

Tourism Outlook

Being Brave While Industry Battens Down the Hatches

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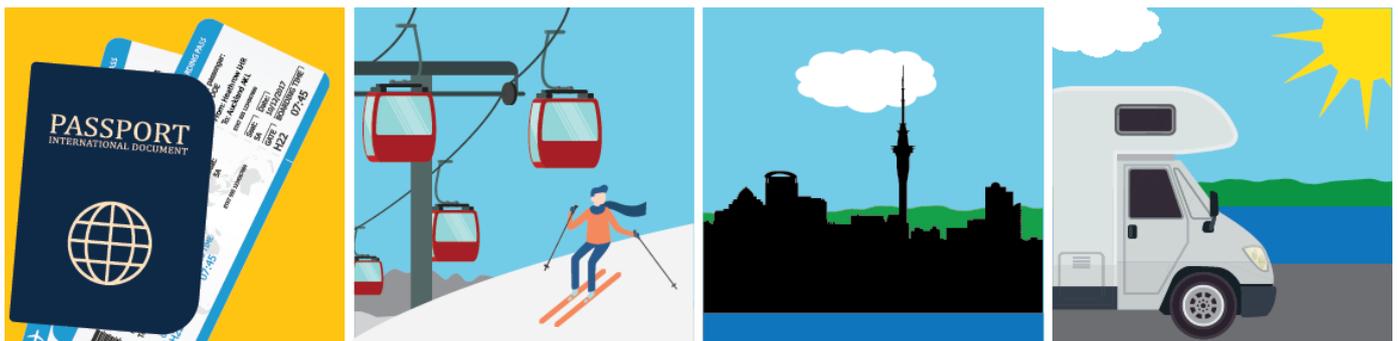
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Inbound tourism growth through 2020 will be materially impacted by the coronavirus (COVID-19) outbreak, which hit during mid-peak season and threatens to depress tourist arrivals for the remainder of the year; however, we believe the market has over-reacted given the ~NZ\$3.1bn hit to the combined market capitalisation of the four listed tourism related companies under our coverage. The share price reactions to the outbreak are both a function of the estimated financial impact (which remains very difficult to quantify), and emotion. The latter reflects investor sentiment that tends to at least initially over-penalise companies that are exposed, as has been the case in previous black swan events. This can create buying opportunities, as we believe is the case currently. Sector balance sheets have capacity, in our opinion, to absorb a meaningful downturn in tourism demand beyond the subdued earnings guidance provided for the remainder of FY20.



Tourism demand outlook dominated by COVID-19

2020 will be the toughest year for inbound tourism in recent memory. We expect a material decline in foreign arrivals. The current decline in airline capacity suggests a horror end to the 2019-20 peak season, which will continue through to mid-year. While current airline schedules suggest a return to normality from July, the risk of a prolonged impact from COVID-19 is reasonable.

Market over-reaction to demand outlook

Since 22 January 2020, when we first provided research commentary on COVID-19, the combined market cap decline of the four listed tourism related companies on the NZX is ~NZ\$3.1bn. This equates to more than 4x the aggregate profit after tax for these companies from the year to June 2020. This appears an excessive overpricing of risk, in our opinion.

In tandem with this report we have upgraded the ratings of each tourism sector company as follows:

- **Air New Zealand (AIR):** OUTPERFORM from NEUTRAL
- **Auckland Airport (AIA):** NEUTRAL from UNDERPERFORM
- **SKYCITY (SKC):** OUTPERFORM from NEUTRAL
- **Tourism Holdings (THL):** OUTPERFORM from NEUTRAL

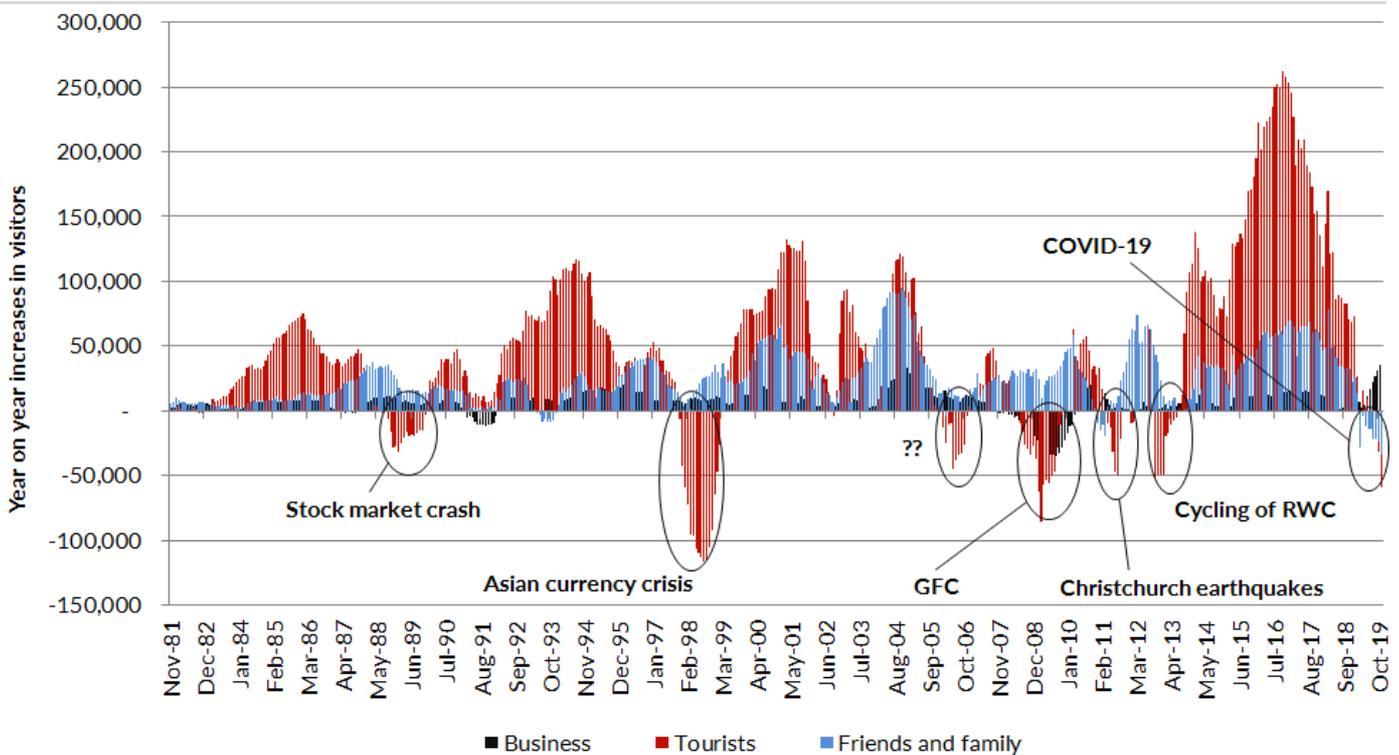
Executive Summary

New Zealand has been digesting the significant growth of inbound tourists of recent years with a flattening of the profile over the past 12 months. However, it now faces its largest challenges in recent memory with a significant drop in demand from the coronavirus (COVID-19) outbreak. This will have a material impact on sector performance through 2020, in our opinion.

Consequently, there is a significant degree of uncertainty in relation to the near term demand outlook, albeit our general rule of thumb is that the newsflow will get worse, before it gets better, as airline capacity reductions are extended beyond the end of June. Current schedules suggest a resumption of normal activity from July.

As investors we have to assess the risk associated with the demand outlook and determine whether share prices are appropriately pricing that risk. In this instance we think the market has over-reacted, as it often does in the earlier phases of black swan events, and therefore we now take a more positive view of the listed companies exposed to the tourism sector.

Figure 1. Tourism demand growth has been slowing



Source: Stats NZ, Forsyth Barr analysis

Implications for companies

In combination with this report we have upgraded the ratings of all tourism related companies under our coverage as we believe the market has overreacted to the risk associated by COVID-19.

Air New Zealand (OUTPERFORM): AIR's structural and balance sheet strengths leave it well placed to weather the COVID-19 storm. Our analysis shows that AIR's capacity cuts are deeper than its competitors and historically its responses to black swan events have been rapid and rational.

Auckland Airport (NEUTRAL): AIA is largely insulated to lower near term passenger numbers through (1) minimum annual guarantees (MAGs) in its retail business, (2) underlying growth in its investment property operations, and (3) the regulatory model that re-bases aeronautical pricing every five years (should demand stay lower for longer).

SKYCITY (OUTPERFORM): SKCs exposure to inbound tourism is moderate, although there is some risk to domestic visitation. The share price reaction appears dislocated from the risk, with valuation and an attractive yield providing downside protection.

Tourism Holdings (OUTPERFORM): THL's COVID-19 exposure has amplified other challenges including the weak US vehicle sales market and the Australian bush fires. Earnings will be impacted by lower near term demand, particularly at Waitomo, while forward bookings for RV rentals remain relatively healthy. Last year's capital raise was well timed in hindsight.

Tourism growth outlook hampered

The growth in New Zealand inbound tourism has continued to slow from the peak cycle of 2015–16. Given the COVID-19 outbreak, we expect tourism growth to fall materially over the foreseeable future despite key macro-drivers being supportive.

Sector has been resilient to black swans historically

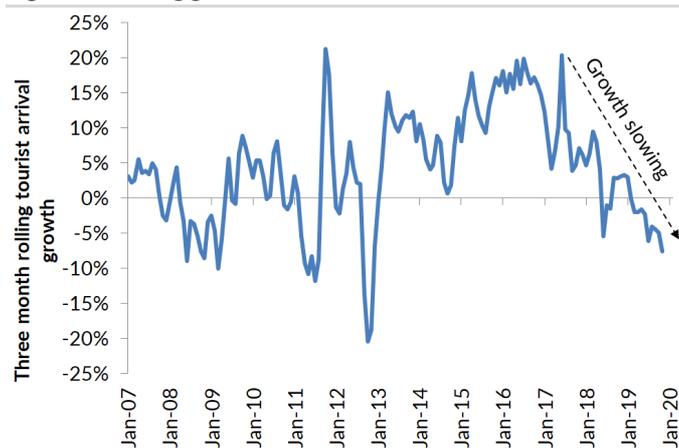
Historically the sector has been resilient to black swan events (SARS, 9–11, Christchurch earthquake etc.) and therefore we believe, once the virus is either (1) contained – through a vaccine or other public health measures, or (2) mitigated/managed – it becomes just another coronavirus like H1N1 in global circulation, there will be a recovery in inbound tourism demand. However, the timing of this is uncertain and therefore it may not be until at least 2021, in our opinion. The sector should be preparing for tougher times, at least over the next 6–12 months.

Other drivers supportive to ultimate recovery; particularly oil prices

While COVID-19 dominates the outlook for the remainder of 2020, we also consider other inbound tourism drivers, which may assist with an ultimate recovery, as follows:

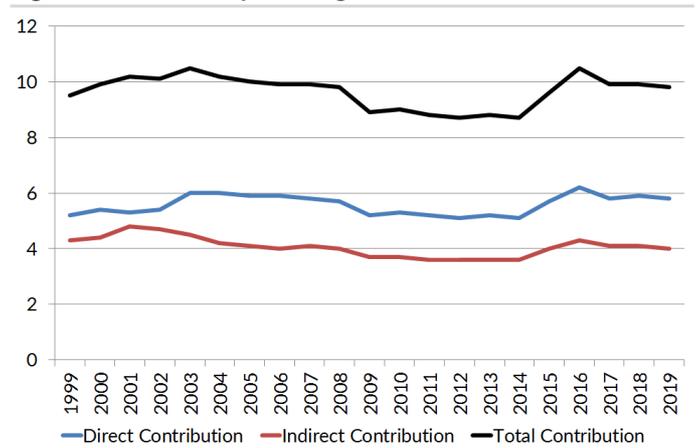
- **Oil prices** represent a key driver of airline economics. Lower oil prices drive airline capacity additions, and vice versa. The decline in oil prices since October 2018 provides support for airline capacity growth (excluding COVID-19).
- Slowing **economic conditions** in key source countries (most notably Australia and China) may dampen underlying demand.
- **Seat capacity** growth is being dominated by North America. Seat capacity to/from Asia has declined with the exit of a number of airlines during 2019.
- The **price competitiveness** of New Zealand as a tourist destination has deteriorated over the past five years, however, it still remains more competitive than Australia (although, the gap is narrowing).
- The **secular growth** trend in tourism is long term. Over the past 40 years inbound tourists have grown at a compound annual growth rate (CAGR) of +6%. Prior to the recent boom, the long term CAGR was +5%.
- The **wealth effect** of the rising middle class in emerging markets will help support ongoing tourism growth, in our opinion.

Figure 2. Slowing growth rates



Source: Stats NZ, Forsyth Barr analysis

Figure 3. Tourism as a percentage of New Zealand's GDP



Source: TIA, Forsyth Barr analysis

Flight shaming risk being overshadowed

The increase in consumer awareness around climate change and emissions has been substantial over the past 12 months. Flight shaming has become an accepted part of our vocabulary. While we expect it to be a feature over the longer term, it is unlikely to have the same short term impact as it is having in some European countries, including Sweden, where lower emissions alternative transport modes are available.

Coronavirus poses a significant short term risk

The COVID-19 outbreak offers parallels to other viral pandemics, albeit the greater global connectivity of trade, travel, and media, means this could have far greater implications for the tourism sector than previous outbreaks. In particular, the impact on tourism can be acute if either the origin, transiting or destination country has the virus, or if a country close to any of the above has the virus.

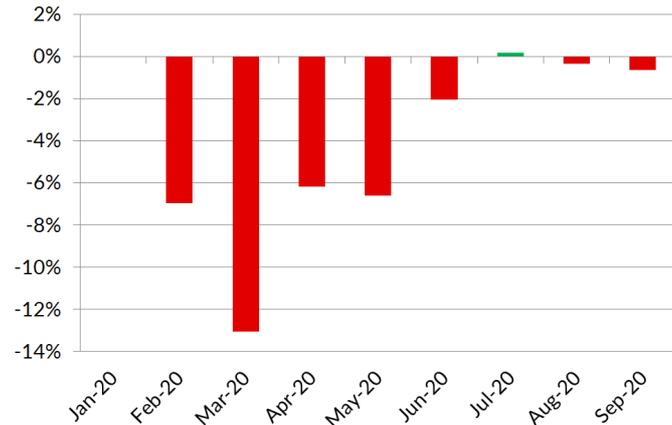
Humans tend to overreact to risk, and therefore despite just 0.006% of the Chinese population reportedly contracting COVID-19 (to date), New Zealand and other countries have banned arrivals from China. The impact of the virus on tourism markets is as much about the scare factor than anything else. Few people want to be seated in a confined space, with recycled air, for long periods at a time, along with potentially infected fellow passengers, or those that appear to have some symptoms of the virus. The mortality rate of COVID-19 is relatively low (initially estimated at ~2%, but suggestions that it could be lower), at least compared to SARS and other pandemics.

What we know

We expect New Zealand inbound tourism to decline materially over the coming months from the reduced demand thus far as illustrated by (1) the ban on foreign travellers arriving from, or transiting through, Mainland China or Iran, (2) airline flight schedule changes, and (3) airline earnings and capacity guidance.

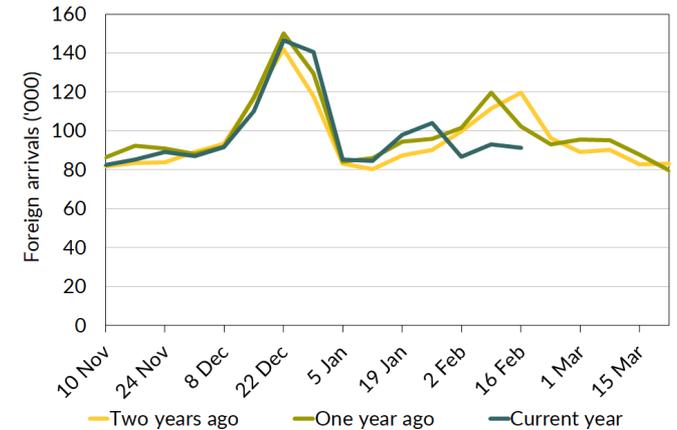
Flight schedule data shows that international seat capacity to New Zealand has been cut by -3% for 2020 over the past five weeks. Moreover, during the first two weeks of February international arrivals into New Zealand declined by -17%. We recognise this is exaggerated by the later timing of Chinese New Year in 2020, but it would otherwise still be material. We expect it to deteriorate over the coming weeks given the seat capacity declines made by airlines. While the number of confirmed cases continues to rise in China, the rate of growth continues to decline and domestic airline capacity is slowly recovering.

Figure 4. International seat capacity cuts to NZ (since Dec 2019)



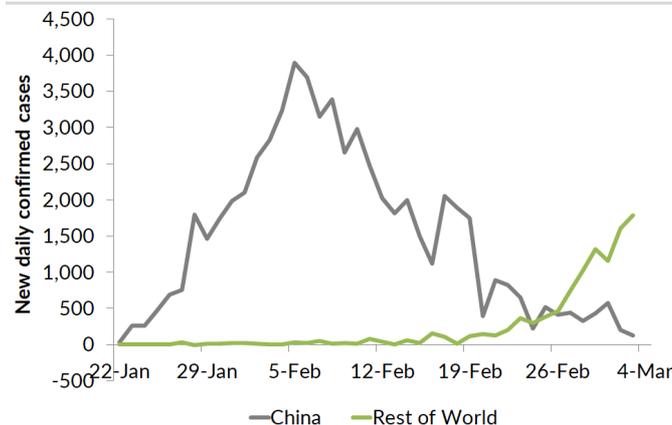
Source: OAG, Forsyth Barr analysis

Figure 5. Foreign arrivals have fallen materially since early Feb



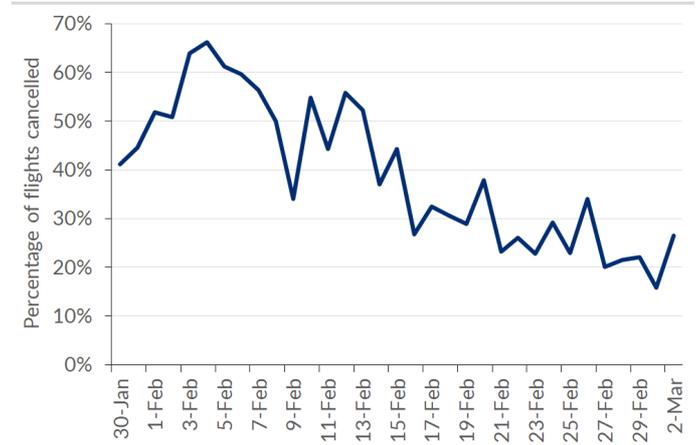
Source: NZ Stats, Forsyth Barr analysis

Figure 6. COVID-19 cases rising internationally



Source: WHO, Forsyth Barr analysis

Figure 7. Number of flight cancellations in China reducing



Source: VariFlight, Forsyth Barr analysis

What we don't know

We don't know how long the COVID-19 event will last, or to what extent it will spread geographically. We, therefore, employ a number of scenarios to highlight the potential impact on inbound tourism. The scenarios get progressively worse, in terms of magnitude of impact on the sector.

Our thinking through a lens of four scenarios

We consider the uncertainty that COVID-19 presents under a number of different scenarios as follows:

- Scenario #1. COVID-19 contained/mitigated ahead of New Zealand winter. Aviation schedules revert back to normal by mid-year
- Scenario #2. COVID-19 contained/mitigated before end of Northern Hemisphere 2020 summer. Doesn't spread to New Zealand
- Scenario #3. COVID-19 contained/mitigated before end of Northern Hemisphere 2020 summer. Spreads to New Zealand
- Scenario #4. COVID-19 not contained/managed before Northern Hemisphere winter 2020–2021

Figure 8. Four scenarios

	Summary	Implication	Recovery in tourism demand begins
Scenario #1	COVID-19 contained/mitigated ahead of New Zealand winter	Aviation schedules revert back to normal by mid-year	Late 2H20/early 1H21
Scenario #2	COVID-19 contained/mitigated during New Zealand autumn. Doesn't spread to New Zealand	Demand drops materially from key impacted origin countries	Mid 1H21
Scenario #3	COVID-19 spreads to New Zealand but contained/mitigated during New Zealand autumn	Significant (>50%) reduction in inbound demand during low season	Mid 1H21
Scenario #4	COVID-19 not contained before New Zealand summer 2020–2021	Prolonged impact on tourism demand, but progressive recovery through 2021	2021/2022?

Source: Forsyth Barr analysis

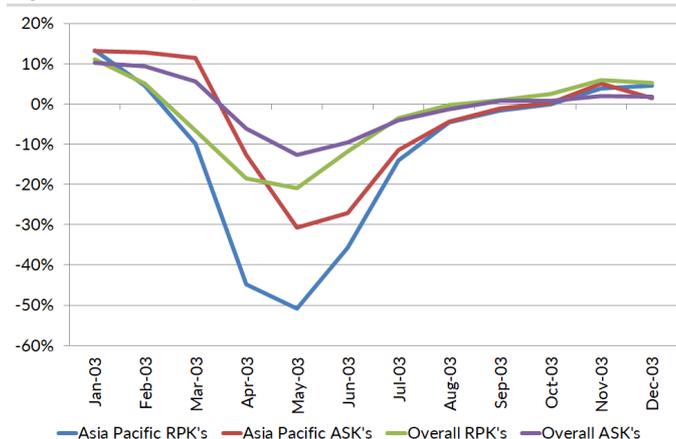
Scope for a vaccine?

The length of time to create, test, produce and distribute a new vaccine is typically years rather than months. Therefore, the hope of a vaccine curtailing the spread of COVID-19 is more Hollywood than reality. For example, during the SARS crisis a vaccine was ready within 20 months for testing on people. While science has since shortened the time frame for vaccine testing to just weeks, the commercialisation of a vaccine will likely take many more months, given the necessary trials and approvals across multiple jurisdictions, and therefore it may not be available for general release on a global scale until at least 2021. We note that trials of the first vaccine produced for COVID-19 will likely commence in early April 2020.

Scenario #1. COVID-19 contained/mitigated ahead of New Zealand winter

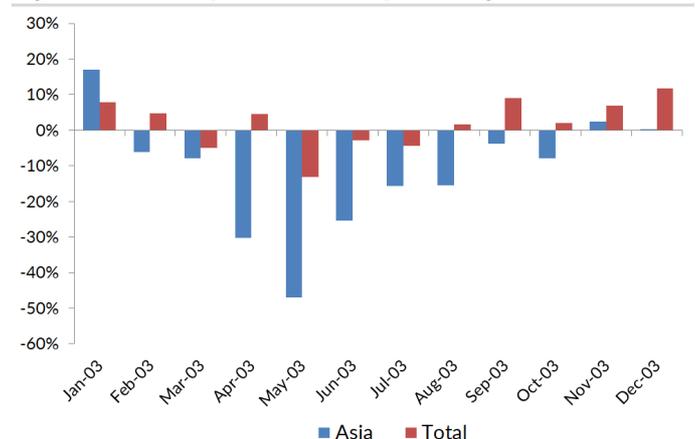
This is the best case scenario and includes the prospect of the virus spreading further but conventional medicines being used to treat most cases successfully and strict public health practises (including isolation, quarantine and contact tracing) limiting further transmission. This would mean that the viral news flow begins to get better over the next 4–6 weeks. Also, that tourism markets begin to normalise by mid-year, as was the case for SARS. This would leave FY21 (June year end) earnings for New Zealand's tourism related companies largely untouched by COVID-19.

Figure 9. SARS impact on Asian air travel



Source: Forsyth Barr analysis RPK = revenue passenger km; ASK = available seat km

Figure 10. SARS impact on inbound pax during 2003

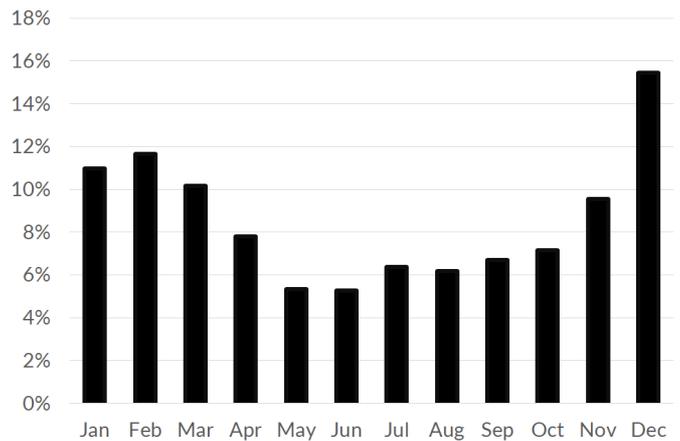


Source: NZ Stats, Forsyth Barr analysis

Scenario #2. COVID-19 contained/mitigated during New Zealand autumn

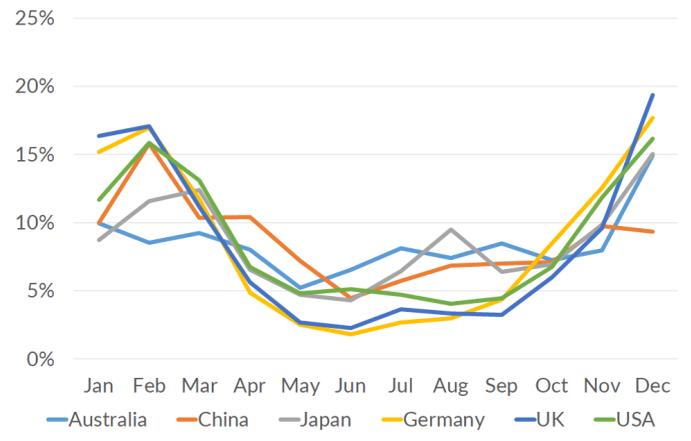
The disruption to air travel and general tourism demand would be prolonged (the impact would last 6–9 months in total) but New Zealand would be protected from an outbreak domestically. The impact on the tourism sector would be material but importantly the upcoming summer peak would be protected. Figure 11 shows that February is typically New Zealand's second busiest tourist inbound month after December, while May and June are the weakest.

Figure 11. Seasonality of inbound tourists...



Source: NZ Stats, Forsyth Barr analysis

Figure 12. ...by country of residence



Source: NZ Stats, Forsyth Barr analysis

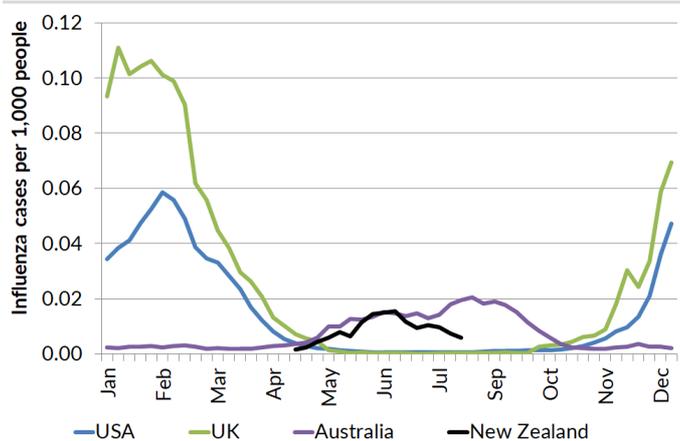
Scenario #3. COVID-19 spreads to New Zealand but contained/mitigated during New Zealand autumn

The longer COVID-19 remains uncontained the greater the risk of Southern Hemisphere nations being impacted as their seasonal conditions enhance the transmission of the virus.

Figures 13 and 14 showcase that influenza has a very distinct seasonality factor with a significant spike in positive cases experienced through the winter months in both the Southern and Northern hemispheres. This suggests that China, the UK and the USA are moving away from peak periods with less likelihood of contracting the flu, thereby decreasing susceptibility to COVID-19. The outlook may appear positive based off this analysis in the Northern Hemisphere, however, changing weather patterns could have a negative effect in the Southern Hemisphere. Both New Zealand and Australia will experience a spike in influenza cases around mid-year as a result of increased susceptibility arising from cooler temperatures.

Using influenza seasonality and the fact that COVID-19 has predominately broken out in regions where influenza outbreaks are generally at their peak, there is a risk COVID-19 becomes more prevalent in New Zealand. This would have a material impact on inbound tourism through the winter.

Figure 13. Seasonality of flu in US, UK, Australia and NZ



Source: WHO, Forsyth Barr analysis

Figure 14. Seasonality of flu in China



Source: WHO, Forsyth Barr analysis

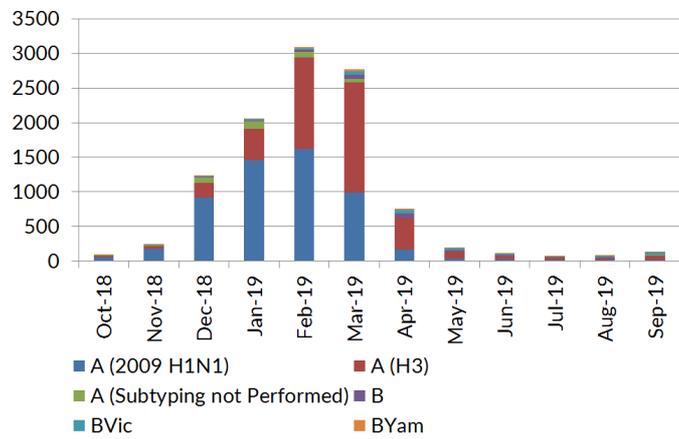
Scenario #4. COVID-19 not contained/managed before New Zealand summer 2020–2021

This is a worst case scenario but may not be significantly worse than scenario #3 if the scare factor aspect of COVID-19 begins to subside. There could be multiple sub-scenarios in terms of spread and severity, but the general feature is that aviation markets could be impacted for an extended period of time and two consecutive New Zealand tourism seasonal peaks could be impacted.

Ahead of any potential vaccine this scenario could end up similar to swine flu (H1N1) that first appeared in Mexico and the US in 2009. The US Centers for Disease Control and Prevention estimates that between 151,700 and 575,400 people died worldwide from the H1N1 virus infection during the first year the virus circulated, albeit the mortality rate is estimated to be just ~0.02%. It has since continued to circulate globally along with various other flu viral strains.

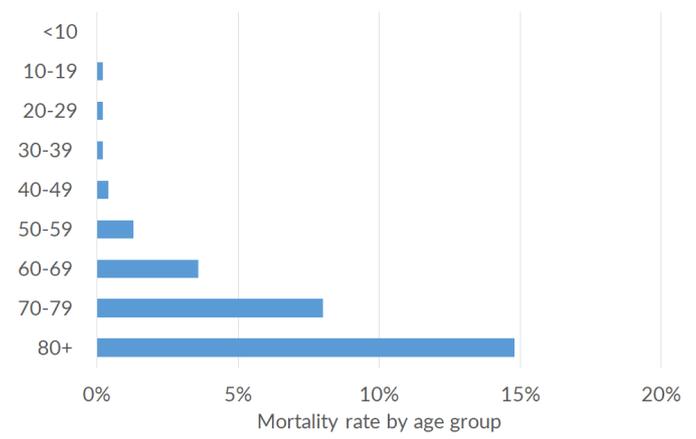
Under this scenario we expect travel and trade markets to return to normal over the next 18 months. This would create a negative impact on the New Zealand summer peak of 2020–2021 with reduced inbound demand. However, the current emotive impact from the scare factor will have reduced to some extent when the virus hits the Northern Hemisphere winter the second time. At some stage we expect the virus could be accepted as just another in global circulation that could be managed in the same way as others.

Figure 15. US Influenza strain breakdown



Source: CDC, Forsyth Barr analysis

Figure 16. COVID-19 mortality rate weighted to the elderly

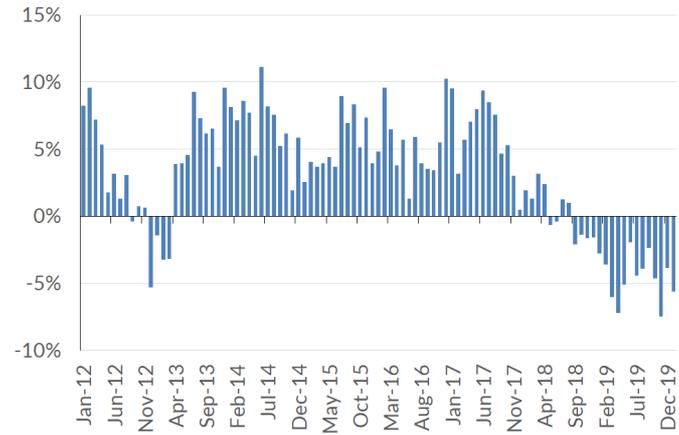


Source: WHO, Forsyth Barr analysis

The flight shaming risk

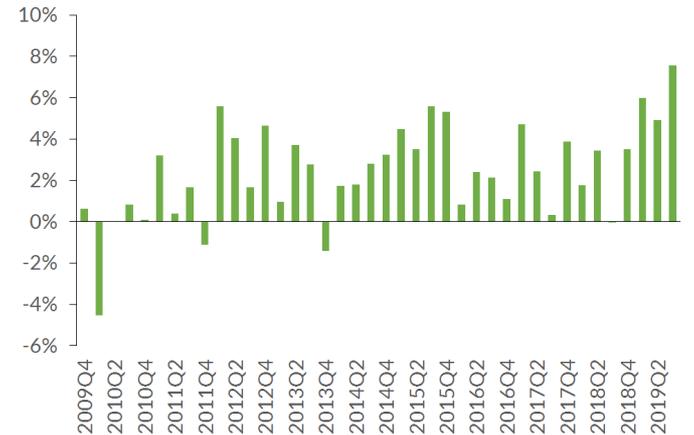
The 'flight shaming' issue/movement has risen to prominence in the past 18 months as the stigma around the emissions of air travel become more mainstream. "I think it's our biggest challenge" said the CEO of Air France recently. The movement, which first gained momentum in Sweden where it is known as "flygskam", has pushed individuals to reassess the necessity of flying and consider alternative modes of transport, like the train. In Sweden air travel is now in decline as highlighted by Figure 17.

Figure 17. Swedish air travel passenger monthly growth



Source: Swedavia, Forsyth Barr analysis

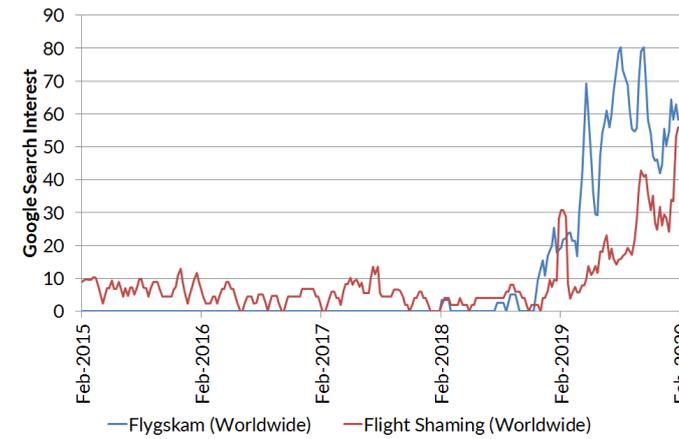
Figure 18. Scandinavian rail travel growth is accelerating



Source: Eurostat, Forsyth Barr analysis

Figure 19 illustrates the rising momentum of flygskam and flight shaming with respect to Google searches.

Figure 19. Flight shaming google searches



Source: Google Trends, Forsyth Barr analysis

Figure 20. Flight shaming interest by region



Source: Google Trends, Forsyth Barr analysis

The risk of a longer term demand impact from flight shaming is real, in particular where there is alternative means of lower emissions transportation. The impact on an island nation (i.e. New Zealand) with no alternative access is likely to be less pronounced than in Europe, however, it cannot be ignored given our sheer distance from key source countries like the US and Europe and is likely to have some negative impact on longer term demand. We suspect the impact will be greater on corporate travel than consumer travel given the former will increasingly be keen to impress their stakeholders that they are carbon neutral.

For more information and analysis on the emissions intensity of air travel and other modes of transport please refer to our recent report: *The Carbon Report, Counting Carbon Costs Climate Change and NZX Companies*, dated 9 December 2019.

Macro drivers supportive to recovery

Once the worst of COVID-19 is over, we believe that inbound tourism growth will return to growth albeit at rates lower than that of recent years. We acknowledge that the global economic backdrop previous to COVID-19 was weakening, particularly in key source countries, however, other drivers including lower oil prices are supportive to an improving growth outlook.

Figure 21. Key macro drivers summary

Key Macro Driver	Influence on Arrivals	Outlook	Materiality	Impact
Oil prices	Key driver of airline capacity decisions. Capacity increases typically means lower air fares which helps stimulate demand	Oil prices have been trending down since mid 2019	High	Positive
Consumer confidence	Consumers are less likely to travel internationally if they are less certain of economic conditions in their country of residence	Key source country consumer confidence appears to present upside risk	High	Neutral
Wealth effect	Consumption levels in emerging markets (including China) are also important. The growing wealth effect and rising middle class in China is a key driver for inbound visitors	Emerging market GDP growth has softened but remains strong at 4.45%	Medium	Positive
Currency movements	Currency movements affect the affordability of a destination	Neutral	Low	Neutral

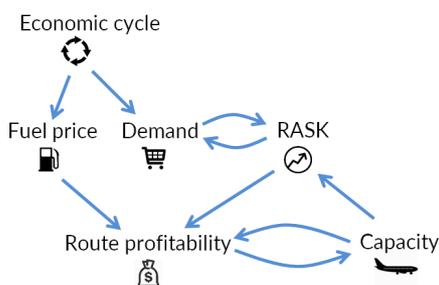
Source: Forsyth Barr analysis

Oil prices indicate a turnaround

Jet fuel is a major cost component for airlines. Higher fuel costs impact airlines profitability in the short term and can lead to reduced capacity (Figure 22) and vice versa. Due to this, oil prices have a strong inverse relationship with tourist arrival growth as shown in Figure 23.

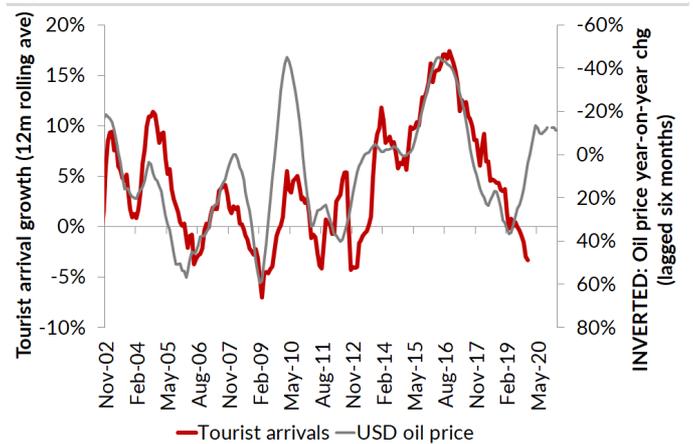
Oil price growth rallied between late 2016 and early 2019, and we believe this has been largely responsible for the decrease in airline capacity over the same period. However, since mid 2019, oil price growth has been declining and has been negative since August 2019. We believe if viewed in isolation this provides an indication of a turn around in passenger arrival growth, albeit outside factors will have an impact on how material this will be.

Figure 22. Simplified economic relationships in aviation



Source: Forsyth Barr analysis

Figure 23. Oil prices are a key driver



Source: NZ Stats, Eikon, Forsyth Barr analysis

Consumer confidence mixed

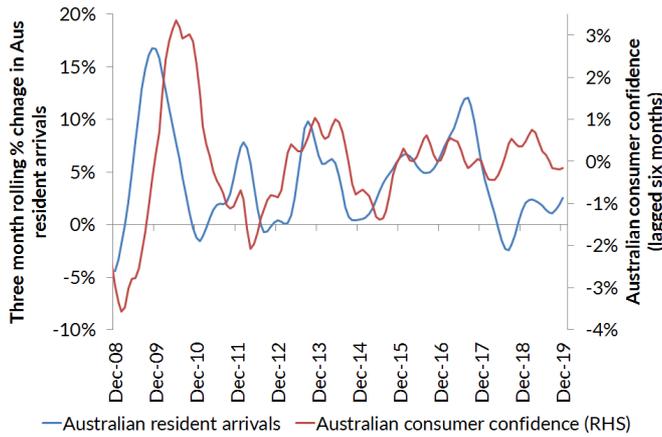
The economic backdrop, and in particular consumer confidence in developed origin countries, represents a key driver of international tourism demand. We demonstrate this relationship in Figure 24 where we show the impact of Australian consumer confidence on short-term resident arrivals.

Consumer confidence in key markets suggest increased demand growth:

- **Australia:** Consumer confidence in Australia has declined since January 2019. This, paired with slower economic growth data from early 2019, is likely to reduce demand growth.

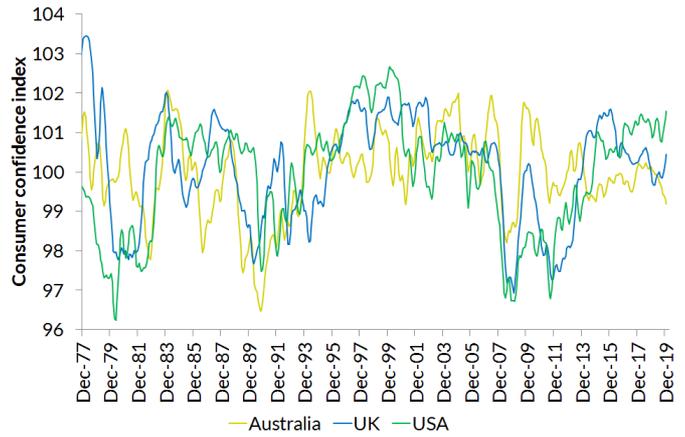
- **UK:** Consumer confidence has been varied throughout the last year, however, in the last three months it has had double digit growth month-on-month.
- **US:** US consumer confidence experienced four months of double digit month-on-month growth following a slow start to 2019, likely due to the China-US trade wars and the uncertainty that provided. However, as these trade talks have become more constructive, this trend has reversed, with consumer confidence in January 2020 up +0.7% on January 2019.

Figure 24. Australian consumer confidence and resident arrivals



Source: OECD, Australian Bureau of Statistics, Forsyth Barr analysis

Figure 25. Consumer confidence in key source countries



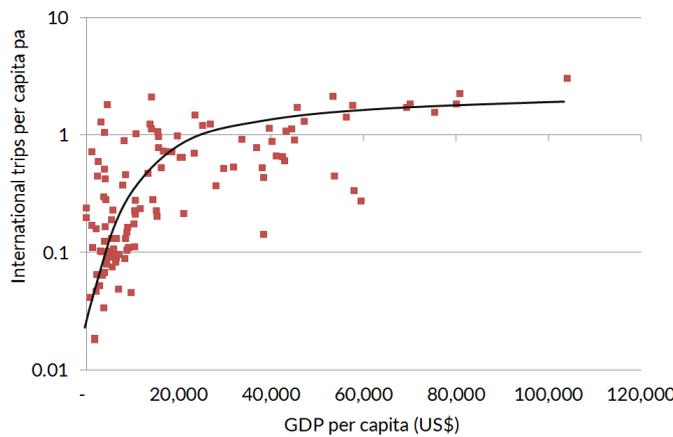
Source: OECD, Forsyth Barr analysis

The wealth effect

Higher rates of economic growth in emerging countries (including China) improve the underlying wealth and consumption levels of their populations. The rising middle class of these countries tend to use their increasing wealth to travel more extensively. As a result there is a strong relationship between rising GDP and increasing international travel particularly from emerging countries (Figure 26).

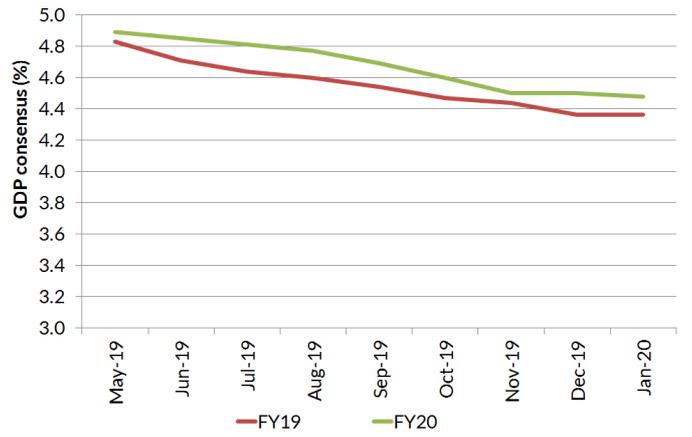
Given propensity to travel has an upper limit (there are only so many offshore trips that an average person can do each year given employment holiday entitlements etc.) the wealth effect has less of an impact on developed countries.

Figure 26. Emerging market wealth drives international travel



Source: World Bank, Forsyth Barr analysis

Figure 27. Emerging market GDP outlook



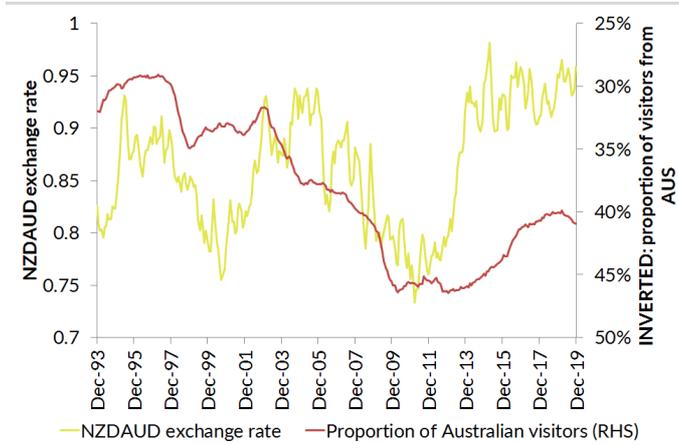
Source: Bloomberg, Forsyth Barr analysis

Exchange rate – a minimal impact

Exchange rates impact the affordability and therefore attractiveness of a destination country, particularly for long haul travel (greater choice of destination) where the length of stay is longer than average (higher overall cost), in our opinion.

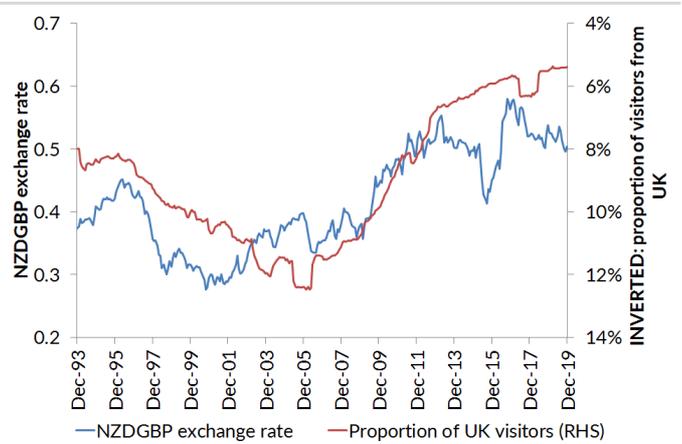
Currency changes are less impactful on Australian arrivals growth (Figure 28) compared to UK arrivals (Figure 29). We believe this is due to (1) the journey between Australia and New Zealand being short-haul and hence the currency impact on affordability is lower and (2) the NZDAUD generally experiencing smaller movements compared to other currencies.

Figure 28. NZDAUD effect on Australian visitors



Source: Stats NZ, Eikon, Forsyth Barr analysis

Figure 29. NZDGBP effect on UK visitors



Source: Stats NZ, Eikon, Forsyth Barr analysis

Varying outlook for other key drivers

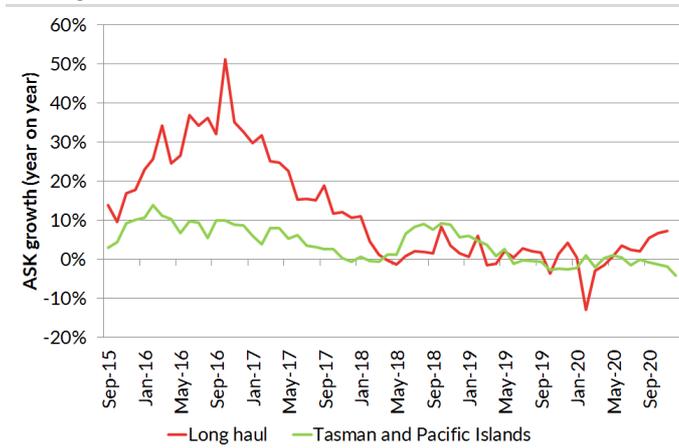
Macro drivers strongly influence longer term inbound tourist demand trends. We also recognise that other factors can have a material impact on short-term demand trends; these include (1) airline capacity, (2) affordability relative to competing destinations, (3) special events and (4) left field events/factors.

(1) – Airline capacity growth slowing

Airline capacity growth has continued to decline since the peak in late 2016, particularly in the last 12 months, given an international seat capacity decline. This is in part due to low cost carriers (LCCs) finding it difficult to enter the New Zealand long haul market, as highlighted by both AirAsia X and Hong Kong Airlines pulling out of their respective Auckland routes. Jetstar remains the only LCC operating in New Zealand, with both domestic and short haul international services. Given the distance between Auckland and Christchurch and key origin and destination airports (longer stage lengths makes routes less viable), the opportunity for LCC penetration is more limited relative to East Coast Australian airports.

Excluding COVID-19 impacts, we expect near term capacity growth to remain subdued, with any near term seat capacity growth to be driven predominantly by aircraft up gauging (for example Air New Zealand's A321 NEOs on the Tasman) and greater service frequency, rather than new market entries (with the exception of AIR's new New York route commencement later this year).

Figure 30. New Zealand all carrier airline capacity growth slowing



Source: OAG, Forsyth Barr analysis

Figure 31. Flight times from key Australasian airports

	Auckland	Christchurch	Sydney	Melbourne
Bali	8h 14m	8h 15m	5h 39m	5h 22m
Manila	9h 46m	10h 6m	7h 37m	7h 41m
Singapore	10h 15m	10h 16m	7h 40m	7h 21m
Kuala Lumpur	10h 38m	10h 38m	8h 1m	7h 41m
Hong Kong	11h 9m	11h 30m	9h 2m	9h 2m
Delhi	15h 24m	15h 18m	12h 43m	12h 25m

Source: Forsyth Barr analysis

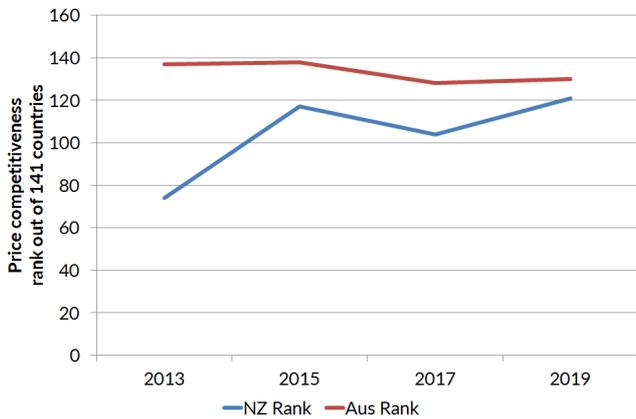
(2) – Affordability continues to decline

New Zealand has become an increasingly expensive tourist destination, with the average spend per tourist increasing c. 5% pa over the past seven years. This is in part driven by accommodation, where hotel yields have risen materially due to limited supply and high occupancy.

The World Economic Forums Travel and Tourism Competitiveness Index 2019 ranked both New Zealand and Australia as relatively expensive travel destinations, with New Zealand being 121st and Australia being 130th out of 140 countries in terms of price competitiveness. This is a decline in competitiveness for both countries with New Zealand and Australia ranked 108th and 128th respectively in 2017. However, the prospect of a hotel over-build in the short-term is increasing, which could improve New Zealand's relative affordability.

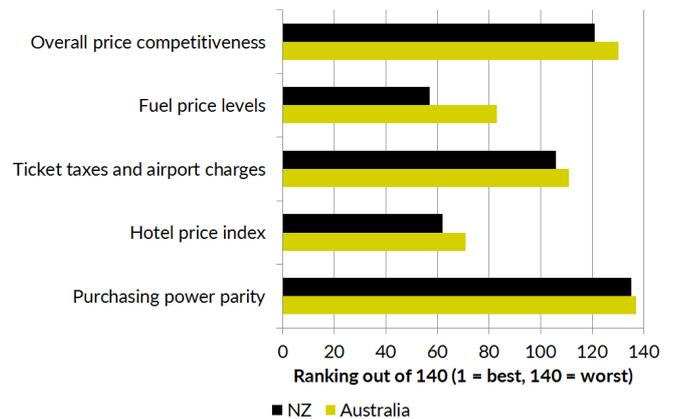
New Zealand has slipped in all categories since 2015 apart from fuel price levels, where it has moved up from spot 105 to 57. The ranking gap between New Zealand and Australia has narrowed since last year (2018), however, New Zealand is still a more affordable tourist destination on all of the four key selected World Economic Forum measures as well as overall price competitiveness. Figure 32 illustrates New Zealand's decline in price competitiveness relative to the 141 countries ranked by the World Economic Forum from 74th in 2013 to 121st.

Figure 32. NZ becoming more expensive



Source: WEF, Forsyth Barr analysis

Figure 33. NZ vs Australia in price competitiveness



Source: WEF, Forsyth Barr analysis

Figure 34. Long haul international airline services (excluding domestic operators) for selected Australasian airports

		Sydney	Melbourne	Auckland	Brisbane	Perth
Air Canada	Toronto	y (via Vancouver)				
	Vancouver	y	y	y	y	
Air China	Beijing	y	y	y	y	
	Chengdu	y				
	Shanghai					
Air India	Delhi	y	y			
Air Mauritius	Mauritius					y
Air Tahiti Nui	Los Angeles			y (via Papeete)		
Air Asia X		y	y			y
All Nippon Airways	Tokyo	y				y
American Airlines	Los Angeles	y		y		
Asiana Airlines	Seoul	y				
Beijing Capital Airlines	Qingdao	y	y			
British Airways	London	y (via Singapore)				
Cathay Pacific	Hong Kong	y	y	y	y	y
Cebu Pacific	Manila	y	y			
China Airlines	Taipei	y	y	y (via Brisbane)		y
China Eastern Airlines	Beijing	y (via Nanjing/ Hangzhou)				
	Kunming	y				
	Shanghai	y	y	y	y	
	Wuhan	y				
	Xi'an	y				
China Southern Airlines	Guangzhou	y	y	y	y	y
	Shenzhen	y	y			
Delta Air Lines	Los Angeles	y				
Emirates	Dubai	y (direct and via Bangkok)	y (direct and via Singapore)	y (direct and via Denpasar-Bali)	y (direct and via Singapore)	y
Etihad Airways	Abu Dhabi	y	y		y	
EVA Air	Taipei				y	
Garuda Indonesia	Denpasar	y	y			y
	Jakarta	y	y			y
Hainan Airlines	Changsha	y	y			
	Xi'an	y	y	y (via Shenzhen)		
	Shenzhen			y	y	
	Haikou	y	y			
Hawaiian Airlines	Honolulu	y		y	y	
Hong Kong Airlines	Hong Kong					
Japan Airlines	Tokyo	y	y			
Korean Air	Seoul	y		y	y	
LATAM Chile	Santiago de Chile	y (via Auckland)		y		
Malaysia Airlines	Kuala Lumpur	y	y	y	y	y
	Kota Kinabalu					y
Malindo	Kuala Lumpur					y
	Denpasar-Kuala Lumpur		y		y	
Philippine Airlines	Manila	y	y	y	y	
Qatar Airlines	Doha	y	y	y		y

Source: OAG, Australian Government, Forsyth Barr analysis
Singapore Airlines operates a Wellington service via Melbourne.

Figure 35.Long haul int'l airline services (excl. domestic operators) for selected Australasian airports (continued)

		Sydney	Melbourne	Auckland	Brisbane	Perth
Royal Brunei Airlines	Bandar Seri Begawan		y		y	
Scoot	Singapore	y	y			y
Sichuan Airlines	Chongqing	y				
	Chengdu		y	y		
	Guiyang		y			
Singapore Airlines	Singapore	y	y	y	y	y
South African Airlines	Johannesburg					y
Sri Lankan Airlines	Colombo		y			
Thai AirAsia X	Bangkok				y	
Thai Airways	Bangkok	y	y	y	y	y
Tianjin	Chongqing		y			
	Tianjin	y (via Zhengzho)				
United Airlines	Los Angeles	y	y			
	San Francisco	y	y	y		
	Houston	y				
Vietnam Airlines	Hanoi	y				
	Ho Chi Minh City	y	y			
Xiamen Airlines	Fuzhou	y				
	Xiamen	y	y (direct and via Hangzhou)			
Total		48	36	20	19	16
Total from 2019		47	33	21	16	N/A

Source: OAG, Australian Government, Forsyth Barr analysis
Singapore Airlines operates a Wellington service via Melbourne.

(3) – Special events drive temporary demand

Events can be an important driver of temporary demand, with concerts tending to stimulate domestic tourism while larger international events such as sporting tours stimulate international arrivals. The largest event in New Zealand's foreseeable future is the 36th America's Cup which will be hosted in Auckland in March 2021. Whilst it is difficult to predict what the exact impact of hosting large international events will be on demand, the relatively recent British and Irish Lions Tour, 2011 Rugby World Cup and 2003 America's Cup defence do provide some insight:

- **The 2017 British and Irish Lions tour:** This the most recent example of an event stimulating international arrivals. During June and July 2017 ~477,000 international visitors travelled to New Zealand, with ~25,760 (5.4%) indicating that the series was the main purpose of their travel. PWC estimates that the series resulted in an additional ~545,000 international guest nights.
- **Rugby world cup:** 133,000 tourists indicated that the major reason for their trip to New Zealand was for the 2011 Rugby World Cup, representing 31% of international tourists in September and October 2011. International guest nights rose +7.1% in October 2011 on the prior year. However, domestic guest nights fell -6.5% resulting in an overall decrease in October 2011 guest nights of -1.5% on the prior year.
- **2003 America's Cup:** 7,100 international tourists visited New Zealand primarily for the America's Cup in 2003, the last time New Zealand hosted the event. A further 22,100 visitors cited it as one of their reasons for visiting. International visitors who mainly visited for the America's Cup represented ~3% of the 222,200 international visitors in February 2003. We expect the tourist influx for the March 2021 event to be limited in numbers, but the high end spending capacity of the average America's Cup visitor will be positive for the Auckland region's economy.

Another catalyst to stimulate demand is the opening of SKYCITY's (SKC) New Zealand International Conference Centre (NZICC), which was expected to open in 2020 but has now been delayed following the fire in October 2019. A revised completion schedule is still being worked through but looks likely to be 2022 (at this stage). When open, the NZICC is set to be NZ's first international standard and scale (32,000 sqm) convention/exhibition centre. Historic feasibility studies estimated potential for an extra 31 conferences, 33,000 attendees and 101,000 visitor nights per annum. Conference and conventions are a source of shoulder and off-season demand, and typically generate high expenditure and often include add-on leisure travel.

(4) – Abnormal events have temporary impact; travel market recovers quickly

Non-economic events that have historically impacted aviation markets include pandemics (i.e. SARS), terrorism and volcanic ash clouds. These tend to be temporary in nature and as discussed earlier given the COVID-19 outbreak, can have a material impact on demand.

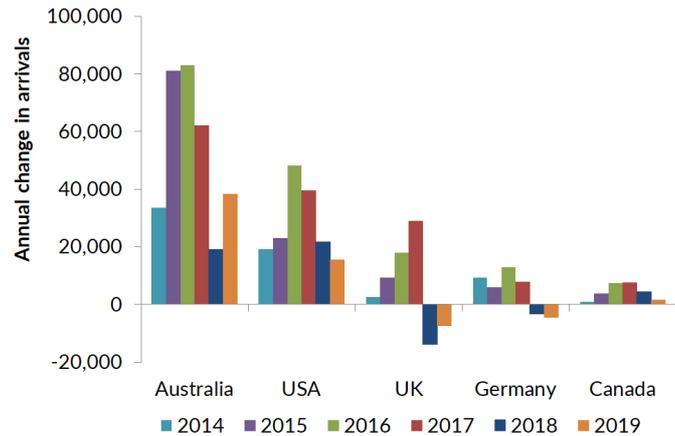
Terrorism events internationally have shown to have a greater impact on long-haul than short-haul travellers, particularly from Asian source markets. The incredibly sad and heart-breaking terror event in Christchurch last year had a negligible impact on inbound tourist demand.

Key inbound markets a mixed bag

Four source markets – Australia, China, US and Europe – contributed ~70% of inbound visitor growth into New Zealand over the past five years (Figures 36 & 37). Notwithstanding the COVID-19 outbreak, the near term outlook for the US appears positive, however, there is greater uncertainty for other markets.

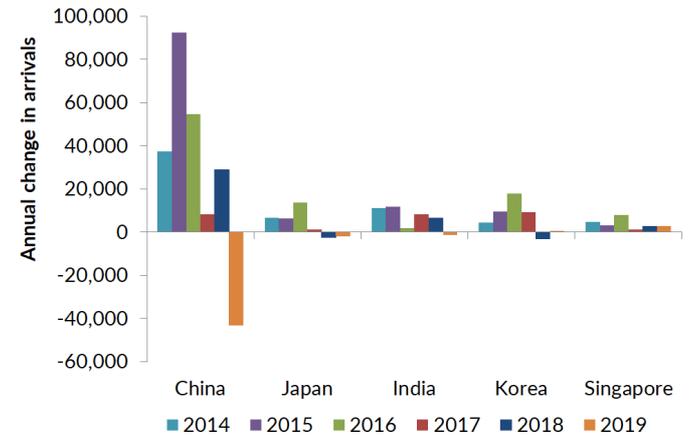
- **Australia** – Australian consumer confidence has been declining since January 2019 on the back of falling house prices and deteriorating economic growth, which will have an impact on outbound travel demand.
- **USA** – Consumer confidence in the US experienced double digit growth between September and December 2019, likely helped by the signing of the phase one US-China trade deal. This, coupled with recently launched Air New Zealand flights to Chicago and New York (from later this year), provides scope for continued robust inbound growth from the US over the next 12 months.
- **China** – Even prior to the COVID-19 outbreak China inbound traffic had slowed materially. This reflected a large amount of unsustainable capacity into New Zealand, which depressed yields for all carriers. While the near term outlook for Chinese visitors is clouded by the current ban on foreign nationals entering New Zealand that have travelled from China, we expect capacity to re-enter the market over the coming months. Beyond COVID-19 the outlook for Chinese inbound is mixed.
- **Europe** – Key European source markets, the UK and Germany, both declined in 2019. With European economic conditions slowly improving, albeit still at relatively depressed levels, the outlook for European inbound is subdued.

Figure 36. Pax growth by key source country – ex Asia



Source: NZ Stats, Forsyth Barr analysis

Figure 37. Pax growth by key source country – Asia



Source: NZ Stats, Forsyth Barr analysis

Infrastructure and capacity supply

Significant improvements in New Zealand's tourism infrastructure are required to support sustained future tourism growth. As a result of the rapid acceleration in tourist arrivals during the peak cycle of 2015–16 many parts of the New Zealand tourism sector were left scrambling for resources to support this demand influx. There was a lack of long-term foresight previous to the peak cycle to prepare for the increase in demand which has led to ongoing infrastructure measures being put in place. The visitor experience has yet to be impacted with overall satisfaction levels unchanged on historic levels (Figure 38) but there is the potential for adverse implications if the key infrastructure challenges facing the industry aren't attended to.

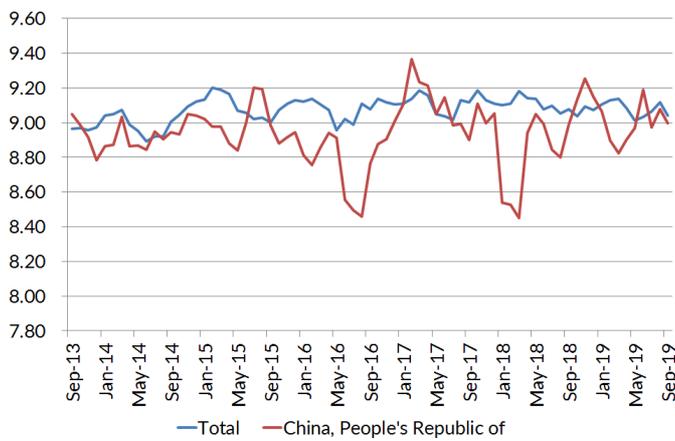
- **Accommodation availability:** One of the key drivers on tourism growth is accommodation availability, with additional supply able to help relieve constraints, improve satisfaction levels and facilitate additional visitation – with a strong impact factor. Industry reports suggest that ~9,700 new hotel rooms are to be required by 2025 across NZ to support the increase in visitor arrivals. Supply is increasing and the pipeline remains strong, particularly in Auckland.
- **Road infrastructure:** The World Economic Forum's Global Competitiveness Report 2019 suggests New Zealand does not score strongly for road infrastructure compared to other developed nations, with a quality rating of 4.5/7 which is lower than the 2018 score of 4.7 (52nd out of 141). Industry remarks cite road safety as a key concern among tourists which is of significance given 40% of visitors use a rental car when in NZ. Given the lack of feasible and efficient public transport options through New Zealand, this should be an area of focus.
- **Airport capacity:** New Zealand has adequate runway capacity for growth over the next 10 years but Auckland in particular is challenged by passenger throughput capacity. A report commissioned by Tourism Industry Aotearoa (TIA) identified Northland, Gisborne, Wellington and the West Coast as regions where issues in airport facilities are having the biggest impact on tourism.
- **Other transport infrastructure:** The City Rail Link (CRL) in Auckland is the largest transport project to ever be undertaken in New Zealand. With an expected completion date of 2024, the CRL is expected to benefit Auckland's entire transport network and improve traffic congestion. Additionally, the government recently announced an NZ\$196m upgrade to the Wellington rail network as part of the nationwide transport package commencing in the coming months.
- **Local government infrastructure:** Outside of the main New Zealand centres many prominent tourist hotspots are in areas that have particularly small ratepayer bases, meaning there is a lack of local council funding to support tourism. The current government appear to be more accommodating to help support the underfunded and underpressure areas. The tourism infrastructure fund, international visitors levy, border clearance levy and provincial growth fund will support and maintain the regions facilities along with the natural environment.
- **Tourism attraction capacity:** The continued influx of visitors (albeit slowing) to our longstanding tourist attractions is starting to create some capacity issues, particularly in our tourism hotspots. Figure 38 showcases this is yet to have an effect on satisfaction levels but measures are being put in place to avoid issues experienced in global tourism hotspots in the years to come.
- **Telecommunication infrastructure:** Telecommunication issues relate to mobile coverage, data caps, broadband access and service speeds due to a shortfall in NZ infrastructure. The TIA 2017 report found that telecommunication infrastructure improvements were not only a key emphasis of respondents as a way to elevate visitor experience but also considered essential for safety.

Visitor satisfaction remaining strong

A key risk to the New Zealand tourism industry is adverse visitor feedback, which is more relevant than ever with social media, where feedback is instantaneous and can have a large reach. MBIE conducts the International Visitor Survey (IVS), interviewing visitors at their point of departure from New Zealand. The interview includes questions on visitor's experiences in New Zealand, how much they spent and whether they were satisfied by their visit. Fortunately, infrastructure constraints have so far not had a negative impact on visitor feedback, with overall New Zealand visit satisfaction levels averaging 9.07 in the past 12 months.

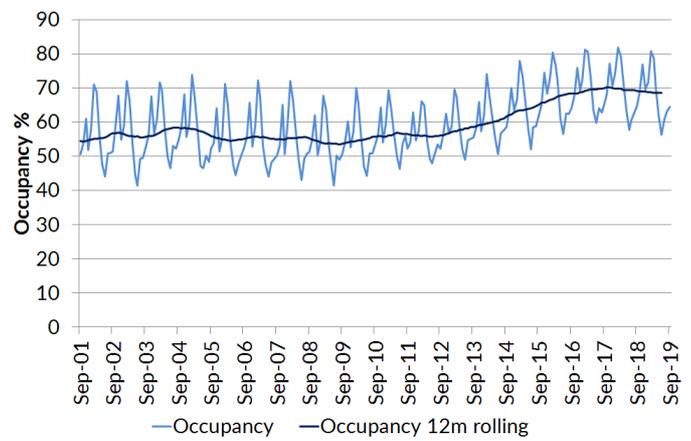
In the past 12 months, New Zealand has scored highest on its natural environment and sense of safety (even in light on the March 2019 Christchurch Attacks). The average sense of safety rating in the past 12 months was 9.11, unchanged on historical levels. Historically, adverse uncontrollable events have had a minimal material impact on inbound tourism numbers.

Figure 38. 3-month rolling satisfaction levels



Source: IVS, Forsyth Barr analysis

Figure 39. NZ occupancy rate



Source: Stats NZ, Forsyth Barr analysis

Accommodation availability

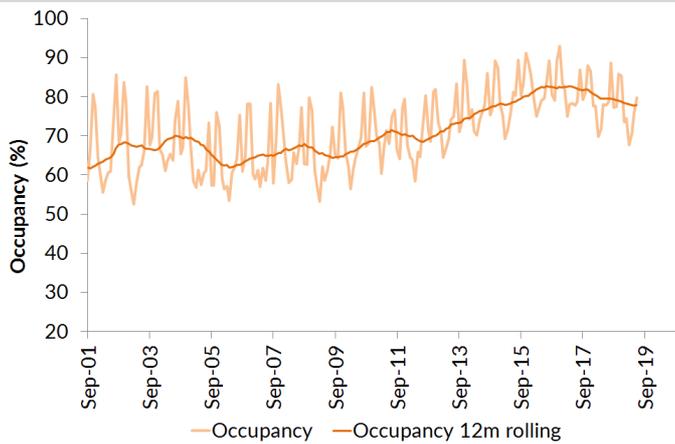
New Zealand still faces challenges accommodating visitors during peak season particularly in Auckland, Wellington and Queenstown, but the squeeze appears to be tapering off in recent times with occupancy rates easing from their record highs of recent years in these tourism hotspots, helped by increasing accommodation availability. Nationally, the occupancy rates also appear to be tapering off after a sustained period of rises.

Auckland is also likely seeing short-term imbalance between supply and demand due to the continued delay to the new convention centre (NZICC) which was anticipated to materially lift demand. This should be temporary, with the longer-term backdrop for accommodation still healthy.

Hotel occupancy show signs of decline

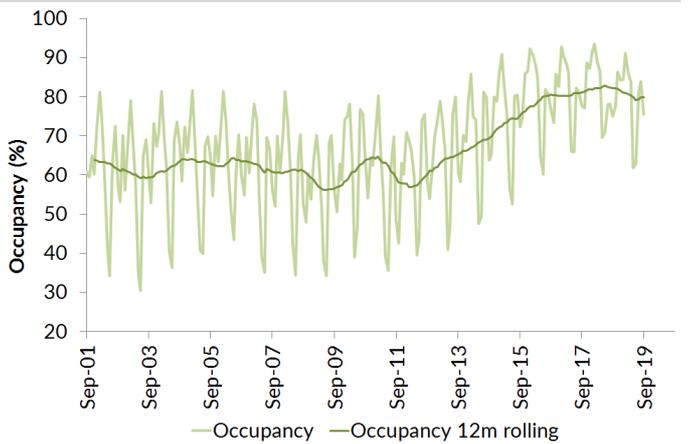
Queenstown remains New Zealand’s highest occupancy rate region (and has done since December 2017) averaging 80% over the past 12 months, slightly ahead of Auckland (78%) and Wellington (77%) during the same period.

Figure 40. Auckland occupancy



Source: Stats NZ, Forsyth Barr analysis

Figure 41. Queenstown occupancy

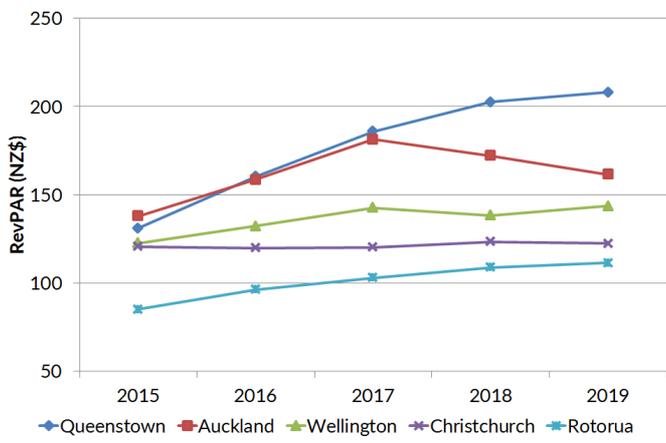


Source: Stats NZ, Forsyth Barr analysis

Room rates mixed

RevPAR (revenue per available room) trends are mixed across NZ with evident declines in Auckland (down -6.2% in the year to September 2019), flattening in Wellington & Christchurch, while Queenstown continues to accelerate. We expect the Auckland market at least partially reflects the influx for new hotel capacity around the city.

Figure 42. RevPAR in key tourism hotspots



Source: Colliers, Forsyth Barr analysis

Figure 43. RevPAR (NZ\$)

Year Ended	2015	2016	2017	2018	2019
Queenstown	131.06	160.25	185.98	202.57	208.18
Auckland	138.01	158.6	181.45	172.13	161.55
Wellington	122.66	132.24	142.73	138.35	143.60
Christchurch	120.62	119.95	120.24	123.44	122.44
Rotorua	85.09	96.17	102.91	108.83	111.34

Source: Colliers, Forsyth Barr analysis

Supply increasing

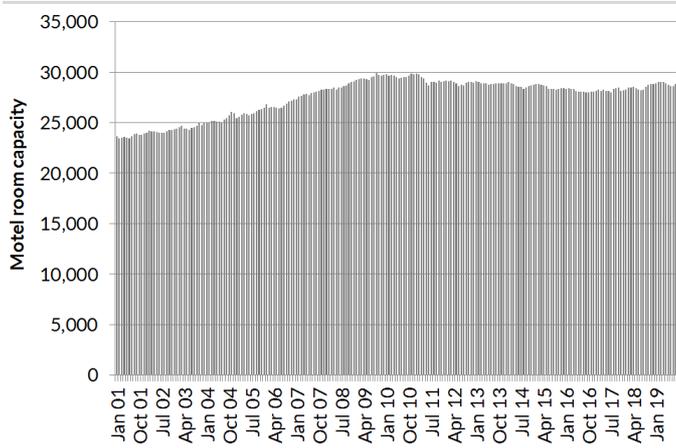
Accommodation capacity (excl holiday parks) has increased +1.8% in the year to September 2019 with hotel capacity increasing +1.9% and motel capacity +0.8% over the same period.

Industry reports estimate that there are c.9,000 new hotel rooms in the construction pipeline (ranging from proposed to early planning), with c.5,000 new rooms in Auckland, c.3,000 new rooms in Queenstown and c.900 in Christchurch. Industry estimates also suggest nationwide we require an additional 9,700 rooms to cater for increasing tourism numbers.

The detailed pipeline of hotels outlined in Figure 47 has a multi-year time horizon and given building capacity constraints, cost escalation and consenting issues it is unlikely all of these proposed builds will be completed. Further increases in hotel supply across the country, particularly in Auckland and Queenstown, will likely to continue to impact occupancy rates and RevPAR levels in the years to come especially given a slowing outlook with respect to tourism numbers. Hotels are long-dated assets, hence, adjusting supply is not a quick process.

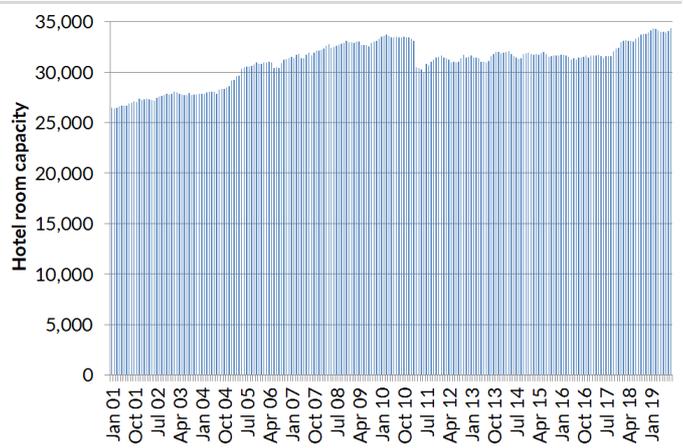
The effect of the sharing-economy with visitors more frequently using peer to peer hosting services for their accommodation (like Airbnb) will be slowly having an effect on occupancy rates and alleviating the accommodation availability pressure. Most recent Airbnb data suggests 1.5m guest nights in 2017 (we suspect this would have increased materially over the past 2 years) and of note the accommodation sharing guest nights segment has increased from 8.4% of all guest nights (2.9m) in 2013 to 18.1% of all guest nights (8.8m) in 2018, showcasing the impact it will be having on alleviating accommodation availability pressures particularly during peak periods.

Figure 44. Motel room capacity



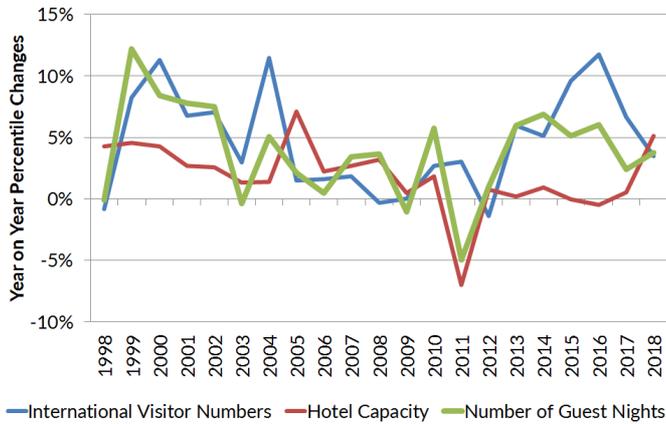
Source: Stats NZ, Forsyth Barr analysis

Figure 45. Hotel room capacity



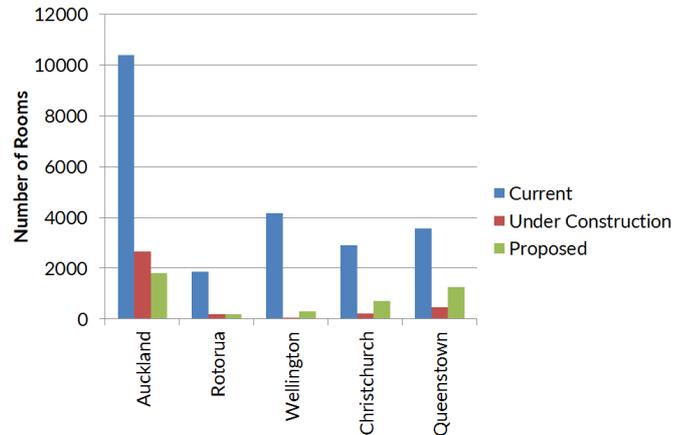
Source: Stats NZ, Forsyth Barr analysis

Figure 46. Hotel visitation vs capacity



Source: Stats NZ, Forsyth Barr analysis

Figure 47. Hotel development



Source: Colliers, Forsyth Barr analysis

Figure 48. Hotel development pipeline

Development	Location	Start Date	Rooms
Auckland			
Intercontinental Hotel	1 Queen Street	Jul-Sep 2020	244
Hobson Street Hotel	Nicholas Street & 201 Hobson Street	Nov-19	108
Beach Road Hotel	29-31 Beach Road	Jan-19	96
IHG Indigo Hotel	51-53 Albert Street	Jun-19	225
Federal Street Hotel	65-71 Federal Street	Oct-Dec 2020	233
Mercure Auckland	5-15 Albert Street & 9 Wolfe Street & Federal Street	Oct-Dec 2020	96
Civic Quarter Hotel	Greys Avenue & Mayoral Drive	Oct-Dec 2020	140
CMP Hotel - Anzac Avenue	29-31 Anzac Avenue	Apr-Jun 2020	165
Cordis Hotel-Tower Wing Expansion	77-97 Symonds Street	May-19	250
Doyles on Hobson	66 Hobson Street	Apr-Jun 2020	208
NDG Auckland Centre	106-108 Albert Street	Jul-Sep 2020	300
Lakewood Court Hotel	12 Lakewood Court	Jul-Sep 2020	94
INC Hotel	180-182 Stoddard Road	Feb-19	120
Novotel Auckland	Gore Street	2020	310
One Market Square	113-117 Customs Street West	Apr-Jun 2020	165
Quest Hotel & Apartments	34 Edwin Street	Aug-19	52
Ramada Hotel & Suites Newmarket	41-43 Gillies Avenue	Sep-19	63
Voco/Holiday Inn Express Hotel	46-56 & 58 Albert Street & Wyndham Street	Nov-18	490
Pullman Hotel Auckland Airport	Ray Emery Drive	Aug-19	311
QT Auckland	4 Viaduct Harbour Avenue	Oct-18	150
Park Hyatt Hotel	99 Halsey Street	Jul-16	195
Britomart Hotel	29 Galway Street	Jul-18	104
Horizon Hotel	85-93 Hobson Street	May-18	303
Travel Lodge Wynyard	Cnr Pakenham Street West and Halsey Street	Oct-18	154
Sudima Auckland	103 Wellesley Street West	Oct-18	194
The Pacifica	10-12 Commerce Street	Nov-17	35
Fort Street Tower	38 Fort Street	Feb-19	85
Total Auckland			4,890

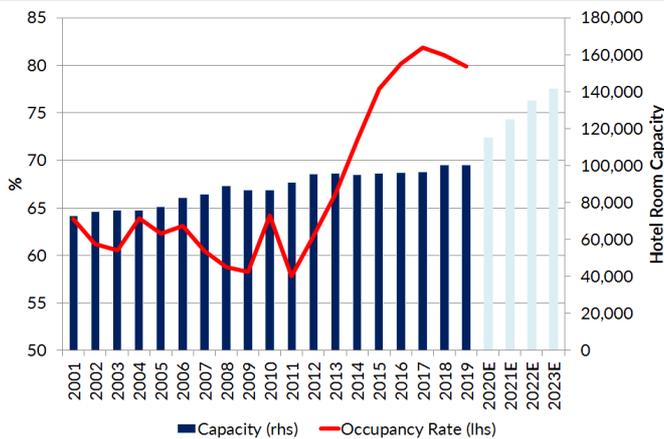
Source: Pacifecon, Forsyth Barr analysis

Figure 49. Hotel development pipeline (continued)

Development	Location	Start Date	Rooms
Christchurch			
Victoria Street Hotel	155 Victoria Street	Apr-Jun 2020	71
Holiday Inn Express Christchurch	160 Gloucester Street	Jan-Mar 2022	120
The Peterborough	51 Peterborough Street	Jan-Mar 2022	200
Papanui Road Hotel	72 Papanui Road	Jul-Sep 2019	127
Wyndham Gardens Hotel	64 Kilmore Street	Aug-19	96
Colombo Street Hotel	295 Colombo Street	Jan-Mar 2020	48
Christchurch Convention Centre Hotel	Cnr Colombo Street & Cathedral Square	Jul-Sep 2022	200
The Arts Centre	Worcester Boulevard	Apr-Jun 2019	33
Total Christchurch			895
Queenstown			
Arthurs Point Road Hotel	182 Arthurs Point Road	Oct-Dec 2020	106
Frankton Road Hotel	53-65 Frankton Road	Apr-Jun 2021	68
Holiday Inn Red Oaks Drive	28 Red Oaks Drive	Nov-19	182
Holiday Inn Express Queenstown	11-13 & 17 Stanley Street 21 & 25 Sydney Street & Melbourne Street	Jun-18	277
Man Street Hotel	14-26 Man Street	Oct-Dec 2020	205
Oaks Shores Apartments	327-343 Frankton Road	Apr-19	84
Moxy Hotel	Corner Grant Road & SH 6	Jan-Mar 2021	176
Queenstown Gateway Hotel	Cnr SH 6 & Grant Road	Jan-20	120
Radisson Blu Hotel - Remarkables Park	Red Oaks Drive	Oct-Dec 2020	257
The Brecon	34 Brecon Street	Jul-05	393
Ramada Kawarau River	lot 28 Mountain Ash Drive & Red Oaks Drive	Jun-19	87
Remarkables Park Hotel	Golden Elm Lane/Market Street	Jul-Sep 2021	182
Tryp Residences - Remarkables Park	T35 Market Street	Oct-Dec 2020	147
Well Smart Hotel - Shotover Street	67 Shotover Street	Oct-Dec 2020	260
Well Smart Hotel - Thompson Street	23-41 Thompson Street 2-5 Glasgow Street	Oct-Dec 2020	130
Sudima Queenstown	Grant Road, Frankton	Jan-20	120
Terraces Hotel	8-10 Frances Rees Place	Jul-Sep 2019	260
Queenstown Views	Cnr Man and Brecon Street	Jul-Sep 2019	150
Quest Hotel and Apartments	Red Oaks Drive	Jul-Sep 2020	40
Total Queenstown			3,244
Total New Zealand			9,029

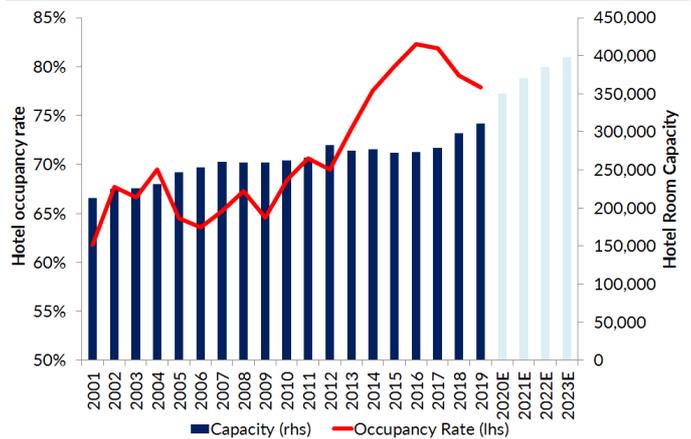
Source: Pacifecon, Forsyth Barr analysis

Figure 50. Queenstown hotel supply pipeline



Source: Fresh Info, Forsyth Barr analysis

Figure 51. Auckland hotel supply pipeline



Source: Fresh Info, Forsyth Barr analysis

Increased infrastructure funding

Increased tourism funding in recent times on the back of strong inbound growth will help maintain growth going forward, moreover, the current government's positive stance and support towards tourism will only aid future tourism infrastructure funding. Tourism infrastructure funding appears to be predominately sourced through visitor levies/taxes and direct investment from the government. The tourism infrastructure fund will provide NZ\$25m annually to local communities facing pressure from tourism growth, particularly regions that have only small ratepayer bases, as a way of providing robust infrastructure and enhancing New Zealand's reputation domestically and internationally.

Government funding support

The provincial growth fund is also investing to facilitate sustainable tourism growth in the regions beyond those that attract strong high season numbers, for example, the recent NZ\$88m tourism investment into the West Coast to upgrade and maintain facilities and the natural environment. Like other government initiatives, the aim is to improve the sustainability of the industry, enhance the productivity of tourism businesses and reduce existing pressures on tourism infrastructure.

The NZ government recently announced an NZ\$11m package designed to help alleviate some pressure from COVID-19, with NZ \$10m for Tourism NZ to market New Zealand as a destination in offshore markets and NZ\$1m for domestic marketing. There has also been suggestion further funding, including direct assistance for tourism players, could be considered depending how COVID-19 evolves.

Recent fees and levies

The International Visitor Conservation and Tourism Levy (IVL) imposed from 1 July 2019 charging visitors (excluding Australians and Pacific Islanders) NZ\$35 when entering New Zealand will be invested in sustainable tourism to help protect our natural environment, ensure tourism growth is sustainable, by protecting and enhancing our biodiversity and addressing critical tourism infrastructure issues. The IVL is estimated to raise NZ\$90m annually.

From October 1 2019, the New Zealand Electronic Travel Authority will be required for all visitors, aside from Australian citizens, permanent residents and those from the Pacific Islands, who enter New Zealand. The application fee to receive an NZeTA is NZ\$9 and was put in place to strengthen New Zealand's border security and bring it in line with international best practice.

The IVL and NZeTA precedes the Border Clearance Levy that was implemented by the Ministry of Primary Industries in 2016 of NZ \$21.57 for air travellers and NZ\$26.22 for sea travellers. In the year to July 2020, the total cost increase from levies would be NZ \$41m following an NZ\$52m increase in the year to July 1, 2019 bringing the total cost international visitors pay the Government in the form of levies to now NZ\$430m a year.

Industry participants are generally supportive of the new levy as long as the funds raised are directed into conservation and important tourism related infrastructure.

Increasing taxes

Bed taxes are a form of tourism tax that has come under scrutiny by industry and government officials in recent times. Auckland City Council introduced an Accommodation Provider Targeted Rate (APTR) in 2017. The APTR is essentially a bed tax that applies to hotels, motels, serviced apartments and online accommodation providers if they are rented out more than 28 nights a year, it raises NZ\$14.5m annually which is used to promote tourism in the Auckland region.

In June 2019, Queenstown held a referendum asking for support on a 5% visitor levy driven by several local authorities experiencing pressure on their infrastructure due to high tourism numbers. The referendum saw 81% support but in December the Productivity Commission has dropped the idea, concluding that any new proposed funding tools would have high costs so unlikely to deliver a net benefit to councils.

Given the increased tourism infrastructure government funding in recent years, we are pleased with the importance the government is placing on the tourism industry and that it recognises it is a key aspect of our economy which should hopefully lead to sustained growth as seen in years gone by.

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