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# Bay Brokers Limited

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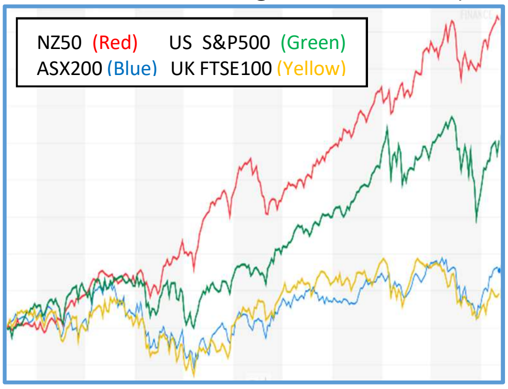
# Investment Strategies

As this goes to print, Teresa May continues to suffer more defeats in her determination to get a structured withdrawal from the EU. Uncertainty is killing the British economy, just as the continuous sniping between Trump and the Democrats is making good governance impossible in the US.

Against this global uncertainty, world sharemarkets have had an incredible bull run. The graph below shows that in the last 5 years, the New Zealand sharemarket has outperformed global markets (25% higher than the US; 48% higher than Australia; and 51% higher than the UK)




Expect markets to flatten in the near-term, but profits could well outperform market expectations in the 2nd half of 2019, which could underpin global markets.

This is not a time for knee jerk reactions, but you do need to re-evaluate your portfolios to ensure that you are predominantly in "value" stocks.

Remember, if you don't understand what a company actually does, then don't invest in it. The old adage still applies: *"There are no free lunches"*.

RRP $5.00

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## STATISTICS NZ DATA

| | |
|---|---|
| **Estimated population** at 31 Dec 2018: | 4,926,400 |
| **Births** June 2018 year: | 60,393 |
| **Deaths** June 2018 year: | 33,567 |
| **Net migration** Oct 2018 year (↓12.6%): | 61,751 |
| (Migration In 128,123 Migration Out 66,372) | |
| **Employment** | |
| **Total employed** June 2018 quarter: | 2,631,000 |
| **Unemployment rate** Dec 2018 quarter: | 4.3% |
| **Net Wealth** (NZ Median) (↑5.6% pa over 3 years) | $340,000 |
| **Net Wealth** (Top 20%) (↑9.7% pa over last 3 years) | $1.75m |
| **Ave weekly earnings** June 2018 quarter: | $1,124 |
| ⇒ Full time men (↑ $32 / 2.7%) | $1,208 |
| ⇒ Full time women (↑ $18 / 1.8%) | $1,106 |
| Average ordinary time hourly earnings: | $31.34 |
| The employment rate Sept 2018 quarter | 68.3% |
| **Annual inflation** December 2018 year: ↓ | 1.7% |
| **Petrol Price** September 2018 year: | 19.0% |
| **The size of the NZ Economy** 31 March 2018: | **$286 bn** |
| **GDP per capita** year ended June 2018: | **$57,218** |
| **GDP Growth (volume)** Sept 2018 year: | **2.9%** |
| **Tauranga City GDP Growth** Sept 2018 year: | **3.6%** |
| **Visitor arrivals** Annual August 2018 (↑ 3.6%) | **3,803,196** |

# OUR POLITICAL CLIMATE

## 'LET'S DO THIS' IN A HOLDING PATTERN

Jacinda Ardern's first big economic speech of the year warned of global economic headwinds, but it lacked action in response, or a major plan to improve wellbeing. "*Ardern sings a sweet tune about improving wellbeing and winning back business confidence. But her self-administered debt shackles are blocking real action on both fronts*", writes Bernard Hickey. Instead, it exposed how her Government is stuck in a fiscal holding pattern before the 2020 election, when it hopes it can throw off its debt target and capital gains tax shackles.

### Sadly, no crisis to unlock the shackles

The irony is they need a new global financial crisis to give them the excuse to do what they need to do to make a real improvement in wellbeing. That is not in prospect at the moment.

The Ardern/Peters Government could be using a small fraction of that printed money to rebuild our infrastructure and massively improving wellbeing. This Government is choosing not to because of a political decision it made just before an election it expected to lose. Unwilling to break its promise, it is now in a holding pattern and hopes voters keep the faith for long enough to give it a chance to throw off the shackles.

## CAPITAL GAINS TAX OPENS THE DOOR FOR NATIONAL

The biggest mistake the Ardern/Peters Government has made so far is the multi-week gap it's left, after the release of the Cullen Report, for the rest of us to fill with ideas, commentary, opinion and fact on an idea that they have clearly underestimated the potential impact.

Labour sat in Opposition for 9 years and still needed a working group to come up with ideas tells you all you need to know about their work ethic in terms of preparation for government.

The fact they then, after months of waiting, still didn't have anything to say upon receiving the report equally tells you all you need to know about their forward planning. And the fact they are surprised at the reaction shows a stunning amount of political naivety.

The examples Bridges (and National) is running are real, and the Government saying they haven't yet made up their minds not only isn't true, but also shows lack of leadership. Be very sure, it is Winston who is driving the timeframes. He has total control over what goes forward and what doesn't. Peters is holding Ardern to ransom, and she has no answers.

## MIKE HOSKING & JACINDA ARDERN ON CGT & KIWIBUILD CREDIBILITY

SOURCE: Newstalk ZB

**Mike**

And if you exempt small businesses and farms what's the $8 billion gain that Cullen says you'll get? What's that drop to?

**Jacinda**

Yeah, from memory I think it's like down… from memory in the report it covers off… what if you just did rentals, what if you did… you know… shares… what if you did business and um… what if you did, you know, business buildings, so it's because of the suite of options and ultimately it's up to government to choose… um… if anywhere where they go amongst that suite. And of course, keeping in mind, Mike, there's also the offset. We asked them to say, okay if we collected in any revenue… um… what's a way that we can distribute it back out to New Zealanders and they've given options there as well.

**Mike**

Is part of the problem, and the push back you are getting on the CGT, especially as it's more of a Labour policy than, say a NZ First policy, is it… is it the fact that virtually none of your cabinet has ever owned a business that you guys really don't understand how business is done?

**Jacinda**

Ah, I think that is a… an unfair statement to make um…

**Mike**

What's unfair about it?

**Jacinda**

Again, well again I would speak to my… you know, to my own experience. Yes, I haven't been an owner/operator I have um… I have run a small NGO, um… I have worked in small businesses and I have been a small business spokesperson, I even worked in a small business in the UK…

**Mike**

But until you own something you do not know what it's like to own something.

**Jacinda**

Yeah and… and Mike this is why I put emphasis on the fact that I hear that. And you know I've seen… you know, the blood and tears that people put into their businesses. They often don't collect salaries themselves…

**Mike**

Exactly.

**Jacinda**

In order to… I absolutely hear and understand that. And we are considering all of that.

**Mike**

And in what way? To let them off?

**Jacinda**

(Sighs). Again, we haven't made any decisions and it's only a matter of weeks before we will and we will put all of that in full for the public to see and to debate.

**Mike**

Did you see the poll on KiwiBuild last night?

**Jacinda**

On KiwiBuild?

**Mike**

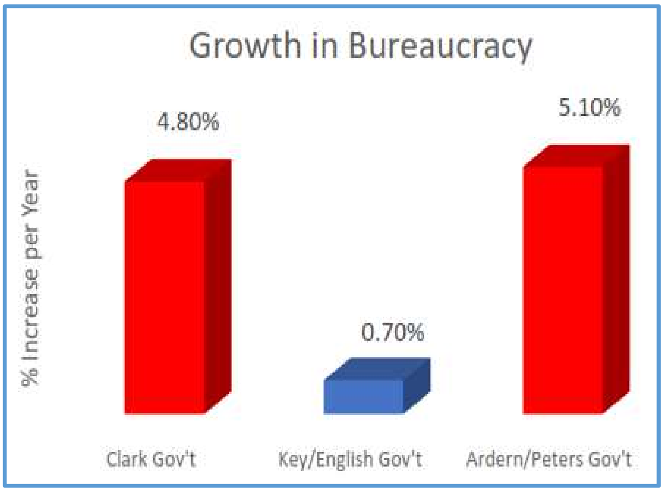
Yes.

**Jacinda**

No, I…

**Mike**
Yes. 69% of people no longer believe you will build 100,000 houses. That's your credibility in that area shot.
**Jacinda**
Ah well, actually I think people thought the housing crisis from the beginning, even before we started KiwiBuild, was pretty tough. Um… but that, you know, our option there Mike, is to say ah well, it's too hard and not do anything, or to keep acknowledging that we have a massive lack of supply. And we have to do something about it. And I'm committed to that; you know? Not. you know, hit the first bump in the road… we can't give up because we need to solve the supply problem.
**Mike**
But if you can't build 1,000 who… why would you want to have any of us believe you can build 100,000?
**Jacinda**
We've already contracted 4,000… um….
**Mike**
Contracting is not having a house with a key and sold.
**Jacinda**
Absolutely (indecipherable).
**Mike**
And that was one of Phil's biggest problems. He kept promising stuff that never got delivered.
**Jacinda**
Mike, I think probably it's still worth putting out. We as a government are building more houses than any government has built since the late 1970s.
**Mike**
Appreciate your time. Jacinda Ardern, prime minister, Tuesday mornings on the Mike Hosking breakfast.

***So speaketh our economically astute Prime Minister, the 5th highest paid leader in the OECD!***




## WHO WILL BE AFFECTED BY THE PROPOSED CGT?

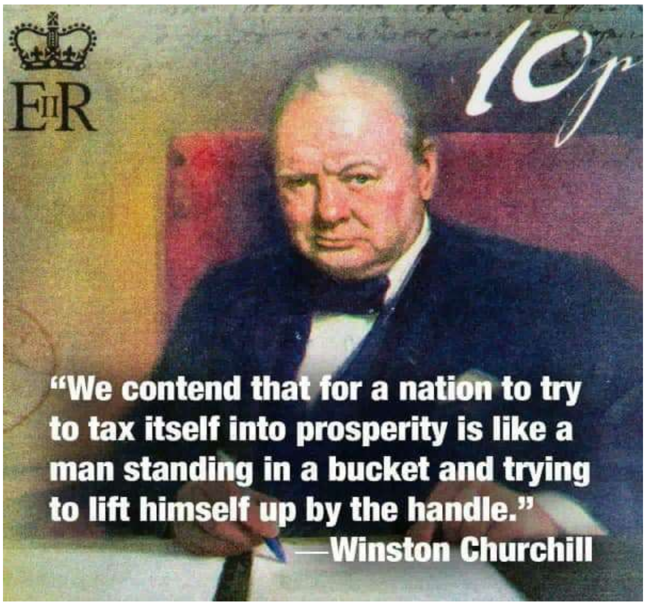
Dr Cullen and this current Government would have you think that a CGT won't affect 90% or so of the population – "*only a few rich pricks*". But, reading the actual details of the proposal, you'll be stunned at how many people will be affected. Here's a short list, compiled by Kiwiblog, on a short skim through:

1. Anyone who owns shares
2. Any business owner
3. All farmers
4. Anyone who owns a bach
5. Anyone who owns a holiday home
6. Anyone who owns a rental property
7. Anyone who has intellectual property
8. Anyone who owns their own home and has sex (okay enters into a relationship) with another home owner
9. Anyone who owns a home who moves overseas for a while
10. Anyone who works in a different city to where they live and owns a apartment for them to live in during the week, as well as their family home
11. When you purchase a new family home, but are unable to sell your old one within 12 months
12. When you move into a resthome, but are unable to sell your old home within 12 months
13. When you buy a section to build a new home on, and it isn't completed within 12 months
14. When you own a lifestyle block larger than 0.45 hectares
15. When you claim expenses for a home office
16. When you earn some extra money by listing a room on AirBnB
17. If you have flatmates or a boarder (even your own adult children) and claim expenses.
18. If you have parents who own any taxable assets who will die at some stage (CGT doesn't apply on death but will apply if you ever dispose of the inherited taxable asset)
19. Anyone who has a taxable asset who migrates overseas (pays CGT immediately even if they keep their assets)
20. Anyone who has a KiwiSaver account (you don't pay CGT directly but your KiwiSaver account is impacted by it)

So nothing at all to worry about if you're not "*a rich prick*" - yeah right.

| | Number of people | | Tax paid | |
|---|---|---|---|---|
| Taxable income ($) | (thousands) | % | ($m) | % |
| Zero | 367 | 10 | 0 | 0 |
| 1 – 10,000 | 333 | 9 | 150 | 0 |
| 10,001 – 20,000 | 616 | 16 | 1,150 | 3 |
| 20,001 – 30,000 | 562 | 15 | 1,860 | 5 |
| 30,001 – 40,000 | 342 | 9 | 1,760 | 5 |
| 40,001 – 50,000 | 327 | 9 | 2,240 | 6 |
| 50,001 – 60,000 | 296 | 8 | 2,810 | 8 |
| 60,001 – 70,000 | 212 | 6 | 2,640 | 8 |
| 70,001 – 80,000 | 180 | 5 | 2,790 | 8 |
| 80,001 – 90,000 | 126 | 3 | 2,370 | 7 |
| 90,001 – 100,000 | 95 | 3 | 2,100 | 6 |
| 100,001 – 125,000 | 117 | 3 | 3,280 | 9 |
| 125,001 – 150,000 | 78 | 2 | 2,790 | 8 |
| 150,001+ | 122 | 3 | 8,670 | 25 |
| All | 3,773 | 100 | 34,610 | 100 |

## MINORITY REPORT ON THE CGT




Three of the eleven members of the Tax Working Group do not favour the Group's recommendations on capital gains tax. Group members BusinessNZ Chief Executive Kirk Hope, former Bell Gully tax partner Joanne Hodge (wife of Sir Rob McLeod – Chair of Quayside & Director of Port of Tauranga)) and former Inland Revenue Deputy Commissioner (Policy) Robin Oliver do not recommend that the Tax Working Group's proposed capital gains rules should be implemented.

Their view is that administration costs, complexity and investment distortions that will result from the rules would outweigh the revenues that could be gained from a comprehensive capital gains tax as proposed, and it would not significantly reduce overinvestment in housing or increase tax fairness.

The minority group considers that a more limited capital gains tax could be appropriate if focused on rented residential property where most revenue could be raised.

The minority group does not support a capital gains tax on business assets, saying this could discourage investment and innovation and tend to lock businesses into current asset holdings. Concerns with the 'valuation day' approach (taxing growth in the value of assets from the proposed commencement date of 1 April 2021) include its vulnerability to conflicting valuations of assets.

The minority group has concerns with taxing both shares and business assets on the grounds that this could create double taxation, penalising New Zealanders owning shares in New Zealand, and making overall taxation on investment less consistent.

The minority group recommends retaining New Zealand's current relatively simple and efficient tax system while amending some specific current rules and better enforcing others.

## RENTS UP, UNEMPLOYMENT UP, NEET'S UP CONFIDENCE AND ECONOMIC GROWTH DOWN

The Government is taxing Kiwis more, driving up the cost of living, wasting billions of dollars on failed policies and working groups, and is reducing flexibility in the labour market. It has banned oil and gas exploration and discouraged foreign investors from bringing their capital here.

Forecast growth has either stalled or been downgraded in every quarter for the next three years, with the Reserve Bank's reality check on growth coming just 24 hours after the Prime Minister gushed that the economy "is performing above expectations".

### MEDIAN RENTS HAVE CLIMBED ANOTHER $10 A WEEK

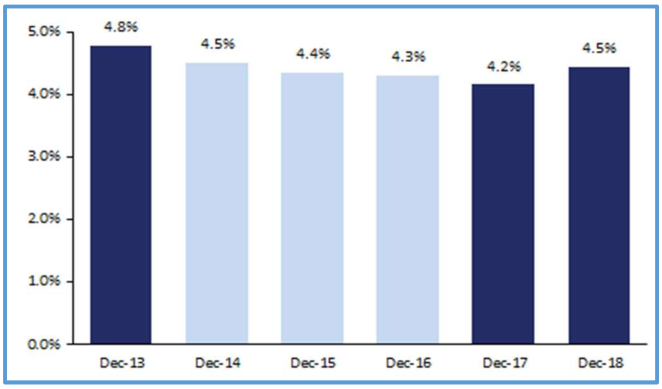
New Zealanders are now paying $40 a week more to put a roof over their families' heads. In dollar terms, rents have risen 2.5 times faster under this Government than the previous National-led Government.

### JOBSEEKER BENEFIT NUMBERS RISE

The latest benefit numbers to the December quarter in 2018 showed that there were 134,048 people on Jobseeker Support, up 11,007 from the previous year.

The seasonally adjusted unemployment rate rose to 4.3% in the December 2018 quarter, up from 4.0% (revised) last quarter, Stats NZ said on 8th February.

JOBSEEKER NUMBERS




This contributed to 299,345 working-age people on main benefit, or 9.9% of the working-age population - up 9557 from a year ago. This comes as the unemployment rate dropped to 3.9% in September 2018 - the lowest since 2008 - prompting the National Party to criticise the Government for failing to match job-seekers with its programme to plant trees or to fill vacancies in Hawke's Bay orchards. Ardern said the rise was in part due to the Government trying to ensure that the welfare net was catching everyone it was meant to.

"*One of the things I at least anecdotally in the past have heard is that people weren't always accessing their entitlements with Work and Income*," Ardern said.

"*In a country where people would say, 'Why do we have homelessness when we have a welfare net?' ... [it's about] making sure that actually the net was being used appropriately.*

*"Of course, we want people in work, but if they can't find work or are unable to work, they should be able to access the benefit."*

### UNEMPLOYMENT UP AS ECONOMY SLOWS

The rise in the unemployment rate reflected higher growth in unemployment (up 10,000), as a share of the overall growth in the labour force (up 12,000). Unemployment was largely influenced by more unemployed men (up 8,000). For women, unemployment rose 2,000. For men and women combined, there were 12,000 more unemployed youth (15–24-year-olds). The unemployment rate for men rose to 4.4% in the December quarter, while it was 4.2% for women.

Unemployment is up, and for the first time since 2012 the NEETs rate (*those Not in Education, Employment or Training*) is above 14%. That represents almost 100,000 young people aged between 15 and 24.

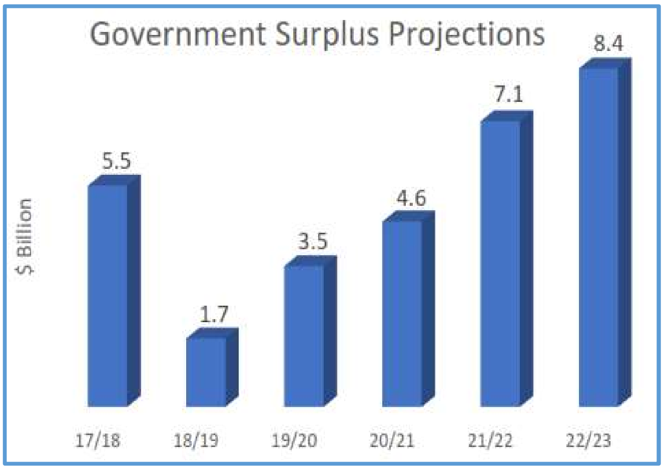
## HOUSING CONSENTS

**14 year high** - New Zealand councils consented 32,996 **new dwellings** in calendar 2018, up 6.1 percent on the year before and the highest since mid-2004, **Stats NZ** reported. The number was driven by an 18% increase in Auckland consents and a 19% lift in Wellington.

Stats NZ also said that home consents issued to central government agencies reached a 40-year high in the year ended December 2018. Central government agencies, including Housing New Zealand, were granted consent for 1,999 new homes in 2018, which is the highest number since the year ended November 1978 when 2,105 were consented. Townhouses, flats, and units accounted for almost half of the new homes consented to central government in 2018. The majority were in Auckland.

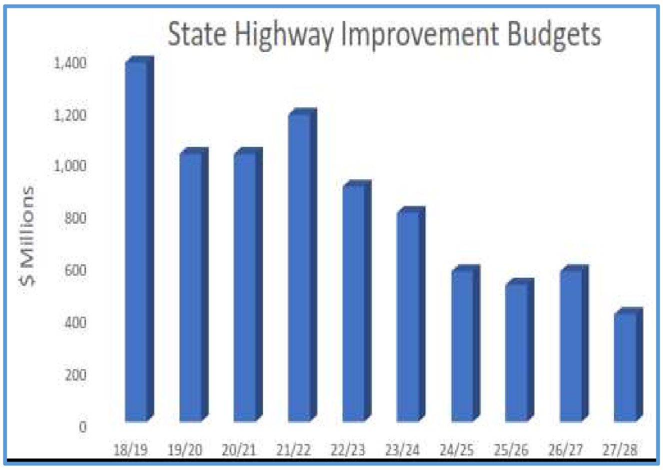
The annual value of residential building work consented was $14.2 billion, up 5.2 percent from the December 2017 year. The annual value of non-residential building work consented was $7.1 billion, up 9 percent. Shops, restaurants and bars were the biggest contributors by value.

## GROWING GOVT SURPLUSES




It is a huge error for the Government to be cutting $5bn out of planned State Highway upgrades across the country over the next decade. It is a recipe for increased congestion and more road deaths. The few rumble strips and centre line barriers announced over summer are pure public relations to hide the degree they are raiding roading funding. To get some sense of scale, it is a 70% cut in State Highway investment from the $1400 million per year under National to just $400 million a year. We advanced major highway projects like the Waterview Tunnel in Auckland, Transmission Gully in Wellington and the Expressways in Tauranga (Eastern Link), Hamilton and Kapiti. In the South Island we did the Mapua Bypass, Kaikoura upgrade and Christchurch Motorway. New Zealand, with record population, tourism and freight growth needs to ramp up and not ramp down its highway investment.

### 2018 GOVERNMENT POLICY STATEMENT




## THE NEW ZEALAND BUILDING SECTOR

New Zealand remains one of the most expensive places in the world to buy building materials with prices 20-30 per cent higher than Australia. The New Zealand building sector contributes more than 6% to gross domestic product, and employs more than 250,000 people. It's the third-biggest industry in our economy by the number of businesses.

**KiwiBuild – Key metrics (Feb 2019)**

| | | |
|---|---|---|
| 10,160 | 236 | 47 |
| Contracted & committed to build | Building | Homes complete |
| 47,853 | 289 | 53 |
| Registered interest | Prequalified | Homeowners |

SOURCE: Ministry of Housing & Urban Development

## HOW TO CALCULATE HOUSING AFFORDABILITY

SOURCE: Infrometrics

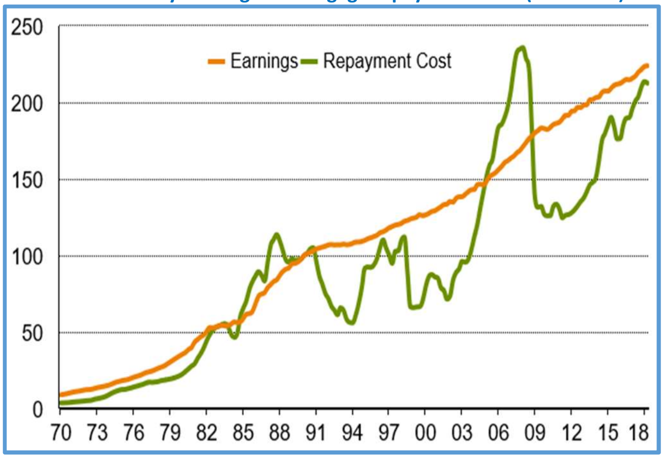
There is much coverage in the media of housing affordability, frequently expressed as the ratio of median house price to median income. This measure can be extremely misleading as it takes no account of the actual cost of servicing a mortgage, which is much more relevant to most buyers.

For example, some of us can recall paying an interest rate of 20% on a mortgage of $100,000 in the mid-1980s, which would have the same repayment amount as a mortgage today of $500,000 at an interest rate of 4%. Of course, earnings were lower in the mid-1980s, so the relative cost burden was actually higher.

The figure below compares an index of hourly earnings with an index of mortgage repayment costs based on median house prices. On this measure of affordability the cost of servicing a mortgage relative to earnings in 2018 was very similar to what is was throughout the 1970s. However, there have been periods of much greater and much less affordability.

**COMPARING EARNINGS & MORTGAGE COST**

**Indices of hourly earnings & mortgage repayment costs (1990=100)**



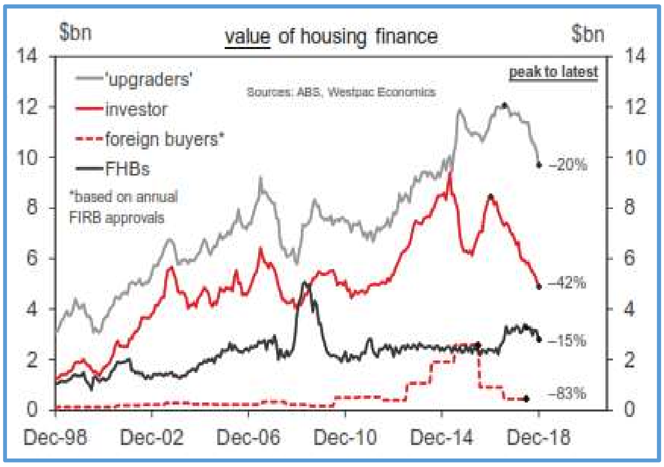

- Between 1991 and 2005 mortgages were relatively more affordable than before 1991, largely because of falling interest rates.
- However, this situation reversed in the years leading up to the GFC, as house prices and mortgage interest rates rose rapidly.
- Affordability improved markedly after the GFC as interest rates declined.
- But since 2012 affordability has suffered as house prices have again risen strongly.

Even this measure of affordability, however, still omits some relevant factors. For example, it does not allow for the effects of changes in minimum deposit regulations. Nor is hourly earnings necessarily representative of household income. Of course, there is no regional split.

Overall though it provides a much better measure of housing affordability than the rudimentary house price to income ratio.

## HOUSE FINANCE APPROVALS BY SEGMENT

Housing finance approvals posted a very weak finish to 2018 with sizeable declines across all components. The headline number of owner occupier loans fell 6.1%, down a hefty 8.2% ex–refi, and –14.4% for the year. Notably, what was initially an investor–led cycle is now seeing clear weakness in owner occupier activity – both the value and number of loans.




**SOURCE**: Westpac

## SHANE JONES' SLUSH FUND

Shane Jones obviously believes that all publicity is good, because his arrogant stance on his huge 'conflict of interest' scandal just shows that he craves attention. Jacinda Ardern can't control him, and Peters seems to be relishing the fallout.

Shane's Provincial Growth Fund has created just 54 jobs in its first year, making a mockery of the Government's claim to be helping regional New Zealand, National's Economic and Regional Development spokesperson Paul Goldsmith says.

"The Fund is all about maximising NZ First's re-election chances in 2020 but the Prime Minister is fully on board, turning up in small towns supposedly with an open cheque book and a feel-good soundbite. Trouble is, it's big on hot air and miniscule on substance.

"Despite all the hoopla, only 38 of the 135 announced projects have received funding and just 3.4 per cent of the funding has actually been paid out. That's $26.6 million for 54 jobs, or the equivalent of $490,191 per job.

"That's a dismal outcome considering the mountain of press releases, town hall meetings and hyperbole being rolled out by this Government. Mr Jones would have you believe he's the saviour of the provinces but the only thing he seems intent on saving is his political career.

"The facts about the PGF are elusive and the Government hasn't willingly disclosed what's really going on. It has taken endless questioning by National to penetrate the layers of Government obfuscation.

The head of the Ministry of Business, Innovation and Employment's Provincial Development Unit, Robert Pigou, said the Provincial Growth Fund (PGF) was on track to create 10,000 jobs. He did stress that job creation "*does not happen overnight. We caution against the selective interpretation of this data without taking into account wider context*," Goldsmith said.

## WHEN WILL WINSTON & JACINDA DIVORCE?

Jacinda Ardern has declared 2019 the "year of delivery" but for NZ First it must be the "year of divorce" — or at least an initial move into the spare room.

Policy-wise, the Coalition is clearly failing. KiwiBuild is a joke. Only with the most audacious creative accounting can Shane Jones pretend his billion trees programme is doing better.

His Provincial Growth Fund (PGF) has so far paid out only $27 million, creating just 54 jobs, plus the 118 bureaucrats hired to administer it.

There is no obvious progress on health, education, poverty, homelessness or mental health.

On economics, incumbent governments get to take the credit, deservedly or not, for low unemployment and strong fiscal surpluses.

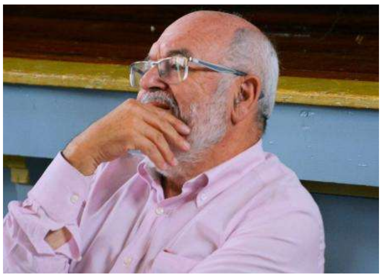
Equally though, they are blamed for the local effects of factors beyond their control, and storm clouds are now clearly on the global economic horizon.

There is no advantage to NZ First in being associated with such policy failures or deteriorating economic data.

Already, the party is under MMP's 5 per cent threshold and well below the 10 per cent it polled this time in the previous cycle. Currently it is polling below 3%. Winston Peters has even managed to get on the wrong side of his core supporters by backing the UN's Global Compact for Safe, Orderly and Regular Migration.

Moreover, even were Ardern to achieve "delivery", the polling benefits would flow to Labour, not NZ First. Electorally, the NZ First brand demands Peters be an outsider rattling the establishment.

## GENE EDITING KEY TO SUSTAINABILITY



The National Party's Bluegreens Forum, held recently in Raglan, with more than 140 attendees (including NGOs from both the left and the right of politics).

A keynote session called for a debate on the relaxation of restrictions on introducing genetically edited plants into New Zealand.

The former Environment Minister, Nick Smith, argued that if New Zealanders were to meet the challenges of climate change, then they needed to be able to use some of the new genetically edited plants such as the ryegrass being developed by New Zealand scientists which would absorb nitrates and thus reduce methane emissions to the atmosphere.

Genetically edited plants are currently included under the legislation which sets out a laborious process for the approval of genetically modified organisms.

One of the party's keynote panel discussion was on biotechnology and featured the former Chief Science Advisor to the Prime Minister, Sir Peter Gluckman. He wants a debate on genetic editing to begin now. Gluckman said he could not see a way that agriculture in New Zealand would be sustainable in the long run without using gene editing.

He said gene editing, unlike genetic modification, did not change the gene structure, only the way the genes worked. "*Do we need gene editing?*" he asked. "*Well, we certainly need to talk about it and have an adaptive approach to knowledge which has come from scientists all around the world to find whether it fits our needs.*

*"I'll go as far as to say that I cannot see a way that agriculture in New Zealand will be sustainable over the long run in the face of environmental change and consumer preferences without using gene editing. There is no way that we will get a reduction in methane production, and I can see no way that we will see an economic advantage for farmers as we shift to more plant-based foods without using gene editing.*"

Sir Peter Gluckman is saying the route to sustainable environmental change is through gene editing. What will it take for the Greens to abandon their superstition against this? The Greens base their objection on a 30-year old science - even though science has moved on.

## SIMON BRIDGES & THE NATIONAL PARTY

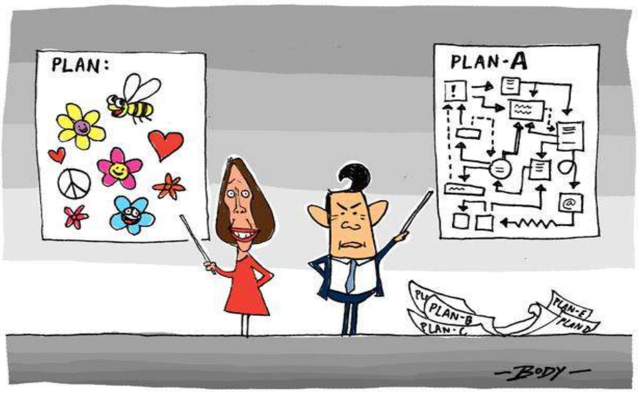
National has transitioned really well into Opposition. It's been much smoother than following the 1984 or 1999 changes of Government. Labour failed to do the necessary preparation in Opposition. National is doing the work now so we are ready to govern in 2020. The challenge is to stay disciplined, moderate and professional.

Media commentators continue to bay for Simon Bridges' head, but having attended the two-day National Party Caucus retreat (in Hamilton) in early February, I can assure you that National's Caucus is strongly united behind Simon. The media know that a leadership spill makes for exciting political news (We need only look at Labour's repeated leadership changes or the Liberals in Australia to know it just erodes public support and confidence).

Simon is not only safe, but is performing increasingly well, as time goes on. He is intelligent and focused, with good instincts and strong family values. The challenge in Opposition is not to be negative on everything the Government is doing – he's been constructive on important issues like climate change and child poverty, but going hard on issues like tax and crime where the Government's policies will harm New Zealand.

## JACINDA ARDERN VERSUS SIMON BRIDGES

### Whose plan will win?




The question is whether ministers should be that close to the action. Another concern is whether ministers such as Jones and Nash are also too close to the action when it comes to thorny matters concerning the NZ fishing industry.

The second issue is competence. Notably, the Prime Minister did not deal directly with the major issue facing New Zealand, which is housing — and also from a business perspective, the continuing need for skilled and unskilled immigration.

A pledge to address the "housing crisis" was Ardern's clarion call during the 2017 election campaign.

But the Coalition Government — and notably Housing Minister Phil Twyford — has so far failed to make a dent in the issue.

What she did emphasise was plans to broaden NZ's trading base, reform skills and trade training to address long-term labour shortages and productivity gaps, changes to tax to make the system fairer, address long-term infrastructure challenges, transition to a sustainable carbon-neutral economy and invest in wellbeing.

Frankly, Ardern's overall performance was relatively lame. The big-picture analysis was weak.

Ardern's address was appreciably better that a speech she gave to a business awards dinner last year, where much of her focus was on "kindness".

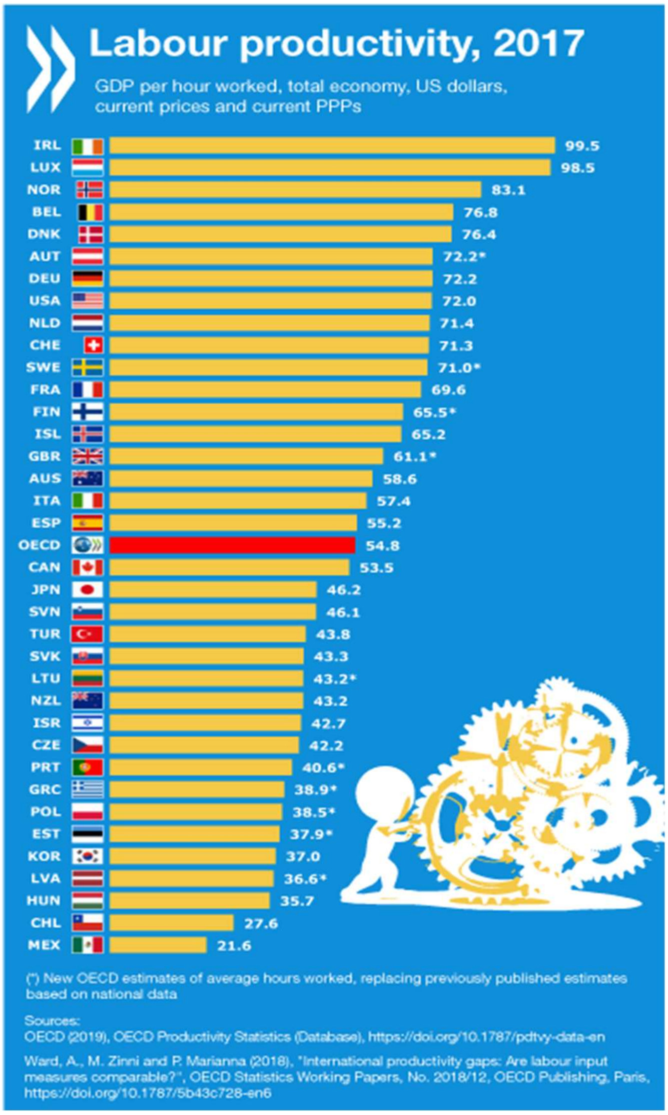
## BUDGET DATE SET AS 30th MAY

Using the Treasury's Living Standards Framework (LSF), evidence from sector-based experts and the Government's Science Advisors, the Finance Minister has announced that the five priorities for Budget 2019 are:

- Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy
- Supporting a thriving nation in the digital age through innovation, social and economic opportunities
- Lifting Māori and Pacific incomes, skills and opportunities
- Reducing child poverty and improving child wellbeing, including addressing family violence
- Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds.


As I explained in my February Newsletter, this "Wellbeing Budget" is likely to be a total sham, with no real targets to measure the economy by. Remember "If you can't measure it, you can't manage it." Call me a cynic, but proposing Budget Day just before a long-weekend (Queen's Birthday) can only have been chosen to close down criticism.

## LABOUR PRODUCTIVITY



The latest OECD Report on Productivity lifts several countries (Austria, Switzerland, and Sweden) into the upper bracket of OECD countries. It also improves the position of the UK (now about 30% of us), but on this revised and improved data the lead is just over 40%).

The key issue for New Zealanders is our position relative to the emerging OECD economies. Not only are Slovakia and Slovenia ahead of us (they've been there or thereabouts since about 2014), but now so are Lithuania and Turkey. Go back 20 years and were miles behind us. Based on their productivity growth performance this decade, the Czech Republic and – a few years later – Poland will be beating us before long.

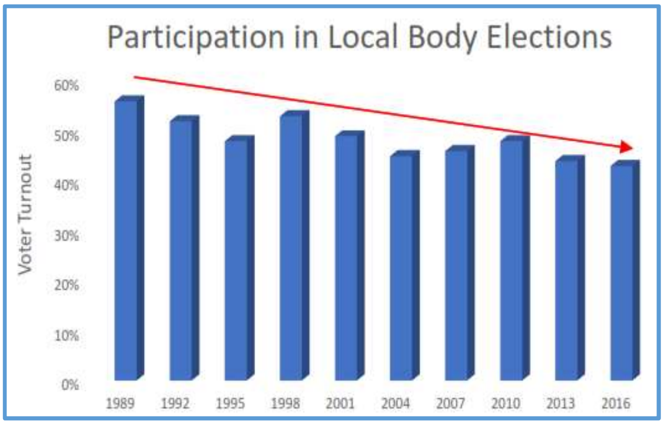
## DR NICK SMITH'S 2019 DEMOCRACY ADDRESS

Dr Nick Smith's 2019 'Ideas for strengthening our Democracy' address to his Nelson Rotary Club highlighted 5 ideas for strengthening democracy. It included:


### EXTEND ELECTORAL COMMISSION ROLE TO LOCAL GOVT

A fourth change the Justice Select Committee should consider is tasking the independent Electoral Commission with the conduct of local body as well as Parliamentary elections. Participation in Council elections has consistently dropped over the last 30 years from 60% to the low 40s.

Currently local elections are administered by our 78 Councils and 20 Health Boards. The Justice Select Committee is currently conducting an inquiry into the last local elections, and is seems to be blaming the current fragmented system for the falling local government election participation rates..

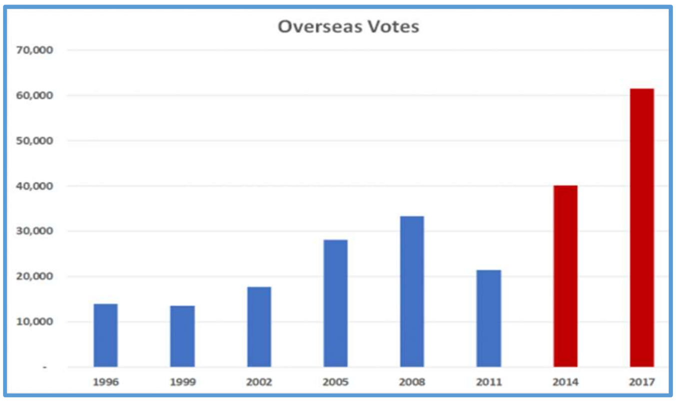



The Select Committee notes that, for most Councils, the returning officer is a part time position, having many other council responsibilities and with some small Councils, impossible to separate from their close relationship with their current Mayor and Councillors. They sat that the advantages of having the Electoral Commission run both local as well as national elections is that it will improve the integrity of our local democracy, noting that there are also efficiency gains from scale. The Electoral Commission is far better placed to run a nationwide campaign to encourage voting.

Personally, I have no problem with the current system – "If it ain't broke, then why tamper with it".

## OVERSEAS VOTING

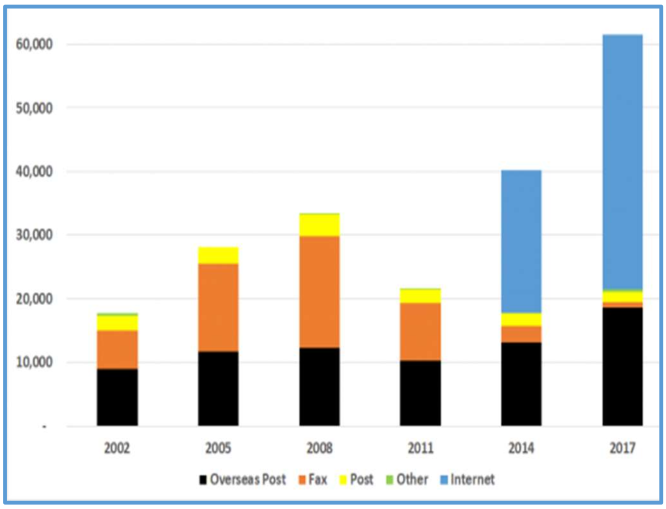
For the 2014 and 2017 general elections the Electoral Commission has allowed overseas voters to cast their vote via the Internet. Basically, they take a photo or scan of their completed ballot paper and upload it via the EC website. What has this option done to the number of overseas votes in general elections?




There were approximately 20,000 overseas votes in 2011 and 60,000 in 2017. That was a huge change. As a percentage of total turnout, the overseas vote has gone from under 1% to nearly 2.5% of the total vote.

The additional option of voting via the Internet has led to the increase. Also, it doesn't seem to be at the expense of those voting in person at an overseas post. In fact, they have increased, with fax and postal voting that has been diminishing since 2011.

### OVERSEAS VOTING METHOD



## MAORI ECONOMY CONTINUES TO GROW

Finance Minister Grant Robertson says the Māori economy could be worth more than $50bil. Robertson says he understands the Māori economy value estimates were largely drawn from post-settlement entities meaning the value of the Māori economy could be much higher.

Māori enterprises are making their mark on the economy, growing steadily year on year. There have been over 200 new Māori businesses since 2013. Ministry of Business, Innovation and Employment figures estimate Māori enterprise is worth nearly $40 billion, and growing faster than the economy as a whole. Iwi-controlled post-settlement assets are worth about $6b and that is expected to double in a decade.

In 2001 the asset base of the Māori economy was estimated to be worth $9.4b, this figure rose to $16.5b by 2006, and we now estimate it was worth at least $36.9b in 2010. The majority of Māori assets lies within the agriculture, forestry and fishing industry. In the fishing industry, Māori investment contributes about 40%.

Māori employers, while largely flying under the radar have amassed assets of $22.4b, according to a 2013 report by Business and Economic Research.


Māori who are self-employed have a combined asset base of $6.6b assets and the remaining $12.5b is owned by Māori trusts, incorporations, and other collectively owned enterprises, such as tribal organisations managing treaty settlement funds.

Last year there were over 12,000 workers in Māori enterprises. Māori make up 13% of the current New Zealand labour force. But Stats NZ estimates the Māori labour force will double to make up 20% of New Zealand's working age population by 2038.

## THE CHANGING FACE OF NEW ZEALAND 1980 to now (38 years)

Here are some illustrations of how much New Zealand has changed since 1980:

- our population has grown 58% from 3.1m to 4.9m people;
- we've swung from net 27,000 Kiwis leaving the country to net 64,000 new Kiwis arriving;
- international visitors have soared 10-fold from 400,000 to 4m;
- our national herd's grown 2.5 times from 2m cows to 5m;
- milk processed has more than doubled to 21b litres a year, while the land used for dairying has increased by 75%;
- our GDP's flourished from $23b to $265b, almost a four-fold increase when adjusted for inflation;
- inflation's fallen from 17% to just 2%;
- registrations of new cars and used imports have risen 230% from 78,731 a year to 255,847; and
- our economy and exports have become more diversified, driven in many ways by extraordinary technology change and burgeoning opportunities in the global economy.

Social change has been pronounced too. We're less conservative and more ambitious; we're more ethnically diverse, yet more confident in our ethnicities and our Treaty relationships; and MMP is reputed to be more representative (although Winston Peters disproves that theory!) and our governments and policies broader-based, and (some would say) more effective.

We've considerably degraded our ecosystems, as Environment Aotearoa 2015, the Government's first comprehensive report across land, fresh water, air and marine domains showed us. Many measures continue to deteriorate, subsequent updates confirm.

### THE RISE OF A DOMINANT CHINA

Global change has been even more remarkable than ours, with China being the biggest driver and beneficiary. Since 1980, its population has grown by 45% to 1.42b people; and its share of the global economy has increased eight-fold to 15%. The US was the dominant nation in the 20th century; China will be in this century.

As a tiny country trying to navigate through this tsunami of global change we must be (1) Realistic about the profound transformations underway; (2) Optimistic about the opportunities those create for us; and (3) True to our values of openness and integrity.

"We have to do the best we are capable of. This is our sacred human responsibility"

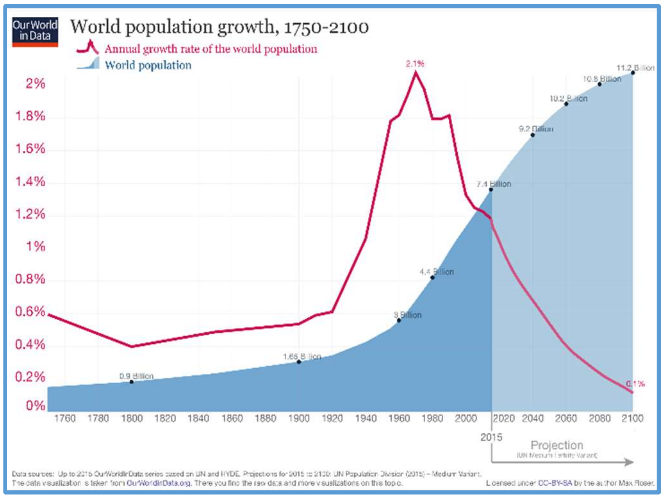
Albert Einstein

## *WORLD POPULATION GROWTH*

In order to study how the world population changes over time, it is useful to consider the *rate* of change rather than focusing only on the total population level. The following visualization presents the annual population growth rate superimposed over the total world population for the period 1750-2010, as well as projections up to 2100. This is the period in history when population growth changed most drastically. Before 1800, the world population growth rate was always well below 1%. Over the course of the first fifty years of the 20th century, however, annual growth increased to up to 2.1%—the highest annual growth rate in history, which was recorded in 1962. Since peaking, the growth rate has systematically been going down, with projections estimating an annual rate of 0.1% for 2100.

While the world population quadrupled in the 20th century, it will not double in the 21st century. In the past the population grew slowly: it took nearly seven centuries for the population to double from 0.25 billion (in the early 9th century) to 0.5 billion in the middle of the 16th century. As the growth rate slowly climbed, the population doubling time fell but remained in the order of centuries into the first half of the 20th century. Things sped up considerably in the middle of the 20th century. The fastest doubling of the world population happened between 1950 and 1987: a doubling from 2.5 to 5 billion people in *just 37 years* — the population doubled within a little more than one generation. This period was marked by a peak population growth of 2.1% in 1962.

Since then, population growth has been slowing, and along with it the doubling time. In this visualisation we have used the UN projections to show how the doubling time is projected to change until the end of this century. By 2088, it will once again have taken nearly 100 years for the population to double to a predicted 11 billion.




## *BREXIT UPDATE*

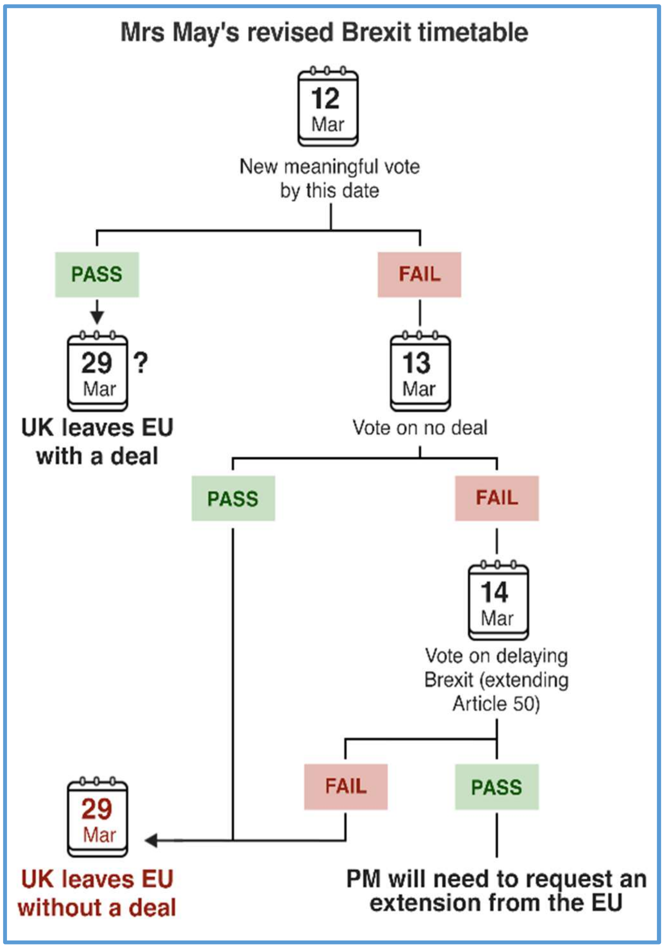
**STOP PRESS –** May takes another massive defeat. My money is now on a "No Deal" Brexit (even if they get there by default). Latest info is that they voted to seek an extension to the exit date. It is now up to the EU to decide whether an extension will be granted.

### LONDON'S FINANCE INDUSTRY HAS DECIDED: BREXIT IS ALREADY A REALITY

U.K. Parliament votes Tuesday to ease its exit from the EU, but some in the financial industry haven't waited to forge their own path—moving offices and billions to competing financial centres in Europe. There is one certainty in Brexit: London's pre-eminent role in global finance has been diminished.

### THE IRISH BACKSTOP PLAN

Currently, there are no border posts, physical barriers or checks on people or goods crossing the border between Northern Ireland and the Republic of Ireland. The backstop is a measure in the withdrawal agreement designed to ensure that continues after the UK leaves the EU. It comes into effect only if the deal deciding the future relationship between the UK and EU is not agreed by the end of the transition period (31 December 2020). Until the deal on the future relationship is done, the backstop would keep the UK effectively inside the EU's customs union but with Northern Ireland also conforming to some rules of the single market. Critics say a different status for Northern Ireland could threaten the existence of the United Kingdom and fear that the backstop could become permanent.



## *BAY OF PLENTY & NZ ECONOMIC DATA*

**SOURCE: PRIORITY ONE, INFOMETRICS – TAURANGA CITY QUARTERLY ECONOMIC MONINTOR, DEC 2018**

**ANNUAL AVERAGE % CHANGE**

| Indicator | Tauranga City | | BOP Region | | NZ | |
|---|---|---|---|---|---|---|
| GDP Growth | 3.6% | ↑ | 2.7% | ↑ | 2.7% | ↑ |
| Non-res consents | 13.0% | ↑ | 9.3% | ↑ | 9.0% | ↑ |
| Residential consents | -21.0% | ↓ | -20.0% | ↓ | 6.1% | ↑ |
| House Prices | 4.3% | ↑ | 4.6% | ↑ | 2.3% | ↑ |
| House Sales | 1.2% | ↑ | 4.0% | ↑ | 3.1% | ↑ |
| Consumer spending | 5.5% | ↑ | 5.6% | ↑ | 4.5% | ↑ |
| Unemployment | 3.8% | ↑ | 4.8% | ↑ | 4.3% | ↑ |
| Jobseeker Support recipients | 7.1% | ↑ | 4.5% | ↑ | 4.8% | ↑ |
| Health enrolments | 3.1% | ↑ | 2.4% | ↑ | 1.9% | ↑ |
| Car registrations | -0.4% | ↓ | -2.9% | ↓ | -6.7% | ↓ |
| Commercial vehicle registns | 5.5% | ↑ | 2.9% | ↑ | 1.6% | ↑ |
| Traffic flows cin & around city | 5.2% | ↑ | 3.7% | ↑ | 2.7% | ↑ |
| Tourism – Guest nights | -3.2% | ↓ | -0.1% | ↓ | 2.3% | ↑ |
| Tourism spend | 2.4% | ↑ | 2.1% | ↑ | 4.3% | ↑ |

**NOTE**

Please note that the figures are the ANNUAL PERCENTAGE CHANGE from the previous 12-month period (to December 31st).

### OVERVIEW OF TAURANGA CITY

Tauranga City's economy grew 3.6%pa over the 12 months to December 2018, according to Infometric's provincial estimates. This growth was stronger than in both the wider Bay of Plenty region and the New Zealand average (both 2.7%pa). They expect softer national growth over the next two years to see a slower growth outlook throughout the country.

Tourism spending increased by 2.4%pa over the 12 months to December 2018, faster than the Bay of Plenty average (2.1%pa) but slower than the New Zealand figure (4.3%pa). This rise in tourism spending comes even as guest nights in Tauranga City fell 3.2%pa over the same period. Tourist arrivals growth has been slower in 2018, and they expect this to continue into 2019.

The labour market in Tauranga City remains strong, with unemployment holding at 3.8%pa in the 12 months to December 2018, the lowest since the end of 2008. Expect this tightness in the labour market to be sustained, and to push labour costs up higher in 2019. However, not everyone has benefited from this tighter labour market, with Jobseeker numbers increasing 7.1%pa over the period, faster than the 4.8%pa national growth.

Consumer confidence rebounded in the December quarter, with a net 37% of households expecting economic conditions to improve over the next year according to Westpac-McDermott Miller. Spending outcomes backs up this optimism, with consumer spending increasing 5.5%pa in Tauranga City over the period. This growth was on par with the wider Bay of Plenty region, and faster than the New Zealand average of 4.5%pa.

Residential construction indicators were weaker in the period, with residential consents falling 21%pa. House prices rose 4.3%pa over the 12 months to December 2018. House sales remained relatively flat, with growth of 1.2%pa over the period. Non-residential consents values were up 13%pa, with ongoing work on various shopping facilities a positive for construction and wider job creation.

### OVERVIEW OF NATIONAL ECONOMY

Throughout 2018, business confidence indicators suggested the New Zealand economy was going to crash and burn. But although growth slowed slightly, there were no other signs we were staring down the barrel of a full- blown recession. Looking to 2019, New Zealand's domestic economy remains in a similar position to 12 months ago: prospects of middling growth, somewhat hampered by capacity constraints and a tight labour market, and with some of the biggest potential shifts being driven by government policies (such as migration or the housing market). In contrast to this largely unchanged domestic picture, many question marks have appeared during the last year over the international economic environment.

## *TAURANGA BUS FIASCO* This is my personal view


Bay of Plenty Regional Council has held 3 stakeholder meetings with bus users in Tauranga (Maungatapu, Otumoetai & Papamoa). Our bus users are outraged – and I don't blame them. The problems seem to be three-fold. The contractor, NZBus, has been found wanting in that it was unprepared (especially staffwise) to effectively undertake their contracted service from Day One (10th December 2018).

The Bus Blueprint (produced by BOPRC Staff) also appeared (to me, at least) flawed. It relied on incorrect assumptions as to who was riding our buses and where they wanted to go. It is all very well to undertake consultation, but consultation is not real if staff aren't listening, and as a result, adjusting accordingly.

The 3rd issue is that Tauranga City Council are responsible for the roading infrastructure to make the bus service operate effectively. To date they appear to have abdicated their responsibility to fund the required infrastructure, prior to the beginning of the contract.

As a Regional Councillor, I acknowledge that we have failed our community, and we are committed to fix it. It will not be easy – but we have to get it right, and soon.

## *THE WORLD AT A GLANCE* – including World wealth levels 2017

**United States**
Democrats are dis-united
Handing Trump more opportunity

**Canada**
Trudeau looks in
trouble electorally

**Europe**
What is the future
of the EU?

**Russia**
Russian election
meddling confirmed

**China**
NZ at risk, as a result of Ardern
& Peters unwise comments

**Australia**
Elections in May.
Can ScoMo survive?

**UK**
Brexit uncertainty. What a mess
both politically & economically

**India**
Will Moodi survive?
Elections called in India

**Japan**
Korea back on
the risk register

**New Zealand**
To be, or not to be?
Capital Gains Tax

# THE GLOBAL ECONOMIC OUTLOOK

Over the past year, the synchronised upturn in the global economy has given way to more uneven terrain. But financial markets seem to have overplayed the downside risks and that global growth is likely keep ticking over, albeit at a slower pace. The US economy remains fundamentally strong, and China's growth slowdown was foreseeable, and has been a managed process.

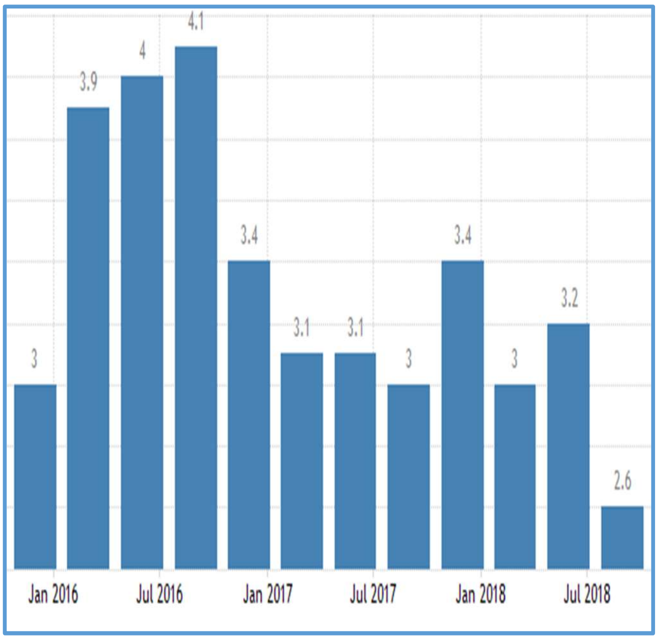
American jobs growth of 20,000 in February was much lower than the 180,000 expected by economists, but annual wage growth was solid at 3.4% and the unemployment rate fell to 3.8% from 4.0%. There was also bad news from China, with exports in February slumping 20.7% from a year ago, which was much worse than the five percent fall that was forecast. Import growth was also weaker than expected, indicating the Chinese economy is being hit hard by Trump's trade war, and China's own internal slowdown. That is being fuelled by deleveraging after a crackdown on peer-to-peer and other shadow bank lending.

Closer to home, the Australian economy is heading into a period of below-trend growth.

## NEW ZEALAND'S ECONOMIC OUTLOOK

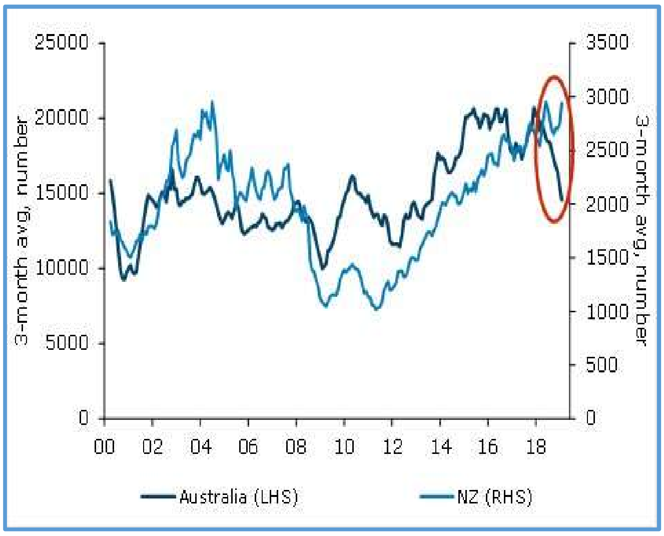
The Government posted a surplus of $1.9bn in the 7 months ending 31 January 2019, according to financial statements released on 1st March. This was half a billion better than forecast in December. Net core crown debt fell to 20.7% of GDP, just above the Government's 2012/22 target of 20%.

**NEW ZEALAND - ANNUAL GDP GROWTH RATE**




The following chart, courtesy of ANZ tells the contrasting pictures between Australia and New Zealand at the moment, and a worrying downturn in Australian residential consents issue. Normally the markets move in tandem.

**BUILDING CONSENTS – NZ VERSUS AUSTRALIA**

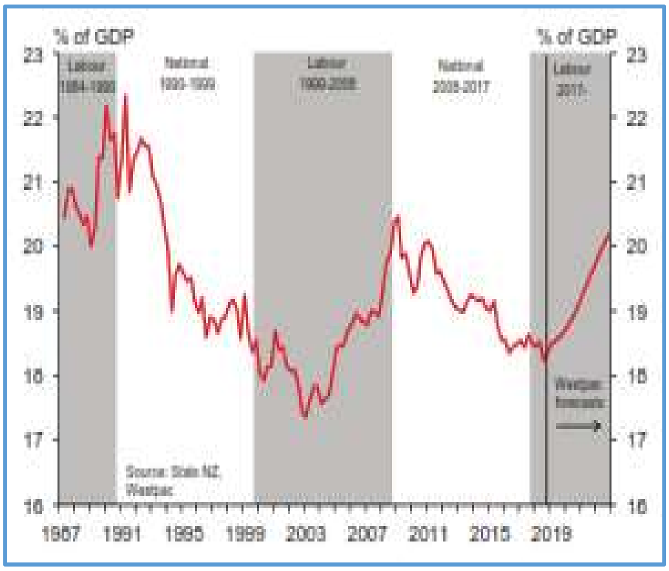



### GROWTH IS SET TO SLOW THROUGH THE EARLY 2020S

Despite the continuing boost to demand from increases in government spending and growth in household incomes, the firming in economic growth currently in train will be temporary. Several of the other factors that have supported growth in recent years are now moving into new phases, and going forward they won't provide the same support for demand that they once did. As we head into the early 2020s this will see growth slowing to low levels. And compared to our forecasts from November, it looks like that slowdown will be starker than had previously been anticipated.

A major reason for the softer outlook for GDP growth is a downward revision to the outlooks for migration and population growth.

**GOVERNMENT CONSUMPTION SHARE OF GDP**

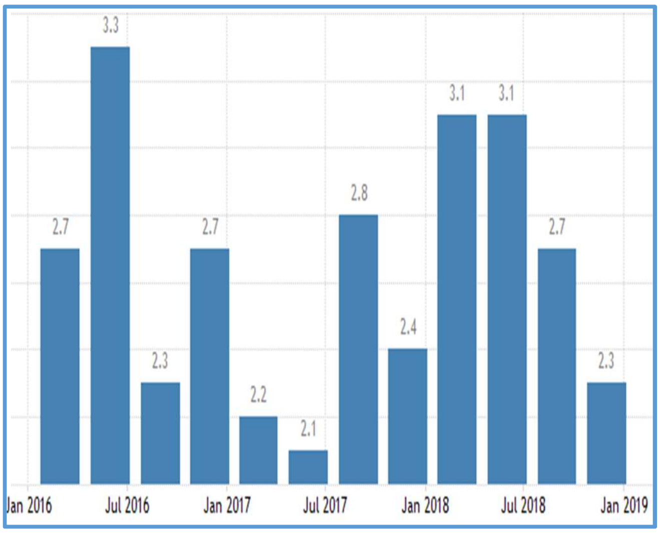



**SOURCE**: Westpac

## AUSTRALIAN ECONOMIC OUTLOOK

The Australian dollar recently fell to its lowest level in more than two months after Australia's GDP came in at 0.2% for the December quarter, taking the annual growth rate to 2.3%.

AUSTRALIA - ANNUAL GDP GROWTH RATE




In Australia, a slump in the housing market is hurting consumer sentiment and dragging on growth.

### OIL AND GAS GIANTS SHED BILLIONS AFTER NORWEGIAN FUND'S DIVESTMENT

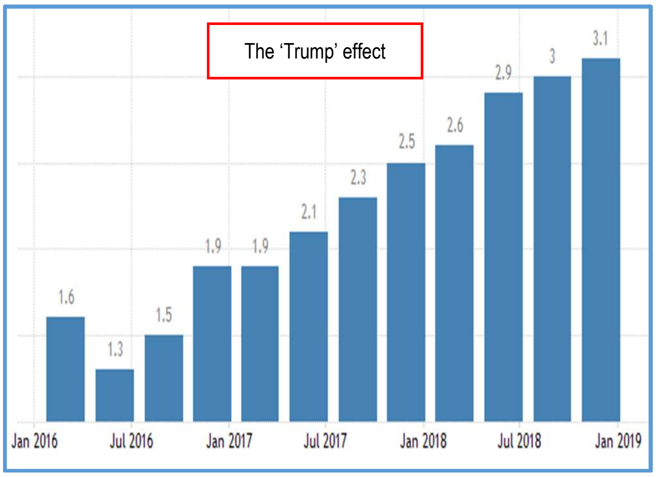
Australian energy companies shed more than A$2.5bn on Monday 11th March, after Norway's Sovereign Wealth Fund's decision to drop its global oil holdings, the rout even hitting companies the fund didn't own.

The group is the world's largest sovereign wealth fund, with more than A$1 trillion in investments. On the previous Friday, the fund's deputy governor said it would divest its stakes in energy companies "to make the government's wealth less vulnerable to a permanent drop in oil prices".

In Australia, Woodside, Santos, Beach Energy and Caltex bore the brunt of the sale, at one point collectively falling more than A$2.5bn in value on Monday. Other Australian companies to feel the heat included Australis Oil & Gas, Karoon Energy, Liquefied Natural Gas, Oil Search, and Horizon Oil.

## UNITED STATES ECONOMIC OUTLOOK

UNITED STATES - ANNUAL GDP GROWTH RATE




The first estimate of US GDP growth came in stronger-than-expected at an annual rate of 2.6% (2.2% expected) in the December quarter. It followed a 3.4% advance in the prior three months, according to a Commerce Department report Thursday that was delayed a month by the government shutdown. Consumption, which accounts for the majority of the economy, grew 2.8%, slightly below forecasts, while non-residential business investment accelerated to a 6.2% gain on equipment, software and research spending. Government spending slowed, trade was a minor drag and inventories gave GDP a small boost.

## EUROPEAN ECONOMIC OUTLOOK

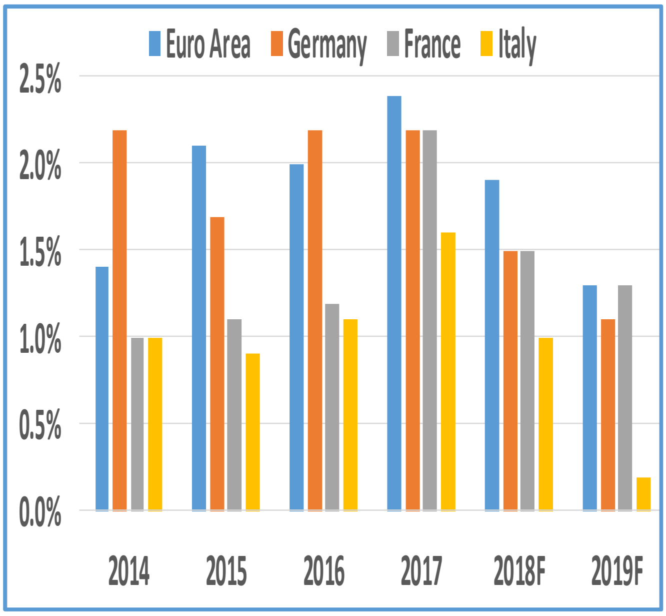
Just a few months ago, the European Central Bank put the brakes on a vast economic stimulus program devised during the financial crisis. On 1st March, it unexpectedly reversed course and revived some of the measures, signalling the rising threat of a recession.

The quick turnabout, from confidence to concern, reflects the broader weakness in the global economy. A slowdown in China, exacerbated by rising trade tensions with the United States, has reverberated around the world, dragging down growth in Europe and elsewhere.

The United States is Europe's largest trading partner, while China is an increasingly important market for its cars, pharmaceuticals and manufactured goods. The Continent's industrial powerhouse, Germany, barely escaped recession in the latest quarter, as the country's economy was battered by the American tariffs on its steel and waning Chinese appetite for its machine tools and Volkswagens.

Europe has been particularly vulnerable to global forces, given the turmoil at home. The uncertainty over Britain's exit from the European Union has put pressure on the British economy, while Italy and Spain have been shaken by their own political fissures.

EURO AREA - ANNUAL GDP GROWTH RATE

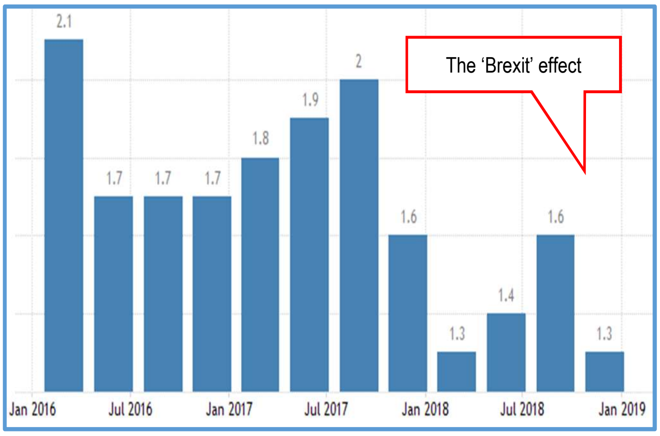


## UNITED KINGDOM ECONOMIC OUTLOOK

Brexit remains top of mind in the United Kingdom, and the current uncertainty, alarmingly, continues.

The UK economy expanded 1.3% year-on-year in the fourth quarter of 2018. It has not been weaker since the second quarter of 2012, and continues its relatively subdued performance over the last year, in the face of Brexit uncertainty. Considering 2018 full year, UK GDP increased by 1.4%, the weakest it has been since 2009.

UNITED KINGDOM - ANNUAL GDP GROWTH RATE




## CHINESE ECONOMIC OUTLOOK

### NZ/Chinese Trade

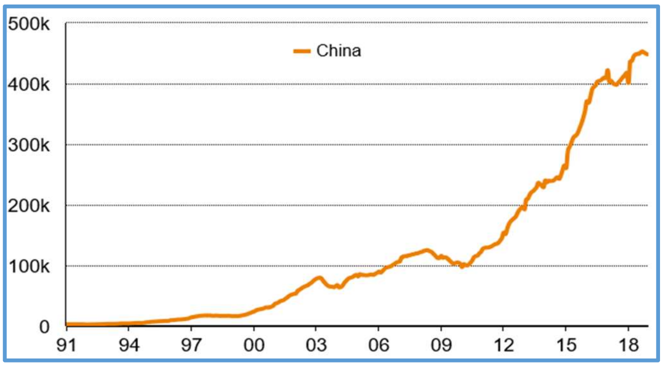
Trade between China and New Zealand in 2018 made up 22% of New Zealand's two-way trade. This result makes China our largest trading partner, 8% larger than Australia, our second-largest partner.

Exports to China are dominated by our primary sector, namely dairy, wood, and meat. In 2018, dairy exports to China topped $4.5b, making up 30% of New Zealand dairy exports. Forestry products earned $3.2b in 2018 from China, comprising 49% of New Zealand's total forestry exports. And meat exports to China provided $2.1b last year, with China leaping above Australia to become our largest meat export market.

### Chinese Tourism

China has become New Zealand's second largest tourism market after Australia, with 450,000 Chinese tourists arriving in New Zealand during 2018. These visitors made up around 12% of New Zealand's total tourism arrivals in 2018, behind only Australia's 39% of our tourism total.

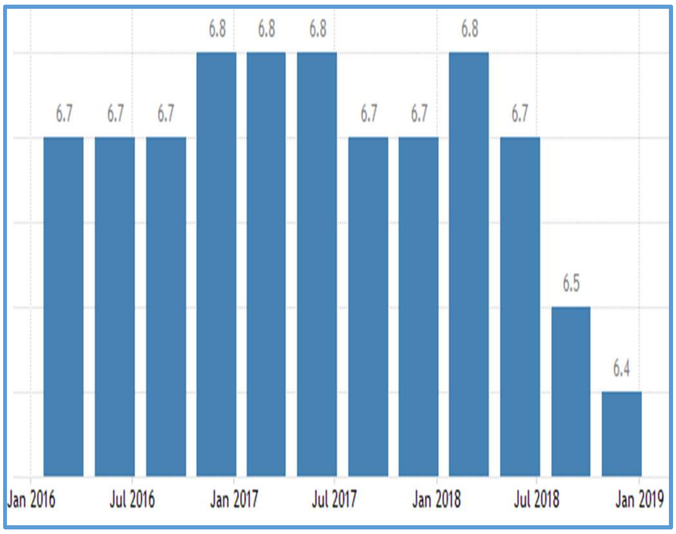
TOURIST ARRIVALS FROM CHINA




Total tourism spending by Chinese tourists was estimated at $1.7b in 2018, up from $394m in 2009 – a 343% increase. As a share of total tourism spending, Chinese tourism spending has risen from 5.4% in 2009 to 15% in 2018.

Of this $1.7b spent by Chinese tourists in 2018, 54% occurred in Auckland, followed by 17% in Otago and 13% in Canterbury. New Zealand's ongoing positive relationship with China is essential to broader economic success for this country. So, if there are issues in the New Zealand-China relationship, we'll need to work them out, and quickly.

CHINA - ANNUAL GDP GROWTH RATE

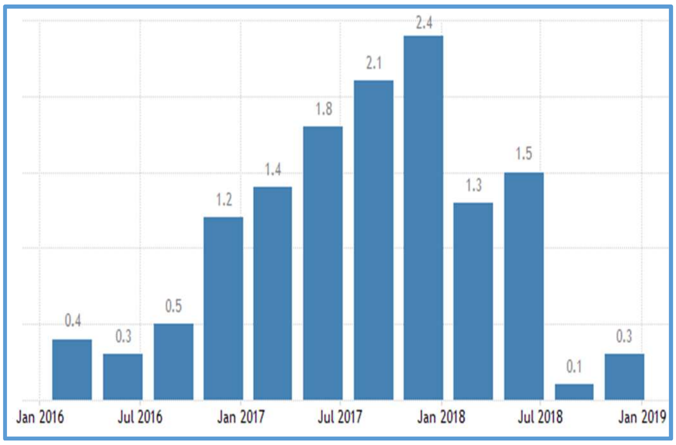



## JAPANESE ECONOMIC OUTLOOK

There continues to be more uncertainty for Japan's economy, amid planned tax rise and the global slowdown. With the average worker's pay barely rising and inflation hovering just above zero, it is easy to overlook the resilience of Japan's economic growth streak, which is currently on track to become the longest in the post-war era.

Yet both internal headwinds, such as the upcoming consumption tax hike (consumption tax to increase from 8% to 10%), scheduled for October 2019, alongside slowing global growth and stock market downturns around the world, indicate that the party may finally be coming to a close.

JAPAN – ANNUAL GDP GROWTH RATE



## COMMODITIES

Globally, manufacturing output is slowing, but New Zealand manufacturing is a clear outlier. This reflects the fact that volumes have been supported by meat and dairy production, which in the short run tends to be driven more by the weather than demand. Global demand fluctuations do turn up in meat and dairy export values, via commodity prices. But so far these have held up remarkably well to the slowing in global growth.

Outside of meat and dairy, manufacturing growth has softened. Fluctuations in export demand tend to flow through to volumes, while domestic consumption of manufactures tends to be heavily influenced by construction. While it is possible that New Zealand manufacturing may continue to outperform international peers, downside risks are accumulating and acceleration in growth from here seems unlikely.

### OIL

Worldwide crude oil prices will average $61 a barrel in 2019 and $62 per barrel in 2020, according to the U.S. Energy Information Administration. The forecast dropped after oil prices dipped below $50 a barrel in November. The average for January 2019 was $59/b. Commodities traders had bid prices down, because they believed higher U.S. supplies would flood the market, while at the same time, slowing global growth would cut into demand. Saudi Arabia and Russia had also produced oil at record levels.

**OIL: BRENT CRUDE (1YEAR CHART)**



## INTEREST RATES

Low interest rates were further cemented in place when the Reserve Bank kept its official cash rate (OCR) at 1.75 per cent, at its meeting on 13th February. The Reserve Bank said it would keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation.

Economists said the statement delivered was broadly in line with expectations, with a note of added caution on the global environment coming through. "*We continue to expect that the next move in the OCR will be down*," ANZ economists said. "*In our view, growth this year will fail to accelerate to the degree that the RBNZ forecasts, with it gradually becoming clear that more monetary stimulus will be needed to generate a sustained lift in inflation. But on balance, we think the need for OCR cuts will become apparent by year end, with our forecasts incorporating the first move in November, with two to follow next year*," ANZ said.

NZIER economist Christina Leung said she still expected the Reserve Bank's next move to be up, but probably not until 2020, based on what she expects to be building inflation pressures. The Reserve Bank's official cash rate has been on hold since November 2016.

## CURRENCY

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


**SOURCE:** Westpac

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# AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

## PRIMARY INDUSTRY EXPORT REVENUE 2004-2020F

| NZ$m year to 30 June | 2004 | 2008 | 2012 | 2016 | 2017 | 2018 | 2019F | 2020F |
|---|---|---|---|---|---|---|---|---|
| Dairy | 6,092 | 10,359 | 13,379 | 13,289 | 14,638 | 16,655 | 17,200 | 16,890 |
| Meat & Wool | 6,848 | 6,939 | 7,781 | 9,201 | 8,355 | 9,542 | 9,620 | 9,520 |
| Forestry | 3,294 | 3,295 | 4,332 | 5,140 | 5,482 | 6,382 | 6,660 | 6,590 |
| Horticulture | 2,212 | 2,896 | 3,560 | 5,002 | 5,165 | 5,376 | 6,020 | 6,030 |
| Seafood | 1,257 | 1,272 | 1,545 | 1,768 | 1,744 | 1,777 | 1,890 | 1,960 |
| Arable | 94 | 142 | 182 | 210 | 197 | 243 | 230 | 245 |
| Other primary exports | 1,114 | 1,525 | 1,773 | 2,612 | 2,638 | 2,706 | 2,680 | 2,800 |
| Primary Industries Total | 20,911 | 26,428 | 32,552 | 37,222 | 38,219 | 42,681 | 44,300 | 44,035 |
| Per annum % Change | | 6.6% | 5.8% | 3.6% | 2.7% | 11.7% | | |

SOURCE: Ministry of Primary Industries

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

## AGRICULTURAL OUTLOOK

Global prices for key New Zealand agricultural products have started 2019 on the front foot. What's more, many sectors are benefiting from the relatively rare combination of firm prices and strong production. In aggregate, prices look set to broadly track sideways through 2019. However, the threat of a further escalation of the trade war between the US and China is casting a shadow over the outlook.

## FONTERRA

Fonterra pleased suppliers of milk by increasing its forecast payout range (at the end of February) by 30 cents a kg to $6.30-60/kg, but it disappointed shareholders by cutting its full year dividend forecast range by 10 cents per share to 15-25 cents. However, Fonterra also announced it would not be paying an interim dividend.

Firm demand from China and lower supplies from Europe helped prices, but that in turn lifted raw materials' costs and reduced profits for Fonterra's processing operations. Fonterra's shareholder fund units hit a record low on the NZX of $4.28. That is down from $6.85 on their first day of trading in 2012.

### PERMANENT CEO APPOINTMENT

Fonterra's new chief executive is Miles Hurrell, the Kiwi who has been keeping the seat warm for 6 months and helping steer New Zealand's largest company out of turbulent waters. Hurrell's base salary has been set at $1.95m, with additional short & long-term incentive payments on the achievement of targets agreed with the board.

Fonterra's previous chief executive Theo Spierings took home $8m in the 2017 financial year. Fonterra last year posted a historic net annual loss of $196m. Fonterra's gearing ratio bumped up by 11% to $6.2bn, driving the gearing ratio to 48.4% (beyond the company's own comfort levels of 40 to 45%).

CFO Marc Rivers said most of the increase in gearing ratio came from the previously advised $232m compensation payment Danone and the $439m write-down in Fonterra's 18.8% holding in China's Beingmate.

| Sector | Trend | Current level[1] | Next 6 montl |
|---|---|---|---|
| Forestry | Strong log prices were a feature of 2018. Looking ahead we expect some moderation as Chinese demand slows. However, New Zealand exporters are benefiting from disruptions to US log supplies to China. | High | ↘ |
| Wool | Coarse wool prices remain low because the price of synthetic substitutes has benefited from lower oil prices. Any improvement in prices will be only gradual. | Average | → |
| Dairy | Prices have improved more quickly than expected. If sustained, this could encourage a lift in production and moderation in prices further down the track. We expect next season's milk price to be up on this season (forecasting $6.30 and $6.75 respectively). | Average | → |
| Lamb | International prices are expected to soften modestly but are likely to remain underpinned by tight international supplies. Brexit uncertainty continues to weigh on demand in traditional markets. | High | ↘ |
| Beef | International prices trended lower over most of 2018 but have lifted again in recent months. We expect this improvement will be temporary as growing US supplies weigh on markets over 2019. | Above average | ↘ |
| Horticulture | Volume growth to weigh on prices. Sentiment in the sector remains positive but labour shortages a key concern. | High | → |

**SOURCE:** Westpac

# NEW ZEALAND EQUITIES

## Port of Tauranga (POT.NZ)

**31st Dec 2018 PRICE:** $5.00
**CURRENT PRICE:** $5.43 **MY TARGET PRICE:** $5.60
**MY RECOMMENDATION:** ACCUMULATE

On 18th February POT posted a strong First Half Performance (6 months to 31`st December 2018).

New Zealand's largest port reported a strong start to the 2019 financial year, with increased cargo volumes contributing to a 4.0% increase in Group Net Profit After Tax to $49.0 million.

### Highlights

- Total trade increased 8.8% to nearly 13.6m tonnes.
- Container volumes grew 5.1% to 621,117 TEUs.
- Group NPAT increased 4.0%, to $49.0m for the 6 months.
- Transhipment growth continued, with volumes increasing 18.9% to 174,983 TEUs.
- Imports increased 5.7% from 4.7m tonnes to almost 5.0m tonnes.
- Exports increased 10.8% from 7.7m tonnes to 8.6m tonnes, with a significant increase in log exports (up 11.7%).
- Interim dividend of 6 cents per share, up 5.3% on the previous period's dividend.
- Half year trade volumes at the country's busiest cargo gateway grew by 8.8% overall.

Transhipment volumes, where containers are transferred from one service to another at Tauranga, continue to rise as the Port solidifies its role as an international hub. It allows shippers from all over New Zealand to access fast and frequent connections to North Asia and South America. Transhipments made up more than a fifth of containers handled over the six month period.

Port of Tauranga Chair, David Pilkington, said the results were very pleasing. "*Tauranga is the only New Zealand port that can easily accommodate these big ships and we are very pleased by the amount of transhipment occurring from other New Zealand locations as well as Australia*," said Mr Pilkington.

Bulk cargo volumes also continued to grow, driven largely by the increase in log exports but also increases in kiwifruit, meat and apple exports.

Port of Tauranga's inland freight hub, MetroPort Auckland, handled a 3.8% increase in containers to set a new record in cargo transferred by rail to and from Auckland during the seasonal peak between October and December.

A ninth container crane has been ordered for delivery in 2020 and preparations are under way to extend the container terminal quay by up to 385 metres by converting port-owned land south of the existing 770-metre quay. The Company is assessing options for increasing container storage and handling capacity.

Rail is Port of Tauranga's preferred mode of cargo transfer due to its environmental benefits and to avoid contributing to road congestion, which is an ongoing concern for Tauranga residents due to the massive population growth in the region.

"Long term value creation for our shareholders is only possible if we keep up our efforts to enhance our environmental performance, our relationships with our employees, our suppliers and our community," said Mr Cairns.

In the six months to 31 January 2019, the Port's use of rail avoided the equivalent of more than 300,000 truck movements.

### Cargo trends

Log exports remain buoyant on the back of strong demand from China and record international prices. Log volumes increased 11.7% to 3.7m tonnes for the six-month period, while sawn timber volumes increased 9.0%.

Kiwifruit volumes increased 30.2% compared with the previous corresponding period, with the trend continuing towards refrigerated containerisation of kiwifruit exports.

Other produce exports also grew substantially, with volumes of frozen meat increasing 17.3% and apples increasing 64.9% compared with the same period last year.

Dairy product exports remained steady, with the volumes the same as the first half of the last financial year.

Imported oil products, fertilisers, chemicals and bulk liquids remained steady or decreased slightly. Salt and grain imports increased 15.5% and 7.3% respectively.

Ship visits decreased 5.4% to 842 in the six-month period but their average length continues to increase.

### Outlook

Port of Tauranga is on track to deliver a strong result for the full financial year, subject to any significant change in the global trading environment and the usual cyclical fluctuations in commodity cargo volumes.

POT expects earnings to be at the upper end of the previous guidance of $96 to $101m, given at POT's AGM in October.

### My view

Port of Tauranga has been a stellar performer of the NZX over more than the past decade. The company has always been focused on a straight forward, yet aggressive long-term growth strategy, and has done this successfully. I continue to rate POT a core portfolio stock.

## The a2 Milk Company (ATM.NZ)

**31st Dec PRICE:** $11.15
**CURRENT PRICE:** $14.31 **TARGET PRICE:** $13.60
**RECOMMENDATION:** OUTPERFORM


a2 Milk's market capitalisation shot up by more than three quarters of a billion dollars in the first hour of trade following the company's record first-half result.

The stock rallied by $1.07 to $13.94 after it reported a 55% lift in its net profit to a record $152.7m in the six months to December, taking the company's market value to $10.24bn.

a2 Milk said its profit leap was driven by continued strong sales growth in all key product segments - infant formula, liquid milk and milk powders.

Sales of infant formula totalled $495.5m for the half - an increase of 45.3% on the prior year - driven by share gains in China and Australia.

The company, which markets a2 beta-free infant formula and dairy products, also saw growth in its liquid milk business of 20.2% to $83.4m, particularly in its key markets of Australia and the United States.

Sales of other nutritional products grew 40.4% to $34.3m, driven predominantly by milk powders and supported by new products launched towards the end of last year.

a2 Milk's EBITDA came to $218.4m – up 52.7% on the previous corresponding period, and compared with market expectations of $200m.

In its outlook statement for the full year, a2 Milk said the company had invested strongly in its capability to better understand its Chinese consumers, "channel dynamics" and ways of improving brand awareness.

"*Following a very strong first-half performance, and encouraged by growing market share in China, the company is now in a position to reinvest the benefits of scale into increased marketing activities in the second half*", the company said, adding increased brand and marketing investment is expected to continue into 2020.

"*The company expects group revenue growth rate in the second half to continue broadly in line with the first half*," it said.

"*Second half EBITDA margins will consequently be lower than in the first half, with full-year FY19 EBITDA as a percentage of sales expected to be approximately 31-32%*," the company said.

In infant formula, a2 Milk's market share in China grew to 5.7% from just over 5%. In the United States, where the company has made a big marketing push, the company experienced revenue growth of 114%.

The group's investment in marketing in the first half increased by 75% to $45.5m, primarily as a result of increases in brand-building activities in China and the US.

"*The rate of investment in marketing will increase further in the second half as we increase in market brand building activities*," the company said.

China segment revenue rose to $171.7m, up 50.1%. "*It's an extremely strong result*," Chris Bainbridge, senior investment analyst at Pie Funds, said. "*New growth just accelerated in final two months of the year*," he said.

Bainbridge said the lift in a2 Milk's gross profit margin to 56% from 51% was a surprise. He added the company's projected revenue and margin growth projections for the second half were potentially conservative.

The a2 Milk brand under licence to Fonterra was launched in New Zealand in early August 2018, with national advertising and distribution from late September, and is performing to plan.

## Fletcher Building (FBU.NZ)

**31st Dec PRICE:** $4.88
**CURRENT PRICE:** $4.77 **TARGET PRICE:** $5.43
**RECOMMENDATION:** NEUTRAL

Fletcher Building announced a return to profitability, with a dividend declared. FBU recently announced net earnings of $89m for the six months ended 31 December 2018, compared with a loss of $273m for the first half of FY18.

EBIT, before significant items, was $285m, compared with a loss of $322m in the prior period. Half year earnings were 8% lower when compared with EBIT before significant items of $309m for the first half of FY18. This is within the guidance given at the Annual Shareholders Meeting (ASM) in November 2018.

As a result of the return to profitability FBU declared an interim reinstated dividend of 8.0 cents per share to be paid on 10 April 2019. Given the expected settlement timing of the Formica sale, the FY19 dividend will be weighted towards the final dividend. The dividend reinvestment plan will not be operative for this dividend.

FBU CEO Ross Taylor said: “In the first half we have made good progress on our strategy to refocus Fletcher Building on its core in New Zealand and Australia. In particular, we have completed the divestment of Roof Tile Group and signed an agreement to sell Formica for US$840m, which we expect to complete by the end of the financial year.

FBU’s operating results across core New Zealand businesses have been solid in the first half, and on track. In Australia FBU has been impacted by the sharp decline in the residential market as well as higher input costs. They are focused on setting the Australian business up for improved performance from FY20, which will include a reset of the cost base.

Group EBIT (excluding significant items and assuming a full year of Formica earnings) for FY19 is expected to be in the range of $650m to $700m. This compares to the earnings guidance of $630m to $680m provided at the ASM. The $20m increase in earnings guidance is due to the treatment of the Formica business as ‘held for sale’ and hence the assets are not subject to depreciation in the second half of FY19.

## Scales Corporation (SCL.NZ)

**31st Dec PRICE:** $4.50
**CURRENT PRICE:** $4.82 **TARGET PRICE:** $4.71
**RECOMMENDATION:** NEUTRAL

Invercargill-based meat processor Alliance Group is seeking to cash in on the world pet food boom with a $15 million purchase of a half share in the Scales Group subsidiary, Meateor.

Scales managing director Andy Borland said the 50/50 joint venture was about developing New Zealand as the premier supplier of pet food proteins. "*We think the venture provides a number of benefits to the entire New Zealand petfood-supply industry including as an avenue for the industry to improve scale; improved relationships with customers including the ability to commit to longer-term relationships; an ability to move into higher value and added value ingredients; and ability to leverage extended customer and supplier networks*," he said in a statement.

The new joint venture business is valued at $30 million and is funded equally by both partners. Alliance Group chief executive David Surveyor said the investment in Meateor reflected the co-operative's strategic focus on creating value-add solutions.

"*It will mean Alliance can capture more value for each animal, shifting us further up the value chain*," Surveyor said. "*The business provides us with immediate and direct access to the highly attractive and growing global pet food market*," he said.

The investment coincides with a time of major growth in the global pet food industry. "*Global sales in the sector are forecast to reach up to $134 billion by 2022 and we want to make sure New Zealand farmers are a part of this growth*," Surveyor said.

Alliance is the world's biggest exporter of sheep meat while NZX-listed Scales is a diversified agribusiness group.

## NZ Property

**NZ LPV sector underperforms NZX50 in February,** with a +1.6% TSR (following a +1.8% TSR in January) vs the NZX50G TSR of +3.8%. Longer-term, the sector has outperformed the NZ50G by +7.9% in the 12-months to 28 February 2019, but has underperformed by -2.4% CYTD.

**PFI and SPG the top performers over the month:** PFI delivered a +4.4% TSR, outperforming the NZ LPV index by +2.8%, followed by SPG with a +3.2% TSR (+1.6% against the index). Over the past six months, ARG has seen the highest return (+8.5% vs index), while GMT is the top performer over the past 12-months (+10.8% vs index) and CYTD (+3.8% vs index).

| | Rating | Price ($NZ) | Tgt price | P/NTA | DPS yield | Gross yield | Gearing |
|---|---|---|---|---|---|---|---|
| APL | OUTPERFORM | $0.59 | $0.67 | 0.83x | 6.2% | 8.5% | 8.0% |
| ARG | NEUTRAL | $1.23 | $1.11 | 1.05x | 5.1% | 7.1% | 36.8% |
| AUG | OUTPERFORM | $1.11 | $1.12 | 1.04x | 5.4% | 8.1% | 25.0% |
| GMT | NEUTRAL | $1.64 | $1.43 | 1.15x | 4.1% | 5.6% | 17.5% |
| IPL | NEUTRAL | $1.57 | $1.48 | 0.96x | 4.8% | 6.7% | 42.2% |
| KPG | OUTPERFORM | $1.41 | $1.42 | 1.01x | 4.9% | 6.8% | 29.4% |
| PFI | UNDERPERFORM | $1.92 | $1.67 | 1.08x | 4.0% | 5.5% | 30.3% |
| SPG | NEUTRAL | $1.95 | $1.92 | 0.97x | 5.1% | 7.1% | 34.2% |
| VHP | NEUTRAL | $2.12 | $2.06 | 0.94x | 4.2% | 5.9% | 43.7% |
| Average | | | | 1.05x | 4.5% | 6.2% | 30.0% |

Gearing is last reported. Source: Company data, FNZC estimates

“Magic is believing in yourself, if you can do that, you can make anything happen”

Johann Wolfgang von Goethe

# STOCKS TO WATCH

**NEW ZEALAND** NOTE: THESE ARE ALL ONE YEAR GRAPHS **Prices as at 13th March 2019**

## AFT Pharmaceuticals

FNZC's upgrade to OUTPERFORM reflects the relative value against AFT's share price and their belief that AFT is getting closer to delivering stronger evidence that it can execute on its international strategy. This should deliver a material lift in earnings over the next few years. In addition, we note there remains the potential for additional growth if it can commercialise key products Pascomer and NasoSURF. There has been no recent update on this company.

20019 P/E: n.m 2020 P/E: 53.5

| | |
|---|---|
| **NZX Code:** | **AFT** |
| **Share Price:** | **$2.05** |
| **12mth Target:** | **$2.77** |
| **Projected return (%)** | |
| Capital gain | 35.1% |
| Dividend yield (Net) | 0.0% |
| **Total return** | **35.1%** |
| **Rating:** | OUTPERFORM |
| 52-week price range: | 2.00-2.60 |

## Auckland International Airport

Normalised NPAT increased +2.9% in 1H19 to $136.9m. The major upgrade of the international departure retail precinct was a key driver of EBITDA growth of +10.6% to $276.1m which was in line with FNZC's forecasts. Retail Income growth of +24.6% was heavily reliant on minimum annual guarantee adjustments, with International passenger spend rate growth of +5.8% below expectations. Despite this FNZC believes that AIA remains on track to deliver average retail income per international passenger of around $20.60 in FY20, with this equating to an uplift of +30% on FY17 levels. Contrary to FNZC's recommendation – **I rate AIA as a core portfolio stock.**

20019 P/E: 32.3 2020 P/E: 32.7

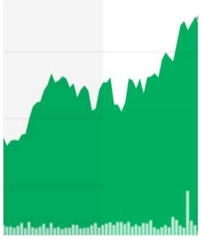
| | |
|---|---|
| **NZX Code:** | **AIA** |
| **Share Price:** | **$7.65** |
| **12mth Target:** | **$5.50** |
| **Projected return (%)** | |
| Capital gain | -31.2% |
| Dividend yield (Net) | 3.0% |
| **Total return** | **-28.2%** |
| **Rating:** | ~~UNDERPERFORM~~ |
| **My Rating:** | ACCUMULATE |
| 52-week price range: | 6.11-7.77 |

## The a2 Milk Company

Strong revenue growth is expected to continue. 1H19 EBITDA of $218m was up 53% year-on-year, thanks to higher Gross Margin. More importantly, revenue growth of 41% was strong given FX swings late in the period, and featured another step-up from China label IF (+83%). Confidence in this momentum has left ATM anticipating 2H revenue growth at a similar level – implying a 4% up rade on FNZC's prior FY estimates. This also provides the freedom to invest more heavily in China and US brand, with marketing costs expected to double in the June half. Allocation of this will be of interest, as will ATM's eventual use of surplus cash; with $288m post the Synlait block, additional upstream investment or distributions may be moving closer.

20019 P/E: 36.1 2020 P/E: 28.4

| | |
|---|---|
| **NZX Code:** | **ATM** |
| **Share Price:** | **$14.31** |
| **12mth Target:** | **$13.60** |
| **Projected return (%)** | |
| Capital gain | -5.1% |
| Dividend yield (Net) | 0.9% |
| **Total return** | **-4.2%** |
| **Rating:** | OUTPERFORM |
| 52-wk price range: | 8.67-15.00 |



## Contact Energy

1H19 earnings were in line with expecations. CEN benefited from 2% above-mean hydro to offset planned geothermal outages, CEN reported EBITDAF $291m,erasing memory of weak 1H18 hydro. A 16cps 1H19 interim dividend was declared, and a new payout policy increases dividend guidance. The new 100% OpFCF payout policy (was 80-90%) allows 39dps guidance for FY19 & FY20. There is still risk to unexpected adverse impacts arising from the government's Electricity Price Review recommendations, or acceleration of cheaper new builds on the Interim Climate Change Commission's (ICCC) report.

20019 P/E: 26.7 2020 P/E: 28.1

| | |
|---|---|
| **NZX Code:** | **CEN** |
| **Share Price:** | **$6.32** |
| **12mth Target:** | **$6.31** |
| **Projected return (%)** | |
| Capital gain | -0.5% |
| Dividend yield (Net) | 6.2% |
| **Total return** | **5.7%** |
| **Rating:** | NEUTRAL |
| 52-week price range: | 5.15-6.49 |

## Chorus

The impact of line loss over the last few years (~half of a 300k drop in connections since FY15 due to network competition from fixed wireless) was highlighted in the 1H19 result on a moderating but still damaging level of line loss right now. Connections were down 4.7% on the pcp and while some price inflation and mix benefit saw a drop in revenue of just 2%, the powerful combination of operating (costs flat on last year), asset and financial leverage saw a 3.3% decline in EBITDA and 36.2% decline in NPAT.

20019 P/E: 336.4 2020 P/E: 56.1

| | |
|---|---|
| **NZX Code:** | **CNU** |
| **Share Price:** | **$5.58** |
| **12mth Target:** | **$4.77** |
| **Projected return (%)** | |
| Capital gain | -14.5% |
| Dividend yield (Net) | 4.6% |
| **Total return** | **-9.9%** |
| **Rating:** | NEUTRAL |
| 52-week price range: | 3.81-5.65 |

## Comvita

1H19 operating NPAT -$3.4m, vs FNZCe of +$5.9m, vs pcp of +$4.0m. Brand Co delivered an NPAT loss of $1.3m driven by lower sales/higher cost. Supply Co delivered an NPAT loss of $2.1m due to a poor honey harvest. This is despite initiatives to reduce earnings volatility in the apiary business. CVT expects a stronger 2H19 honey harvest. CVT has been employing a price harmonisation strategy (expected to improve margins) and transitioning to a direct sales model in the China e-commerce channel (potentially suppressing sales as wholesale customers destock).

20019 P/E: 403.5 2020 P/E: 24.6

| | |
|---|---|
| **NZX Code:** | **CVT** |
| **Share Price:** | **$4.40** |
| **12mth Target:** | **$4.02** |
| **Projected return (%)** | |
| Capital gain | -8.6% |
| Dividend yield (Net) | 0.0% |
| **Total return** | **-8.6%** |
| **Rating:** | NEUTRAL |
| 52-week price range: | 4.09-7.80 |

## Delegat Group

H19 Operating NPAT of $31.4m, +16.7% vs pcp of $26.9m, driven by volume growth (+14% YoY) and strong cost control (+4%). We note volume growth appears to be partly driven by a sell-in phase following a recently established UK distribution listing. Trade receivables increased +17.5% YoY to $52.7m from $44.9m in the pcp. Full year case guidance implies a more modest +7% YoY case sales growth in 2H19.

2019 P/E: 19.2 2020 P/E: 17.2

| | |
|---|---|
| **NZX Code:** | **DGL** |
| **Share Price:** | **$9.80** |
| **12mth Target:** | **$9.34** |
| **Projected return (%)** | |
| Capital gain | -4.7% |
| Dividend yield (Net) | 1.9% |
| **Total return** | **-2.8%** |
| **Rating:** | UNDERPERFORM |
| 52-wk price range: | 7.90 -11.00 |

**Ebos Group**

An in-line result - EBO reported underlying 1H19 NPAT of A$73m up 4% year-on-year. Operations were largely in line with expectations, while the rare absence of large M&A uplifts provides insight on growth in core Health (u/l EBITDA +3%) and in doing so, the rationale for continued diversification. Highlights included Animal Care EBITDA up 10%, growth in brands and at Contract Logistics as the new Sydney facility scales-up. On the flip side, Community Pharmacy remains subdued across OTC and ethical. Trading with Chemist Warehouse starts in July and should provide a welcome kicker to this. The company declared an NZ34.5cps interim div.

2019 P/E: 23.0 2020 P/E: 19.2

| | |
|---|---|
| **NZX Code:** | **EBO** |
| **Share Price:** | **$21.24** |
| **12mth Target:** | **$20.75** |
| **Projected return (%)** | |
| Capital gain | -2.3% |
| Dividend yield (Net) | 3.5% |
| **Total return** | **1.2%** |
| **Rating: NEUTRAL** | |
| 52-wk price range: 17.45 -23.00 | |

**EROAD**

NO UPDATE: With a good NZ operation the key to ERD's share price performance will be its ability to execute in growing its US business and/or develop a third market in Australia. ERD's ability to execute in the US remains a key forecast risk. ERD will release its FY19 result in May 2019. FNZC estimates a value of $2.30 for ERD's ANZ operation and $0.95 for the US. They do not include any possible upside from Australia's Chain of Responsibility requirements in our forecasts.

20019 P/E: (36.9) 2020 P/E: 58.8

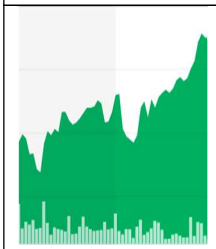
| | |
|---|---|
| **NZX Code:** | **ERD** |
| **Share Price:** | **$2.70** |
| **12mth Target:** | **$3.25** |
| **Projected return (%)** | |
| Capital gain | 20.4% |
| Dividend yield (Net) | 0.0% |
| **Total return** | **20.4%** |
| **Rating: OUTPERFORM** | |
| 52-wk price range: 1.95-3.93 | |

**Fletcher Building**

FBU's Residential division contributed 12% of normalised FY18 EBIT (14% in FY19F), up from 6% in FY12. Housing market conditions benign in the Auckland and Christchurch markets, and some potential for conditions to deteriorate (credit availability; confidence; increase in supply of competing product from Govt. initiatives). However, FBU has further growth ambitions for this business, following sales growth in the past decade from ~200 units to ~700. In part, this growth reflects a positive repositioning of the business but the strong NZ cycle has also contributed.

2019 P/E: 11.7 2020 P/E: 11.2

| | |
|---|---|
| **NZX Code:** | **FBU** |
| **Share Price:** | **$4.68** |
| **12mth Target:** | **$5.43** |
| **Projected return (%)** | |
| Capital gain | 16.0% |
| Dividend yield (Net) | 6.2% |
| **Total return** | **22.2%** |
| **Rating: NEUTRAL** | |
| 52-week price range: 4.54-7.19 | |

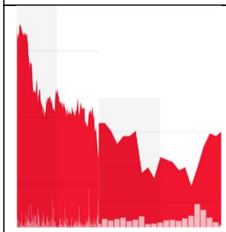


**Genesis Energy**

GNE appears a nimble and efficient retail competitor, despite being the largest incumbent retailer. Its LPG growth outlook remains strong. The Kupe oil & gas field continues to provide yield support due to its shorter economic life relative to generation assets. The scale of GNE exposure to retail-side EPR recommendations isn't yet clear, but there is clear downside risk if these are adopted by politicians. There is also a high risk of higher carbon costs beyond the mid-2020s, and some risk of downward price pressure from lower cost new renewables.

2019 P/E: 33.1 2020 P/E: 31.2

| | |
|---|---|
| **NZX Code:** | **GNE** |
| **Share Price:** | **$2.86** |
| **12mth Target:** | **$2.30** |
| **Projected return (%)** | |
| Capital gain | -24.3% |
| Dividend yield (Net) | 6.2% |
| **Total return** | **-18.1 %** |
| **Rating: UNDERPERFORM** | |
| 52-week price range: 2.21-2.90 | |

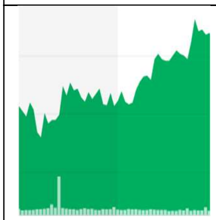


**Heartland Group Holdings – Note change in code**

The reduction to FNZC's target price reflects a recent pull-back across the sector. HGH is trading at a modest discount to its peers; however, a strong 2H19 is required to achieve FY19 guidance. FNZC is taking a wait-and-see approach ahead of capital efficiency initiatives to reduce the cost of funds. Risks include competition, bad debts and provisioning levels, liquidity, etc.

2019 P/E: 9.9 2020 P/E: 9.3

| | |
|---|---|
| **NZX Code:** | **HGH** |
| **Share Price:** | **$1.51** |
| **12mth Target:** | **$1.43** |
| **Projected return (%)** | |
| Capital gain | -5.3% |
| Dividend yield (Net) | 7.0% |
| **Total return** | **1.7 %** |
| **Rating: NEUTRAL** | |
| 52-week price range: 1.31-1.59 | |



**Mercury NZ**

1H19 result: steady despite a Q2 hydro squeeze. Q2 inflows were ~20% below mean and unfortunately coincided with market stress and high spot prices on gas interruptions and low southern hydro lake levels. The earnings impact and spot risks were managed, and MCY produced a $302m 1H19 EBITDAF (pcp $304m). Underlying NPAT was steady at $114m (pcp $114m).

2019 P/E: 28.2 2020 P/E: 25.5

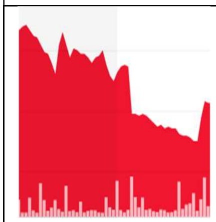
| | |
|---|---|
| **NZX Code:** | **MCY** |
| **Share Price:** | **$3.63** |
| **12mth Target:** | **$3.47** |
| **Projected return (%)** | |
| Capital gain | -4.4% |
| Dividend yield (Net) | 4.4% |
| **Total return** | **0.0%** |
| **Rating: UNDERPERFORM** | |
| 52-week price range: 3.08-3.80 | |

**Metlifecare**

MET has delivered an underwhelming 1H19 result with negligible NTA growth (+0.7% since FY18) and embedded value growth (+0.5%). Given market pricing dynamics and a development pipeline weighted to 2H19 this modest asset growth was not surprising. In addition, while underlying profit (excl. development margin) growth in the period was robust (+22%), higher-than-expected cost growth delivered an 11% miss vs. FNZC's expectations.

2019 P/E: 12.5 2020 P/E: 10.9

| | |
|---|---|
| **NZX Code:** | **MET** |
| **Share Price:** | **$4.90** |
| **12mth Target:** | **$7.00** |
| **Projected return (%)** | |
| Capital gain | 42.9% |
| Dividend yield (Net) | 2.6% |
| **Total return** | **45.5%** |
| **Rating: OUTPERFORM** | |
| 52-week price range: 4.85-6.51 | |



**Michael Hill International**

MHJ continues to maintain a conservative balance sheet, net debt decreased to A$20.7m from A$28.0m at FY18. Importantly, the company announced that it is targeting annualized head-office cost savings A$5m and additional cost savings of another A$5m. FNZC welcomes this new cost focus following a period of material head office cost inflation that they have struggled to understand.

2019 P/E: 8.5 2020 P/E: 7.3

| | |
|---|---|
| **NZX Code:** | **MHJ** |
| **Share Price:** | **$0.77** |
| **12mth Target:** | **$0.97** |
| **Projected return (%)** | |
| Capital gain | 26.0% |
| Dividend yield (Net) | 8.6% |
| **Total return** | **34.6%** |
| **Rating: OUTPERFORM** | |
| 52-week price range: 0.56-1.24 | |

### NZ Refining

NZR's major shut-affected FY18 $152.6m EBITDAF was 5% below FNZC's forecast, on higher cost. A $29.6m NPAT was reported (7% below $31.7m forecast). The pivotal event in FY19 was the refinery maintenance shut, reducing NPAT by $43.2m. Originally guided to incur $85m capex, emergent work and a valve leak saw an extra delay lift capex to $107m. Net debt rose to $260.1m (+7% vs FNZC's $243m) and gearing is now 5 pp above the 20% target. A fully imputed 4.5cps final div was declared (vs a 5cps forecast) bringing FY19 total to 7.5cps (vs pcp 18cps).

2019 P/E: n/a    2020 P/E: 12.3

| | |
|---|---|
| **NZX Code:** | **NZR** |
| **Share Price:** | **$1.98** |
| **12mth Target:** | **$2.38** |
| **Projected return (%)** | |
| Capital gain | 20.2% |
| Dividend yield (Net) | 4.3% |
| **Total return** | **24.5%** |

**Rating: NEUTRAL**

52-week price range: 1.98-2.63

### Pacific Edge

FNZC has updated their forecasts to reflect the impact of PEB's capital raise announced at the 1H19 result and its trading commentary at that time. Their FY19 and FY20 EBIT loss forecasts remain relatively unchanged with lower revenue due to the process to gain a LCD with CMS and a commercial agreement with Kaiser Permantente (KP) taking longer than previously expected, largely offset by lower costs. While PEB is making good progress in NZ, confirmation and timing of commercial contracts with key transformational customers in the US, in particular Kaiser Permantente and CMS, remain the key drivers to how PEB may perform in FY20 and beyond.

2019 P/E: (8.8)    2020 P/E: (10.7)

| | |
|---|---|
| **NZX Code:** | **PEB** |
| **Share Price:** | **$0.29** |
| **12mth Target:** | **$0.50** |
| **Projected return (%)** | |
| Capital gain | 72.4% |
| Dividend yield (Net) | 0.0% |
| **Total return** | **72.4%** |

**Rating: OUTPERFORM**

52-week price range: 0.19-0.45

### Port of Tauranga

Preliminary trade data indicates that volume growth at the Tauranga container terminal improved to around +11.2% in 2Q19. POT has been a beneficiary of congestion at Ports of Auckland where current investment projects, including the partial automation of the Ferguson container terminal, have resulted in Auckland yard capacity reducing by 20-30%. This resulted in some container vessels diverting from Auckland to Tauranga from late 1Q19, contributing to the significant improvement in container growth trends observed for POT in 2Q19, and expectations are that this positive impact could continue until Auckland's automation programme is completed around late 1H20. **I reiterate that, in my opinion, this should be a core portfolio stock**.

2019 P/E: 34.0    2020 P/E: 33.2

| | |
|---|---|
| **NZX Code:** | **POT** |
| **Share Price:** | **$5.42** |
| **12mth Target:** | **$4.30** |
| **Projected return (%)** | |
| Capital gain | -20.7% |
| Dividend yield (Net) | 2.8% |
| **Total return** | **-17.9%** |

**Rating: ~~UNDERPERFORM~~**

**My Rating: ACCUMULATE**

52-week price range: 4.74-5.45

### Scales Corporation

SCL has announced a six-year orchard development plan aimed at transitioning its production base to premium IP varieties (such as Dazzle and Posy). As a result, export volumes are (conservatively) expected to decline -6.4% in FY19, then remain broadly flat out to FY21, before growth resumes. Under this strategy, current pricing differentials imply ~$4.2m of upside from mix by FY24. In addition, by selecting varieties that can be harvested earlier there is likely to be an opportunity for SCL to increase asset utilisation across its packing and coolstore infrastructure (positive for ROCE).

2019 P/E: 16.1    2020 P/E: 15.2

| | |
|---|---|
| **NZX Code:** | **SCL** |
| **Share Price:** | **$4.82** |
| **12mth Target:** | **$4.71** |
| **Projected return (%)** | |
| Capital gain | -2.3% |
| Dividend yield (Net) | 4.7% |
| **Total return** | **2.4%** |

**Rating: NEUTRAL**

52-week price range: 4.20-5.00

### Tourism Holdings

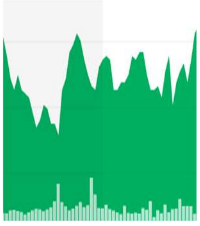
1H19 adjusted EBIT of $35.7m, driven by a strong result in the ANZ rental businesses (on rental demand), partly offset by weakness in the US rentals business (following a downturn in the US RV retail sales cycle in recent months). The outlook is for strong forward bookings in all markets from international visitor growth. However, a (less critical) theme of softer domestic demand is also emerging (impacting Waitomo in NZ and El Monte in the US).

2019 P/E: 17.3    2020 P/E: 13.9

| | |
|---|---|
| **NZX Code:** | **YHL** |
| **Share Price:** | **$4.75** |
| **12mth Target:** | **$4.69** |
| **Projected return (%)** | |
| Capital gain | -1.3% |
| Dividend yield (Net) | 6.3% |
| **Total return** | **5.0%** |

**Rating: NEUTRAL**

52-week price range: 4.31-6.89



### Vital Healthcare

VHP's portfolio is performing well – it saw a +2.4% fair value gain over the 1H, with the cap rate firming 3bp to 5.73% (Australia -3bp to 5.70%; NZ 1bp to 5.82%). Rent reviews saw an average annualized increase of +3.0%. VHP's manager, through its related company, NorthWest Healthcare Properties Real Estate Investment Trust (NWH), has entered into a conditional contract to acquire 11 freehold hospitals from Healthscope (HSO) for A$1,258m as part of a sale and lease back transaction. 2019 P/E: 21.7    2020 P/E: 21.5

| | |
|---|---|
| **NZX Code:** | **VHP** |
| **Share Price:** | **$2.16** |
| **12mth Target:** | **$2.06** |
| **Projected return (%)** | |
| Capital gain | -3.5% |
| Dividend yield (Net) | 4.3% |
| **Total return** | **0.8%** |

**Rating: NEUTRAL**

52-week price range: 1.99-2.16

### Z Energy

ZEL appears to offer good value supported by its dividend. ZEL is expected to significantly lift its dividend per share from 32 cents in 2018 to 42.5 cents (gross yield of 9.9%, management guidance 38-47 cents) in FY19 and 43.2 cents (10.1%) in FY20. This reflects a dividend policy of paying 90-100% of underlying free cash flow. However, ZEL is facing a number of headwinds from ongoing improvements in fuel efficiency, the emergence of electric vehicles, increased competition from independent, low cost fuel retailers and uncertainty around the sustainability of ZEL's retail margin given the looming fuel price review from the Commerce Commission in 2019 (the first draft is due July/August 2019).

2019 P/E: 14.3    2020 P/E: 13.5

| | |
|---|---|
| **NZX Code:** | **ZEL** |
| **Share Price:** | **$6.20** |
| **12mth Target:** | **$6.50** |
| **Projected return (%)** | |
| Capital gain | 4.8% |
| Dividend yield (Net) | 6.9% |
| **Total return** | **11.7%** |

**Rating: OUTPERFORM**

52-week price range: 5.18-7.75

| NZ LISTED COMPANIES | Ticker | Mrkt Cap | Price | Target Price | Price Earnings (x) | | Net Yield (%) | |
|---|---|---|---|---|---|---|---|---|
| 11h March 2019 | | | 11-Mar-19 | | | | | |
| Source: First NZ Capital, CSFB | | (NZ$m) | (NZ$) | (NZ$) | FY19 | FY20 | FY19 | FY20 |
| **COMMUNICATION SERVICES** | | | | | | | | |
| Chorus | CNU | 2,355 | 5.40 | 4.77 | 37.9 | 58.5 | 4.3% | 4.4% |
| Spark NZ | SPK | 6,867 | 3.74 | 3.28 | 16.0 | 15.5 | 6.7% | 6.7% |
| NZME | NZM | 112 | 0.57 | 0.47 | 7.0 | 7.1 | 0.0% | 0.0% |
| Sky Network Television | SKT | 518 | 1.33 | 1.74 | 5.6 | 6.6 | 11.3% | 7.5% |
| **CONSUMER DISCRETIONARY** | | | | | | | | |
| Kathmandu | KMD | 554 | 2.45 | 2.90 | 10.2 | 10.0 | 6.5% | 7.3% |
| Michael Hill International | MHJ | 303 | 0.81 | 0.93 | 11.4 | 9.8 | 6.4% | 6.4% |
| SKYCITY Entertainment Group | SKC | 2,614 | 3.83 | 4.00 | 15.2 | 16.3 | 5.2% | 5.2% |
| The Warehouse Group | WHS | 728 | 2.10 | 2.05 | 9.2 | 9.1 | 8.1% | 8.8% |
| Tourism Holdings | THL | 583 | 4.71 | 4.69 | 18.8 | 15.1 | 5.7% | 5.7% |
| Turners Automotive | TRA | 190 | 2.19 | 3.11 | 7.3 | 7.5 | 7.8% | 8.2% |
| **CONSUMER STAPLES** | | | | | | | | |
| Comvita | CVT | 201 | 4.40 | 4.02 | 428.8 | 26.1 | 0.0% | 0.0% |
| Delegat Group | DGL | 1,010 | 9.99 | 9.34 | 19.8 | 17.8 | 1.7% | 1.9% |
| Green Cross Health Ltd. | GXH | 140 | 0.98 | 2.20 | 6.8 | 6.6 | 7.1% | 7.7% |
| New Zealand King Salmon | NZK | 324 | 2.34 | 2.71 | 19.9 | 15.4 | 2.5% | 3.2% |
| Sanford | SAN | 599 | 6.40 | 7.39 | 13.5 | 13.0 | 3.6% | 3.6% |
| Scales Corporation | SCL | 658 | 4.71 | 4.71 | 15.8 | 15.0 | 4.7% | 5.0% |
| Seeka | SEK | 145 | 4.95 | 5.99 | 15.6 | 14.8 | 4.8% | 4.8% |
| Synlait Milk | SML | 1,864 | 10.40 | 7.66 | 21.2 | 18.3 | 0.0% | 0.0% |
| The a2 Milk Company | ATM | 10,612 | 14.44 | 13.60 | 36.7 | 28.9 | 0.0% | 1.4% |
| **ENERGY** | | | | | | | | |
| NZ Refining | NZR | 631 | 2.02 | 2.38 | -93.5 | 11.7 | 3.2% | 11.2% |
| Z Energy | ZEL | 2,512 | 6.28 | 6.50 | 14.3 | 13.5 | 6.8% | 6.9% |
| **FINANCIALS** | | | | | | | | |
| NZX | NZX | 266 | 0.98 | 1.11 | 18.1 | 16.0 | 6.3% | 6.4% |
| Heartland Group | HGH | 859 | 1.52 | 1.43 | 11.4 | 10.7 | 6.3% | 6.6% |
| **HEALTH CARE SUPPLIERS** | | | | | | | | |
| AFT Pharmaceuticals | AFT | 199 | 2.05 | 2.77 | n.m. | 47.9 | 0.0% | 0.0% |
| Ebos Group | EBO | 3,115 | 21.15 | 20.75 | 22.3 | 18.7 | 3.1% | 3.7% |
| Fisher & Paykel Healthcare | FPH | 8,634 | 15.05 | 12.50 | 40.8 | 34.6 | 1.6% | 2.0% |
| Pacific Edge | PEB | 153 | 0.30 | 0.40 | -8.7 | -10.5 | 0.0% | 0.0% |
| **HEALTH CARE PROVIDERS** | | | | | | | | |
| Arvida | ARV | 526 | 1.27 | 1.36 | 13.8 | 11.5 | 4.2% | 4.7% |
| Metlifecare | MET | 1,075 | 5.04 | 7.00 | 12.9 | 11.2 | 2.2% | 2.4% |
| Oceania Healthcare | OCA | 635 | 1.04 | 1.11 | 11.8 | 12.6 | 4.7% | 4.4% |
| Ryman Healthcare | RYM | 5,635 | 11.27 | 9.07 | 26.3 | 23.4 | 2.0% | 2.4% |
| Summerset Group | SUM | 1,461 | 6.48 | 7.07 | 10.8 | 11.7 | 2.5% | 2.9% |
| **INDUSTRIALS** | | | | | | | | |
| Methven | MVN | 119 | 1.62 | 1.30 | 14.4 | 12.8 | 5.6% | 6.2% |
| Metro Perform. Glass | MPG | 407 | 2.09 | 2.13 | 13.6 | 12.7 | 6.2% | 6.7% |
| Skellerup Holdings | SKL | 95 | 0.51 | 0.60 | 6.1 | 6.4 | 0.0% | 0.0% |
| **LOGISTICS** | | | | | | | | |
| Air New Zealand | AIR | 2,874 | 2.56 | 2.55 | 10.4 | 9.3 | 8.6% | 8.6% |
| Auckland Airport | AIA | 9,195 | 7.62 | 5.50 | 33.2 | 33.5 | 3.0% | 3.0% |
| Freightways | FRE | 1,226 | 7.89 | 7.85 | 19.7 | 17.9 | 4.2% | 4.8% |
| Mainfreight | MFT | 3,273 | 32.50 | 25.50 | 24.4 | 21.5 | 1.6% | 1.9% |
| Port of Tauranga | POT | 3,659 | 5.38 | 4.30 | 36.3 | 33.9 | 2.6% | 2.7% |
| **INFORMATION TECHNOLOGY** | | | | | | | | |
| EROAD | ERD | 184 | 2.70 | 3.25 | -40.7 | 64.8 | 0.0% | 0.0% |
| Gentrack Group | GTK | 477 | 4.84 | 5.00 | 28.7 | 24.8 | 3.3% | 3.4% |
| Vista Group Int | VGL | 795 | 4.80 | 4.10 | 37.3 | 30.0 | 1.3% | 1.7% |
| **MATERIALS** | | | | | | | | |
| Fletcher Building | FBU | 4,147 | 4.86 | 5.28 | 11.2 | 11.1 | 5.1% | 5.8% |
| Steel & Tube | STU | 199 | 1.20 | 1.65 | 14.0 | 10.5 | 5.8% | 7.2% |
| **REAL ESTATE** | | | | | | | | |
| Argosy Property | ARG | 1,038 | 1.26 | 1.11 | 18.6 | 18.7 | 5.0% | 5.0% |
| Asset Plus | APL | 94 | 0.58 | 0.67 | 18.0 | 18.5 | 6.2% | 6.2% |
| Augusta Capital | AUG | 98 | 1.12 | 1.14 | 13.1 | 17.2 | 5.4% | 5.4% |
| Goodman Property Trust | GMT | 2,188 | 1.69 | 1.43 | 21.6 | 24.0 | 3.9% | 3.9% |
| Investore Property | IPL | 408 | 1.57 | 1.48 | 18.6 | 18.3 | 4.8% | 4.8% |
| Kiwi Property Group | KPG | 2,042 | 1.43 | 1.42 | 20.9 | 20.4 | 4.9% | 4.9% |
| Precinct Properties NZ | PCT | 1,732 | 1.50 | Restricted | 23.6 | 22.8 | 3.9% | 4.0% |
| Property for Industry | PFI | 963 | 1.93 | 1.67 | 22.2 | 20.9 | 3.9% | 4.1% |
| Stride Property Group | SPG | 723 | 1.98 | 1.92 | 19.1 | 19.1 | 5.0% | 5.0% |
| Vital Healthcare Property | VHP | 936 | 2.11 | 2.06 | 22.0 | 21.8 | 4.2% | 4.3% |
| **UTILITIES** | | | | | | | | |
| Contact Energy | CEN | 4,609 | 6.43 | 6.31 | 27.1 | 28.6 | 6.1% | 6.1% |
| Genesis Energy | GNE | 2,906 | 2.86 | 2.30 | 34.1 | 32.1 | 6.0% | 6.0% |
| Infratil | IFT | 2,181 | 3.90 | 3.49 | 19.7 | 17.7 | 4.5% | 4.6% |
| Mercury NZ | MCY | 4,979 | 3.66 | 3.47 | 28.6 | 25.9 | 4.3% | 4.3% |
| Meridian Energy | MEL | 9,970 | 3.89 | 3.10 | 38.9 | 37.4 | 5.0% | 5.1% |
| TrustPower | TPW | 1,997 | 6.38 | 5.54 | 16.5 | 19.0 | 10.8% | 5.4% |
| TILT Renewables | TLT | 1,014 | 2.24 | 2.18 | 65.2 | 40.2 | 1.2% | 0.9% |
| Vector | VCT | 3,500 | 3.50 | 3.50 | 26.2 | 24.7 | 4.7% | 4.8% |
| **MARKET AVERAGE*** | | | | | **26.8** | **18.8** | **4.2%** | **4.4%** |

**PE ratios exclude: AFT, ERD, FBU, NZR, PEB, TLT*

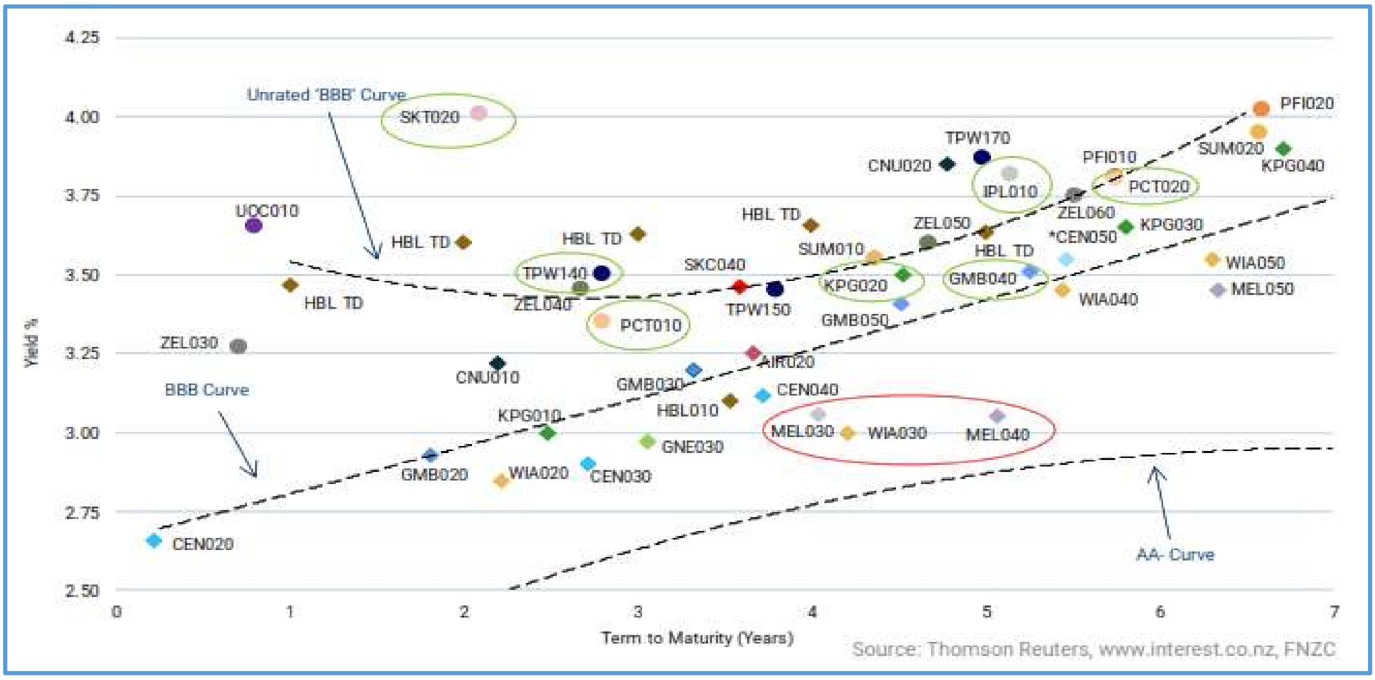
# *FNZC - NZ EQUITIES RECOMMENDATIONS*

| COMPANY | UNDERPERFORM | NEUTRAL | OUTPERFORM |
|---|---|---|---|
| COMMUNICATION SERVICES | Spark NZ (SPK)<br>NZME (NZM) | Chorus (CNU)<br>Sky Network TV (SKT) | |
| CONSUMER DISCRETIONARY | | Restaurant Brands (RBD)<br>SkyCity Entertainment (SKC)<br>The Warehouse Group (WHS)<br>Tourism Holdings (THL) | Katmandu (KMD)<br>Michael Hill International (MHJ)<br>Turners Automotive (TRA) |
| CONSUMER STAPLES | Delegat Group (DGL)<br>Synlait Milk Limited (SML) | Comvita Limited (CVT)<br>Sanford (SAN)<br>Scales Corporation (SCL) | The a2 Milk Company (ATM)<br>NZ King Salmon (NZK)<br>Green Cross Health (GXH) |
| ENERGY | | NZ Refining (NZR) | Z Energy (ZEL) |
| FINANCIALS | | Heartland Group Holdings (HGH)<br>NZX (NZX) | |
| HEALTH CARE | Fisher & Paykel Healthcare (FPH) | Arvida (ARV)<br>Ebos Group (EBO) | AFT Pharmaceuticals (AFT)<br>Pacific Edge (PEB) |
| HEALTHCARE PROVIDERS | Ryman Healthcare (RYM) | Oceania Healthcare (OCA)<br>Summerset Group (SUM) | Metlifecare (MET) |
| INDUSTRIALS | | Metro Performance Glass (MPG)<br>Skellerup Holdings (SKL) | Methven (MVN) |
| TRANSORT INFRASTRUCTURE | Auckland Airport (AIA)<br>Mainfreight (MFT)<br>Port of Tauranga (POT) | Air New Zealand (AIR)<br>Freightways (FRE) | |
| INFORMATION TECH | Vista Group International (VGL) | Gentrack Group (GTK) | EROAD (ERD) |
| MATERIALS | | Fletcher Building (FBU) | Steel & Tube (STU) |
| PROPERTY | Property for Industry (PFI) | Argosy Property Ltd (ARG)<br>Goodman Property Trust (GMT)<br>Investore Property (IPL)<br>Precinct Properties NZ (PCT)<br>Stride Property Group (SPG)<br>Vital Healthcare Prop Trust (VHP) | Asset Plus (APL)<br>Augusta Capital (AUG)<br>Kiwi Property Group (KPG) |
| UTILITIES | Genesis Energy (GNE)<br>Mercury NZ (MCY)<br>Meridian Energy (MEL)<br>TrustPower (TPW) | Contact Energy (CEN)<br>Infratil (IFT)<br>TILT Renewables (TLT)<br>Vector (VCT) | |

# *FNZC - AUSTRALIAN EQUITIES RECOMMENDATIONS*

| AUSTRALIA | UNDERPERFORM | NEUTRAL | OUTPERFORM |
|---|---|---|---|
| **HOTELS RESTRAURANTS LEISURE** | Domino's Pizza (DMP) | Crown (CWN)<br>Flight Centre (FLT)<br>Star Entertainment (SGR) | Aristocrat Leisure (ALL)<br>Tabcorp Holdings (TAH) |
| **IT Services** | Xero (XRO) | Computershare (CPU) | Link Administration Holdings (LNK) |
| **COMMUNICATION SERVICES** | TPG Telecom (TPM) | Real Groiup (REA)<br>Telstra Corporation (TLS) | carsales.com.au (CAR)<br>Nine Entertainment (NEC) |
| **Retail** | Coles Group (COL)<br>JB Hi-Fi (JBH) | Harvey Norman (HVN)<br>Wesfarmers (WES)<br>Woolworths (WOW) | Wesfarmers (WES) |
| **Beverages** | | Coca-Cola Aml (CCL) | Treasury Wine (TWE)<br>Graincorp (GNC)<br>Perpetual (PPT) |
| **Oil & Gas** | | Oil Search (OSH)<br>Origin Energy (ORG)<br>Santos (STO) | Caltex Aust (CTX)<br>Woodside Petroleum (WPL)<br>Worley Parsons (WOR) |
| **Financials** | ASX (ASX)<br>Bendigo & Adelaide Bank (BEN)<br>Janus Henderson Group (JHG) | AMP Limited (AMP)<br>Bank of Queensland (BOQ)<br>Bendigo and Adelaide Bank (BEN)<br>Challenger (CGF)<br>IOOF Holdings (IFL)<br>National Australia Bank (NAB) | ANZ Banking Group (ANZ)<br>Commonwealth Bank Aust (CBA)<br>Macquarie Group (MQG)<br>Magellan Financial (MFG) |
| **Insurance** | | Insurance Australia (IAG)<br>Medibank Private Limited (MPL)<br>Suncorp Group Limited (SUN) | QBE Insurance Group (QBE) |
| **Healthcare** | Cochlear (COH)<br>Ramsay Health Care (RHC) | Ansell Limited (ANN)<br>CSL (CSL)<br>Healthscope (HSO)<br>Sonic Healthcare (SHL) | ResMed Inc. (RMD) |
| **Industrials** | | Clearway Waste Mgmt (CWY)<br>Downer EDI (DOW)<br>Seek (SEK) | |
| **Building Products** | | CIMIC Group (CIM) | Brambles (BXB)<br>Reliance Worldwide (RWC) |
| **Chemicals & Materials** | | Orora (ORA)<br>Amcor (AMC)<br>Dulux Group (DLX) | Adelaide Brighton (ABC)<br>Incitec Pivot (IPL)<br>James Hardie Industries (JHX) Boral (BLD)<br>Orica (ORI) |
| **Metals & Mining** | Evolution Mining (EVN)<br>Newcrest Mining (NCM)<br>Northern Star Res (NST)<br>OZ Minerals (OZL) | BHP Billiton (BHP)<br>Fortescue Metals Group (FMG)<br>Ro Tinto (RIO)<br>South 32 (S32) | Alumina (AWC)<br>BlueScope Steel (BSL)<br>Iluka Resources (ILU)<br>South 32 (S32) |
| **Transportation** | Qube Holdings (QUB)<br>Sydney Airport (SYD) | Atlas Arteria (ALX)<br>Transurban (TCL.AX) | Macquarie Atlas (MQA)<br>Qantas (QAN) |
| **Property** | Dexus Property Group (DXS)<br>Charter Hall Group (CHC) | Scentre Group (SCG)<br>GPT Group (GPT)<br>Mirvac Group (MGR)<br>Vicinity Centres (VCX) | Lend Lease (LLC)<br>Goodman Group (GMG) |
| **Energy** | AGL Energy (AGL)<br>Spark Infrastructure (SKI) | AusNet Services (AST)<br>APA Group (APA) | |

# *FIXED INTEREST …. BBB-, BBB & BBB+ BONDS*




**Notes:**

1. The credit ratings above are provided by Standard & Poor's or Fitch or are the FNZC expected credit rating if the security was rated by a credit rating agency. Detailed credit analysis has not been undertaken by FNZC on the subject companies.
2. The Heartland NZ (HBL) term deposit interest rates shown above are available to FNZC clients (minimum $20,000 deposit) as at 25/02/2019. HBL term deposits held in custody currently pay out interest on maturity. However, the yields shown above have been adjusted to equivalent semi-annual yields so that they are comparable with the other securities.
3. The following securities are unrated (refer to circle symbol in graph): ZEL030, ZEL040, ZEL050, ZEL060, TPW140, TPW150, TPW170, PCT010, PCT020, SKT020, UOC010, PFI010, PFI020, IPL010, SUM010 and SUM020.

## FNZC CURRENT PICKS:

**SKT020, TPW140, PCT010, KPG020, GMB040, IPL010 and PCT020.**

FNZC still believes that the elevated yield of 4.00%pa at which SKT020 trades, provides an attractive investment opportunity. Following its 1H19 profit result, we still believe that SKT would probably achieve a BBB- credit rating if it were rated. It represents a sizeable premium over comparable unrated securities such as the unrated UOC010, TPW140 and ZEL040 securities, which have similar assessed credit quality.

Other securities that appear to offer reasonable value while exhibiting reasonable liquidity are the TPW140 (unrated, but assessed as likely to achieve a BBB- credit rating) and PCT010 (unrated, but assessed as likely to achieve a BBB+ credit rating) at yields of 3.50%pa and 3.35%pa respectively. Longer dated property securities continue to trade on wider spreads reflecting the markets diminished appetite for the sector following the large amount of debt issuance in 2018 ($775 million including the Summerset issue).



There have been two new bond issues in the BBB space in the past month. Trustpower Limited issued a $100 million of 22 February 2029 unsecured, unsubordinated, re-setting fixed rate bonds (TPW170). We believe at a spread of 1.83%pa (issued margin of 1.90%) it appears relatively poor value. Contact Energy launched a $100 million of unsecured, unsubordinated, fixed rate green bonds (CEN050) maturing on 15 August 2024. We viewed the offer as representing good value relative to other 'BBB' rated securities. CEN050 begins trading on 4 March.

## Limitations and Disclaimer