FORSYTH BARR

WEALTH MANAGEMENT RESEARCH
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Wealth Weekly
NZ Market's Defensiveness on Display

WEALTH MANAGEMENT RESEARCH
wmr@forsythbarr.co.nz
+64 4 499 7464

Last week's performance in equity markets around the world can be best described as mixed, with global indices inching just +0.3% higher. The NZX 50, meanwhile, jumped +3.3% as the earnings season ramped up. The market took yesterday afternoon's news that Auckland's spell at Alert Level 3 will be extended until Sunday in its stride.

One more week of Alert Level 3 ... but reporting season will go on beyond its usual August end

We are into what would normally be the final week of the busiest part of the company reporting season in New Zealand, but this year pandemic-related deadline extensions will stretch the regular season for August into early September. So far 16 of the 40 NZX-listed companies that we cover and which report results this month and next have reported. There have been an equal number of beats and misses (relative to our expectations) at the earnings line. **Median EPS growth is currently tracking ahead of initial expectations. Remarkably, company earnings for the half-year to the end of June 2020 were up by a median of +10.3% compared to the half-year to the end of June 2019.** That's not too shabby for a period that included a global pandemic and the country being in lockdown for a couple of months. The result underscores the defensive nature of many NZX-listed companies.

The **a2 Milk Company** benefited from a substantial sales acceleration in the direct sales channels in China, and the growth runway ahead looks good. The infant formula marketer's potential foray into manufacturing through the acquisition of a majority stake in Mataura Valley Milk (announced on Friday) would diversify its production and thereby mitigate some risk, but we expect the investment will take some time to generate a financial return.

Chorus's result was as expected. The company tempted investors with a promised shift to free cash flow-based dividends from FY22, which we expect will allow a substantial uptick in the dividend after the Ultra Fast Broadband rollout winds down in FY24.

Healthcare distributor **EBOS Group** delivered a solid FY20 result, and FY21 apparently started well for the company. The stock seems to have been held back by the potential for a further selldown by significant shareholder Sybos Holdings.

Fisher & Paykel Healthcare shot the lights out with its trading update, as it has been able to sell its flow generators to hospitals around the world for treating COVID-19. The big question is what happens to its sales when the pandemic eases off, which is a concern for such an expensively valued stock.

In the electricity sector, the results from **Genesis Energy** and **Mercury NZ** were solid given the conditions. But all eyes were on the management teams' quite diverse comments about the outlook when the NZ Aluminium Smelter (NZAS) shuts down next year, which points to a high level of uncertainty about how the sector dynamics will shake out over the next couple of years.

Themes of the week

The solid results from companies here mirrored better than expected earnings in the US and Europe over the past month, although that partly reflected the degree to which estimates in the Northern Hemisphere had been slashed earlier in the year. **The results picture in Australia is mixed, with a few companies driving hefty analyst downgrades, but most forecasts have been flat or upgraded**.

With the reporting season has come the overdue **revival of issuance activity in the fixed interest securities market**. So far Wellington International Airport, Investore Property and Mercury NZ have tapped the market, and we hope to see more later in the year.

Looking ahead

Reporting season continues in New Zealand this week with Meridian Energy, Metlifecare, Scales and Spark expected to announce results on Wednesday, Air New Zealand and Vector on Thursday, and Delegat's and Port of Tauranga on Friday.

NZ Results Season

Below we have outlined the last week's results from of some of our most widely held companies.

The a2 Milk Company (ATM.NZ) — FY20 Result & Potential Mataura Valley Milk Acquisition

ATM reported profit growth of +34% in FY20, in line with our expectations. Key highlights included a substantial sales acceleration in the direct sales channels in China and solid cash conversion.

Management's FY21 outlook for "strong revenue growth" and an EBITDA margin of 30–31% (which seems conservative compared to the 31.8% achieved in FY20) is vaguely consistent with our assumptions. Independently assessing ATM's ongoing sales performance and market share in China is difficult, but if anything we came away from the result slightly more positive on the growth runway ahead in China's offline sales channels (particularly in Mother & Baby stores) and ATM's ability to capitalise on it.

On Friday **ATM announced it has entered into due diligence to potentially acquire a 75% stake in NZ dairy processor Mataura Valley Milk for ~NZ$270m** (which represents 1.4x the build price and 1/3rd of ATM's NZ$850m cash pile). ATM also flagged its intention to invest more into blending and canning capacity. The deal would provide some diversification in production and a closer tie up with Mataura owner China State Farms, with which ATM already does business in China. But the investment will be dilutive in the near term and will take time to ramp up to producing a2 infant formula and pay back the initial investment. It also takes ATM away from its capital-light business model.

ATM ticks a lot of boxes, with an attractive growth outlook, a defensive product, high returns and plenty of cash. We forecast compound annual growth in earnings per share of +15% over the next three years. Given these characteristics **we see the current valuation levels as attractive** (the forward PE multiple is ~28x when adjusted for US losses and cash). Our rating remains OUTPERFORM.

Chorus (CNU.NZ) — Dividends based on free cash flows from FY22

There was nothing materially new in CNU's FY20 result. Revenue, EBITDA, capex, and dividends were all in line with our forecasts. Key questions remain unchanged: (1) what revenue (and therefore free cash flow [FCF]) will CNU generate under the to-be-finalised fibre regulatory regime? and (2) how will the market value CNU's FCF and dividend yield once that is determined? CNU said it will transition to a dividend policy based on free cash flow (FCF) from FY22. **We estimate from FY24 (when the ultrafast broadband [UFB] fibre network build is largely complete), CNU will generate FCF of c.NZ$0.70 per share (before tax), which will facilitate a material lift in the dividend over the medium-term**. We retain an OUTPERFORM rating.

EBOS Group (EBO.NZ) — Consistent Delivery; Up to OUTPERFORM

EBO delivered profit growth of c.+13% in FY20, marginally short of our high expectations. COVID-19 has reportedly had a neutral impact on the business so far. **FY21 apparently started well. Like many companies, EBO's management highlighted uncertainty in the outlook.** We made small (c.-2%) downgrades to our medium-term forecasts. Our target price rose to NZ$28.00 (primarily due to revisions to our team's cost of capital assumptions for New Zealand stocks). We upgraded our rating to OUTPERFORM.

EBO has underperformed the NZ market year-to-date which is counter-intuitive to its defensive attributes (it supplies the pharmacy, hospital and petcare sectors) and the recent lowering of regulatory risk. We attribute this to **the remaining stake held by major shareholder Sybos Holdings coming off escrow (again) last week, which could create some short-term indigestion for the share price if Sybos chooses to sell-down further**.

That aside, we believe **the current valuation metrics (4.0% cash dividend yield, 6.0% free cashflow yield, and below-market P/E multiple) offer a good entry point** into a well-run company with a history of healthy returns and consistently strong cash conversion, and which has a solid growth outlook and a healthy balance sheet with capacity for bolt-on acquisitions (which have historically been value accretive).

Fisher & Paykel Healthcare (FPH.NZ) — Tailwinds Still Flowing

FPH provided a trading update confirming an exceptional start to FY21, underpinned by continued momentum in its Hospital division, with its products used as a front-line therapy for COVID-19 patients.

The growth path beyond FY21 is dependent on currently unknowable customer behaviour after the pandemic-induced spike in demand for hospital equipment. We expect growth to be difficult, especially if consumables revenue cannot replace waning hardware sales. COVID-19 may prove to be an enduring catalyst to higher adoption rates (as we assume in our valuation), but the extent of the uplift remains up for debate.

FPH is a high-quality growth company. Earnings momentum is currently strong but expected to deteriorate. **We see better value growth stocks in both the NZ market and globally** and retain an UNDERPERFORM rating.

Genesis Energy (GNE.NZ) — Targeting to Hit FY21 Goal — FY20 Result

GNE's FY20 operating earnings were below FY19 and towards the bottom of its guidance range. **The company's focus on margins helped it deliver a strong retail result, but this was offset by the impact of the Kupe outage in 1H20, dry weather and higher fuel input costs**. The final dividend was more generous than we had expected.

Interestingly, **each of the three gentailers that reported so far presented different views on how the market will adjust to NZ Aluminium Smelter (NZAS) closing in early FY22**: Mercury NZ's guidance reflects management's confidence in its positioning, GNE is more optimistic of the continued need for its thermal generation than Mercury and Contact Energy, and GNE wants a long-term supply contract with Meridian Energy (which wants a short-term one). At this stage we suspect much of what is publicly said are positioning statements, but **it highlights the degree of uncertainty present in the sector**.

GNE gave away little about its plans to adjust the business following the closure of the NZAS. We are forecasting FY21 will be peak earnings. We remain concerned about the medium-term, post NZAS outlook, in FY22 and beyond. We now estimate GNE's long gas position will continue until FY24, as less thermal generation will be required. In addition, we maintain our view that GNE's retail earnings will come under pressure.

Cost of capital changes have lifted our target price for GNE by +9% to NZ$3.00 per share. Our rating is NEUTRAL.

Mercury NZ (MCY) — Certain in Uncertain Times — FY20 Result

MCY's FY20 result was good given the below-average hydro generation in a dry year. It was in line with our expectations after some adjustments. Key drivers of the performance were an increase in fixed-price electricity sales prices (mainly on commercial volumes) and lower interest costs after some high rate debt rolled off.

MCY's surprisingly strong 17cps FY21 dividend guidance is the main take-out from the FY20 result. It sends a strong signal that management and the board are confident in the company's earnings outlook despite the NZ Aluminium Smelter (NZAS) closure in August next year (early FY23) causing significant uncertainty for the sector.

MCY is not immune to NZAS-related earnings uncertainty, but effects of the closure on MCY are cushioned by the upcoming Turitea wind farm commissioning. Whilst we have lifted our FY21 dividend forecast in line with MCY's guidance, **we are more cautious on the outlook than management**.

The better than expected FY21 earnings and dividend guidance together with the team's reduced cost of capital assumptions for New Zealand stocks have resulted in us lifting our target price by +89cps (+20%) to NZ$5.30. But with MCY trading at five month highs (despite the NZAS closure announcement), we retain our NEUTRAL rating.

Themes of the Week

Macro Snapshot

Stock market recovery not without foundation

As COVID-19 news started increasing from January this year, analysts around the world began cutting their earnings forecasts. Some sectors took a severe pruning (in the US, Energy sector forecasts were slashed by -78%, Industrials -34%, Consumer Discretionary -27%, and Financials -25%).

After the shortest bear market in history, the market already started recovering in late March when central banks and governments stepped in and averted the worst case outcome of mass bankruptcies and financial contagion. With the pandemic news still deteriorating though, consensus forecasts didn't bottom out until two months later on 28 May. By that point analysts were forecasting that S&P 500 companies would suffer a -14.2% decline in earnings over the next 12 months compared to the prior 12 months.

Earnings estimates have been rising ever since, as analysts grow more optimistic about the recovery in economic activity and future earnings. **The Q2 earnings season over the last month provided more positive surprises than negative shocks in a number of markets.** There have been big upward revisions to earnings estimates for cyclical sectors such as Energy (+240% in the US), Consumer Discretionary (+26%), and Industrials (+10%). **Analysts now forecast +8.4% year-on-year growth in earnings for S&P 500 companies over the next 12 months.**

Growth stocks and housing sectors in the lead

The market recovery has been led by the Awesome 8 (Alphabet, Amazon, Apple, Facebook, Microsoft, Netflix, Nvidia, Tesla) as investors gravitated to long-term growth stocks amid short-term uncertainty and declining interest rates.

Another area that has seen plenty of positives is the stay-at-home and nesting sectors. Shares of home improvement retailer Home Depot are up +29.7% since the start of the year, while the S&P 500 is up +5.1%. Home furnishing retailers have had earnings upgrades of +52% since the end of May, homebuilders +42% and home improvement retailers +8%. US housing market market activity is running at above pre-pandemic levels as mortgage rates sink to record lows (2.99% for a 30 year fixed-rate) and as the work-from-home trend seemingly entices more Americans to move further from city centers. Data on Friday showed US home sales rose at a record rate for a second straight month in July, the average time on the market fell to a record low, and home prices shot to a record level.

Plenty of inflation in asset prices, not so much where central banks want it

The average benchmark interest rate of central banks around the world is now well below the post-Global Financial Crisis lows. The **low interest rates and bond yields continue to force cash into higher-risk assets**, and that pressure doesn't look like diminishing any time soon. But while asset prices and macro data such as manufacturing and retail sales point to a V-shaped recovery since the reopening of most economies, inflation has remained pretty subdued.

Australian Equities

Reporting season better than it first appears

The Australian reporting season is two-thirds through and so far analysts' expectations for June 2021 profits for the ASX 200 have come down by -1.4% (when weighted by constituent companies' market capitalisations), which is more than the -0.8% downgrade that we typically see during reporting seasons. **Analysts are still forecasting a profits recovery, but it is now expected to be slightly more subdued than previously thought.**

But there is a more encouraging picture when looking at individual companies. **More companies have enjoyed EPS upgrades than downgrades**. In fact, outside of the hefty profit downgrades for Qantas, Telstra and Commonwealth Bank, our research affiliate finds ASX 200 earnings have been revised up by +0.2%.

The region which has provided Australia Inc with the greatest revenue grief has been New Zealand. The tough lockdown here weighed on profits for companies with exposure to our economy. Still, Australia Inc has offset haemorrhaging revenues with reduced costs in energy, labour and debt.

The current reporting period has provided further evidence that the dividend baton is being passed from the Financial sector to the Miners, for now. Some companies have suspended their buybacks. But guidance has generally been for more capital expenditure.

Below we provide updates from our Australian research affiliate on some of our Australian Model Portfolio companies, as well as companies that are well held across our clients' portfolios.

Amcor FY20

Amcor's (AMC.AX) FY20 result was broadly in line with expectations. At the operational level, EBIT of US$1,497m was very close to our affiliate's US$1,498m forecast. Compositionally, AMC's Rigids business delivered a stronger outcome, offset by a slightly softer result from the Flexibles division. EPS growth of +13% in constant currencies was helped by lower interest and tax expenses. Importantly, the cash result was strong, the Bemis integration is tracking well, and expectations are for another year of EPS growth in FY21 of +5–10%.

CSL FY20

CSL's (CSL.AX) +7% FY20 revenue growth fell below market estimates, but gross margins increased to 57%. The margin gain facilitated a **+17% higher reported NPAT, in-line with market expectations**. CSL confirmed -5% slower FY20 plasma collection and our affiliate expects the September quarter will also be negative. With initiatives to mitigate the lower volume impact on 2H output, CSL set its FY21 NPAT guidance range at 0–8% growth yoy. The guidance assumes stable margins and negative impact of new non-trading items but excludes any potential gains from an Australian COVID-19 vaccine.

FY21 remains a transition year — longer term, our affiliate expects unemployment to swell the ranks of US plasma donors and materially increase immunoglobulin supply and drive industry growth into FY22. With upside risks into FY22 our affiliate has upgraded its target price for CSL to A$330 from $320 and retained a Buy rating.

Origin Energy FY20

Origin Energy (ORG.AX) delivered a solid FY20 result, dampened somewhat with the dividend going below the policy payout range. The main focus will be the FY21 EBITDA guidance of A$1.15–1.3bn from the volatile Energy Markets segment, which was in line with our research affiliate's forecast, but consensus will need to come down. APLNG production is set to be lower too. Origin still looks slightly better value than its expensive peer AGL Energy (AGL.AX). On the back of the result our affiliates have reduced ORG's target price and downgraded their rating from Buy to Overweight. We prefer Santos (STO.AX) over ORG.

Santos 1H20

Santos (STO.AX) delivered its 1H20 result without any surprises. The Santos strategy is coherent, diversified and, credible. There is no doubt all the assets have some challenges, but the company has turned around its business model. The result was largely as expected. If people didn't like the dividend, they were in Santos for the wrong reason in the first place. Deservedly, STO has outperformed its energy sector peers year-to-date, but there is still value on the table and more to unlock as well. **We continue to hold both ORG and STO in our Australian Model Portfolio, but at current prices have a preference for STO**.

Sonic Healthcare FY20

Sonic Healthcare (SHL) delivered +1.6% EBITDA growth, consistent with revised guidance. COVID-19 impacted the 4Q across all of SHL's operating jurisdictions and normal pathology volumes bottomed in April. Australia and Germany recovered to pre COVID-19 levels by the end of FY20. Despite this, FY20 revenue grew +10.5% after the material scale up of COVID-19 testing at high prices in most jurisdictions, combined with modest government assistance in the USA and UK. The company is confident that COVID-19 testing will continue to expand in key markets, but was unwilling to provide guidance given the uncertain duration. Our research affiliate assumes a gradual transition from high-margin COVID-19 to lower-margin normal testing, with a drag from currencies, resumption of Australian collection rents and US pathology cuts. Our affiliate has upgraded its SHL valuation on the back of the result, but noted that the stock price already captures the positive outlook, and retained a Hold rating.

Viva Energy FY20

After the extremely positive trading update in late June, **there was little in Viva Energy's (VEA.AX) result to surprise**. The biggest bit of news was the switch to a pro-rate cash return of A$530m as part of returning the full A$680m of post-tax proceeds from the Viva REIT stake sale. Whilst the impact, both short-term and longer-term, cannot be ignored, on our affiliate's numbers VEA is trading on ~4.5x FY22 EV/EBITDA multiple (and just 6.2x excluding the refining business). Ex-refining, VEA is a quality business, generating a lot of free cash flow and with plenty of latent value in infrastructure.

Fixed Interest

Issuance tap turned on

After a few months of COVID-19 hibernation **the debt markets both in New Zealand and Australia are up and running again**. We suspected that as corporate reporting season was underway, boardrooms would look to their balance sheets to see where improvements could be made. There is nothing like a bit market turmoil to see where your balance sheets could improve and there is no doubt some funding avenues will be reviewed. From inflexible USPP funding arrangements to dubious 'committed' bank funding lines, corporate Treasurers will be (or at least should be) reviewing the funding of their respective company balance sheets.

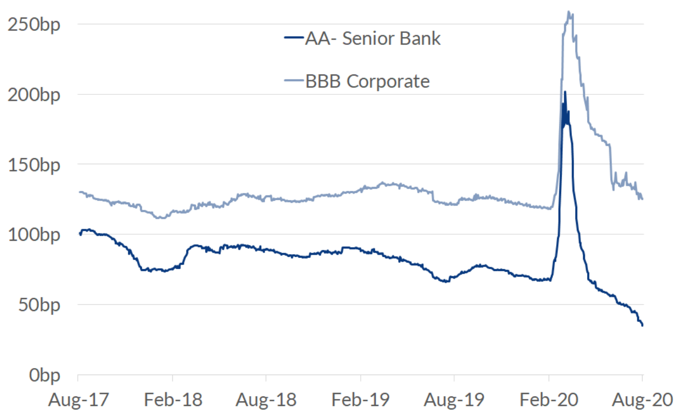
With so many temporary funding lines put in place in March and April it was inevitable that the banks would want to seek some sort of more permanent solution and corporates would also like longer term funding lines established. Instead of waiting for the possible flow of funding that may come directly from the Reserve Bank of New Zealand (RBNZ) to the banks, **a number of New Zealand listed companies are taking advantage of the huge demand for fixed income securities**.

To date the New Zealand market has seen deals from Wellington International Airport, Investore Property and most recently Mercury's Green bond issue which is underway. There has also been a couple of other deals via the wholesale market.

It is a similar scene in Australia with Insurance Australia Group, QBE, Goodman and Coles all completing deals last week totalling A$1.7bn. The ANZ also raised A$1.25bn via an issue completed in Singapore. Demand for these new issues has been very strong despite the low coupons on offer. Credit spreads remain elevated compared to pre COVID-19 days, providing investors with some benefit given the uncertainty that still surrounds the global financial markets.

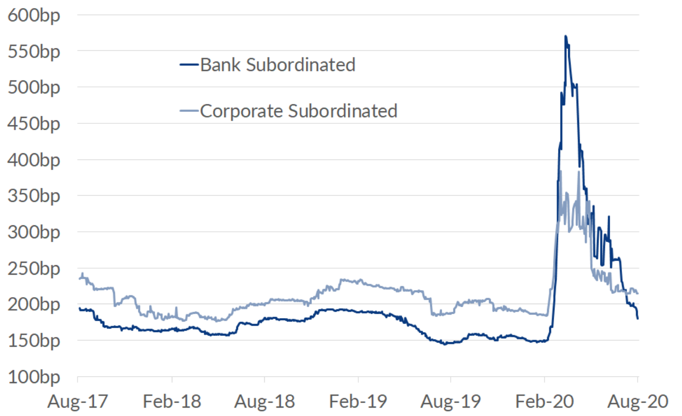
We expect to see more announcements from the New Zealand corporate market pre-Christmas in particular as reporting season winds down and economic uncertainties become either realities or fade.

Figure 1. Credit spreads (senior)



Source: Forsyth Barr analysis, Bloomberg

Figure 2. Credit spreads (subordinated)



Source: Forsyth Barr analysis, Bloomberg

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Research Worth Reading

New Zealand

Auckland Airport (AIA) — FY20 — COVID Flattens the Flight Path

AIA reported an FY20 result that was significantly challenged by the onset of COVID-19 through the second half. The result doesn't tell us much about how the business will perform in future years in light of the unknown profile of the aviation recovery. We continue to assume that AIA returns to FY19 international passengers numbers in FY25. Before then there are two key events that AIA will need to navigate: (1) the FY22 five-year aeronautical price reset, and (2) the re-tender process for duty free concession(s). Along with the wide range of justifiable potential passenger recovery profiles, these add considerable uncertainty to the medium term outlook. In summary, it is difficult to have directional conviction on AIA currently. We retain a NEUTRAL rating. (Published by Forsyth Barr)

Equity Strategy — Recovery Heat Map; Deteriorating

Our high frequency COVID-19 heatmap shows a wide-scale decline across our indicators, a function of the return of community transmission in Auckland and corresponding Alert Level increases. Economic sentiment, domestic flights, workplace visitation and hotel occupancy all fell sharply last week. All indicators with the exception of electricity volumes deteriorated. Uncertainty has increased and the near-term outlook appears more challenged, relative to Alert Level 1. However, overall activity is holding up well, and ahead of the levels experienced during the transition from Alert Level 3 to 2, in early/mid May. (Published by Forsyth Barr)

Skellerup Holdings (SKL) — FY20 Result — Capturing US Milk Flow

SKL's Agri division delivered a strong FY20 result, more than offsetting COVID-19 related weakness in its Industrial division. We are encouraged by Agri growth being ahead of expectations given both the high margin and consumable nature of its products. COVID-19 has created a high level of uncertainty, and whilst we acknowledge the weaker economic outlook, we view SKL's earnings profile as more resilient than it has been in the past. A healthy balance sheet and low capex growth model provide some flexibility during periods of short-term turbulence or cash flow timing variability. OUTPERFORM (Published by Forsyth Barr)

Summerset Group (SUM) — 1H20 Result — Gearing Up For Summer

SUM's 1H20 underlying net profit was largely as pre-announced, but we liked the makeup of the result. High quality annuity earnings in the form of deferred management fees and re-sale gains were ahead of our expectations, while more volatile new sale gains were below, driven primarily by a less Auckland-centric, and therefore lower priced, new sales mix. We were also encouraged by the relatively stable gearing ratios despite COVID-19 headwinds. SUM is our preferred aged-care stock; we retain our OUTPERFORM rating and increase our target price to NZ$9.15 from NZ$9.00. (Published by Forsyth Barr)

Tilt Renewables (TLT) — Dundonnell Delays Frustrate — FY20 ASM

TLT continues to be frustrated by the Australian Electricity Market Operator's (AEMO) late rule change preventing TLT fully connecting its Dundonnell wind farm to the grid. Whilst there is a path to full connection, it will take time, possibly to the end of FY21. We have cut our FY21 EBITDAF forecast -A$20m to A$70m due mainly to the Dundonnell delays. However, changes to our team's cost of capital change assumptions have lifted our target price +60cps (+17%) to NZ$4.10/share. We retain our OUTPERFORM rating. (Published by Forsyth Barr)

Australia

Australia & New Zealand Banking Group (ANZ.AX) — Capital and dividends today, but at a cost to FY21

ANZ's 3Q cash earnings of ~$1.5bn were materially ahead of consensus ($1.26bn), driven by better-than-expected underlying cost growth, markets and lower bad debts. ANZ declared a 25c interim dividend, which was deferred back in May. ANZ has balanced strengthening the balance sheet with shareholders' desire for an interim dividend. The market has appreciated the conservative approach to credit quality, but may have underappreciated the implications for FY21 profitability as lending declined. Trading below tangible book value, ANZ has valuation support. BUY. (Published by Citi)

BHP Group (BHP.AX) — FY20 result review

BHP reported underlying earnings of US$9.06 billion, -4% below consensus and -6% behind Ord Minnett's forecast. The US55c final dividend was also 2c short of expectations. Medium-term guidance for metallurgical coal volumes and costs, along with petroleum output, have also been negatively revised. BHP continues to offer an attractive price to net present value (P/NPV) ratio of 0.9x, with a medium-term dividend yield of 4.5% plus a strong balance sheet and likely further earnings upgrades as the iron ore price strength continues. ACCUMULATE. (Published by Ord Minnett)

CSL (CSL.AX) — FY20 result review

CSL reported an FY20 net profit of US$2.10 billion, -3.5% below Ord Minnett's forecast. An unfranked final dividend of US$1.07 per share was declared, taking the full-year payout to US$2.02 per share. The result confirmed that the drop in plasma collections since the COVID outbreak began will affect industry-wide immunoglobulin supply by early 2021. Ord Minnett is now wary FY22 earnings could also be affected given the potential for the pandemic and associated stimulus measures to impact on collections for the rest of 2020. HOLD. (Published by Ord Minnett)

Ramsay Healthcare (RHC.AX) — NHS update

The UK National Health Service (NHS) is proposing to open a four year tender with private hospital operators to address its post-COVID-19 elective surgery backlog. The NHS spend has a ceiling of £10bn. On an annualised basis this represents a >30% increase in the NHS funding relative to what it would have been before its block bookings of private hospitals for COVID-19. Our affiliate expects RHC's hospital portfolio to operate at a high functional tempo from the December quarter through to FY22. Consensus forecasts continue to underestimate this high utilisation and incremental margin upside to earnings. BUY. (Published by our research affiliate)

Sonic Healthcare (SHL.AX) — FY20 result above consensus, Citi. Revenue in YTD'21 substantially higher on COVID-19 testing

SHL reported FY20 adjusted EBITDA of $1425m, +9% above consensus. A dramatic fall in the base business from mid-March to May was largely recovered by the end of June and partially offset by the ramp up of COVID-19 testing in various markets. July/August revenue growth was substantially higher than historical rates. Strong COVID-19 testing volumes are currently augmenting growth, which may not be sustainable for the full year. BUY. (Published by Citi)

International

Johnson & Johnson (JNJ.N) — Keeping the Momenta Going in the Pharma Pipeline

JNJ announced it has entered into a definitive agreement to acquire Momenta Pharmaceuticals (MNTA.O), broadening its Immunology portfolio, specifically in autoimmune diseases. With Momenta reporting $30m in trailing 12-month sales, this transaction is less about the current business and more about the pipeline, especially its nipocalimab (M281) anti-FcRn antibody technology. As a result, it is expected to be initially dilutive, yet it should be a long-term growth driver for JNJ's Pharmaceutical franchise. BUY. (Published by Citi)

NVIDIA (NVDA.O) — Ampere Adoption in Early Innings; Raising TP to $540; Remain Buy Rated

Citi continues to view NVDA stock as the best product cycle story this year given its next generation Ampere platform ramp up. Management commented that the Ampere ramp up is in the initial stages, with ~25% of the installed base adoption by hyperscalers while other verticals like enterprise are yet to start. Moreover, the company sees a strong ramp of gaming in 2H20, led by a new product to be launch on 1 September and market share gains. The CEO complimented ARM's energy efficient architecture which helps compute scale to higher power. BUY. (Published by Citi)

Salesforce.com (CRM) — Measure twice, cut once; Expecting headwinds that others will see is already in numbers providing positive Q2 setup

Citi doesn't see CRM's Q2 result as putting to bed concerns that remain around future margin leverage and potential future M&A, and believes that may cap CRM's multiple (although Citi already sees that discounted). That being said, the prospects for muted 4Q seasonality are already in CRM's numbers, but not in those of many peers (ServiceNow, Workday, Okta, Splunk, etc.). Medium-term, Citi sees CRM as exposed to some of the best sector trends (front-office, including the consolidation trend) at a reasonable valuation. BUY. (Published by Citi)

Calendar

Figure 3. Calendar

Date	New Zealand	Australia	International
24-Aug	Core Retail Sales Retail Sales (Q2) Chorus FY20 Comvita FY20 Freightways FY20	Fortescue Metals FY20 Senex Energy FY20	Bunzl 1H20
25-Aug	Abano Healthcare FY20	Qube Holdings FY20 Scentre Group 1H20 Stockland FY20	EU: German GDP (Q2) EU: German ifo Business Climate Index (Aug)
26-Aug	Esports & Imports (Jul) Trade Balance (Jul) Meridian Energy FY20 Metlifecare FY20 Scales 1H20 Spark NZ FY20	Construction Work Done (Q2) APA Group FY20 Cleanaway FY20	US: CB Consumer Confidence (Aug) US: New Home Sales Medtronic 1Q21
27-Aug	Air New Zealand FY20 Vector FY20	Building Capital Expenditure (Q2) Plant/Machinery Capital Expenditure (Q2) Private New Capital Expenditure (Q2) Flight Centre FY20 Ramsay Healthcare FY20 Woolworths FY20	US: Core Durable Goods Orders (Jul) US: Crude Oil Inventories Delivery Hero 1H20
28-Aug	Delegat Group FY20 Port of Tauranga FY20 Steel & Tube FY20		US: GDP (Q2) US: Initial Jobless Claims US: Fed Chair Powell Speaks US: Pending Home Sales (Jul) Dell Technologies 2Q21
29-Aug	CFTC NZD Speculative net positions '	CFTC AUD speculative net positions	UK: BoE Gov Bailey Speaks

Source: Forsyth Barr analysis

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