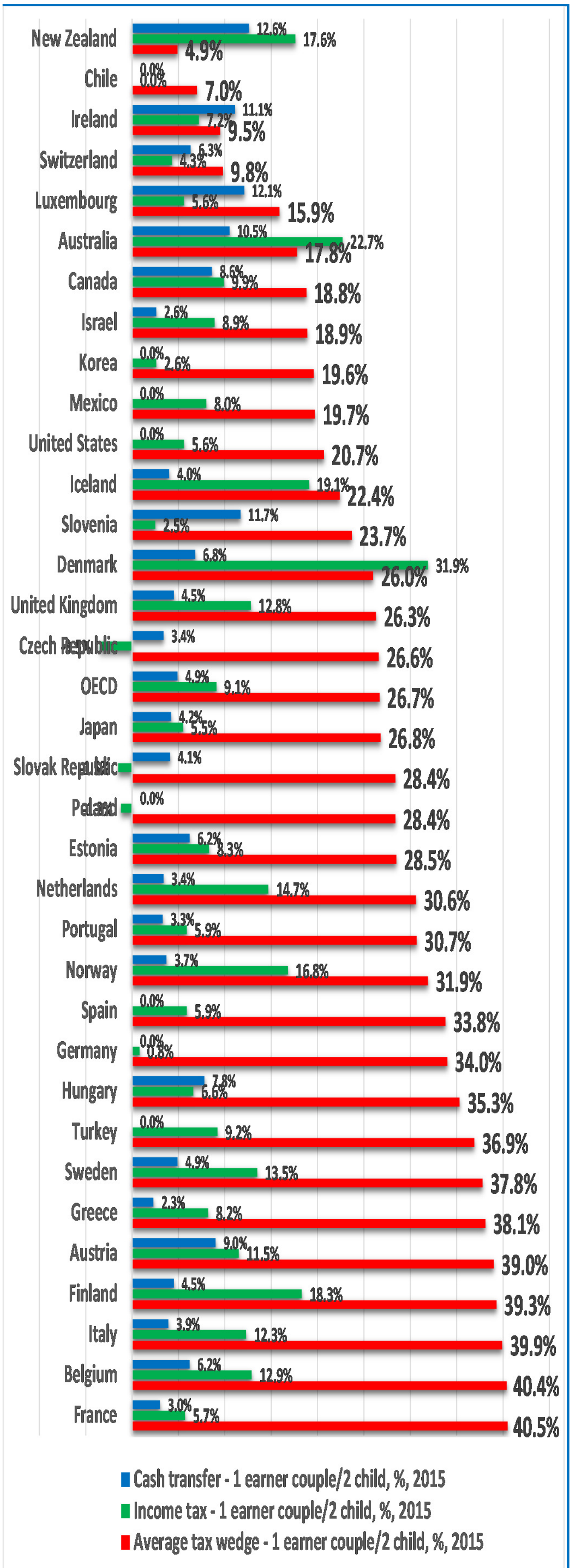
"Micro-economics is business, Macro-economics is what you put up with"
Charlie Munger – Warren Buffett's 92 year old business partner

Income tax in New Zealand lowest in OECD

The table below shows that, when other government support is included, New Zealand (at 4.9% net tax) has the lowest net income tax rate in the OECD.

OECD INCOME TAX



NOTE: The report doesn't take into consideration GST.

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Single workers in New Zealand face taxes of 17.6% in 2015, compared with the OECD average of 35.9%. The scenario for a single earner, 2 child family in New Zealand is a Net Tax Rate of just 4.9% - the lowest in the OECD. This is because that family receives Government support of a net 12.6% of their Income. Average single workers in New Zealand are paying less tax in 2015 than they were in 2000.

The publication on income tax in OECD countries calculates a "tax wedge" - the amount of tax on wages including social security contributions to the Government, including family benefits and tax provisions. It does not include indirect taxes such as GST.

The highest average tax burdens for childless single workers earning the average national wage were in Belgium (55.3%), Austria (49.5%), Germany (49.4%) and Hungary (49%). The lowest were in Chile (7%), New Zealand (17.6%) and Mexico (19.7%).

In New Zealand, income tax accounts for the whole tax wedge for single workers, while most of the other countries in the OECD require compulsory social security contributions to schemes operating within the Government sector. Child-related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. The average married New Zealand couple with two children and one income pays the least amount of tax in the OECD when family benefits are taken into consideration.

The OECD average tax wedge for a married couple on a single income with two children is 26.7%. Income tax decreased by 1.8% from 19.4% to 17.6% between 2000 and 2015.

The Cost of Brexit

A decade of uncertainty

Leaving the European Union would cause a decade of uncertainty that could cost Britain's financial services an estimated £17 billion (NZ$35.96 billion) and make lawyers rich, a think-tank study says.

Analysts at JWG, which specialises in managing regulatory changes, takes no position on whether Britain should remain or leave the EU. But it says if Britain votes to leave in June's referendum, financial firms will end up trying to maintain business as usual while making fundamental changes.

"Rather than reduce red tape, UK businesses will be stuck with a rule book that could change by 60%, while new court judgments change the rules of the game," the 24-page JWG study of the impact of Brexit said.

"The additional cost of Brexit to already bloated UK regulatory change budgets will be £17 billion through 2026, not taking into account fines for non-compliance," the study said.

Change would come in three waves: British regulators reshaping rules, EU rules rewired, and from 2022, global rules would be due for revision, it said. Some firms will move quickly to sort out their approach and gain competitive advantage.

"However, the herd will move slowly and consultants, lawyers and technology providers will be the ultimate winners from the next decade," the report said.

Statistics NZ Data

Next Census due: 2018

Population

Estimated population at 31 March 20165:	4,677,400
Births March 2016 year (Dec 14: 57,242)	60,468
Deaths March 2016 year (Dec 14: 31,063)	31,368
Net migration April 2016 year	68,110

Employment

Total employed March 2016 quarter:	2,399,000
Unemployment rate March 2016 quarter:	5.7%
Ave weekly earnings March 2016 quarter:	$1,134.90
Wage inflation March 2016 year	1.6%
Cost Price Index March 2016 qtr (Dec qtr: -0.5%)	0.2%
International Position Dec quarter:	**-$151.16 Billion**
GDP per capita year ended Dec 2015	**$53,496**
GDP Growth for 2015 (+0.9% for Dec qtr)	**2.5%**
Visitor arrivals in February 2016	**373,376**

"Recognise what you can't do.
Only swing at what's in the strike zone."
Warren Buffett, 2016

Thoughts of a Top Fund Manager

Carmel Fisher, Fisher Fund Managing Director

I know that Easter has come and gone, but if supermarkets are still selling Christmas mince pies (yes, it's a fact) then I'm going to write about the Easter bunny! Actually strictly speaking it may not be the Easter bunny as it has been hopping around for more than three months. But regardless, it makes a pleasant change from talking bulls and bears.

Last month Jim Paulsen, strategist at Wells Capital Management, introduced the idea that we are in a bunny market and we're set to stay in it for some time. Unlike an enthusiastic bull which spikes the market higher, or a scary bear that claws the market down, a bunny market simply hops around and never really gets anywhere.

As frustrated investors around the world can attest, the first three months of this year have featured a lot of hopping, yet markets have failed to move very far from the closing levels of last year. Most of the major markets have traded in a range of 10-15% over the last three months, but will finish the March quarter in pretty much the same place as they started the year.

The bunny market is not a new phenomenon, though we haven't had a proper one since the mid-1990s when the Federal Reserve began tightening monetary policy. According to Paulsen, bunny markets typically occur in the latter stages of an economic recovery. "Stocks initially recover aggressively after a recession. However, as the recovery matures, cost pressures, inflation and higher interest rates begin to put pressure on the bull market. This often resolves into a bunny market for the balance of many economic recoveries."

That sounds about right. We've seen stocks rally strongly since March 2009, and although we have yet to see inflation or higher interest rates, markets have largely run out of puff. The economic recovery is continuing, and despite occasional headlines to the contrary, there is no evidence that it is about to end.
It appears that the bulls and the bears have simply been replaced with a different animal.

The bulls have been displaced because the company earnings cycle is mature (without decent revenue growth, earnings cannot grow significantly) and stocks are relatively expensive, so even the most optimistic bull has had to pull his horns in. The bears have had to return to their caves because with low recession risk and continued economic recovery, there is no room for a sustained bear market. That leaves us with the bunny — no significant market declines or rallies, just a lot of hopping.

As frustrating as flat bunny markets are, they can be the very best sort of market for long-term regular savers. Although the starting and ending prices of the last quarter suggest that little money has been made, a saver who has been investing regularly throughout the period has had continuous opportunities to buy at similar price levels, with an occasional bargain price thrown in. Anyone who invests on a regular basis has a chance to obtain a better long-term average entry price, compared to those investors who try to pick a single entry point in a bull or bear market.

What Paulsen does highlight — and we think he has a point — is that in a bunny market, investment strategies can no longer be simply bullish or bearish. Buy and hold strategies may not be as successful on their own — it might pay to top up after periods of significant weakness and trim holdings after solid runs. And prudent stock-picking will likely add value — after all, the bunny is going to hop all over the place, benefiting certain businesses and industries over others.

Don't worry — we've got this bunny sorted on your behalf. We'll make sure your returns are eggstra-special!

"There – I changed the channel. Anything else you need help with?"

THE WORLD AT A GLANCE

United States
Don't under-rate Donald Trump
Only in the US!

UK
23rd June is crunch time
Will Britain exit the EU?

Europe
Weak growth, no new jobs
& high debt haunts EU

Russia
Russian economy relies
on an oil price recovery

China
Chinese economy falters but
its middle class grows strongly

Australia
Is Turnbill in trouble?
2nd July is E-Day

Canada
Economic data disappoints
Canadian Dollar slides

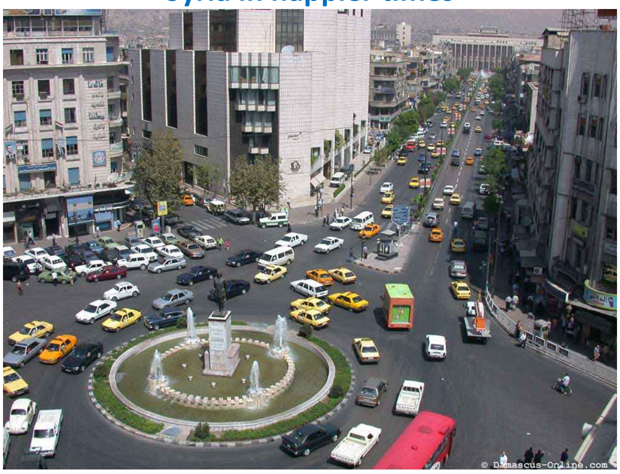
India
Population growth will make
India world's most important economy

Japan
Strong Yen is
risk to its economy

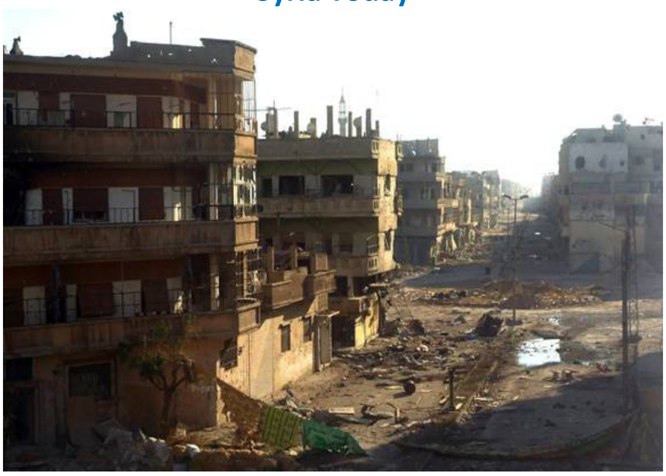
New Zealand
Firm domestic economy
but subdued exports

THE MIDDLE EAST

Syria in happier times



Syria Today



The Global Economy

Global economics

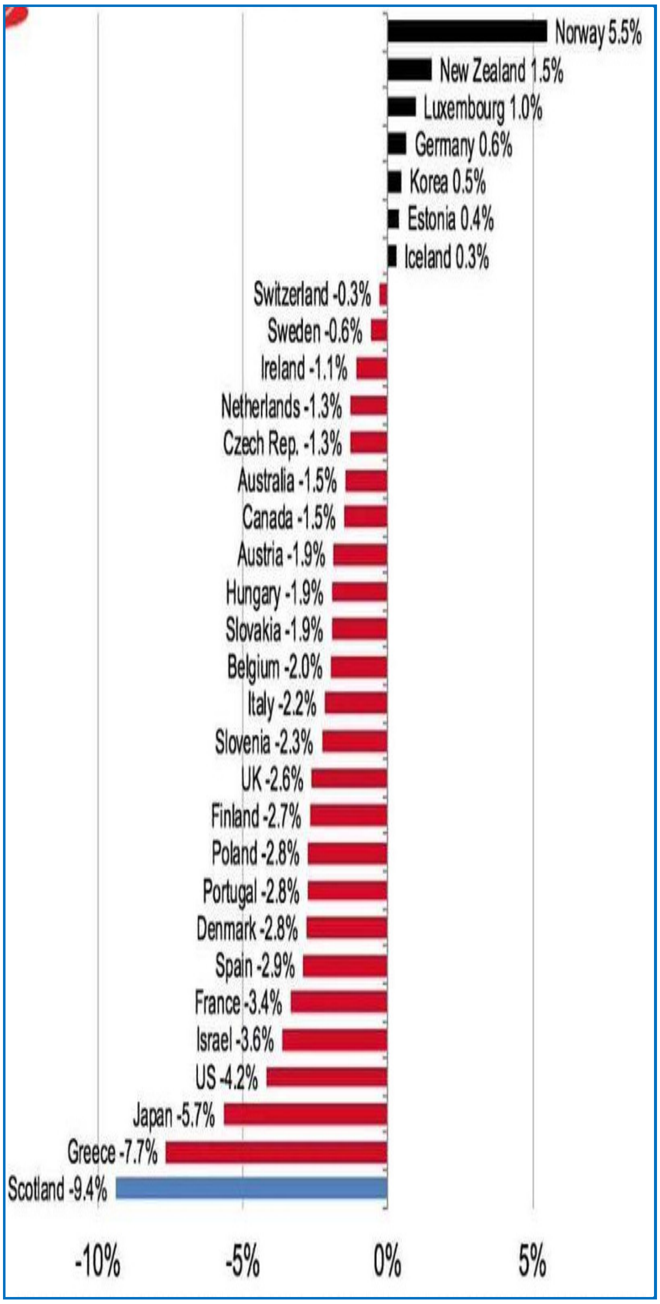
The global economic recovery continues to disappoint. We have lowered, again, our GDP forecasts for most Developed and Emerging Markets. The notable exception has been China where we have upgraded our outlook. Encouragingly, global central banks seem to be taking a more coordinated approach.

Global equities

Our analysts expect muted gains in US stocks but larger gains in the more cyclical European and Emerging Market equities. Asian stocks remain amongst the cheapest in the world and should continue to benefit from a more dovish global central bank policy.

GOVERNMENT DEFICITS

AS A PROPORTION OF NATIONAL INCOME IN 2016



SOURCE: OECD Economic Outlook November 2015

NZ Economic Outlook

The NZ economy is showing very few signs of rolling over despite dairy strains and the tightening in financial conditions. Activity indicators remain solid. Business and consumer sentiment are at decent levels.

There has been a clear improvement in the global scene - in financial markets, if not growth. This is unlikely to last, but central banks need to go with what they know when rates are at extremes. Rising oil prices are a key influence on the profile of near-term inflation and negate the deflationary impact of a higher NZ Dollar.

GDP Growth – New Zealand

New Zealand has an advanced market economy, highly dependent on international trade. New Zealand's most developed industries are focused on tourism and exports of agricultural products and are the main source of growth. Yet, in order to keep current expansion rates, New Zealand needs to address persistent current account deficits fueled by heavy household debts and low domestic investments.

NZ GDP GROWTH RATE

After 8 years as CEO of our Western Bay's economic development agency - Priority One, Andrew Coker has decided to step down. I would like to congratulate Andrew for a great job in helping Priority One facilitate so much progress in the Western Bay – his input has been invaluable. All the best to him in his next endeavour – hopefully he will consider running for Mayor. Tauranga needs his vision.

Commodities – The Price of Oil

The price of West Texas Crude (at US$46.24) is 45% off its bottom (Early this year at US$31.90), but is a long way from its 2008 high of US$140.

Oil prices have been manipulated to the tune of a 50% drop in 7 months. Oil has been pinned down by OPEC nations refusing to cut production, in an attempt to destroy the new U.S. shale industry (the competition). In a price environment where energy companies can't profitably produce oil, the only option is to turn off production, cut costs and wait for oil prices to come back to a level that is profitable to produce oil again. With that, as we've said, time is the worst enemy for the industry, including those that are rigging the game (i.e. OPEC nations). The longer prices remain low, the closer we come to wide–spread bankruptcies in the industry and fiscal deterioration of oil producing nations. OPEC is well aware of this.

But while many are warning of such an outcome, they are not seeing the bigger picture. If we step back and acknowledge where the global economy stands nine years into to the global economic crisis, we can clearly see that we are only in a position of relative stability and recovery because central banks took unprecedented actions along the way, coordinating globally, and committing trillions of dollars to avert a global economic apocalypse. They went “all–in,” backstopping failing institutions and governments, manufacturing a recovery in housing prices, and global stock markets in an effort to restore confidence, hiring and general economic activity. Make no mistake, higher housing prices and higher stock prices are two critical components of the Fed's game-plan over time, and other key central banks.

Still, the world remains fragile, standing on the wobbly bridge that central bank intervention has built with the hopes of ultimately finding some strong sustainable growth again.

Expect to see either China or Japan step in as a big buyer of commodities. The Bank of Japan is already in the middle of the biggest QE program on record (relative to the size of its economy) and already pursues outright stock buying with their freshly printed yen. When China stepped in back in 2009, gobbling up dirt cheap commodities, they took the price of oil from $32 back to north of $100 again.

The greater question surrounding the stock market is a macro one. Will the free fall in oil, copper and broad commodities stop? We think the answer is yes. In the alternative scenario there will be no sector nor asset class to find refuge – i.e. it will have globally systemic ramifications. That's a scenario that the central banks, which have committed trillions of dollars over the past seven years to avert a global economic apocalypse, can’t afford to see happen, and won’t let happen. As we've noted, we think all of this is putting more pressure on China to act sooner rather than later. Stimulus from China has all of the ingredients to turn the tide on commodities – something the global economy needs.

Two central banks (the European Central Bank and Bank of Japan) have taken the QE baton from the US Fed, and both have said they will do “whatever it takes.” That means, if need be, they print more money, they will support government debt markets, they will buy stocks, they will devalue currencies, they will do *whatever it takes* to promote growth and to prevent a shock that would derail the global economy. Why? Because they know the alternative scenario/the negative scenario is catastrophic.

So we know that competitive posturing is influencing the slide in the price of oil. The great billionaire oil trader Boone Pickens has laid out the fundamental story for oil. He said the world is using 95 million barrels a day and is oversupplied by 1 million barrels. And he said it doesn’t take much to balance that market. “When that happens, crude will move up fast.” He still thinks we will see $70–$75 this year.

Many billionaires have created their wealth by going into places where they see opportunity when no one else does (or others deem to be too risky). That's where the biggest returns are made. Right now, energy and broad commodities represent one of those areas. 36 of the top 50 gainers year to date in the stock market are commodity related stocks.

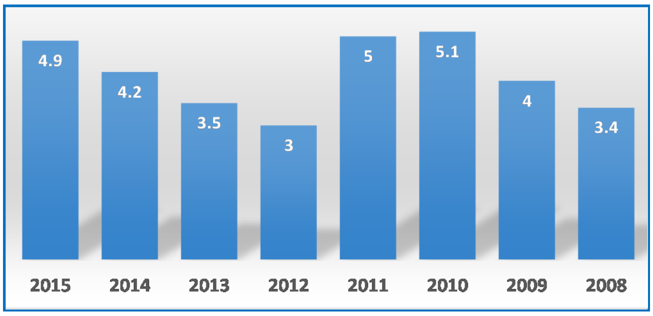
WEST TEXAS CRUDE OIL – 10 YEAR CHART

Annual Survey of Company Chief Executive Salaries

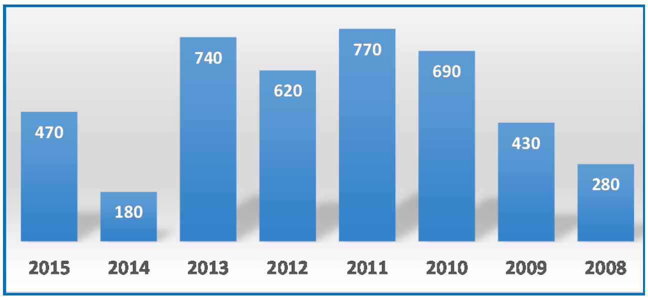
Theo Spierings, CEO of Fonterra, once again tops New Zealand as the highest paid executive last year.

Local companies, Trustpower & Port of Tauranga, are each paying their CEOs more than $1.3m, but this is just in the mid-range of the Top 50 listed companies.

FONTERRA CEO SALARY



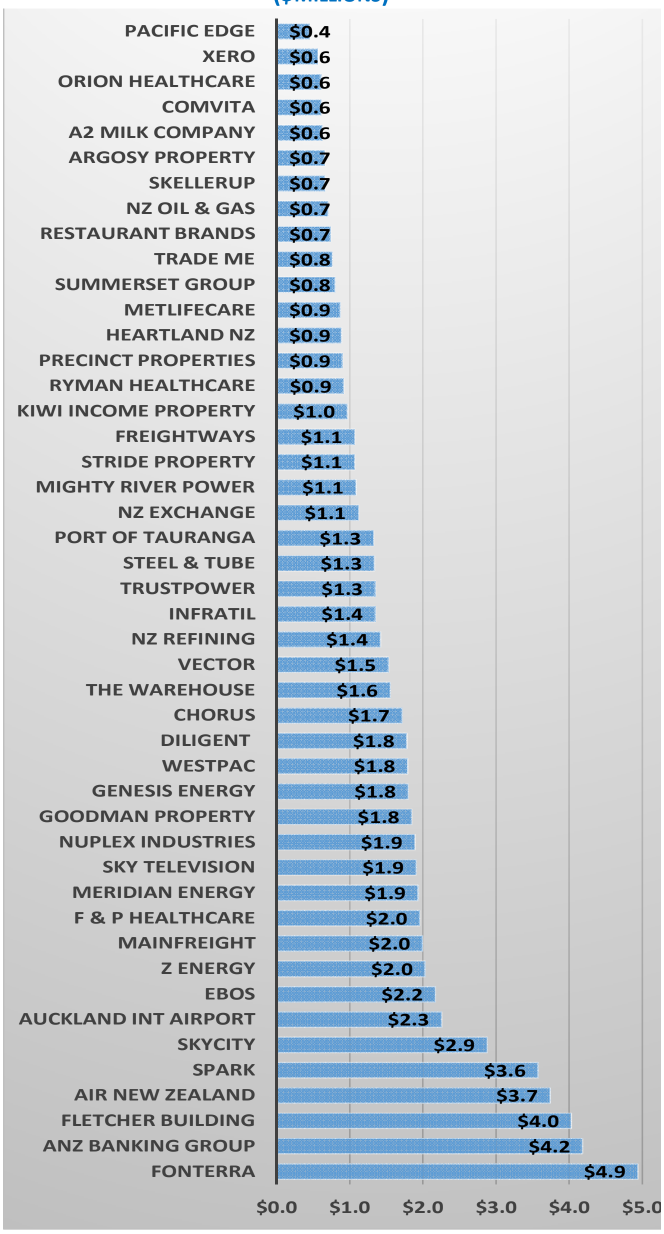
FONTERRA ANNUAL PROFIT



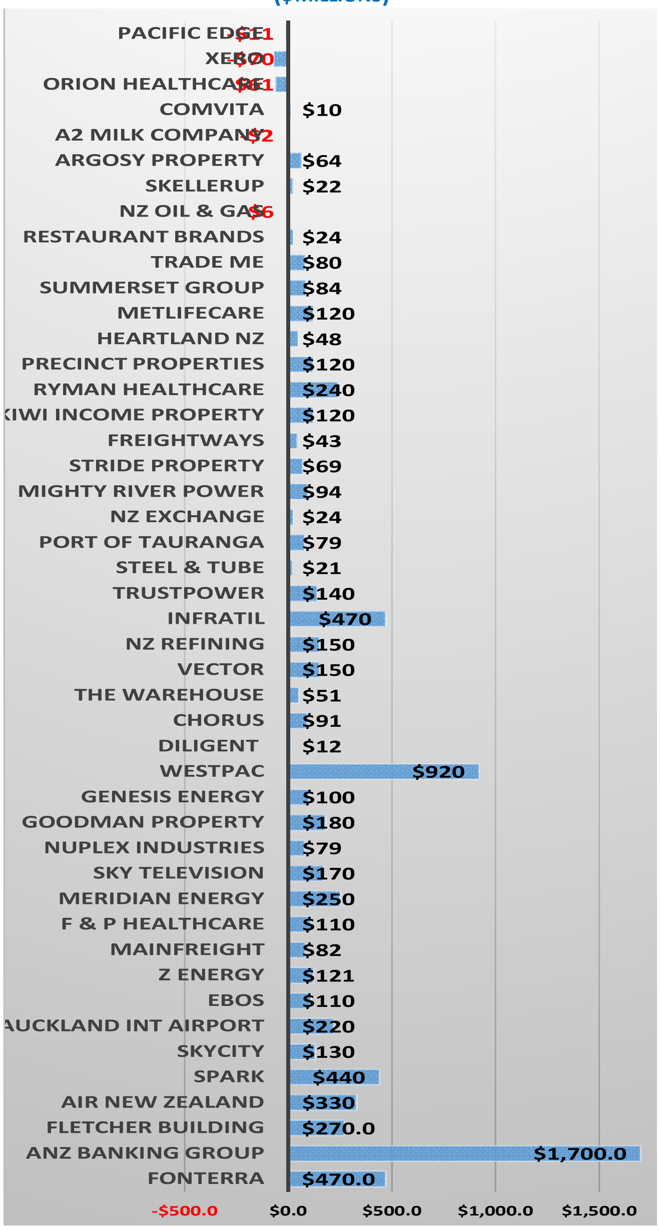
When you look at the table below there is little correlation between CEO pay scales and Company Net Profit. The same is true if you compare Market Capitalisation.

Across all companies, the average salary increase from 2014 to 2015 averaged just 1.3%, noting that Mark Cairn (CEO of Port of Tauranga) took a 9.4% salary drop (based on the performance portion of his salary underperforming).

NEW ZEALAND TOP 50 COMPANIES – CEO SALARIES ($MILLIONS)



NEW ZEALAND TOP 50 COMPANIES – EARNINGS ($MILLIONS)



Agribusiness – Looking from the outside in

Genetic Editing - not Genetic Modification

GE offers huge benefits to New Zealand

Below is a report in Farmers Weekly. This AgResearch development is Genetic Editing, not Genetic Modification - there is a huge difference, as it doesn't introduce any new genes but merely alters the gene to improve specifically capabilities that are already there. This is a great example of "Great Science" that must be encouraged and allowed. This "new" ryegrass cuts greenhouse gas emissions by 30%; has resilience in dry weather; and can increase milk production by up to 12%. What a good story - so don't let the naysaying Lefties (Greens) knock this initiative!

AgResearch scientists have developed a "genetically edited" ryegrass that cuts greenhouse gas emissions by up to 30% but biotechnology experts warn regulations could delay its use.

Though it has several environmental benefits and could boost production it faces regulatory hurdles here because it has been genetically edited (Not Genetically modified).

The scientists have shown in the laboratory the ryegrass, called High Metabolisable Energy (HME), can reduce methane emissions from animals by 15% to 30% while modelling suggests a reduction in nitrous oxide of up to 20%.

It has also shown resilience to dry weather and can increase milk production by up to 12%.

Environmentalists have berated agriculture for not reducing greenhouse gas emissions but if laboratory results are replicated in the field, HME could reignite the GM debate.

AgResearch Grasslands principal plant biotechnology scientist Greg Bryan said HME could transform NZ farming by reducing its environmental footprint and improving animal productivity.

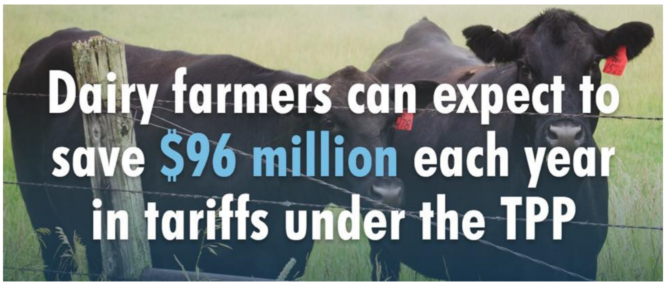
"The potential value to GDP based on modelling we have done is in the range of $2 billion to $5 billion a year in additional revenue depending on the adoption rate by farmers."

SOURCE: Farmers Weekly

Irrigation potential

MPI supports irrigation proposals with matched funding so they can reach the investment-ready stage. Government is a strong supporter of irrigation and water storage and had allocated $120 million to Crown Irrigation Investments Ltd over the past three years with another $25 million going towards the accelerator fund in last year's Budget.

Of the 722,000 hectares of land under irrigation in 2012 about 115,300 hectares had received some form of Crown funding. Government is on track to meet its goal of one million irrigated hectares by 2025, with 276,500 hectares of land with Crown assisted irrigation schemes in progress. Irrigation is estimated to contribute $2.2 billion to the national economy.

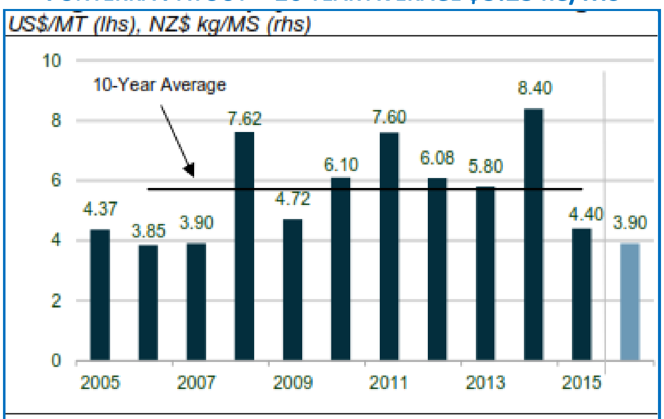


Fonterra continues to lose market share

Fonterra has continued to lose farmers to its competitors, based on latest production data. The co-operative's market share last year ran at about 85%, down from 96% at the time of its inception in 2001.

AgriHQ expects New Zealand's total dairy production to be down by 2.5% this season, which ends on 31st May. Fonterra estimates its production will be down 4% this season. This indicates a further 1.5% loss of market share.

FONTERRA PAYOUT – 10 YEAR AVERAGE $5.25 KG/MS



Source: Fonterra, IRESS, First NZ Capital

The price of whole milk powder jumped at the latest Global Dairy Auction held on 20th April. Overall, world dairy prices climbed 3.8% to US$2263. New Zealand's major export, whole milk powder (WMP), rose 7.5% to US$2156.

New Zealand Equities

The New Zealand Equity Markets remain some of the strongest in the world, and with a reputation for virtually no corruption, our democracy remains a very popular place for foreign investors looking for a "safe haven". It is no wonder international Trust experts recommend New Zealand as per the "Panama Papers".

That said investors need to take care that they evaluate specific share market company performance, using establish investment criteria. First principles include understanding the business of any company that you invest into. It also means ensuring that dividend income is adequately covered by quantifiable cash earnings from any company that you are seeking sustainable dividend income to supplement your income. Remember – there are no free lunches!

Reserve Bank Financial Stability Report

RBNZ assesses that the "risks to the financial stability outlook have increased" and is closely monitoring whether further policy measures would be appropriate

The release of the RBNZ's May Financial Stability Report (FSR) again reiterated that the NZ financial system was "sound and operating effectively". However, the RBNZ also noted that "risks to the financial stability outlook have increased". The three key risks to financial stability which the RBNZ again highlighted included:

- A deterioration in the outlook for the global economy,
- leading to a rise in financial market volatility earlier in the year,
- Global dairy prices have remained low for longer than expected, with many farmers now facing a third season of negative cash flow with heavy demand for working capital, and
- The level of Auckland house prices remains a serious risk to financial stability, with house price inflation lifting again after cooling in late 2015 and early 2016.
- On the whole, while it was largely anticipated that the RBNZ would look to conclude that the risks to the financial stability outlook had increased on the back of increased stress in the dairy and housing sectors, it was somewhat surprising that the RBNZ did not formally take the opportunity in the May FSR to a least outline a range of potential macro-prudential policy tools that could be deployed in the event that house price pressures continue to intensify.
- Nevertheless, even in the absence of such a policy outline from the Bank, we assess a better than even probability that the RBNZ will look to deploy additional macro-prudential tools over the year ahead. As such, the release of the May FSR does not alter our expectation that the RBNZ will likely undertake a 25bps reduction in the OCR to 2.0% at the time of the 9 June MPS.

Heartland Bank (HBL.NZ)

OUTPERFORM $1.18 Target: $1.30

It has been reported ANZ is considering the sale of UDC Finance Ltd. Reportedly ANZ's advisors have been talking to private equity and other potential buyers in recent weeks. There is some cross over between HBL and UDC's operations in vehicle financing while UDC is heavily exposed to equipment financing. The businesses are of similar size, meaning if HBL were to bid and be successful, it would need to raise capital.

UDC is integrated into ANZ's NZ operations with Standard & Poors noting in the past that UDC is "considered by us to be highly integrated within ANZNZ, and to receive significant on-going systems and process support from ANZNZ". UDC's FY15 NPAT was $57.1m, but its cost to income ratio was 26.5%, which included (some) costs recharged by ANZ. This is lower than other finance companies and banks and compares with HBL at ~47%. The combination of where UDC's stand-alone earnings may be, allowance for any revenue synergies UDC may get through its association with ANZ, and possible synergies with an acquirer as well as other items such as the nature of UDC's revenue contracts with dealer floorplans, will all weigh on where potential acquirers see value. HBL had $58m in surplus capital in 1H16. HBL has some flexibility to raise Tier 2 instrument (up to 2% of RWA). We note the acquisition of Fisher & Paykel Finance by FlexiGroup in October 2015 was at 9.9x FY15 P/E pre-synergies and 8.8x post-synergies.

Investment case: Our analysts like HBL's investment case from an organic growth basis and for its potential for accretive bolt-on acquisitions over time. While UDC appears an opportunity, this will be a contested process, and as such let's await further details to better assess the possible impact.

HBL Year to 30 June		2015A	2016F	2017F	2018F
Adjusted Earnings	NZ$m	48.2	54.0	57.4	60.2
Earnings /share (Adjust)	NZc	10.3	11.4	12.0	12.4
EPS Growth	%	17.3	10.6	5.1	3.8
Price / Earnings Ratio	x	11.4	10.3	9.8	9.5
Cash Per Share	NZc	10.5	11.6	12.2	12.6
Net Div / Share	NZc	7.5	8.5	9.0	9.3
Gross Div Yield	%	8.8	10.0	10.6	10.9

HEARTLAND BANK

Xero (XRO.NZ)

OUTPERFORM $16.92 Target: $21.00

XRO's Full Year 2016 Result came in largely in-line with expectations. There remains a disconnect between extreme share price volatility and improved forecastability. For example, a year ago when the stock was trading above $20 per share, our FY16 revenue forecast was within 1% of what was now reported, and our expectation for net loss was 9% more punitive than what was reported. Margin of error appears low for a high-growth tech company.

Xero is a good example of a future focused company that, while still to come to profit, is investing heavily in order to produce outstanding profits in the future. This company has finally reached that tipping-point that will see it move into profit within the next three to four years. Customer number are now over 717,000.

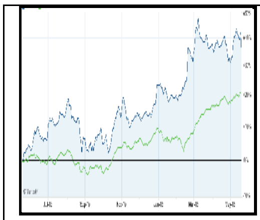
XRO Year to 31 March		2016A	2017F	2018F	2019F
Adjusted Earnings	NZ$m	-82.5	-72.6	-33.7	9.8
Earnings /share (Adjust)	NZc	-59.7	-52.5	-24.4	7.1
EPS Growth	%	18.6	12.1	115.1	70.9
Price / Earnings Ratio	x	-25.9	-29.4	-63.3	217
Cash Per Share	NZc	-55.0	-48.3	-19.7	12.0
Net Div / Share	NZc	0	0	0	0

STOCKS TO WATCH

NEW ZEALAND

Prices as at 19th May 2016

NOTE: THESE ARE ALL ONE YEAR GRAPHS – PERCENTAGE GAIN – Green line is NZ50 Index



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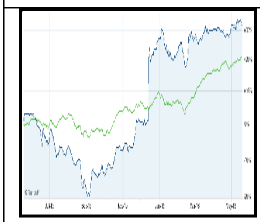
Auckland International Airport

AIA is presently benefiting from a step change increase in airline capacity both internationally and domestically. Between FY16 and FY20, we forecast international seat capacity growth of 7.5% p.a. with domestic growth averaging 5.1% p.a. We forecast total aircraft movements to resume a positive growth path due to a combination of capacity growth and a projected slowdown in Air New Zealand's fleet upgrade programme. FNZC has AIA as an underperformer, but I would rate it a hold.

20016 P/E: 37.1 2017 P/E: 31.8

NZX Code:	**AIA**
Share Price:	**$6.37**
12mth Target:	**$5.10**
Projected return (%)	
Capital gain	-21.5%
Dividend yield (Net)	2.8%
Total return	**-18.7%**
Rating:	**NEUTRAL**
52-week price range:4.46-6.90	



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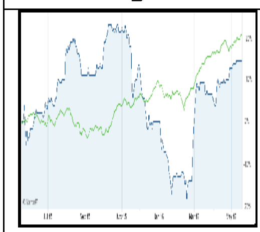
Chorus

Having established copper pricing through to 2020, CNU will provide relatively stable infrastructure-like earnings over the next five years although fixed line loss on fibre take-up to competing Local Fibre Companies (LFCs) is a headwind. The sustainability of current copper and fibre pricing is subject to a regulatory review which should lead to a new regulatory framework to set copper and fibre pricing beyond 2020 when they are set to expire.

20016 P/E: 14.2 2017 P/E: 11.5

NZX Code:	**CNU**
Share Price:	**$4.05**
12mth Target:	**$4.10**
Projected return (%)	
Capital gain	1.2%
Dividend yield (Net)	5.1%
Total return	**6.3%**
Rating:	**NEUTRAL**
52-week price range: 2.45-4.15	



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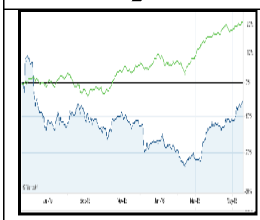
Coats Group Plc

COA's investment value is dependent on whether the UK Pension Regulator (UKPR) compels COA to allocate additional funds to support its UK pensions schemes, meaning less value available for investors and/or impacting COA's gearing/cashflows. The amount of liability or time to resolve this uncertainty remains unknown and continues to overhang COA's share price. Coupled with its next month delisting from the NZX, now is probably the best time for small NZ investors to exit this stock.

20016 P/E: 13.5 2017 P/E: 12.7

NZX Code:	**COA**
Share Price:	**$0.63**
12mth Target:	**$0.60**
Projected return (%)	
Capital gain	3.4%
Dividend yield (Net)	0.0%
Total return	**3.4%**
Rating:	**NEUTRAL**
52-week price range: 0.45-0.69	



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Contact Energy

CEN remains FNZC's sector entry preference, trading below their $6.07/share risk-weighted spot DCF estimate (4% higher due to indicative $16m p.a. FY20 benefit of lower grid charges). . With its five-year multi-billion dollar investment programme completed with Te Mihi, CEN is now generating at least $150 million per annum additional free cash flow (bringing free cash flow per share to sustainably sit around 40 cents per share per annum) which is expected to be returned to shareholders as buybacks and dividends.

20016 P/E: 23.3 2017 P/E: 20.9

NZX Code:	**CEN**
Share Price:	**$5.40**
12mth Target:	**$6.37**
Projected return (%)	
Capital gain	18.0%
Dividend yield (Net)	4.8%
Total return	**22.8%**
Rating:	**OUTPERFORM**
52-week price range: 4.35-6.38	

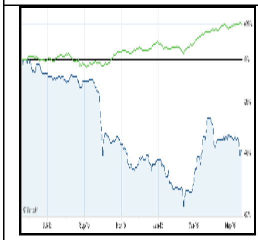
➔

Ebos Group

Ebos Group (EBO) supplies and distributes medical consumable products and equipment to the hospital and primary care sectors in NZ and Australia (representing 78% and 22% of group revenue respectively). EBO also distributes animal care products which represent around 19% of earnings. This stock has strongly outperformed the NZ50 Index over the past year, but now looks fully priced.

2016 P/E: 20.3   2017 P/E: 18.2

NZX Code:	**EBO**
Share Price:	**$15.86**
12mth Target:	**$14.45**
Projected return (%)	
Capital gain	-16.0%
Dividend yield (Net)	3.6%
Total return	**-12.4%**
Rating: NEUTRAL	
52-week price range:9.26-17.40	



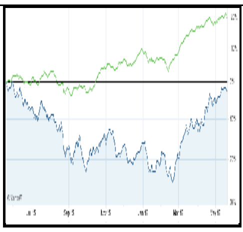
➔

EROAD

ERD has performed very poorly since listing. However FNZC continue to like ERD's investment case and believe a large portion of its current share price can be supported by the earnings of its ANZ business. This implies the market isn't paying much for its US growth option, despite the encouraging position in Oregon; the opportunity with WMT in other states; the potential around ELD, IFTA and HoS; and being the only company involved in heavy vehicles in the California user trial. ERD's FY16 result will be announced on 26 May 2016.

2016 P/E: N/A   2017 P/E: 49.9

NZX Code:	**ERD**
Share Price:	**$2.36**
12mth Target:	**$2.70**
Projected return (%)	
Capital gain	14%
Dividend yield (Net)	0%
Total return	**14.4%**
Rating: NEUTRAL	
52-week price range: 1.70-4.12	



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Fletcher Building

A New Zealand-centric building and construction sector exposure: FBU represents a broad-based exposure to the Australasia building and construction sector, with approximately 72% of EBIT sourced from NZ, 19% from Australia and the balance from the rest of the world principally through Formica. The company should continue to deliver further earnings growth from ongoing strength in the New Zealand building and construction sector, led by higher population growth, demand for housing and commercial building activity.

2016 P/E: 15.3   2017 P/E: 12.2

NZX Code:	**FBU**
Share Price:	**$8.5312mth**
Target:	**$9.36**
Projected return (%)	
Capital gain	8.8%
Dividend yield (Net)	4.9%
Total return	**13.8%**
Rating: OUTPERFORM	
52-week price range: 6.56-8.76	

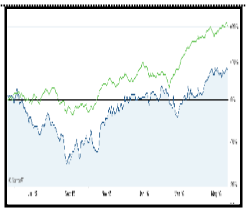
➔

Fonterra Shareholder Fund

The key upside to FNZC's valuation is if FSF emerges more quickly from a period of disappointing earnings and is able to demonstrate sustainably higher underlying earnings and growth. If FSF made moves that deal with a challenging capital structure and governance structure that could also have positive ramifications – particularly if it opened up the way for FSF to pursue its strategy less constrained than is currently the case. Success in offshore markets – particularly the strategy in China which now includes a stake in Beingmate would also be positive. Downside risks include the negative impact of volatility on FSF's earnings – particularly at a time when gearing is high.

2016 P/E: 12.1   2017 P/E: 10.6

NZX Code:	**FSF**
Share Price:	**$5.80**
12mth Target:	**$6.12**
Projected return (%)	
Capital gain	5.5%
Dividend yield (Net)	6.6%
Total return	**12.1%**
Rating: NEUTRAL	
52-week price range: 4.58-6.12	



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Freightways

In FNZC's opinion, 2Q16 provided a reminder of the negative cost leverage risk that exists within FRE's Express Package division and the fact that share shift from higher margin B2B to lower margin B2C can deliver that outcome even when price and volume growth remain positive. Their 12-month target price has fallen from $6.30 to $6.05 following negative revisions to EBITDA forecasts of around 5%. FRE has underperformed for the past 12 months.

2016 P/E: 19.4   2017 P/E: 18.2

NZX Code:	**FRE**
Share Price:	**$6.65**
12mth Target:	**$6.05**
Projected return (%)	
Capital gain	-10.6%
Dividend yield (Net)	4.0%
Total return	**-6.6%**
Rating: NEUTRAL	
52-week price range: 5.20-6.75	

↓

Genesis Energy

GNE is certainly the highest yielding name in its sector and can sustain current dividends for several years on our modelling. But it is now trading well above our $1.79/share risk-weighted spot DCF estimate. Our valuation assumes GNE will reverse its decision to retire the Rankine units in 2018, in return for circa $24 million p.a. swaption premiums. If that reversal doesn't occur our current valuation estimate might drop by between 10-15 cents per share.

2016 P/E: 24.2   2017 P/E: 25.9

NZX Code:	**GNE**
Share Price:	**$2.05**
12mth Target:	**$1.78**
Projected return (%)	
Capital gain	-9.3%
Dividend yield (Net)	8.4%
Total return	**-0.3%**
Rating: UNDERPERFORM	
52-week price range: 1.64-2.19	

➔

Hallenstein Glasson

It is six months since FNZC has put out a research note on this stock – that tells me (a) that the HLG analyst has left and another hasn't been appointed, or (b) it no longer is a focus sock for them. As such my view is mixed. No Balance Sheet debt makes this a resilient stock, so hold for yield only.

2016 P/E: 11.0   2017 P/E: 10.8

NZX Code:	**HLG**
Share Price:	**$2.80**
12mth Target:	
Projected return (%)	
Capital gain	0%
Dividend yield (Net)	9.0%
Total return	**9.0%**
Rating: UNRATED	
52-week price range: 2.70-3.95	

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price".

Warren Buffett

↑

Heartland Bank

HBL has just released its 3Q16 (9 months to 31 March 2016) disclosure statement. Accompanying the release was a short statement by HBL reaffirming its forecast range for FY16 NPAT of $51-55m (NZC forecast $52m). However, FNZC notes HBL had strong receivable growth of $87.7m in 3Q16 which compares to $66.5m for 1H16. This was driven by business receivables (+$35m compared to +$24m in 1H16), a ~$20m benefit from the lower NZDAUD cross rate on its Australian reverse mortgages receivables and the balance primarily consumer growth.

2016 P/E: 10.3 2017 P/E: 9.8

NZX Code:	**HBL**
Share Price:	**$1.19**
12mth Target:	**$1.30**
Projected return (%)	
Capital gain	10.2%
Dividend yield (Net)	7.6%
Total return	**17.8%**
Rating:	**OUTPERFORM**
52-week price range:	1.06-1.35

→

Infratil NZ

FY17 guidance assumes no portfolio change, but IFT's large war chest and surfeit of opportunities likely to translate into new investment in 2017. FY17 guidance to a $475m to $515m EBITDAF range aligns with FNZC's prior view. A 9cps fully imputed final dividend beat their 8.5cps forecast. The $750m to $1bn war chest seems destined primarily for renewables and retirement - particularly in Australia with a fragmented senior sector (bargains possible) and where renewables capacity must be deployed.

2015 P/E: 55.2 2017 P/E: 57.2

NZX Code:	**IFT**
Share Price:	**$3.28**
12mth Target:	**$3.36**
Projected return (%)	
Capital gain	2.7%
Dividend yield (Net)	4.7%
Total return	**7.4%**
Rating:	**NEUTRAL**
52-week price range:	2.93-3.41

↑

Mainfreight

Weaker-than-expected domestic transport growth and an elevated cost structure have combined to deliver a disappointing 1H16 result and a reminder that the task of aligning operating cost investment to revenue growth can be a complex one for a growth company. Despite being aware of MFT's increased investment in headcount and reduced utilisation from new facilities, we were surprised by the scale of margin decline in New Zealand, Australia and The Americas.

2016 P/E: 18.8 2017P/E: 16.0

NZX Code:	**MFT**
Share Price:	**$16.35**
12mth Target:	**$17.50**
Projected return (%)	
Capital gain	7.1%
Dividend yield (Net)	2.2%
Total return	**9.3%**
Rating:	**OUTPERFORM**
52-week price range:	14.04-17.00

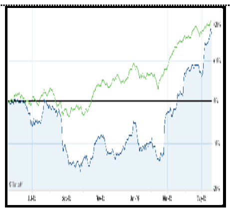
→

Meridian Energy

MEL is the largest generator in the sector, with low renewable costs, low growth capex requirements and lowest gearing. Nevertheless it is now trading 18% above our estimate of underlying value. They have included the indicative $57m p.a. cost decrease for MEL in their revised forecast, and make small changes to the timing and scale of their Rankine swaption assumptions now that agreements for life extension have been reached.

2016 P/E: 30.9 2017 P/E29.3

NZX Code:	**MEL**
Share Price:	**$2.62**
12mth Target:	**$2.44**
Projected return (%)	
Capital gain	-13.7%
Dividend yield (Net)	5.8%
Total return	**-7.3%**
Rating:	**UNDERPERFORM**
52-week price range:	2.04-2.83



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Metlifecare

MET is currently the only retirement operator trading at a discount to FNZC's DCF. Given MET's track record of lagging in development, we see the potential for a well communicated development strategy to be well received by the market. The fact that MET trades at such a discount to peers affords it both more potential for a re-rating for regime change (a lower threshold), and also the potential that a re-rate could happen quicker than would otherwise be the case.

2016 P/E: 17.1 2017 P/E15.3

NZX Code:	**MET**
Share Price:	**$5.75**
12mth Target:	**$5.90**
Projected return (%)	
Capital gain	2.6%
Dividend yield (Net)	1.0%
Total return	**3.6%**
Rating:	**OUTPERFORM**
52-week price range:	4.10-5.81

↓

Mighty River Power

The long awaited grid pricing proposal has now been revealed by the Electricity Authority, and seems likely to have a good chance of proceeding to implementation. Although MRP is regarded as the generator-retailer within the sector with largest natural competitive advantages and fewest negative exposures, it is now trading 17% above our estimate of underlying value.

2016 P/E: 27.3 2017 P/E: 27.7

NZX Code:	**MRP**
Share Price:	**$2.96**
12mth Target:	**$2.68**
Projected return (%)	
Capital gain	-9.4%
Dividend yield (Net)	4.8%
Total return	**-4.6%**
Rating:	**UNDERPRERFORM**
52-week price range:	2.38-3.09

→

NZ Refining

Our analyst's spot DCF estimate falls 12% to $2.79/share and 1yr target price to $3.02. They therefore reduce to a NEUTRAL rating, as they now look to be in uncertain territory – investors have been reminded that refining margins and currency exhibit volatility, and of NZR's leveraged exposure to both commodities. Volatility swings both ways, and so they may yet see some major reversal. Nevertheless, the best information available (i.e. forward curves) remains their preferred forecast guide.

2016 P/E: 17.5 2017 P/E: 15.2

NZX Code:	**NZR**
Share Price:	**$2.80**
12mth Target:	**$3.02**
Projected return (%)	
Capital gain	7.9%
Dividend yield (Net)	3.0%
Total return	**10.9%**
Rating:	**NEUTRAL**
52-week price range:	2.43-3.89

↑

Opus International Consultants

OIC offers an exposure to the infrastructure and commercial construction service markets which are substantially tied to government spending. OIC's international expansion strategy (via acquisition and organic growth) offers some potential for diversification. While this sector is currently under pressure, the opportunities remain in the long term. Central and local government are the biggest customers for OIC, making up around 90% of revenue in NZ.

2016 P/E: 9.2 2017 P/E: 8.2

NZX Code:	**OIC**
Share Price:	**$1.29**
12mth Target:	**$1.80**
Projected return (%)	
Capital gain	39.5%
Dividend yield (Net)	7.4%
Total return	**46.9%**
Rating:	**OUTPERFORM**
52-week price range:	1.16-1.36

→

PGG Wrightson

Widespread severe flooding in Uruguay has caused damage to PGW's operations in the country and has further dented the prospects for farming income recovery in the Uruguay arable and dairy sector. That said, PGW's operations in Uruguay contributed approximately NZ$6m (c10%) to Group EBITDA in FY2015 is presently projected to deliver only NZ$2m to Group EBITDA in FY16F and NZ$3m in FY17F. FNZC continue to like management's growth strategy.

2016 P/E: 9.3 2017 P/E: 8.6

NZX Code:	**PGW**
Share Price:	**$0.41**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	25.0%
Dividend yield (Net)	8.6%
Total return	**33.6%**

Rating: NEUTRAL

52-week price range: 0.38-0.50

→

Port of Tauranga

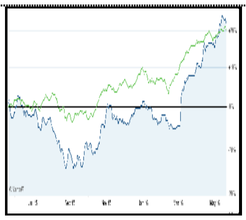
In FNZC's opinion the investment case for POT must balance currently elevated short-term cyclical and competitive risk against the medium and longer-term structural growth opportunity. Heightened concern around global demand paints a picture of uncertainty across the balance of FY16. In addition, we would not rule out the potential for irrational pricing activity to impact the rate at which container volume consolidates at Tauranga in the short-term, as displaced competitors to POT, Maersk and Kotahi fight to retain trade share. I say – just own this stock. Outperformance will come again…

2016 P/E: 32.2 2017 P/E: 29.3

NZX Code:	**POT**
Share Price:	**$19.10**
12mth Target:	**$17.70**
Projected return (%)	
Capital gain	-7.3%
Dividend yield (Net)	3.0%
Total return	**-4.3%**

Rating: NEUTRAL

52-week price range: 16.60-19.36



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Restaurant Brands

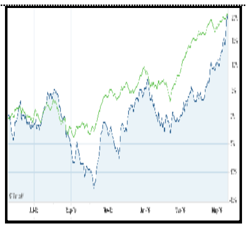
FNZC view RBD as an attractive company executing on a sound strategy to deliver revenue and earnings growth while maintaining a robust balance sheet. Since announcing its Australian acquisition in Mar-16, RBD is up 29% and trading at 17.5x 12-mth forward P/E (close to its all-time peak). In FNZC's view, the current share price and rating fairly reflect the valuation contribution of RBD's core businesses and the growth options presented by KFC Australia and Carl's Jr. driving a balanced risk / reward.

2016 P/E: 21.5 2017 P/E: 18.0

NZX Code:	**RBD**
Share Price:	**$5.28**
12mth Target:	**$5.31**
Projected return (%)	
Capital gain	0.1%
Dividend yield (Net)	4.5%
Total return	**4.6%**

Rating: NEUTRAL

52-week price range: 3.75-5.45



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Ryman Healthcare

RYM is well positioned to benefit from its highly attractive business model, compelling demographic tailwinds and best-of-breed management / operations / assets. Our neutral rating is based on a relatively full valuation 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. We also see further optionality from RYM's foray into Australia. However, this needs to be weighed against how much future value is currently being priced into the stock.

2016 P/E: 29.0 2017 P/E: 24.8

NZX Code:	**RYM**
Share Price:	**$9.60**
12mth Target:	**$8.25**
Projected return (%)	
Capital gain	-14.1%
Dividend yield (Net)	1.7%
Total return	**-12.8%**

Rating: NEUTRAL

52-week price range: 7.05-9.75

↓

Sky City Entertainment

SKC has badly underperformed the NZ50 Index for the past 5 years. That said the outlook for tourism is very rosy, and SKC is well positioned to take advantage of the increasing tourism numbers. Our analysts are currently restricted as SKC undertakes a $40m capital raise, but their previous 12-month target of $4.00 is still valid.

2016P/E: 17.8 2017 P/E: 16.4

NZX Code:	**SKC**
Share Price:	**$4.75**
12mth Target:	**$4.00**
Projected return (%)	
Capital gain	-15.8%
Dividend yield (Net)	4.6%
Total return	**-11.2%**

Rating: UNDERPERFORM

52-week price range: 3.72-5.24

↓

Sky Network Television

SKT announced that its results for FY17 would be adversely impacted by the loss of 45k core pay-tv subs in FY16. While SKT may be right on one-off factors driving it, the quantum is so large that concerns about lower value subs leaving on value vs. greater co mpetition; or cannibalisation from Neon/FanPass is heightened. SKT are not seeing cannibalisation but we also highlight that as SKT's OTT offering gets better (and it needs to) and as familiarity with OTT increases, the risk remains and could increase.

2016P/E: 11.7 2017 P/E: 11.9

NZX Code:	**SKT**
Share Price:	**$4.63**
12mth Target:	**$4.28**
Projected return (%)	
Capital gain	-7.6%
Dividend yield (Net)	6.5%
Total return	**-1.1%**

Rating: UNDERPERFORM

52-week price range: 4.11-6.46

↓

Spark NZ

SPK is executing on its strategy to address the earnings headwinds resulting from ongoing declines in legacy fixed revenues. This is a multi-pronged strategy with SPK looking to gain market share in mobile (successfully gaining connections but yet to materially add to revenues); 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 growth areas such as IT services and an early stage initiative in Internet TV.

2016 P/E: 19.5 2017 P/E: 18.4

NZX Code:	**SPK**
Share Price:	**$3.67**
12mth Target:	**$2.88**
Projected return (%)	
Capital gain	-21.5%
Dividend yield (Net)	6.8%
Total return	**-28.3%**

Rating: UNDERPERFORM

52-week price range: 2.64-3.76

"Someone is sitting in the shade today because someone planted a tree a long time ago"

Warren Buffett

→

Steel & Tube Holdings

Some light is emerging from the end of the tunnel - Despite the competitive intensity in the domestic market leading to a slightly more negative impact on margin and earnings than we first thought based on our recent channel checks, we are increasingly becoming more constructive towards the prospect in the sector and on STU. A major factor is the recent recovery observed in global steel prices. NZDUSD cross rate and global carbon steel, stainless steel and nickel prices in the coming months will likely dictate the direction of domestic steel price.

2016 P/E: 21.3 2017 P/E: 16.7

NZX Code:	**STU**
Share Price:	**$2.12**
12mth Target:	**$2.60**
Projected return (%)	
Capital gain	20.2%
Dividend yield (Net)	8.2%
Total return	**28.4%**

Rating: NEUTRAL

52-week price range: 2.02-3.02

→

Summerset Group Holdings

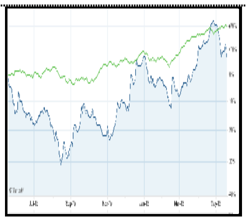
SUM is well positioned to benefit from its highly attractive business model, compelling demographic tailwinds and strong management. However, as SUM enters another phase of high growth, successful execution will be critical to increasing the market's confidence in SUM's ambitious growth plans, and therefore valuation. SUM currently offers the highest rate of growth amongst NZ retirement operators for both earnings and proportionate build rate. However there are risk associated with the overheated NZ house market.

2016 P/E: 21.3 2017 P/E: 16.7

NZX Code:	**SUM**
Share Price:	**$4.69**
12mth Target:	**$4.40**
Projected return (%)	
Capital gain	-6.2%
Dividend yield (Net)	1.5%
Total return	**5.7%**

Rating: NEUTRAL

52-week price range: 3.32-4.74



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Synlait Milk

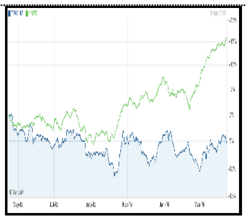
With SML's $500 million build phase completing, focus will shift to its execution of a strategy focused on building sales of nutritionals to deliver a growing and more stable earnings profile. SML's efforts over the last five years have been solid with it financing a significant build phase, building milk collection over 60 million kgMS and developing relationships and sales with target Tier 1 customers and a range of smaller players. SML is well positioned, particularly with nutritionals volumes starting to build on the back of A2 Milk's infant formula success – although a2's patent exclusivity could be questioned.

2016 P/E: 18.2 2017 P/E: 15.2

NZX Code:	**SML**
Share Price:	**$3.15**
12mth Target:	**$3.44**
Projected return (%)	
Capital gain	9.2%
Dividend yield (Net)	0%
Total return	**9.2%**

Rating: NEUTRAL

52-week price range: 2.04-3.66



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Trustpower

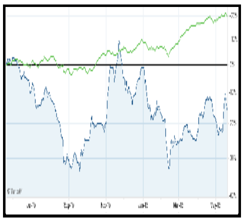
Where TPW trades after August could get interesting – FNZC think the market should attach a much lower cost of capital to NewCo and recognise its growth profile but shorter lifetime, and price TPWCore on our forecast that retail margins will decline over time. Their spot-DCF for both then reaches value estimates which sit in-line with current trading. But on different assumptions, the market might arguably reach valuation extremes anywhere from $5.90/share to $9.10/share.

2016 P/E: 24.4 2017 P/E: 23.8

NZX Code:	**SML**
Share Price:	**$7.85**
12mth Target:	**$7.98**
Projected return (%)	
Capital gain	1.7%
Dividend yield (Net)	5.4%
Total return	**7.0%**

Rating: NEUTRAL

52-week price range: 7.19-7.98



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Xero

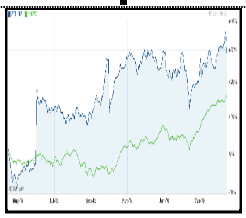
Expect the results messaging to focus on growing operating leverage; XRO's Fintech "platform" opportunity which lies at the centre of the "Financial Web"; and new market opportunities (such as Singapore office opening and inaugural South African roadshow). XRO is likely to again stress the long-term nature of the US opportunity, disclosure of which has been somewhat obfuscated by XRO's move to aggregate UK/North America/ROW into "International".

2016P/E: -24.7 2017 P/E: -29.0

NZX Code:	**XRO**
Share Price:	**$16.92**
12mth Target:	**$21.00**
Projected return (%)	
Capital gain	24.1%
Dividend yield (Net)	0%
Total return	**24.1%**

Rating: OUTPERFORM

52-week price range: 12.70-22.40



→

Z Energy

Commerce Commission cleared the key value driver – the acquisition of Chevron NZ. Reporting before the acquisition $238m EBITDAF, this was equivalent to $302m after normalising for $13m excise claim, $26m FX & oil cover, $25m CNZ transition costs – and thus in-line with our analysts $299m forecast on same normalised basis. RC NPAT was $123m (pcp $121m). FY16 fully imputed dividends was 26.6cp.

2016P/E: 22.8 2017 P/E: 18.6

NZX Code:	**ZEL**
Share Price:	**$8.13**
12mth Target:	**$8.25**
Projected return (%)	
Capital gain	1.5%
Dividend yield (Net)	4.1%
Total return	**5.5%**

Rating: NEUTRAL

52-week price range: 5.00-8.18

NZ LISTED COMPANIES 16th May 2016 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (NZ$)	Price 16/05/2016 (NZ$m)	Target Price (NZ$)	Price Earnings (x)		Gross Yield (%)	
					FY16	FY17	FY16	FY17
CONSUMER DISCRETIONARY								
Intueri Education Group Limited	IQE	39	0.39	0.50	3.5	3.1	0.0%	0.0%
Restaurant Brands New Zealand	RBD	564	5.48	3.83	21.3	19.2	3.9%	4.3%
SKYCITY Entertainment Group	SKC	3,004	5.03	Res	18.7	17.1	4.1%	4.1%
Trade Me Group Ltd	TME	3,676	4.64	4.03	22.2	19.7	3.5%	4.1%
Sky Network Television Limited	SKT	1,588	4.08	4.28	10.6	11.8	7.4%	7.4%
The Warehouse Group Limited	WHS	940	2.71	2.40	16.5	15.7	5.5%	5.9%
Briscoe Group	BGR	692	3.17	3.05	16.7	15.9	4.6%	4.8%
Hallenstein Glasson Holdings	HLG	174	2.94	4.10	9.8	9.6	10.2%	10.4%
Kathmandu	KMD	306	1.52	1.90	11.6	10	4.9%	5.7%
Michael Hill International	MHI	429	1.12	1.40	12	10.9	5.8%	6.4%
Coats Group	COA	887	0.63	0.60	14.1	13.2	0.0%	0.0%
CONSUMER STAPLES								
Delegat Group	DGL	607	6.00	5.80	16.7	14.2	2.0%	2.2%
Fonterra Shareholders' Fund	FSF	617	5.78	6.12	11.8	10.4	6.9%	6.7%
PGG Wrightson	PGW	309	0.41	0.50	9.4	8.8	8.5%	8.5%
Sanford	SAN	537	5.74	5.45	14.4	13	4.2%	4.5%
Scales Corporation	SCL	449	3.21	2.90	14.5	12.8	4.0%	4.7%
Synlait Milk Limited	SML	470	3.21	3.44	16.7	14	0.0%	0.0%
The a2 Milk Company Limited	ATM	1,309	1.84	1.67	42	21.5	0.0%	0.0%
ENERGY								
NZ Refining	NZR	860	2.75	3.02	17.2	15.0	2.9%	3.3%
Z Energy	ZEL	3,268	8.17	8.25	22.9	18.7	3.3%	3.9%
FINANCIALS								
Heartland Bank Ltd	HBL	564	1.19	1.25	10.8	10.5	7.1%	7.6%
NZX	NZX	271	1.01	1.05	21.5	16.0	5.9%	5.9%
Argosy Property Ltd	ARG	963	1.19	1.14	19.0	19.1	5.1%	5.2%
Augusta Capital Ltd	AUG	98	1.12	1.04	15.5	18.9	4.5%	4.5%
Goodman Property Trust	GMT	1,712	1.35	1.18	17.8	17.7	4.9%	5.0%
Kiwi Property Group Limited	KPG	1,915	1.50	1.35	22.9	20.7	4.4%	4.5%
NPT Limited	NPT	110	0.68	0.66	18.1	17.4	5.2%	5.3%
Precinct Properties NZ	PCT	1,562	1.29	1.15	21.6	21.2	4.2%	4.2%
Property for Industry Ltd	PFI	741	1.65	1.46	21.9	22.1	4.5%	4.5%
Stride Property	STR	811	2.23	2.05	20	18.9	4.8%	5.1%
Vital Healthcare Property Trust	VHP	736	2.13	1.53	20.1	20.2	3.8%	3.9%
HEALTH CARE								
Pacific Edge Ltd	PEB	237	0.63	0.60	-20.6	-21.8	0.0%	0.0%
Fisher & Paykel Healthcare Corp.	FPH	5,447	9.66	8.60	38.8	31.8	1.9%	2.3%
Arvida	ARV	301	1.10	1.12	18.4	17.3	3.8%	4.1%
Ebos Group Limited	EBO	2,373	15.68	12.00	20.1	18.1	3.4%	3.7%
Metlifecare Limited	MET	1,201	5.64	5.90	18.7	16.6	0.8%	0.9%
Ryman Healthcare Ltd	RYM	4,650	9.30	8.25	30.6	26.2	1.6%	1.9%
Summerset Group Holdings Ltd	SUM	981	4.46	4.40	21	16.4	1.50%	2.30%
Orion Health Limited	OHE	755	4.72	4.75	-22.8	-29.8	0.00%	0.00%
AFT Pharmaceuticals	AFT	291	3.00	3.25	-33.5	-54.3	0.0%	0.0%
INDUSTRIALS								
Freightways	FRE	1,028	6.64	6.05	19.4	18.3	4.0%	4.6%
Mainfreight	MFT	1,667	16.74	17.50	19.3	16.5	2.2%	2.5%
Methven	MVN	98	1.35	1.35	12.2	10.6	6.7%	7.4%
Metro Performance Glass Ltd	MPG	342	1.85	2.20	15.7	12.7	4.80%	5.90%
Opus International Consultants	OIC	198	1.32	1.80	9.3	8.3	6.80%	7.20%
Hellaby Holdings	HBY	254	2.65	3.67	11.9	9.8	8.1%	8.1%
Airwork Holdings	AWK	239	4.75	4.30	10.4	9.7	3.8%	4.6%
Auckland Airport	AIA	7,799	6.55	4.60	37.8	32.8	2.6%	2.7%
Port of Tauranga	POT	2,588	19.01	17.70	32.5	29.6	2.8%	3.0%
INFORMATION TECHNOLOGY								
EROAD	ERD	158	2.63	2.70	338.1	40.5	0.0%	0.0%
Vista Group International Limited	VGL	470	5.85	5.43	37.9	27.4	1.2%	1.8%
Xero	XRO	2,191	16.00	21.00	-26.8	-30.5	0.0%	0.0%
MATERIALS								
Nuplex Industries	NPX	1,005	5.33	5.40	13.1	11.3	5.3%	6.2%
Fletcher Building	FBU	5,949	8.59	9.36	15.2	12.2	4.5%	5.0%
Steel & Tube	STU	199	2.20	2.60	10.1	9.3	8.6%	8.9%
TELECOMMUNICATIONS								
Chorus	CNU	1,635	4.08	4.10	14.4	11.6	4.9%	5.1%
Spark NZ	SPK	6,752	3.69	2.88	19.5	18.4	6.8%	6.8%
UTILITIES								
Contact Energy	CEN	3,828	5.35	6.18	23.4	20.4	4.7%	4.9%
Genesis Energy Limited	GNE	2,145	2.15	1.86	24.5	26.9	7.8%	8.2%
Infratil	IFT	1,853	3.30	3.37	31.2	27.6	4.2%	4.6%
Mighty River Power	MRP	4,186	3.04	2.74	26.9	26.3	4.7%	5.1%
TrustPower	TPW	2,466	7.81	7.98	24.3	23.6	5.4%	5.4%
Vector	VCT	3,366	3.38	2.81	20.6	25	4.7%	4.7%
Meridian Energy	MEL	6,907	2.70	2.26	26.9	31.2	6.0%	8.1%
MARKET AVERAGE (excluding AFT, ERD, OHE, PEB & XRO)					**19.0**	**17.1**	**4.1%**	**4.4%**

New Zealand Listed Companies – Gross Dividend Yields 19th May 2016

COMPANY	Rating	PRICE	GROSS DIVIDEND YIELD				DIVIDEND COVER				NET DEBT/ EQUITY
Source: FNZC, CS Group Estimates		19-May-16	FY-1	FY0	FY1	FY2	FY-1	FY0	FY1	FY2	
Hallenstein Glasson	O	$2.88	11.7%	14.1%	14.4%	14.7%	1	1	1	1	-23.1%
PGG Wrightson	N	$0.40	13.9%	12.2%	12.2%	13.9%	1.2	1.2	1.3	1.3	17.9%
Hellaby	O	$2.58	11.6%	11.6%	11.6%	11.8%	1.3	1	1.3	1.3	16.7%
Kathmandu	N	$1.48	11.3%	11.3%	7.0%	8.1%	1.7	0.9	1.7	1.7	16.0%
Genesis Energy	U	$2.12	10.5%	10.6%	11.5%	11.6%	0.6	0.5	0.4	0.4	24.6%
Sky Network Television	U	$4.01	10.4%	10.4%	10.4%	10.4%	1.5	1.3	1.2	0.9	16.0%
Steel & Tube	N	$2.15	12.3%	10.3%	11.6%	13.6%	1.3	1.3	1.3	1.3	28.9%
Heartland	O	$1.18	8.8%	10.0%	10.6%	10.9%	1.4	1.3	1.3	1.3	83.2%
Opus	O	$1.31	11.7%	9.5%	10.1%	10.6%	1.3	1.6	1.7	1.7	7.6%
Spark	U	$3.68	7.5%	9.4%	8.8%	8.8%	1	0.8	0.8	0.9	22.3%
Methven	O	$1.36	8.2%	9.2%	10.2%	11.2%	1.1	1.2	1.3	1.2	24.1%
Tower	N	$1.80	8.3%	9.2%	9.3%	9.6%	0.9	-0.2	1	1.1	-44.5%
NZX	N	$1.01	8.3%	8.3%	8.3%	8.3%	0.8	0.8	1	1.2	-11.8%
The Warehouse	U	$2.79	9.5%	8.0%	7.5%	8.0%	0.9	1	1.1	1.1	21.0%
Argosy Property	O	$1.18	7.6%	7.6%	7.8%	7.9%	1	1	1	1	38.5%
NPT	U	$0.69	7.6%	7.6%	7.8%	8.0%	1	1.1	1.1	1	24.6%
Goodman Property Trust	N	$1.37	7.0%	7.3%	7.3%	7.4%	1.1	1.1	1.1	1.1	32.4%
Stride	N	$2.20	7.0%	7.3%	7.7%	7.7%	1	1	1	1	40.6%
Trustpower	N	$8.00	5.8%	7.2%	6.7%	6.8%	0.8	0.8	1.1	1.1	36.9%
Meridian Energy	U	$2.79	8.9%	7.2%	9.6%	7.4%	0.4	0.6	0.4	0.6	14.3%
Fonterra	N	$5.80	4.3%	6.9%	6.7%	7.5%	1.2	1.2	1.4	1.4	31.2%
Chorus	N	$4.07	0.0%	6.8%	7.2%	7.5%	0	1.4	1.7	1.5	40.6%
Metro Performance Glass	O	$1.82	2.7%	6.7%	8.3%	10.3%	3	1.3	1.3	1.3	18.6%
Augusta Capital	N	$1.12	6.4%	6.7%	6.8%	6.9%	1.2	1.4	1.2	1.1	20.3%
Kiwi Property Group	N	$1.47	6.6%	6.7%	6.9%	7.0%	1.1	1	1.1	1	28.6%
Mighty River Power	U	$3.00	10.0%	6.6%	6.7%	7.4%	0.5	0.8	0.7	0.7	18.0%
Property For Industry	U	$1.66	6.5%	6.6%	6.7%	6.7%	1	1	1	1	35.4%
Infratil	N	$3.38	5.9%	6.5%	6.5%	6.5%	0.4	0.4	0.9	0.9	30.8%
Vector	U	$3.40	6.3%	6.4%	6.5%	6.6%	0.9	1	0.8	1	38.7%
Restaurant Brands	N	$5.41	5.4%	6.2%	6.8%	7.4%	1.2	1.2	1.3	1.3	32.0%
Precinct Properties	N	$1.31	6.2%	6.2%	6.2%	6.2%	1.1	1.1	1.1	1.1	15.4%
Briscoe Group	N	$3.31	5.9%	6.1%	6.4%	6.6%	1.3	1.3	1.3	1.3	-38.6%
Contact Energy	O	$5.37	18.6%	5.9%	6.4%	6.6%	0.3	0.9	1	1	29.7%
Sanford	N	$5.65	5.7%	5.9%	6.4%	7.1%	1.4	1.7	1.7	1.7	20.9%
Scales Corporation	O	$3.09	7.4%	5.8%	6.7%	7.6%	1.5	1.7	1.7	1.6	3.3%
Michael Hill	O	$1.13	4.4%	5.8%	6.3%	8.9%	1.5	1.4	1.4	1.4	10.9%
Vital Healthcare Property Trust	U	$2.16	5.5%	5.6%	5.8%	5.9%	1.2	1.3	1.3	1.2	35.7%
Freightways	N	$6.69	5.1%	5.4%	6.3%	7.4%	1.3	1.3	1.2	1.1	30.6%
Fletcher Building	O	$8.60	5.1%	5.4%	6.0%	6.4%	1.6	1.4	1.6	1.7	23.7%
Z Energy	N	$8.13	4.5%	5.4%	7.7%	8.3%	1.3	1.4	1.3	1.2	46.9%
Airwork Holdings	N	$4.77	4.7%	5.2%	6.4%	8.7%	1.9	2.5	2.2	1.8	50.5%
Nuplex	N	$5.35	5.0%	5.2%	6.2%	6.5%	1.4	1.4	1.4	1.4	9.7%
Arvida	O	$1.13	0.0%	5.0%	5.3%	5.6%	0	1.4	1.4	1.4	2.6%
Trademe	U	$4.66	4.8%	4.9%	5.6%	7.0%	1.2	1.3	1.2	1.1	11.3%
Sky City	R	$4.82	4.4%	4.5%	5.3%	5.3%	1.1	1.3	1.4	1.5	28.0%
Port of Tauranga	N	$19.10	3.8%	3.9%	4.2%	4.7%	1.1	1.1	1.1	1.1	25.1%
EBOS	O	$15.75	3.3%	3.7%	4.1%	4.3%	1.5	1.5	1.5	1.5	10.6%
Auckland Airport	U	$6.65	3.0%	3.6%	3.8%	4.8%	1	1	1.1	1	34.6%
Mainfreight	O	$16.65	2.8%	3.0%	3.5%	4.4%	2.5	2.4	2.4	2.3	19.8%
Delegat's Group	N	$6.30	2.4%	2.6%	2.9%	3.3%	3.1	3	3.2	3.5	42.5%
Fisher & Paykel Healthcare	N	$10.08	1.9%	2.6%	3.0%	3.7%	1.5	1.3	1.4	1.3	7.7%
Ryman Healthcare	N	$9.73	1.4%	1.6%	1.8%	2.1%	2	2	2	2	11.3%
Summerset	U	$4.60	1.3%	1.4%	2.2%	2.0%	3	3.3	2.7	3.1	18.9%
Vista Group	N	$5.90	0.0%	1.4%	2.2%	3.3%	0	2.3	2	1.9	-21.8%
Metlifecare	O	$5.80	0.8%	0.8%	0.9%	0.9%	5.6	6.4	6.8	7.1	2.2%
AFT Pharmaceuticals	O	$3.05	0.0%	0.0%	0.0%	0.0%	0	0	0	0	-10.2%
a2 Milk	U	$1.72	0.0%	0.0%	0.0%	0.0%	0	0	0	0	-28.9%
EROAD	O	$2.45	0.0%	0.0%	0.0%	0.0%	0	0	0	0	-17.9%
Coats Group	N	$0.63	0.0%	0.0%	0.0%	0.0%	0	0	0	0	-16.2%
Intueri Education Group	O	$0.40	21.2%	0.0%	0.0%	0.0%	2.4	0	0	0	62.8%
Orion	O	$4.84	0.0%	0.0%	0.0%	0.0%	0	0	0	0	-24.6%
Pacific Edge	O	$0.62	0.0%	0.0%	0.0%	0.0%	0	0	0	0	-81.1%
Synlait Milk	N	$3.24	0.0%	0.0%	0.0%	5.7%	0	0	0	2	40.1%

1. The Net Debt/Equity ratio is calculated as Gross Debt less cash holdings divided by total shareholder funds. Negative ratios indicate a net cash position.
2. FY0 represents the current financial year
3. Property stock gross yields reflect returns under the PIE regime assuming a 33% unitholder
4. Ratings: "O" - Outperform, "N" - Neutral, "U" - Underperform, "R" – Restricted

Australian Equities

Should Kiwis invest in the Australian Share Market?

When you look at the graph below you might think – why would you… However if you want a balanced portfolio with exposure to commodity stocks not available in the New Zealand market, then yes – but be cautious. Australian are notorious punters, and their “penny dreadful” mining stock have often been a punters dream – but also the bane of many. My attitude is “If you want to punt, then go to the races.”

ASX200 (GREEN) VERSUS NZ50 (BLUE), USA’S S&P500 (RED) & LONDON’S FT100 (PURPLE) – 2 YEAR GRAPHS

Over the past two years the ASX200 Index has been virtually flat, and an extremely poor performer when compared with our local market (up close to 100%).

Australian Investment Strategy

2016 budget: Bad for equities, good for property

■ **Positive for bonds, neutral for FX:** The 2016-17 budget deficit is forecast to shrink to 2.2% of GDP from 2.4% previously. The absence of an expansionary budget should put further pressure on the RBA to cut rates and be positive for bonds. The impact on the Aussie dollar is mixed — lower interest rates are negative but a tighter fiscal position is positive.

■ **Bad for equities, good for property:** While the budget provides marginal positives for Aussie equity investors, our analysts think these will be more than offset by the planned changes to superannuation. They expect less money flowing into the Australian pension pool, less money managed by Selfies and less money flowing into Australian equities.

■ **Sectors:** Within the Aussie equity market, the sectors set to benefit from the proposed budget changes include Building Materials (infrastructure, renewed demand for investment properties), Retailers (personal income tax cuts, small business write-offs) and Media (reduction in license fees). Sectors that could suffer from budget changes include the Fund Managers (superannuation changes), Health Care (changes to Medicare) and Banks (ASIC associated costs, less Selfies demand).

Long commodity companies

Despite the strong rally, our analysts find many companies are trading at attractive valuations. They have added Syrah to their Long Portfolio which joins BHP, Rio Tinto, South 32 and Aurizon as preferred commodity exposed companies. They have also added Sonic Healthcare to their Short Portfolio.

Analyst’s Top Pick for Australia

Caltex (CTX.AX)

OUTPERFORM A$32.73 Target price A$40.00

Caltex is a well-managed, high margin and FCF generative business. CTX offers a unique, undervalued exposure to a defensive industry that continues to surprise to the upside. Our analysts acknowledge the volatility that comes with refining earnings, but see this part of the business as non-core and likely to be exited on a five-year view. Most importantly, they believe the quality of Caltex's infrastructure, which they have invested heavily in, provides a large layer of protection against falling transport fuel volumes. With Australia having such a big short of refined product and such natural barriers to entry for competing infrastructure (cost, land, etc.), it is clear to us that the economic rent should sit with that infrastructure. Logic says, with this kind of infrastructure, as volumes fall margins rise. Our analysts see further opportunity for capital management, which only further cements what they see as a great opportunity to buy the stock.

CTX.AX Year to 31 December		2015A	2016F	2017F	2018F
Net Income	A$m	628	597	596	619
Earnings /share (Adj)	Ac	2.33	2.29	2.29	2.37
EPS Growth	%	27.4	-1.5	-0.2	3.8
Price / Earnings Ratio	x	14.4	14.6	14.6	14.1
Net Div / Share	Ac	1.17	1.15	1.14	1.19
Net Yield	%	3.5	3.4	3.4	3.5

BHP Billiton (BHP.AX)

OUTPERFORM A$18.28 Target price A$21.50

3rd Quarter production expectations were met in all key businesses with the exception of iron ore.

Petroleum: Conventional was strong with output up 1% on Q2 and up 10% on the previous corresponding period (pcp). Onshore oil was down 4% on Q2 and down 16% on pcp. **Copper**: Total copper production YTD was down 8% with Escondida down 20% given well known grade issues. **Iron ore**: YTD iron ore production was flat at 171mt with WAIO up 2%. WAIO FY16 C1 cost guidance unchanged at $15/t. **Coal**: Met coal output was flat YTD but Q3 was down 4% on Q2. Thermal coal output in Q3 was just 8mt as weather plus blasting constraints and a higher strip ratio zone of mining impacted the NSW operations.

BHP.AX Year to 30 June		2015A	2016F	2017F	2018F
Revenue	US$m	44,636	31,065	31,040	32,305
Earnings /share (Adj)	USc	119.41	22.01	42.14	62.71
EPS Growth	%	-54.5	-81.6	91.5	48.8
Price / Earnings Ratio	x	13.2	71.7	37.4	25.2
Net Div / Share	USc	124	22.75	21.24	31.61
Net Yield	%	7.9	1.4	1.3	2.0

SOURCE: *FNZC, CSFB*

A contrary view - *Why BHP shares at $18 might not be a bargain*

Shares of BHP Billiton have rebounded strongly. After they threatened to fall below $14 earlier in the year, the shares have since regained almost 30%. They're now trading at $18, and some investors think they can go even higher. But I wouldn't be so sure...

BHP BILLITON 2 YEAR GRAPH

It could get even worse from here for BHP shareholders...

Rebounding commodity prices have driven BHP's recent surge. Iron ore is back above US$50 a tonne - up from around US$38 in December 2015 - and oil is fetching more than US$40 a barrel. That compares to a low around US$28 earlier in the year.

But it seems much of that has been driven by hope. Most analysts have their doubts that these rallies can be sustained and think it could be back to the doghouse in the not-too-distant future.

BHP relies on higher commodity prices for earnings growth. As such, I wouldn't want to be holding their shares if, or when, commodity prices do reverse course...

These "new breed" Blue Chips look to be a much better bet than BHP shares...

As a price taker, BHP is completely at the mercy of commodity swings. The fundamentals in the iron ore and oil markets - which are BHP's two most important - remain weak and could both turn south at any time.

Whichever way you look at it, the once mighty BHP looks to be **a very risky investing proposition**, even with the share price trading at around $18.00

AUSTRALIAN FORECASTS 16th May 2016 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (A$m)	Price 16/05/2016 (A$)	Target Price (A$)	Price Earnings (x)		Gross Yield (%)	
					FY16	FY17	FY16	FY17
CONSUMER DISCRETIONARY								
Navitas Ltd	NVT	2,030	5.44	5.00	22	21.4	3.6%	3.8%
Aristocrat Leisure	ALL	7,907	12.41	13.00	21.2	19.9	1.6%	1.8%
Tabcorp Holdings	TAH	3,559	4.28	4.30	19.7	18.7	5.4%	5.6%
Flight Centre	FLT	3,833	37.98	41.44	14.1	13.6	4.4%	4.5%
Tatts Group	TTS	5,770	3.94	3.30	21.3	20.9	4.6%	4.6%
Crown	CWN	8,755	12.02	11.80	21.7	19.8	4.3%	3.1%
Star Entertainment Group	SGR	4,591	5.56	5.60	20.1	19.2	2.2%	2.5%
Fairfax Media	FXJ	2,093	0.91	1.10	15.5	13.9	4.4%	4.9%
REA Group	REA	7,273	55.22	56.50	34	26.6	1.5%	1.9%
Harvey Norman	HVN	5,185	4.66	4.70	16.1	15.1	4.8%	4.2%
JB Hi-Fi	JBH	2,412	24.38	25.95	16.7	13.3	3.9%	4.9%
CONSUMER STAPLES								
Coca-Cola Amatil	CCL	6,933	9.08	9.80	16.9	16.3	5.0%	5.2%
Treasury Wine	TWE	7,463	10.11	9.20	34.7	30.8	1.9%	2.1%
Wesfarmers	WES	47,883	42.52	40.55	20.2	17.8	4.8%	4.8%
Woolworths	WOW	28,606	22.37	25.85	16.8	18.4	4.1%	3.7%
Graincorp	GNC	1,767	7.72	8.41	33.3	19.6	1.7%	2.8%
ENERGY								
Origin Energy	ORG	9,502	5.42	5.50	18.3	16.8	1.8%	0.0%
Caltex Australia	CTX	8,920	34.20	40.00	14.9	15	3.3%	3.3%
Oil Search	OSH	7,465	6.75	5.09	150.3	26.3	0.3%	1.6%
Santos Ltd	STO	7,380	4.16	4.10	376.1	15	0.6%	2.7%
Woodside Petroleum	WPL	16,496	26.96	20.99	29	30.8	2.7%	2.6%
UTILITIES								
APA Group	APA	10,040	9.01	8.75	44.8	37.4	4.6%	4.8%
AusNet Services	AST	5,837	1.65	1.60	17.7	20.7	5.2%	5.3%
Spark Infrastructure Group	SKI	3,684	2.19	2.35	38.7	33.7	6.2%	6.4%
DUET Group	DUE	5,620	2.31	2.25	25.2	36.5	7.8%	8.0%
AGL Energy	AGL	12,732	18.87	19.40	17.7	14.4	3.8%	4.8%

Australian Forecasts - Continued over page

AUSTRALIAN FORECASTS 16th May 2016 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (A$m)	Price 16/05/2016 (A$)	Target Price (A$)	Price Earnings (x) FY16	Price Earnings (x) FY17	Gross Yield (%) FY16	Gross Yield (%) FY17
FINANCIALS								
Perpetual Limited	PPT	1,944	41.75	45.50	15.5	14.8	6.0%	6.1%
IOOF Holdings	IFL	2,701	9.00	9.80	14.7	14.2	6.2%	6.4%
Magellan Financial Group	MFG	3,631	22.57	25.00	20.1	18.2	3.9%	4.2%
Macquarie Group	MQG	24,400	71.70	85.00	11.9	11.4	5.6%	6.1%
Henderson Group PLC	HGG	1,545	4.81	2.74	15.3	13.4	4.3%	4.6%
ANZ Banking Group	ANZ	70,342	24.11	26.00	11.8	10.2	6.6%	6.8%
Westpac	WBC	99,373	29.79	35.00	12.7	12	6.3%	6.4%
Bank of Queensland	BOQ	4,258	11.32	12.00	11.9	11.2	6.8%	7.1%
Bendigo and Adelaide Bank	BEN	4,464	9.67	9.50	11.7	11.4	7.0%	7.0%
Commonwealth Bank Australia	CBA	132,735	77.39	85.00	14.1	13.6	5.4%	5.5%
National Australia Bank	NAB	76,545	28.94	30.00	12	11.6	6.8%	6.8%
Clydesdale Bank	CYB	1,549	4.35	2.34	20.8	12.3	0.0%	0.9%
ASX	ASX	8,539	44.11	43.00	20.1	19.9	4.5%	4.5%
Challenger Limited	CGF	5,255	9.20	10.20	14.9	14.1	3.5%	3.7%
Suncorp Group Limited	SUN	16,366	12.72	12.50	14.8	12.4	5.0%	6.0%
QBE Insurance Group	QBE	11,752	11.80	8.64	18.4	14.1	4.1%	5.2%
Insurance Australia Group	IAG	14,272	5.87	5.75	17.7	16.3	7.1%	5.7%
AMP	AMP	16,149	5.46	6.05	16.6	15.2	5.2%	5.7%
Medibank Private Limited	MPL	8,648	3.14	2.70	21.2	20.9	3.5%	3.6%
GPT Group	GPT	9,313	5.18	4.75	17.5	17	4.5%	4.8%
Stockland Group	SGP	10,979	4.59	4.68	16.4	15.3	5.4%	5.7%
Mirvac Group	MGR	7,163	1.94	2.06	15	13.9	5.1%	5.5%
Investa Office Fund	IOF	2,567	4.18	4.17	14.8	14.6	4.7%	4.8%
Dexus Property Group	DXS	8,295	8.57	7.67	13.6	13.9	5.1%	5.1%
Goodman Group	GMG	12,875	7.24	7.10	18.1	16.8	3.3%	3.6%
Vicinity Centres	VCX	13,261	3.35	3.08	17.5	17	5.3%	5.4%
Westfield Corporation	WFD	15,848	10.50	8.25	22.1	20.4	3.3%	3.3%
Scentre Group	SCG	24,598	4.62	4.76	19.8	18.9	4.6%	4.8%
Lend Lease	LLC	7,762	13.33	17.00	11.1	10.2	4.4%	5.2%
HEALTH CARE								
CSL Ltd	CSL	36,848	110.85	82.10	31.5	26.2	1.4%	1.6%
Cochlear	COH	6,398	111.84	105.00	33.5	27.8	2.1%	2.5%
Ansell Limited	ANN	2,066	18.85	14.00	14	13.8	3.1%	3.1%
ResMed Inc.	RMD	8,013	7.86	6.48	22.2	21.6	2.1%	2.3%
Sonic Healthcare	SHL	8,464	20.39	18.90	19.3	17.7	3.7%	4.1%
Ramsay Health Care	RHC	14,237	70.45	72.00	30.6	27.4	1.7%	1.9%
Primary Health Care	PRY	1,721	3.30	3.55	15.3	17.5	3.8%	3.0%
Healthscope	HSO	4,910	2.83	2.60	25	23.7	2.6%	2.8%
INDUSTRIALS								
Qantas	QAN	6,765	3.28	4.80	6.2	5.1	7.6%	15.2%
Brambles	BXB	15,009	13.03	8.31	24.1	21.8	2.3%	2.3%
Downer EDI	DOW	1,644	3.87	3.35	9.9	9.6	5.2%	5.2%
CIMIC Group	CIM	12,518	37.97		21.7	19.5	3.0%	3.3%
ALS Limited	ALQ	2,138	4.24	4.00	16	15.6	3.1%	3.5%
Seek	SEK	5,628	16.34	14.35	32.5	28.3	2.4%	2.7%
Aurizon	AZJ	9,193	4.48	4.60	18.5	16.2	5.4%	6.2%
Transurban	TCL	24,772	12.17	12.80	79.8	96.7	3.7%	4.3%
Sydney Airport	SYD	15,963	7.16	6.30	53.5	48	4.2%	4.6%
INFORMATION TECHNOLOGY								
carsales.com.au	CAR	3,018	12.52	11.30	27.4	24.6	3.0%	3.3%
Computershare	CPU	4,087	10.26		13.7	13.4	3.1%	3.2%
MATERIALS								
Amcor	AMC	13,702	16.29	12.17	21.1	19.2	3.5%	3.8%
Orora	ORA	3,318	2.75	2.55	21.5	19.7	3.3%	3.6%
Orica	ORI	4,926	13.19	13.60	12.5	11.4	4.2%	4.9%
Incitec Pivot	IPL	5,787	3.43	3.63	17.3	15.1	2.9%	3.3%
Dulux Group	DLX	2,491	6.40	5.90	19.3	18.9	3.6%	3.9%
Adelaide Brighton	ABC	3,521	5.42	5.30	18.3	16.1	5.4%	5.9%
CSR	CSR	1,800	3.56	3.50	10.9	10.6	6.7%	6.7%
Boral	BLD	5,034	6.77	6.75	20.1	17.9	3.2%	3.7%
James Hardie Industries plc	JHX	6,259	19.34	12.87	24.9	22.4	2.8%	3.1%
BHP Billiton	BHP	67,411	18.20	15.62	49.2	27.4	1.9%	1.8%
Rio Tinto	RIO	53,078	44.65	36.88	21.4	24.3	3.4%	2.4%
Newcrest Mining	NCM	11,624	20.88	10.38	34.3	18	0.0%	0.7%
Alumina Limited	AWC	2,803	1.34	0.97	25	28.1	6.2%	6.2%
Iluka Resources	ILU	2,445	5.84	5.50	22.2	16.9	6.7%	4.3%
Fortescue Metals Group Ltd	FMG	6,513	2.88	2.58	7.4	23.1	1.7%	0.7%
BlueScope Steel	BSL	3,211	5.62	6.85	14.2	8.8	2.2%	3.5%
South 32	S32	6,535	1.69	1.29	60.4	13.7	0.5%	2.9%
TELECOMMUNICATION								
Telstra Corporation	TLS	69,442	5.68	5.25	16.5	15.5	5.5%	5.5%
TPG Telecom	TPM	9,868	11.63	9.00	28.1	24.5	1.3%	1.6%
Vocus Communications	VOC	4,774	8.95	9.20	29.5	21.3	2.1%	2.3%
Market Average					**20.1**	**18.5**	**3.9%**	**4.2%**

UK Investment Trusts

Share Price 28-Apr-16 GBP pence	Net Asset Value	(Disc) Premium	*View	Investment Trust Company	Net Yield %	12 Month % Discount			1 Year % Return pa		3 Year % Return pa		5 Year % Return pa	
						Average	High	Low	Price	NAV	Price	NAV	Price	NAV
				Global Equity Funds										
595	626	-5.0%	↑	Bankers	2.5	-2.2	-6.6	1.7	-0.2	3.3	11.2	19.6	9.9	15.6
470	543	-13.4%	↓	British Empire & Securities	2.2	-10.7	-12.2	-7.9	-8.4	-7.9	4.6	2.3	0.7	-0.8
2497	2903	-14.0%	→	Caledonia Investments	2.1	-15.6	-22.2	-11.2	8.6	8.0	15.3	12.7	8.2	5.4
208	228	-8.8%	↑	JP Morgan Overseas	1.6	-6.8	-10.6	-4.0	-3.5	-0.8	11.2	11.3	4.6	4.9
427	482	-11.3%	↑	Monks Investment	1.0	-11.2	-14.9	-7.3	2.1	0.8	11.3	9.4	3.9	2.7
1,664	1555	7.0%	↑	RIT Capital Partners	1.8	-0.7	-5.6	5.5	12.3	5.4	18.2	11.3	6.2	4.1
				European Funds										
382	377.2	1.3%	↑	City of London	4.0	1.5	-0.4	3.4	1.2	-1.1	11.3	7.6	9.3	5.4
675.5	462	-11.3%	NR	The European Trust	1.9	-5.4	-9.8	-0.1	-11.4	-11.8	11.1	7.6	4.8	0.9
266.3	297.2	-10.4%	↑	JP Morgan European Smaller	1.2	-10.0	-15.0	-4.7	23.2	18.8	23.7	21.7	9.1	6.5
246	256.8	-4.2%	NR	BlackRock Greater European	2.0	-4.0	-6.3	-0.6	1.4	2.9	11.0	9.7	5.7	3.7
				Asia/Pacific Funds (including Japan)										
286	332.8	-14.1%	↑	JP Morgan Fleming Japan	1.0	-10.0	-15.4	-5.6	1.6	6.6	18.2	18.1	11.3	10.1
285.3	289.6	-1.5%	↑	Henderson Far East Income	6.6	2.3	-3.6	6.2	-6.5	-8.8	2.8	-1.7	3.3	-1.6
136	156.4	-13.0%	↑	Schroder Japan Growth Fund	1.3	-6.6	-12.5	-1.0	-5.6	-4.5	13.7	11.5	10.3	8.4
				Global Emerging Markets Funds										
583	660	-11.7%	↑	JPM Fleming Emerging Markets	1.1	-10.4	-12.2	-7.7	-3.2	-3.6	2.9	2.3	0.0	-0.4
457	520.7	-12.2%	↑	Templeton Emerging Markets	1.9	-10.4	-13.8	-7.2	-12.9	-13.4	-5.6	-5.1	-6.5	-6.4
				Far East Exc Japan										
252	285.8	-11.8%	↑	Edinburgh Dragon	1.2	-10.7	-15.3	-6.1	-10.3	-9.6	-0.4	0.8	1.3	0.8
510	593	-14.0%	NR	JP Morgan India	0.0	-10.5	-14.6	-6.7	-6.5	-5.2	14.4	14.9	2.1	3.1
270	307	-12.0%	↑	Schroder AsiaPacific	1.0	-9.6	-12.3	-6.0	-3.9	-3.5	6.3	5.7	5.1	4.3
				Other Funds										
917	1003	-8.6%	↑	North American Income Trust	3.7	-7.6	-11.3	-3.5	10.0	7.7	11.1	10.7	8.9	7.1
292.5	301	-2.8%	↑	JPMorgan American	1.3	-2.6	-7.2	3.7	8.3	4.7	17.4	17.0	11.4	10.4
248	269	-7.8%	→	BlackRock World Mining	9.0	-7.5	-13.5	2.0	-14.9	-23.4	-16.7	-22.8	-19.0	-23.7
580	615.6	-21.2%	→	Polar Capital Technology	0.0	-1.8	-6.7	5.0	3.7	5.9	16.7	19.2	9.3	10.4
522	662.5	-21.2%	↑	SVG Capital	0.0	-18.7	-28.2	-11.7	5.0	14.4	12.7	21.4	14.7	16.0
301	325.6	-7.5%	→	TR Property Trust	2.5	-0.3	-6.0	3.5	3.4	9.0	25.9	21.0	14.3	9.6
1,795	1,911	-6.0%	↑	Worldwide Healthcare Trust	0.7	-3.8	-8.5	0.8	-6.8	-7.3	26.0	24.5	21.6	18.7

1yr 3yr & 5yr Performance figures to28th April 2016 - All in NZ Dollars - Exchange Rate: UK£/NZ$ 0.4763 US$/NZ$ 0.6971

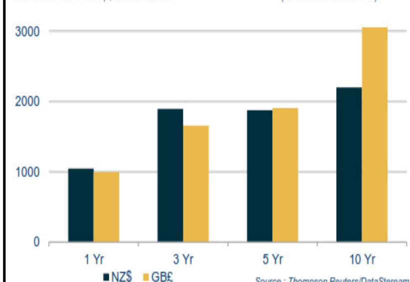
NOTE: *VIEW – First NZ Capital Limited

FNZC's aim is to identify Company's where the share price will outperform the benchmark on a risk adjusted total return basis. This may be through either a narrowing of the discount or outperformance of the underlying portfolio. Through the View we seek to identify buying opportunities for investors in each asset class, on a 12-18 months timeframe. Our view will take into account valuation, but will place a greater emphasis on the quality of management, performance record and risk characteristics (including portfolio diversification, gearing and any outstanding commitments). We will typically focus on the outlook for relative, rather than absolute share price performance.

Scottish Mortgage (SMT.LN)

Scottish Mortgage should appeal to investors looking for well-managed, unconstrained exposure to global growth companies. It does not attempt to track any index and its performance is therefore likely to diverge from the benchmark. The managers have a clear strategy to exploit key drivers of the world economy. They are keen to identify global trends early and are not afraid to take strong views. They are happy to have a different view of equity markets to other fund managers, showing little interest in short term market movements, preferring to focuses on likely structural changes over the long-term.

Return on NZ$/GB£1000 (at 31 March 2016)



Source : Thompson Reuters/DataSteream

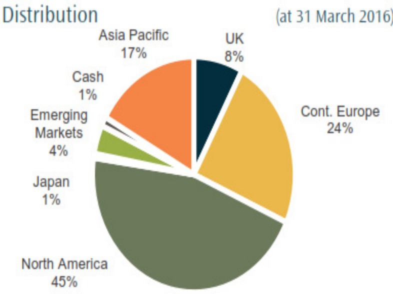
Top 10 Holdings (at 31 March 2016)

Company	Country/Sector	% Portfolio
Amazon.com	*Online retailer/USA*	8.3
Illumina	*Biotechnology equipment/Brazil*	7.4
Inditex	*Clothing Retailer / Spain*	5.9
Baidu.com	*Internet services/China*	4.8
Tencent Holdings	*Internet Service Portal /China*	4.8
Tesla Motors	*Automobile Manufacturer/USA*	4.7
Facebook	*Internet Services / USA*	4.5
Alibaba	*Internet services/China*	4.1
Alphabet Inc Class C	*Internet services/USA*	3.9
Atlas Copco	*Engineering/Sweden*	2.2
Total		51.7

Key Data — Launch Date - 1908

Year to April 2016	1Yr	3Yrs	5Yrs	10Yrs
Share Return on NZ$100	104.6	189.4	187.6	219.9
NAV Return on NZ$100	102.2	171.2	156.7	169.2
Current Discount/(Prem.)				(1.1%)
Gross Yield				1.1%
5 Yr Dividend Growth PA				2.4%
Gearing				13%
Total Assets Managed				£3,956m
NAV Volatility	23.1%	18.5%	21.2%	N/A
Benchmark Volatility	15.9%	12.6%	14.0%	N/A
12 Month High/Low				281/218p

Sector Distribution (at 31 March 2016)



NZ Daily Fixed Interest Rate Sheet

PRICES AS AT 20TH MAY 2016 **NOTE: Indicative pricing only**

Secondary market 20th May 2016	Code	Rating	Type	Maturity/ Reset Date	Coupon	Yield	Margin to SWAP	Price /$100	Coupon Freq
Fletcher Building	FBI110	NR	Cap	15/03/2018	7.15%	4.37%	207	$106.13	2
Z Energy	ZEL020	NR	Snr	15/08/2018	7.25%	4.00%	169	$108.87	4
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	4.37%	203	$103.70	2
Contact Energy Limited	CEN020	BBB	Snr	15/05/2019	5.80%	3.49%	114	$106.63	4
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	3.26%	90	$108.98	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	4.00%	161	$109.04	4
University of Canterbury	UOC010	NR	Snr	15/12/2019	5.77%	4.00%	160	$108.36	2
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	4.41%	200	$116.30	4
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	3.78%	130	$112.73	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	3.85%	134	$111.49	4
Trustpower	TPW120	NR	Snr	15/12/2021	5.63%	4.10%	152	$110.06	4
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	4.70%	208	$114.27	4
Goodman Property Bond	GMB030	BBB+	Bnd	23/06/2022	5.00%	3.92%	130	$107.85	2
Infratil	IFT210	NR	Bnd	15/09/2023	5.25%	5.00%	227	$102.50	4

Floating Rate / Perpetual Bonds	Code	Rating	Type	Reset Date	Coupon	Price /$100	Margin to SWAP	Maturity	Coupon Freq
Credit Agricole S.A.	CASHA	BB+	Tier 1	19/12/2017	5.04%	86.85	310	Perpetual	4
Genesis Power Limited	GPLFA	BB+	Cap Bond	15/07/2018	6.19%	103.20	220	Perpetual	4
Infratil	IFTHA	NR	Perp	15/11/2014	4.26%	63.50	300	Perpetual	4
Quayside Holdings Ltd	QHLHA	NR	Perp Pref	12/03/2017	5.88%	101.85	170	Perpetual	4
Rabobank Nederland	RBOHA	BBB-	Tier 1	8/10/2014	3.49%	93.50	460	Perpetual	4
Rabobank Nederland	RCSHA	BBB-	Tier 1	18/06/2019	8.34%	106.00	360	Perpetual	4
Works Infrastructure Finance	WKSHA	NR	RPS	15/06/2015	7.21%	101.80	340	Perpetual	4

A future nursery rhyme

It's Raining, It's Pouring
Oh sh*t, is this Global Warming?

Two men are drinking in a bar. One says, "Did you know that Lions have sex 10 to 15 times a day?"

"Aww, darn!" says his friend, "and I just joined Rotary!"

RE-ELECT

VON DADELSZEN

"SPEND WESTERN BAY RATES IN THE WESTERN BAY"

Andrew was an elected member of your Regional Council for six years.

He balances environmental protection with sound economic decision making.

For Andrew "Trust is everything". His word is his bond. He will fight to ensure equity and fairness for all ratepayers. He will fight for "ONE LAW FOR ALL".

Andrew will fight to ensure Tauranga's voice is heard.

STOP WASTEFUL BUREAUCRACY

PROTECTING OUR HARBOUR

Andrew is committed to ensuring improved water quality for all our lakes, rivers & harbours.

Quality waterways are essential for a better environment for you, your children and your grand children.

BETTER ROADS BETTER BUSES

You should be able to drive around our city without gridlock.

Andrew is passionate about good transport solutions. He will ensure…

ACTION NOT WORDS

You can count on Andrew to ensure effectiveness & efficiency. If you don't measure you can't manage. He will work on the issues that concern you.

Andrew von Dadelszen MBA

Qualified with a Master of Business Administration, Andrew understands the need for -

STRONG GOVERNANCE

Andrew has held diverse governance and leadership roles in business, the public and not-for-profit sectors.

Andrew is a current Director on the Board of the Crown Research Institute – Plant & Food Research, and has previously been a Board Director of the Environmental Protection Authority.

Call Andrew on 578 7453
Email: andrew@vond.co.nz

Authorised by AJ von Dadelszen
115 Fourth Avenue, Tauranga

RE-ELECT Andrew

von Dadelszen

TAURANGA'S VOICE ON

REGIONAL COUNCIL

- ✓ **Action – Not Words**
- ✓ **Strong Governance**
- ✓ **Spent Rates where they are collected**