WEALTH MANAGEMENT RESEARCH
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Wealth Weekly
Keeping Portfolios Healthy

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Globally, the tug of war between improving economic data and a resurgence in COVID-19 cases continued last week, with the economic data winning most of the time. Locally, the smaller end of the market has recently been dominating the news. On Friday, Pacific Edge investors were finally able to celebrate a very long-anticipated announcement that the US Centers for Medicare & Medicaid Services will provide reimbursement for the company's bladder cancer test. The stock doubled on the news. And on Monday Metlifecare rose +10% after the private equity buyer that had previously offered $7 a share, before retreating amid the pandemic, came back with a $6 offer. That followed Augusta Capital receiving a formal takeover offer from Australia's Centuria Capital early last week.

Australian healthcare stocks: Still like Ramsay & CSL

We have reviewed two of our preferred Australian healthcare companies, **Ramsay Health Care** and **CSL**. Ramsay looks better value than CSL at current prices, but we believe both make good portfolio holdings. They offer defensive and growing earnings streams.

Ramsay owns/operates hospitals in Australia and parts of Europe and Asia. **The company is expected to benefit from a period of higher hospital utilisation** as surgeons and patients catch up on elective procedures that were postponed during COVID-19 lockdowns.

CSL (once known as the Commonwealth Serum Laboratories) pays people to donate plasma, which it then processes and sells globally as products to help support patients' immune systems. **In the short term CSL's earnings could be more volatile** than usual because plasma collection (which incurs costs) is picking up in the US while hospital demand is probably still subdued given the continued focus on treating COVID-19. **But bumper sales of flu vaccines by CSL's Seqirus business could help offset this**.

Themes of the week

The May/June NZ company reporting season, which was drawn out as companies delayed their announcements due to COVID-19 related delays, finally came to a close last week. As expected, median earnings declined at the companies which reported, and dividends were even lower than analysts' reduced forecasts, with many companies prudently conserving cash in the uncertain environment. Managements' outlook statements were evenly balanced. **We interpreted the guidance from Arvida, Fisher & Paykel Healthcare, Investore, Ryman Healthcare, Stride Property and Tilt Renewables as generally positive**, while Asset Plus, Goodman Property, Kiwi Property, Napier Port and Z Energy seemed more negative. We expect the NZX 50 companies we cover to report a -4.0% decline in earnings in FY20, the worst result since 2005. But after that, **our analysts are forecasting the median NZX-listed company's earnings will grow at +3.4% p.a. over the next three years**.

Bonds have performed very well for investors' portfolios over the last 10 years, and they did that again in the June quarter (along with practically all other assets!). But recent maturities together with a lack of new bond issuance are making it hard to maintain bond allocations in portfolios at reasonable prices. Record low interest rates and the uncertainty over the outlook for inflation (or deflation) raise the question of whether bonds can continue to fulfil their duty in portfolios the way they have over recent decades.

Looking ahead

School holidays and a dearth of scheduled company events will probably make for a quiet week in the New Zealand market. **Electronic card retail sales data** to be released on Friday should reveal how the retail sector has fared following the move to Alert Level 1 in early June. Across the ditch the **Reserve Bank of Australia** will release its interest rate decision on Tuesday. Economists expect the RBA will leave the target cash rate at 0.25%. Of greater interest will be whether the central bank tries to talk down the Aussie dollar by saying its strength poses a threat to the economic recovery. In the UK, all eyes will be on the **Chancellor of the Exchequer's summer statement** on Wednesday night NZ time in which he is expected to announce further measures to support the economic recovery.

FORSYTH BARR

Prepared to Pay Up for Defensive Growth

Core Australian portfolio holdings — Ramsay Health Care (RHC) and CSL (CSL)

Last week we had an update from one our Australian research affiliates on **Ramsay Health Care** (RHC.AX) and **CSL** (CSL.AX). We retain a favourable view on RHC and CSL and believe that both companies offer attractive, defensive, growth characteristics, which we expect will appeal to investors given the uncertain economic outlook globally. At current prices we have a preference for RHC over CSL but continue to like both companies as core portfolio holdings.

Ramsay Health Care (RHC.AX)

Ramsay Health Care is an **international hospital operator with hospitals and primary care clinics in Australia, France, the United Kingdom, Sweden, Norway, Denmark, Germany, Italy, Malaysia, Indonesia and Hong Kong**. The company i) owns all of its Australian properties, ii) owns half of its French hospitals, and iii) leases all of its UK properties. Ramsay facilities cater for a range of health care needs from primary care to complex surgery, as well mental health care and rehabilitation.

The effects of COVID-19 have placed a backlog on elective surgeries around the world. In Australia, initial analysis by our affiliate suggests that RHC would need to run at ~120% capacity utilisation until the end of CY20 to clear the backlog of non-urgent surgery.

Over the coming 12 months **we expect higher hospital utilisation to help clear the backlog of non-urgent elective surgeries, which will be a key driver of profitability for RHC** both in Australia and across its international operations in UK/Europe/Asia. Not only will this help short term profitability but we also expect there to be some enduring medium-term gains from hospital consolidation and productivity benefits. In this regard we believe there is upside risk to consensus earnings estimates for RHC, and in our view RHC looks to be excellent buying both for its downside protection to ongoing challenges dealing with economic fallout from COVID-19 and on an absolute return basis.

RHC remains a member of our Australian equities model portfolio.

CSL (CSL,AX)

CSL is **one of the world's largest global plasma fractionators**. The plasma-products themselves have proved excellent medical products, with wide application, and deliver therapeutic outcomes that are difficult to achieve by other means.

CSL's Behring business could deliver bumpy plasma earnings over the next 12 months due to a potential supply-demand mismatch, as there seem to be early signs of a potential recovery in US plasma collection whilst demand has been weaker as hospitals focus more on treating COVID-19 than immune conditions. CSL is contributing to the development of a potential plasma-derived therapy and a novel immunotherapy for COVID-19.

Our research affiliate expects that **strong demand for influenza vaccines will help offset potential lumpiness in CSL's Behring earnings**. CSL's flu business, Seqirus (~20% of CSL revenues and EBIT) has experienced unprecedented demand as COVID-19 has raised awareness of the importance and value of flu shots. CSL is increasing its flu vaccine manufacturing as much as possible. CSL is contributing to the funding, testing and manufacture of a COVID-19 vaccine candidate developed by the University of Queensland.

CSL remains a member of our Australian equities model portfolio.

Themes of the Week

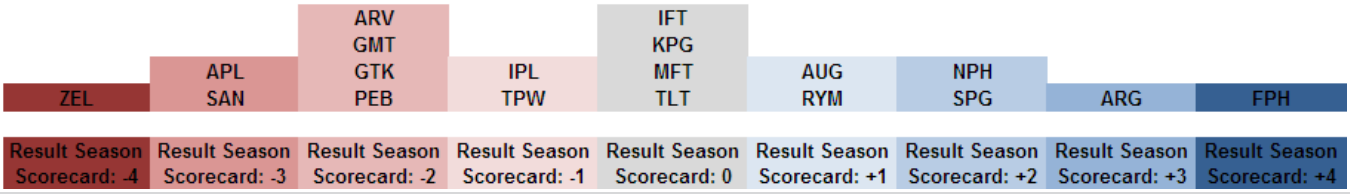
NZ Equities

Reporting Season — A point in time

The May/June 2020 reporting season has drawn to a close with median EPS growth in negative territory, as expected. The number of companies whose results beat and missed was fairly evenly balanced, but dividends were even worse than expected as companies took the prudent route of cancelling, deferring or reducing dividends.

Our quantitative scorecard assigns a score to each company's result based upon: beat/miss, revisions to our estimates for the next fiscal year, relative share price reaction after the result, and the management outlook statement. The resulting scores are then tabulated in Figure 1, showing a slightly negative skew to the results overall.

Figure 1. Reporting season quantitative scorecard

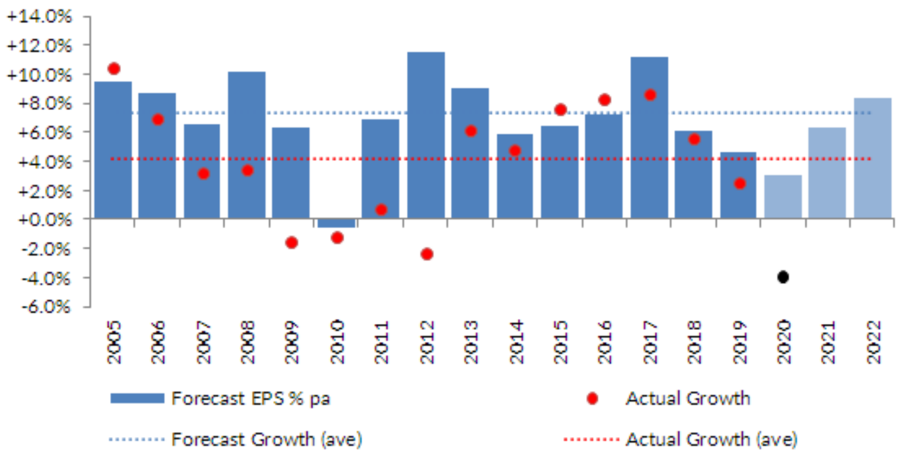


Key, from left (weak results) to right (strong results): ZEL Z Energy, APL Asset Plus, SAN Sanford, ARV Arvida, GMT Goodman Property, GTK Gentrack, IPL Investore Property, TPW Trustpower, IFT Infratil, KPG Kiwi Property, MFT Mainfreight, TLT Tilt Renewables, AUG Augusta Property, RYM Ryman Healthcare, NPH Napier Port, SPG Stride Property, ARG Argosy Property, FPH Fisher & Paykel Healthcare

Source: Forsyth Barr analysis

After the results, we revised down more companies' estimates for FY21 and FY22 than we upgraded (by ~2:1 for FY22). We now expect the NZX companies we cover to finish FY20 with a -4.0% median decline in earnings — the worst result for the group since 2005 (Figure 2). Our three year median annualised EPS growth estimate is now +3.4% p.a. (black dot), down from +4.5% p.a. a couple of months ago.

Figure 2. Sometimes we get it right ... median EPS growth expectations (less 12mths) versus actual



Source: Forsyth Barr analysis

Despite the downgrades, company outlook statements were evenly balanced (Figure 3).

Figure 3. NZ reporting season outcomes, earnings revisions and outlook statements

Company	EPS result vs expectations*	Post-result EPS revision (FY21)	Outlook statement
Fisher & Paykel Healthcare	▲ Above	▲ +9.1%	**Positive.** With no strong sign of the virus abating globally, FPH stands to continue to benefit from its technology being a front-line therapy for COVID-19 patients. Additionally, FPH will likely see faster adoption of its high flow nasal cannula oxygen therapy.
Argosy Property	▲ Above	▲ +1.6%	**In line.** Core business in good shape and dividend sustainable. Low OCR and re-introduction of depreciation on building structures helps to offset any short-term economic pain.
Napier Port	▲ Above	▲ +1.6%	**Slightly negative.** The future trade outlook and the timing of the revival of the cruise industry remains uncertain and is now dependent upon COVID-19 public health developments.
Investore Property	▲ Above	+1.1%	**Slightly positive.** With much of IPL's portfolio occupied by 'essential businesses', the impact of the COVID-19 lockdown was mitigated. As such, IPL stands poised to continue with its strategy of targeted growth to maximise shareholder returns. The company has ample headroom to drive growth via acquisitions.
Trustpower	▲ Above	▼ -3.1%	**In line.** Despite operating in a sector with relatively low exposure to COVID-19 downside risk, some challenges to FY21 earnings include slightly below average hydro generation, lower commercial consumption and an increase to bad debt levels.
Kiwi Property	▲ Above	▼ -14.5%	**Negative.** Despite a solid result, the near-term post lockdown environment remains challenging with support of 1/3 of gross rent being provided to tenants and deferral of the completion of the Sylvia Park Galleria.
Augusta Capital	▲ Above	n/a	**In line.** After a year severely impacted by COVID-19, AUG is rebuilding in the year ahead. It is targeting overhead cost savings of 20%, expects to relaunch Augusta Property Fund, has postponed further development of tourism assets and continues to progress development opportunities within Asset Plus. AUG has received a takeover offer from ASX-listed Centuria Capital (CNI.AX)
Ryman Healthcare	In-line	▲ +48.8%	**Slightly positive.** Development activity appears to be returning post-COVID, and demand metrics remain robust with care occupancy 98% and resales vacany just 1.7%.
Goodman Property Trust	In-line	-1.4%	**Slightly negative.** GMT's portfolio proved resilient over lockdown (90% rent collection over April/May). While we expect high quality industrial assets to fare better than retail and office sub-sectors it will still be impacted by the broader economic slowdown. Lower tenant demand will increase vacancy, pressure rents, and reduce development lead earnings growth.
Mainfreight	In-line	▼ -2.6%	**In line.** After a strong FY20 result, MFT is cautiously optimistic about the near-term outlook. We expect FY21 profitability to be modestly lower than FY20, though MFT's ability to win market share will help to mitigate the full cyclical pressures on its operations.
Tilt Renewables	In-line	▼ -16.7%	**Positive.** With almost no exposure to the effects of COVID-19 and its two core developments (Dundonnell and Waipipi wind farms) tracking well, TLT has a positive near-term outlook.
Stride Property	▼ Below	▲ +7.4%	**Positive.** Recent asset sales to Investore (IPL) and the upcoming establishment of Industre will leave SPG in a strong capital position as it continues to execute its asset management growth strategy.
Arvida	▼ Below	▲ +3.4%	**Slightly positive.** Despite performing well in the face of COVID-19, ARV is providing no FY21 guidance given the near-term uncertainties. However, the company is targeting a similar build-rate to 2020.
Pacific Edge	▼ Below	+1.2%	**In line.** After its result, PEB last week announced a key marketing milestone in the US when the Centers for Medicare & Medicaid Services agreed to provide reimbursement for PEB's bladder cancer tests.
Asset Plus	▼ Below	+0.4%	**Slightly negative.** After a soft FY20 result, APL is in the midst of two major and time critical developments at Graham St and Munroe Lane. Funding constraints and a weakening economic backdrop have significantly increased execution risks for these projects.
Sanford	▼ Below	▼ -9.5%	**In line.** Although 1H20 was disappointing, and near-term uncertainty remains, the underlying growth strategy for SAN remains intact. Aquaculture operations have maintained positive momentum with both volume and price firming across salmon and mussels.
Z Energy	▼ Below	▼ -11.0%	**Negative.** ZEL's recent equity raise and significant cost-cutting through FY21 and FY22 should help prepare it for the continued COVID-19 impact on earnings.
Gentrack	▼ Below	▼ -40.9%	**In line.** The company's slow rebuild is ongoing, gaining new customers in its transition to SaaS and improving its earnings quality. However, management is no longer publishing numerical guidance and labour cost savings may be offset by new senior hires and COVID-19/economic revenue risks.
Infratil	n/a	n/a	Slightly negative. Despite some small positive surprises in its result, IFT provided no formal FY21 guidance as a group. COVID-19 is expected to have considerable negative impact on WIAL, and IFT is finalising discussions and paperwork to waive near-term debt covenants.

Source: Forsyth Barr analysis
*vs Forsyth Barr expectations +/- 2.5%, Post result revisions > +/- 1.5%

Fixed Interest

Quarter in review

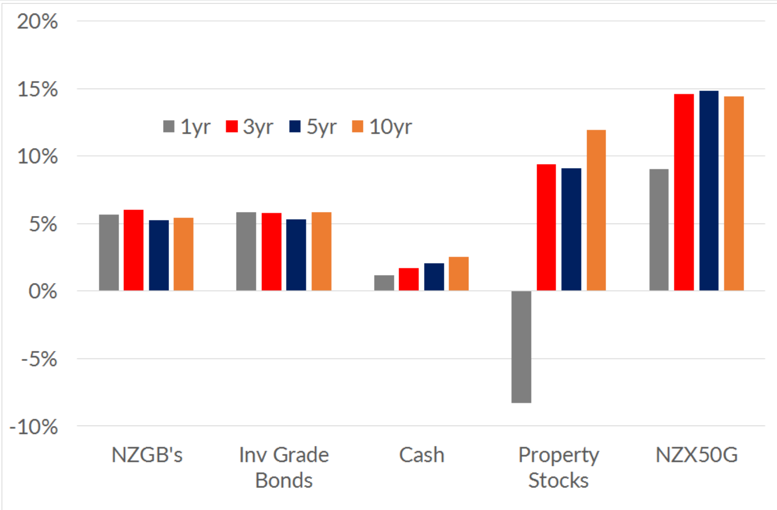
The first half of 2020 has been and gone and what an interesting half of the year it was. A global pandemic sent the markets in a spin before the second quarter saw US equities (Dow Jones Index) record their best quarter since 1987, and debt issuance (US investment Grade) in the US was up +99.7% on 2019. US junk bonds returned +10.2%, the biggest quarterly gain in over a decade.

The performance of New Zealand bonds wasn't too shabby either with quarterly returns of +3.47% for the investment grade ones. Unfortunately, we have yet to see any new corporate issuance, while a number of maturities in June (over NZ$1.1bn) place further upward pressure on debt prices. With corporate reporting season just around the corner it may be that we have to wait until Q3 before corporate debt issuance could be on boards' minds.

The chart below illustrates the steady and consistent nature of bonds, alleviating the nasty shocks that can occur in higher-risk assets like equities. Given that in a little over 10 years we have witnessed both a credit crunch in the way of the Global Financial Crisis and now a global pandemic, the role that bonds have played in investment portfolios cannot be understated.

But with interest rates at record low levels, do bonds still play a large part given the room for capital appreciation from interest rate movements is now so small? The other risk for bonds is the inflationary or deflationary picture that could arise from mass fiscal and monetary stimulus.

Figure 4. Returns from NZ asset classes to the end of June



Source: Forsyth Barr analysis, S&P, NZX, Bloomberg

Research Worth Reading

New Zealand

Auckland Airport (AIA) — Significant Items in the Flight Path

AIA has provided details of FY20 one-offs in the form of "Significant Items", which provides some insight into the level of rent relief provided to retailers, but offers little visibility over forward earnings. The company is pursing a further headcount reduction, albeit this is encapsulated in the existing -35% opex reduction target. We retain a NEUTRAL rating on AIA but recognise that with the timing of international borders reopening being pushed out, sentiment towards a travel recovery may wane. We continue to expect a long dated travel recovery with AIA back at FY19 international passenger levels in FY25. NEUTRAL. (Published by Forsyth Barr)

Equity Strategy Recovery Heat Map; Stalled

Our real-time COVID-19 recovery heat map shows that many of our economic indicators have fallen again this week, further diminishing the gains made in the last month. Unemployment levels have increased, credit card spending has eased back, and road traffic volumes have deteriorated. Travel indicators are largely unchanged, with domestic flights and international arrivals sequentially static, and a small uptick in hotel occupancy. In contrast, corporate bond spreads have narrowed as demand outstrips supply with a number of redemptions and a lack of new issuance. (Published by Forsyth Barr)

F&P Healthcare (FPH) —FY20 Result — Tailwinds Flowing

FPH delivered a strong FY20 result, with momentum continuing into 1Q21; while this was anticipated, the magnitude of the positive momentum from COVID-19 outpaced our expectations. FPH is a high-quality growth company, benefitting from material tailwinds; however, valuation multiples are elevated against any benchmark. The share price lift through 2020 (+51%; market cap +NZ$6.5bn) is also out of step with our scenarios around the magnitude of potential COVID-19 tailwinds. We see better value for risk elsewhere, although acknowledge momentum remains firmly on the stock's side. UNDERPERFORM. (Published by Forsyth Barr)

Kathmandu Holdings (KMD) — Climbing Higher

KMD provided a positive trading update, materially ahead of our expectations, delivering a strong recovery in sales. KMD has guided to FY20 guidance of underlying EBITDA in excess of NZ$70m, more than double our prior estimate (NZ$31m), driven by higher sales activity in combination with lower gross margin pressure. We upgrade our near-term earnings forecasts accordingly. Whilst the outlook for the retail sector remains opaque, we view current trading multiples as attractive. OUTPERFORM. (Published by Forsyth Barr)

Australia

Afterpay (APT.AX) — Better-than-expected recent data points, UK hits 1m customers. Maintain Sell on valuation grounds

APT continues to benefit from a shift to online shopping due to COVID-19 restrictions, with stimulus also helping boost consumption. In Australia, May's retail sales rebounded +16% m/m and +5% y/y, following the record decline in April (-18% m/m). Further, APT announced its 1 millionth UK customer. UBS has positive view on sales, but thinks the market is failing to appreciate the capital intensity required to fund APT's growth. That said, in the absence of a catalyst the market may continue to view valuation through a different lens. SELL. (Published by UBS)

Lendlease Group (LLC.AX) — Market update

LLC provided a market update that highlighted the profound impact COVID-19 has had on the company. Given the extent of the second-half loss, which Ord Minnett estimates at $160 million, and the delay in the sale of the engineering and services business beyond 30 June, LLC's decision to raise $1.2 billion in capital in April takes on additional importance notwithstanding the dilution. Ord Minnett sees LLC as a recovery story with some issues it may need to address, but the rewards are potentially high for those willing to go the distance. BUY. (Published by Ord Minnett)

Telstra Corporation (TLS.AX) — Postpaid price increase

On the heels of the closing of the TPG Telecom-Vodafone merger, TLS has raised its postpaid pricing across the board by $5-15. Ord Minnett considers this a bold move by TLS at a time when the industry is expecting Vodafone to be more aggressive on pricing following its merger with TPG, although Ord Minnett believes the move is the right one. Despite the potential monetary impact being minimal in the near term, it should allow all industry participants to focus on margin repair rather than aggressive competition after a sustained period of margin erosion for all players. ACCUMULATE. (Published by Ord Minnett)

Webjet (WBJ.AX) — Convertibles to drive acquisition growth + selective destinations opening for leisure travel

WEB has enough funding to endure the short-term pain of the pandemic and to acquire complementary businesses. A high degree of uncertainty still remains around the travel market recovery, which will likely create a more volatile share price in the short-term, however UBS continues to believe the high-quality, well-capitalised players like WEB will take share and potentially acquire good businesses at discounted prices. Maintain BUY. (Published by UBS)

International

Baxter International (BAX.N) — Product Cycle Momentum Beginning for a Relatively Defensive Growth Play

Last week, UBS met with BAX's management. BAX is looking forward to the launch of its integrated LV elastomeric pump (for infusions) in the 2H and subsequently breaking new ground with sringe, patient-controlled analgaesia, and ambulatory pumps. UBS thinks this could help BAX gain share given a more even footing with market leader Becton Dickinson, which is currently restricted from selling/marketing due to regulatory problems. UBS likes BAX's hedged positioning and sees multiple business tailwinds developing, with strong product cycles forthcoming; UBS reiterated its BUY rating for this relatively defensive growth play. BUY (Published by UBS)

Lululemon (LULU.O) — Thinking Bigger than Retail (and we like that)

LULU announced the acquisition of Mirror, an at-home interactive fitness device (think part mirror, part TV). Citi believes the purchase shows that LULU is thinking bigger than just retail. LULU has established a strong loyalty with its customer base, and through constant innovation and high-quality products, it has license to sell other products to its customers (which can be seen in outerwear, personal care, footwear, etc). Citi believes LULU can leverage its large (and loyal) customer base to rapidly accelerate revenue within the Mirror business. BUY. (Published by Citi)

LVMH Moet Hennessy Louis Vuitton (LVMH.PA) — SA Q2 as a stunt of pricing power

UBS continues to believe that LVMH offers investors one of the most defensive growth profiles in the luxury industry due to: 1) its portfolio of strong and well-managed brands, 2) exposure to a consumer staples business (c.20% of EBIT) as well as 3) historically disciplined and growth-accretive capital allocation. In UBS's view, investors are likely to value this even more in the post-COVID-19 world. UBS believes the luxury goods sector's strong long-term structural positioning could drive further re-rating. BUY. (Published by UBS)

PayPal (PYPL.O) — PYPL Remains Top Idea; Notes from Recent CFO Meeting

Citi recently hosted PYPL for a virtual meeting with Europe-based investors. Citi discussed multiple topics, including post-COVID-19 trends, sustainability of higher growth levels, expenses, partnerships, other value added services, and more. Key reasons why Citi believes elevated growth trends may persist include: 1) relatively consistent engagement levels in regions where social distancing has been relaxed, and 2) a notable proportion of new users making purchases online for the first time. BUY. (Published by Citi).

Ping An Insurance (2318.HK) — Mr. Peter MA resigns as CEO; CFO Mr. Jason YAO appointed as co-CEO

Peter Mingzhe Ma, the founder of Ping An Group, resigned as the group's CEO on 1 July. After his resignation, Mr Ma will continue to serve as chairman of Ping An Group and lead the company's strategy development, innovation, talent cultivation, and culture construction. Jason Yao, the group's current CFO, has been appointed as one of three co-CEOs alongside Yonglin Xie and Jessica Tan. Citi doesn't expect this change in leadership to result in substantial changes to the overall operations and business strategies of Ping An Group. BUY. (Published by Citi)

Calendar

Figure 5. Calendar

Date	New Zealand	Australia	International
6-Jul	ANZ Commodity Price Index	MI Inflation Gauge	UK: Construction PMI (Jun)
7-Jul		AIG Services Index (Jun) RBA Interest Rate Decision (Jul) RBA Rate Statement Viva Energy Group AGM	US: ISM Non-Manufacturing PMI (Jun)
8-Jul	GlobalDairyTrade Price Index	RBA Chart Pack Release	US: JOLTs Job Openings (May) UK: Treasury Committee Hearing on Coronavirus Impact
9-Jul	ANZ Business Confidence	Home Loans Invest Housing Finance	US: Crude Oil Inventories Siemens AGM
10-Jul	Electronic Card Retail Sales (Jun)		US: Initial Jobless Claims
11-Jul			US: PMI (Jun)

Source: Forsyth Barr analysis

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