

# Equity Strategy

## COVID-19 Winners, Losers, and Big Losers

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The impact of COVID-19 will be far reaching and very significant across our companies under coverage; while several may benefit, most will be adversely impacted, some materially so, and thus require recapitalisation to survive. The near term outlook is extremely uncertain and while market valuations have been severely hit for many companies, we have a preference for higher quality assets with sustainable cash flows that should trade on a largely business-as-usual track through these challenging times. In contrast, companies most at risk include (1) those that have direct exposure to travel and tourism, (2) those that will be impacted by changing consumer behaviour (given social distancing and lock-down), and (3) those that are cyclical as a result of the impending domestic and global recession. We have subjectively screened all companies in our universe of coverage for COVID-19 risks (both negative and positive). Those most impacted will experience significant declines in profitability, with many likely to generate losses, and needing additional balance sheet support. At the other end of the spectrum there are companies in the telco, healthcare, and utilities sectors that should be largely unaffected. Our preferred larger cap exposures to navigate COVID-19 are OUTPERFORM rated Spark (SPK), Chorus (CNU), Contact (CEN), Genesis (GNE), Trustpower (TPW), and The A2 Milk Company (ATM); and NEUTRAL rated Vital Healthcare (VHP), Mercury (MCY), Meridian (MEL), Vector (VCT), and EBOS Group (EBO).

**Figure 1. Companies most exposed to COVID-19**

Company	Total negative demand risk	Total positive demand risk	Total demand risk
Air New Zealand	93	0	93
Tourism Holdings	87	4	83
Kathmandu Holdings	81	6	75
Michael Hill Intl	66	2	64
Auckland Airport	63	0	63
Briscoe Group	69	6	63
SKYCITY	57	2	55
The Warehouse Group	58	6	52
Sky TV	54	4	50
Abano Healthcare Group	50	0	50
NZME	57	8	49
Skellerup Holdings	48	0	48

Source: Forsyth Barr analysis NOTE: the total demand risk score is derived from applying weightings to each risk component. The negative risks are all weighted three and the positive risks are all weighted two.

**Figure 2. Companies least exposed to COVID-19**

Company	Total negative demand risk	Total positive demand risk	Total demand risk
Chorus	0	14	-14
F&P Healthcare	12	20	-8
Vital Healthcare	12	16	-4
Vector	0	0	0
The a2 Milk Company	16	14	2
Tilt Renewables	3	0	3
Spark NZ	15	12	3
EBOS Group	20	16	4
Mercury	6	0	6
Contact Energy	6	0	6
Meridian Energy	6	0	6
Genesis Energy	6	0	6

Source: Forsyth Barr analysis NOTE: the total demand risk score is derived from applying weightings to each risk component. The negative risks are all weighted three and the positive risks are all weighted two.

### Relative safe havens

The companies with the least demand risk to COVID-19 include CNU, Fisher & Paykel Healthcare (FPH), SPK, VHP, VCT, ATM, EBO, and the gentailers – CEN, MEL, MCY, GNE, TPW and Tilt Renewables (TLT). In fact CNU, FPH, VHP, ATM, SPK, and EBO are all potential demand beneficiaries of COVID-19.

### Most adversely impacted

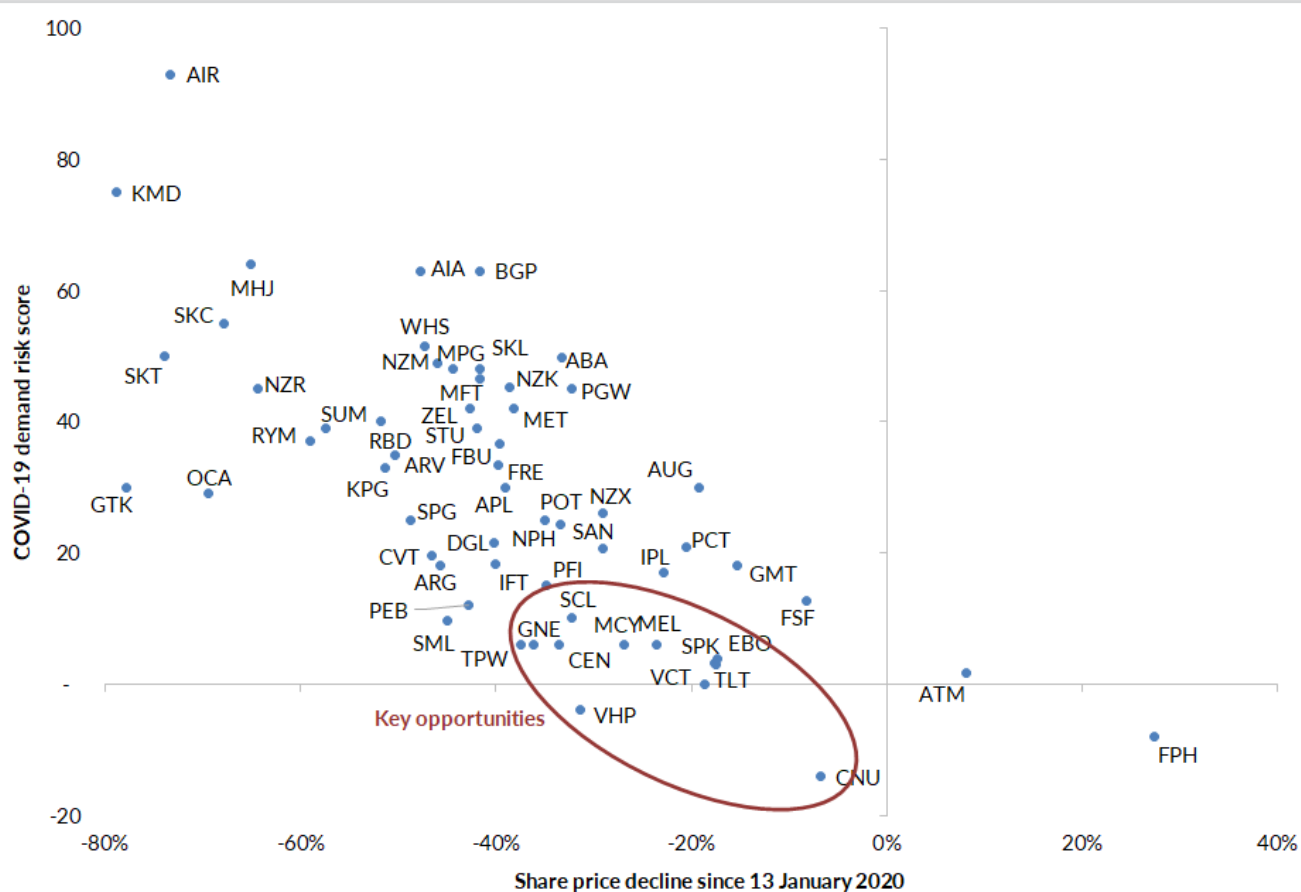
Companies with most exposure to COVID-19 are those that have exposure to (1) travel and tourism, where demand will fall materially and in many cases to zero, (2) the economic cycle, given the impending recession, (3) social distancing, as government actions (including lock-down) and consumer behaviour will change the way we live day to day, (4) at risk demographics, given the propensity of COVID-19 to have a greater impact on the elderly and those with pre-existing medical conditions, and (5) supply chain risks for those companies that are considered non-essential. The most exposed companies, based on our subjective assessment, include Air New Zealand (AIR), Tourism Holdings (THL), Kathmandu (KMD), Michael Hill (MHJ), Auckland Airport (AIA), Briscoe Group (BGP), SKYCITY (SKC), The Warehouse Group (WHS) and Sky TV (SKT).

## Demand risk vs share price response thus far

The NZX50 has fallen by ~32% since it peaked on 21 February 2020 and ~29% since the Wuhan outbreak began surfacing in mainstream media in mid-January 2020. These percentages have been held up by the two largest index weightings, FPH and ATM, being the only two stocks that have generated positive share price performance. The median share price for the market has since fallen ~40%.

In Figure 3 we show the subjective COVID-19 demand risk scores that we determine later in this report relative to share price performance since 13 January 2020. While we recognise the market peaked on 21 February 2020, we are conscious that companies with primary exposure (i.e. travel and tourism in particular) to COVID-19 had already fallen materially by that stage. Key lower risk investment opportunities exist in the bottom centre of the chart circled in red, where companies have a neutral to positive demand impact from COVID-19, yet their share prices have been hit.

**Figure 3. Share price performance since 13 January 2020 vs COVID-19 demand risk score**



Source: Eikon, Forsyth Barr analysis

### Key stock opportunities to navigate COVID-19

We believe the key stock opportunities for navigating the immediate COVID-19 outlook include those highlighted in Figure 3 as follows:

- **Telcos:** Spark (SPK), Chorus (CNU)
- **Utilities:** Contact (CEN), Genesis (GNE), Trustpower (TPW), Mercury (MCY), Meridian (MEL), Vector (VCT), Tilt Renewables (TLT)
- **Property:** Vital Healthcare (VHP)
- **Healthcare:** EBOS Group (EBO)

In addition, we also believe **food/agri** players including The A2 Milk Company (ATM), Synlait Milk (SML), Fonterra (FSF), and Scales (SCL) offer relative safe havens at undemanding valuations given (1) their health and well-being benefits, and (2) the protected essential services nature of their respective supply chains.

## Demand risk from COVID-19

We apply subjective screens for COVID-19 related factors, specifically (1) travel and tourism exposure, (2) economic cycle risk, (3) social distancing (including lock-down) risk, (4) at risk demographic exposure, and (5) reliance on international or domestic freight. The last factor may be mitigated for essential services. We equally weight these factors in formulating a negative demand risk score for each company. Some companies will benefit from COVID-19, and therefore negative demand risk may be partially or fully offset by health and well-being related benefits and/or ecommerce.

**Figure 4. Total demand risk: subjective analysis of companies under coverage of risk to COVID-19**

Company	Negative demand					Total negative demand risk	Positive demand		Total positive demand risk	Total demand risk
	Travel/Tourism exposure	Economic cycle risk	Social distancing risk	At risk demographic exposure	Overall supply chain risk [~AxB/10]		Healthcare/ wellbeing related beneficiary	Ecommerce/other		
	(0 Not exposed; 10 Highly exposed)	(0 Fully regulated; 10 Highly cyclical)	(0 Zero; 10 Customers in close contact)	(0; 10 Elderly client base)	(0 No; 10 Very high)		(0 Non-healthcare; 10 Key beneficiary)	(0 None; 10 100% Ecommerce)		
Air New Zealand	10	10	10	1	0	93	0	0	0	93
Tourism Holdings	10	10	6	3	0	87	0	2	4	83
Kathmandu Holdings	4	8	8	1	6	81	0	3	6	75
Michael Hill Intl	2	7	8	2	3	66	0	1	2	64
Briscoe Group	0	7	7	3	6	69	0	3	6	63
Auckland Airport	8	5	6	2	0	63	0	0	0	63
SKYCITY	3	4	9	2	1	57	0	1	2	55
The Warehouse Group	0	6	7	2	4	58	0	3	6	52
Sky TV	6	3	6	3	0	54	0	2	4	50
Abano Healthcare Group	0	5	8	2	2	50	0	0	0	50
NZME	3	8	5	3	0	57	0	4	8	49
Skellerup Holdings	0	7	1	1	7	48	0	0	0	48
Metro Performance Glass	0	7	2	1	6	48	0	0	0	48
Mainfreight	0	8	2	1	5	47	0	0	0	47
NZ King Salmon	0	5	7	2	2	49	2	0	4	45
PGG Wrightson	0	6	2	1	6	45	0	0	0	45
Refining NZ	4	6	4	1	0	45	0	0	0	45
Metlifecare	0	5	3	10	0	54	6	0	12	42
Z Energy	4	3	5	2	0	42	0	0	0	42
Restaurant Brands NZ	0	2	7	1	4	42	0	1	2	40
Summerset Group	0	4	3	10	0	51	6	0	12	39
Steel & Tube Holdings	0	6	2	1	4	39	0	0	0	39
Ryman Healthcare	0	4	3	10	0	51	7	0	14	37
Fletcher Building	0	6	2	1	3	37	0	0	0	37
Arvida Group Limited	0	4	3	10	0	51	8	0	16	35
Freightways	0	7	3	1	2	39	1	2	6	33
Kiwi Property Group	0	5	5	1	0	33	0	0	0	33
Asset Plus	0	6	3	1	0	30	0	0	0	30
Augusta Capital	0	5	3	2	0	30	0	0	0	30
Gentrack	2	4	3	1	0	30	0	0	0	30
Oceania Healthcare	0	2	3	10	0	45	8	0	16	29
NZX	2	5	1	2	0	30	1	1	4	26
Stride Property	0	5	2	1	1	27	0	1	2	25
Napier Port	0	5	1	1	2	27	1	0	2	25
Port of Tauranga	0	5	1	1	2	26	1	0	2	24
Delegat Group	0	3	1	2	1	22	0	0	0	22
Precinct Properties NZ	0	4	2	1	0	21	0	0	0	21
Sanford	0	4	2	1	1	25	2	0	4	21
Comvita	2	4	2	2	1	34	4	3	14	20
Infratil	2	2	1	1	0	18	0	0	0	18
Argosy Property	0	3	2	1	0	18	0	0	0	18
Goodman Property Trust	0	3	2	1	0	18	0	0	0	18
Investore	0	2	4	1	0	21	0	2	4	17
Property For Industry	0	2	2	1	0	15	0	0	0	15
Fonterra	0	2	2	1	1	19	2	1	6	13
Pacific Edge	0	0	1	3	0	12	0	0	0	12
Scales	0	2	1	1	1	16	2	1	6	10
Synlait Milk	0	2	2	0	1	16	3	0	6	10
Mercury	0	1	0	1	0	6	0	0	0	6
Contact Energy	0	1	0	1	0	6	0	0	0	6
Genesis Energy	0	1	0	1	0	6	0	0	0	6
Meridian Energy	0	1	0	1	0	6	0	0	0	6
Trustpower	0	1	0	1	0	6	0	0	0	6
EBOS Group	0	1	2	3	1	20	7	1	16	4
Spark NZ	1	3	0	1	0	15	0	6	12	3
Tilt Renewables	0	0	0	1	0	3	0	0	0	3
The a2 Milk Company	1	1	2	0	1	16	3	4	14	2
Vector	0	0	0	0	0	0	0	0	0	0
Vital Healthcare	0	0	2	2	0	12	8	0	16	-4
F&P Healthcare	0	0	1	3	0	12	10	0	20	-8
Chorus	0	0	0	0	0	0	0	7	14	-14

Source: Forsyth Barr analysis NOTE: the total demand risk score is derived from applying weightings to each risk component. The negative risks are all weighted three and the positive risks are all weighted two.

Our subjective scores for overall supply chain risk encapsulate the exposure of each company to domestic and international supply chains that may get impacted in a lock-down scenario, mitigated for any essential services.

**Figure 5. Negative demand risk: subjective analysis of companies under coverage of risk to COVID-19**

Company	Travel/Tourism exposure	Economic cycle risk	Social distancing risk	At risk demographic exposure	General supply chain risk [A]	Essential services [B]	Overall supply chain risk [=Ax B/10]	Total negative demand risk
	(0 Not exposed; 10 Highly exposed)	(0 Fully regulated; 10 Highly cyclical)	(0 Zero; 10 Customers in close contact)	(0; 10 Elderly client base)	(0 None; 10 Freight business)	(0 Yes; 10 No)	(0 No; 10 Very high)	
Air New Zealand	10	10	10	1	1	0	0	93
Tourism Holdings	10	10	6	3	0	10	0	87
Kathmandu Holdings	4	8	8	1	6	10	6	81
Michael Hill Intl	2	7	8	2	3	10	3	66
Briscoe Group	0	7	7	3	6	10	6	69
Auckland Airport	8	5	6	2	0	0	0	63
SKYCITY	3	4	9	2	1	10	1	57
The Warehouse Group	0	6	7	2	6	7	4	58
Sky TV	6	3	6	3	0	10	0	54
Abano Healthcare Group	0	5	8	2	2	8	2	50
NZME	3	8	5	3	0	4	0	57
Skellerup Holdings	0	7	1	1	7	10	7	48
Metro Performance Glass	0	7	2	1	6	10	6	48
Mainfreight	0	8	2	1	9	5	5	47
NZ King Salmon	0	5	7	2	8	3	2	49
PGG Wrightson	0	6	2	1	6	10	6	45
Refining NZ	4	6	4	1	2	0	0	45
Metlifecare	0	5	3	10	0	0	0	54
Z Energy	4	3	5	2	2	0	0	42
Restaurant Brands NZ	0	2	7	1	4	10	4	42
Summerset Group	0	4	3	10	1	0	0	51
Steel & Tube Holdings	0	6	2	1	5	8	4	39
Ryman Healthcare	0	4	3	10	1	0	0	51
Fletcher Building	0	6	2	1	4	8	3	37
Arvida Group Limited	0	4	3	10	1	0	0	51
Freightways	0	7	3	1	7	3	2	39
Kiwi Property Group	0	5	5	1	0	7	0	33
Asset Plus	0	6	3	1	0	10	0	30
Augusta Capital	0	5	3	2	0	10	0	30
Gentrack	2	4	3	1	0	4	0	30
Oceania Healthcare	0	2	3	10	1	0	0	45
NZX	2	5	1	2	0	0	0	30
Stride Property	0	5	2	1	1	10	1	27
Napier Port	0	5	1	1	10	2	2	27
Port of Tauranga	0	5	1	1	9	2	2	26
Delegat Group	0	3	1	2	6	2	1	22
Precinct Properties NZ	0	4	2	1	0	10	0	21
Sanford	0	4	2	1	6	2	1	25
Comvita	2	4	2	2	6	2	1	34
Infratil	2	2	1	1	1	1	0	18
Argosy Property	0	3	2	1	0	10	0	18
Goodman Property Trust	0	3	2	1	0	10	0	18
Investore	0	2	4	1	0	1	0	21
Property For Industry	0	2	2	1	0	10	0	15
Fonterra	0	2	2	1	6	2	1	19
Pacific Edge	0	0	1	3	5	0	0	12
Scales	0	2	1	1	7	2	1	16
Synlait Milk	0	2	2	0	6	2	1	16
Mercury	0	1	0	1	1	0	0	6
Contact Energy	0	1	0	1	0	0	0	6
Genesis Energy	0	1	0	1	0	0	0	6
Meridian Energy	0	1	0	1	0	0	0	6
Trustpower	0	1	0	1	0	0	0	6
EBOS Group	0	1	2	3	6	1	1	20
Spark NZ	1	3	0	1	1	1	0	15
Tilt Renewables	0	0	0	1	1	0	0	3
The a2 Milk Company	1	1	2	0	6	2	1	16
Vector	0	0	0	0	0	0	0	0
Vital Healthcare	0	0	2	2	0	0	0	12
F&P Healthcare	0	0	1	3	10	0	0	12
Chorus	0	0	0	0	1	0	0	0

Source: Forsyth Barr analysis NOTE: Overall supply chain risk is a function of general supply chain risk adjusted for essential services.

## Operating leverage and gearing

Demand risk can be exaggerated for companies with high levels of fixed overheads. Moreover, companies with elevated gearing heading into this crisis are more exposed from a balance sheet perspective than those with lower gearing. We provide further heat maps for all companies under coverage outlining these further risks in Figures 6 and 7. We advise an element of caution in reviewing these tables as they are subjective, albeit we've attempted to be as consistent as possible with our approach.

**Figure 6. Operating leverage**

Company	Total demand risk	Cost flexibility to respond (0 Entirely fixed cost base; 10 costs entirely variable)
Air New Zealand	93	5
Tourism Holdings	83	5
Kathmandu Holdings	75	5
Michael Hill Intl	64	6
Auckland Airport	63	2
Briscoe Group	63	5
SKYCITY	55	5
The Warehouse Group	52	5
Sky TV	50	4
Abano Healthcare Group	50	6
NZME	49	1
Skellerup Holdings	48	3
Metro Performance Glass	48	6
Mainfreight	47	4
NZ King Salmon	45	5
PGG Wrightson	45	4
Refining NZ	45	3
Metlifecare	42	2
Z Energy	42	3
Restaurant Brands NZ	40	5
Steel & Tube Holdings	39	6
Summerset Group	39	2
Ryman Healthcare	37	2
Fletcher Building	37	6
Arvida Group Limited	35	2
Freightways	33	4
Kiwi Property Group	33	0
Asset Plus	30	0
Augusta Capital	30	0
Gentrack	30	4
Oceania Healthcare	29	2
NZX	26	5
Napier Port	25	2
Stride Property	25	0
Port of Tauranga	24	2
Delegat Group	22	6
Precinct Properties NZ	21	0
Sanford	21	6
Comvita	20	4
Infratil	18	2
Argosy Property	18	0
Goodman Property Trust	18	0
Investore	17	0
Property For Industry	15	0
Fonterra	13	3
Pacific Edge	12	5
Scales	10	2
Synlait Milk	10	3
Mercury	6	1
Contact Energy	6	1
Genesis Energy	6	1
Meridian Energy	6	1
Trustpower	6	1
EBOS Group	4	3
Spark NZ	3	2
Tilt Renewables	3	0
The a2 Milk Company	2	7
Vector	0	1
Vital Healthcare	-4	0
F&P Healthcare	-8	3
Chorus	-14	0

Source: Forsyth Barr analysis

**Figure 7. Gearing**

Company	Total demand risk	Gearing going into COVID 19 (0 Over-capitalised; 10 Elevated gearing)
Air New Zealand	93	8
Tourism Holdings	83	3
Kathmandu Holdings	75	6
Michael Hill Intl	64	5
Auckland Airport	63	4
Briscoe Group	63	4
SKYCITY	55	4
The Warehouse Group	52	5
Sky TV	50	10
Abano Healthcare Group	50	9
NZME	49	8
Skellerup Holdings	48	3
Metro Performance Glass	48	9
Mainfreight	47	3
NZ King Salmon	45	2
PGG Wrightson	45	3
Refining NZ	45	7
Metlifecare	42	4
Z Energy	42	7
Restaurant Brands NZ	40	5
Steel & Tube Holdings	39	3
Summerset Group	39	7
Ryman Healthcare	37	7
Fletcher Building	37	3
Arvida Group Limited	35	7
Freightways	33	8
Kiwi Property Group	33	6
Asset Plus	30	6
Augusta Capital	30	4
Gentrack	30	0
Oceania Healthcare	29	7
NZX	26	6
Napier Port	25	3
Stride Property	25	6
Port of Tauranga	24	3
Delegat Group	22	5
Precinct Properties NZ	21	7
Sanford	21	4
Comvita	20	10
Infratil	18	7
Argosy Property	18	6
Goodman Property Trust	18	6
Investore	17	6
Property For Industry	15	6
Fonterra	13	8
Pacific Edge	12	0
Scales	10	0
Synlait Milk	10	9
Mercury	6	5
Contact Energy	6	3
Genesis Energy	6	7
Meridian Energy	6	3
Trustpower	6	5
EBOS Group	4	3
Spark NZ	3	1
Tilt Renewables	3	5
The a2 Milk Company	2	0
Vector	0	6
Vital Healthcare	-4	6
F&P Healthcare	-8	0
Chorus	-14	6

Source: Forsyth Barr analysis

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