

Equity Strategy

Recovery Heat Map; Stalled

ANDY BOWLEY

 andy.bowley@forsythbarr.co.nz
 +64 4 495 8246

SCOTT ANDERSON

 scott.anderson@forsythbarr.co.nz
 +64 4 914 2219

FORSYTH BARR RESEARCH TEAM

 fb.research@forsythbarr.co.nz
 +64 4 499 7464

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 up tick 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.

Figure 1. Forsyth Barr COVID-19 recovery heat map

Week ending	27-Mar-20	03-Apr-20	10-Apr-20	17-Apr-20	24-Apr-20	01-May-20	08-May-20	15-May-20	22-May-20	29-May-20	05-Jun-20	12-Jun-20	19-Jun-20	26-Jun-20
Economic sentiment	-1.2	-1.0	-1.4	-1.3	-1.0	-1.0	-0.7	-0.9	-0.4	-0.7	-0.7	-0.7	-1.0	-0.8
BBB credit spreads	284	303	280	256	240	226	211	198	189	179	178	173	166	144
Jobseeker Support/CIRP	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%	43%	43%	45%	48%
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%	-2%	0%	-1%	-2%
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%	0%	1%	-1%	-2%
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%	-2%	4%	-1%	-3%
Retail fuel volumes	-36%	-75%	-74%	-74%	-68%	-51%	-41%	-29%	-19%	-19%	-18%	-12%	-15%	-13%
Commercial diesel volumes	-27%	-52%	-58%	-56%	-49%	-27%	-6%	-4%	-3%	-8%	-22%	-11%	-10%	-11%
Heavy vehicle traffic	-29%	-60%	-62%	-61%	-47%	-37%	-22%	-9%	-4%	-4%	2%	0%	-2%	-11%
Light vehicle traffic	-47%	-82%	-82%	-83%	-79%	-58%	-49%	-30%	-12%	-8%	2%	-4%	-4%	-12%
Domestic passenger flights	-18%	-81%	-99%	-99%	-99%	-98%	-98%	-95%	-81%	-71%	-59%	-57%	-57%	-57%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-98%	-99%
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-50%	-39%	-43%	-33%	-30%
Building consents	-80%	-33%	-57%	-56%	-9%	-32%	-33%	-21%	-16%	-26%	-46%	-28%	2%	-20%

Source: Forsyth Barr analysis NOTE: refer to page 2 of this report for more detail on each data series

Corporate credit spreads

BBB rated corporate bond spreads have continued to decline since the week of 4 April 2020 (mid-Alert Level 4). With a large number of bond redemptions (~NZ\$1.1bn in June 2020 alone) and no new issuance there are large funds flows trying to find new homes, narrowing the spreads on corporate bonds. Through COVID-19 there has been a number of equity capital raisings compared to no corporate debt issuance since the market bottom on 23 March 2020. This is function of companies trying to de-leverage their balance sheets. It is unlikely, in our opinion, that there will be significant debt issuance for some time. As companies continue to redeem bonds the increased demand on the available options will likely reduce spreads further.

Traffic volumes hit a speed bump

Both heavy and light vehicle traffic volumes have fallen materially on the same week last year respectively. This is the second consecutive week of declining heavy vehicle traffic, which supports our view that the swift return to pre COVID-19 activity levels in early June 2020 was due in part to both pent up demand and supply chain restocking. We recognise underlying volatility in this data set and therefore will keep a close eye on it over the coming few weeks.

Stock implications

Despite credit card spending edging lower, it is still materially above levels experienced through Alert Levels 4 and 3. This is highlighted by Kathmandu (KMD; OUTPERFORM), which provided a positive trading update on 2 July 2020, outlining a strong recovery in sales across both its Kathmandu and Rip Curl brands in recent weeks.

The listed generator/retailers, including Meridian (MEL), Contact (CEN), Mercury (MCY), Genesis (GNE), and Trustpower (TPW), all rated OUTPERFORM, were modestly impacted by the declines in electricity demand through Alert Level 4. However, volumes recovered quickly and were broadly in line with the same month last year through June. Despite week to week volatility, electricity is a very defensive sector and remains one of our preferred parts of the NZ market given its sustainable income paying nature.

The Forsyth Barr COVID-19 recovery heat map

The 14 different data series provided in our heat map come from a variety of different sources as summarised in Figure 2.

Figure 2. Summary of heat map data series

Data point	Source	Data provided
Economic sentiment	The GDELT Project	Weekly index of New Zealand economic sentiment
BBB credit spreads	Bloomberg	Average of weekly BBB credit spreads
Jobseeker Support and CIRP recipients	Ministry of Social Development	Weekly number of Jobseeker support recipients vs prior year plus COVID-19 Income Relief Payment (CIRP) recipients
Workplace visitation	Google	Average weekly workplace mobility compared to the baseline period of 3 Jan to 6 Feb 2020
Credit card spending	Paymark	Weekly credit card spend against prior year
Electricity volumes	NZX Energy	Weekly electricity demand vs prior year
Retail fuel volumes	Z Energy	Weekly retail road fuel consumption vs pre COVID-19 average
Commercial diesel volumes	Z Energy	Weekly commercial diesel consumption vs pre COVID-19 average
Heavy vehicle traffic	NZTA	Weekly heavy vehicle traffic against the prior year
Light vehicle traffic	NZTA	Weekly light vehicle traffic vs prior year
Domestic passenger flights	FlightAware	Weekly Air New Zealand and Jetstar domestic flights arriving at Auckland Airport vs pre COVID-19 weekly average
International arrivals	Stats NZ	Weekly arrivals of non-New Zealand passport holders coming into New Zealand against the prior year
Hotel occupancy	STR	Weekly New Zealand hotel occupancy vs prior year
Building consents	Auckland Council	Weekly Auckland building consents vs an average week from pre COVID-19 levels

Source: Forsyth Barr analysis

Analyst certification: The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

Analyst holdings: For information about analyst holdings in a particular financial product referred to in this publication, please refer to the most recent research report for that financial product.

Ratings distributions: As at 2 Jul 2020, Forsyth Barr's research ratings were distributed as follows:

OUTPERFORM	NEUTRAL	UNDERPERFORM
49.0%	35.3%	15.7%

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

Disclosure: Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

Investment banking engagements: For information about whether Forsyth Barr has within the past 12 months been engaged to provide investment banking services to an issuer that is the subject of this publication, please refer to the most recent research report for that issuer's financial products.

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

Disclaimer: This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.