

# Wealth Weekly

## What Do You Pay for Healthcare?

There is no doubt Fisher and Paykel Healthcare (FPH) is a great NZ company, having built a global business in respiratory care, acute care, and treatment of obstructive sleep apnoea, with products sold in around 120 countries worldwide. The question we ask ourselves is: what should investors pay for quality healthcare exposures? FPH is trading on a price-to-earnings (PE) ratio of 44x compared to its 10-year average of 26x. Australian peers CSL, Cochlear, and Resmed are also at elevated levels. Our basket of eight preferred international exposures has a median PE of 19x. We see this disparity as stark and believe investors are offered superior value-for-risk through international companies and/or healthcare-focussed investment trusts.

### Strong case for healthcare — prefer exposure through international equities and/or trusts

We believe the investment case for the healthcare sector remains intact, underpinned by ageing populations, innovation, bulging waist lines, and increasing wealth in emerging economies.

For investors seeking exposures to these themes we prefer either:

1. A basket of international direct equities. Our preferred exposures are Astrazeneca (AZN.US), Baxter International (BAX.US), Gilead Sciences (GILD.US), Illumina (ILMN.US), Medtronic (MDT.US), Merck & Co (MRK.US), Sanofi (SAN.FP), and Takeda Pharmaceutical (4502.JP).
2. Healthcare-focussed diversified investment trusts. Our preferences are the Worldwide Healthcare Trust (WWH.LN), and Biotech Growth Trust (BIOG.LN).

For further detail please see our report “Global Healthcare Sector — Super Health Group Update” also published today.

### Themes of the week

Last week saw a burst of merger and acquisition (M&A) activity internationally, including in Australia with a conditional, non-binding bid for Caltex from Canadian company Alimentation Couche-Tard. This follows NZ in recent weeks, with Abano Healthcare’s board agreeing to a takeover offer, and Metlifecare announcing it has received an “expression of interest from a credible third party to acquire the company”. With confidence in global economic conditions improving and interest rates low we expect M&A will remain an ongoing theme.

The S&P/NZX 50 jumped +3% on the back of limited new information. An outlier was Gentrack, down -11%, which fell further on the back of a disappointing 2019 financial year. Strong retail sales highlighted the strength of the NZ consumer, a theme we see underpinning the economic outlook internationally. In the US, cyber security leader Palo Alto gave back its recent strong gains on a modestly disappointing result — we view this weakness as an entry opportunity into the stock.

### Looking ahead

Company specific news will now slow with company reporting having wrapped up last week and Christmas approaching. Locally, the two key events will both be on Thursday. The Reserve Bank announces its final decision on bank capital requirements, and the Commerce Commission releases the final report on its market study into retail fuel which has implications for Z Energy. In Australia, the Reserve Bank’s interest rate announcement is on Tuesday with the market expecting it to keep rates unchanged. Internationally the focus will remain on US–China relations and any Chinese reaction to President Trump signing the Hong Kong Human Rights and Democracy Act into law last week.

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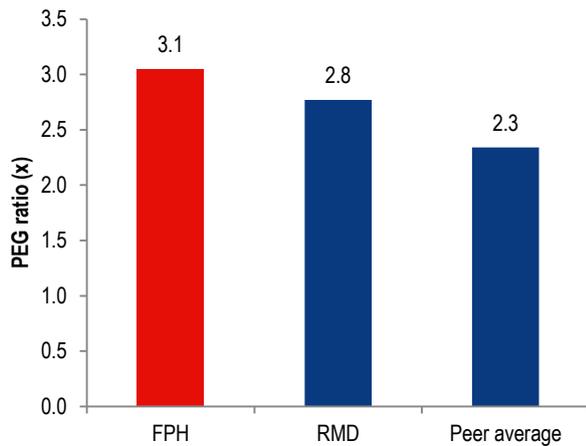
### In this weeks report...

- International stocks and trusts offer better value healthcare exposure than Australian and NZ
- Consumers underpin a robust global economic outlook
- Government’s ambitions in expanding open ocean farming provide long-term opportunities for NZ King Salmon and Sanford
- Mixed trading result provides an entry point into cyber security leader, Palo Alto Networks
- The RBNZ’s bank capital decision will be announced Thursday

# What do you pay for Healthcare?

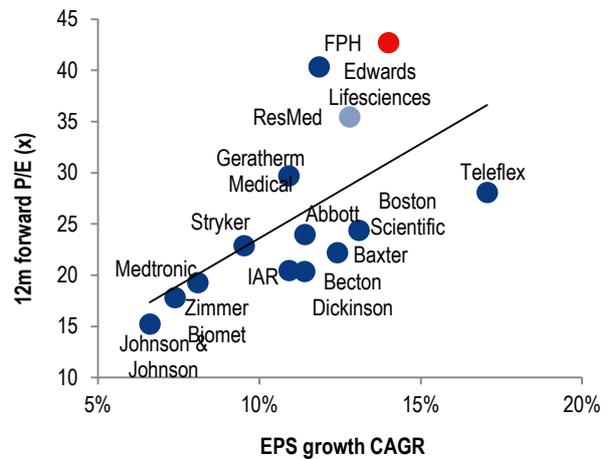
**Fisher & Paykel Healthcare (FPH)** delivered a 1H20 result that was broadly in-line and left its recently upgraded FY20 earnings guidance unchanged. The company's hospital business provided another consistent, strong performance with +17% revenue growth in the half, with momentum expected to continue into the second half. Revenue from the homecare division revision dipped by -1%, which was less than we expected thanks to early sales of new products — we expect improvement within the division, however, this is heavily reliant on our expectation of new products generating solid sales growth which is not a given. FPH is a high quality business which continues to deliver on a well-articulated growth story; however, we struggle to justify current valuation levels which are elevated versus any benchmark (even when growth adjusted).

Figure 1. Price-to-earnings vs. growth (PEG) ratio relative to medical device peers



Source: Forsyth Barr analysis

Figure 2. FPH vs. healthcare peers: PE vs. earnings per share (EPS) compounding annual growth rate (CAGR)



Source: Forsyth Barr analysis

## Australasian healthcare companies look expensive in general

Similarly to FPH, other well-known Australasian healthcare companies such as **CSL** (CSL.AU), **Cochlear** (COH.AU), and **Resmed** (RMD.AU) are trading on eye watering PE multiples. As such, we are limited on attractive value-for-risk ideas among Australian and New Zealand listed companies.

Figure 3. Australasian healthcare companies generally trade on high PE multiples

Company Name	Code	Mkt Cap (Local bn)	Price (local)	12-mth Chg	Fcst 1 PE	Fcst 2 PE	PEG	ROE	Div yld	EPS 3yr CAGR
CSL	CSL	128.7	283.48	+59.8%	41.6x	35.5x	3.2x	41%	0.8%	+12.8%
Cochlear	COH	13.5	233.99	+38.2%	45.3x	41.2x	4.3x	41%	1.6%	+10.5%
F&P Healthcare	FPH	12.7	22.15	+66.5%	48.6x	42.7x	3.5x	27%	1.4%	+13.8%
Resmed	RMD	31.9	22.18	+48.0%	37.6x	33.2x	3.2x	24%	0.7%	+11.6%
<b>Median</b>				<b>+53.9%</b>	<b>43.4x</b>	<b>38.4x</b>	<b>3.4x</b>	<b>34%</b>	<b>1.1%</b>	<b>+12.2%</b>

Source: Forsyth Barr analysis

## Healthcare remains an important sector exposure for portfolios

While valuations are expensive within Australasia, we continue to believe the investment case for the healthcare sector remains intact, supported by the following tailwinds.

- Ageing populations, expanding waistlines, a growing middle class in emerging markets and increasing insurance coverage mean the demand for healthcare products and services is set to continue growing steadily.
- Scientific and technical breakthroughs are resulting in new products to address more unmet needs. The sector is in a “golden era” of innovation in: medications (gene therapy, cell therapy, bispecific antibodies, immunotherapy, protein modulation, targeted therapies, rare disease therapies); medical devices (novel medical implants); equipment (robotic surgery); and diagnostic systems (liquid biopsy).

- Existing highly effective products are set to be used at earlier stages of treatment (for example in cancer).
- The world's most important regulatory body for drugs and devices, the US Food & Drug Administration, is taking a pragmatic and industry-friendly approach to shepherding products through its approval process, resulting in lower costs, shorter timelines and higher success rates for drug candidates. The number of drugs in development has risen every year for the last five years to record levels, and the number of approvals has been trending higher.
- The combination of rising demand for and supply of healthcare products supports increasing healthcare spending as a proportion of GDP, which should result in outsized growth for the sector relative to other parts of the world economy over the coming years.

Political rhetoric on drug prices is expected to continue ahead of the 2020 US elections. However, the US political environment, the strength of the drug lobby, and the availability of other levers to lower out of pocket costs for US seniors means there is only a low likelihood of changes being implemented that are detrimental to the drug industry.

#### International healthcare companies offering better value

In our view, international healthcare companies propose a more compelling investment opportunity as they offer exposure to similar structural trends but at more reasonable valuations.

For investors looking for direct exposure to the healthcare sector our preferred international exposures are: **Astrazeneca** (AZN.US), **Baxter International** (BAX.US), **Gilead Sciences** (GILD.US), **Illumina** (ILMN.US), **Medtronic** (MDT.US), **Merck & Co** (MRK.US), **Sanofi** (SAN.FP), and **Takeda Pharmaceutical** (4502.JP).

Within Australasia our preferred healthcare exposures are **CSL** (CSL.AU), **EBOS Group** (EBO.NZ), and **Resmed** (RMD.AU).

Figure 4. Super Health Group fundamentals

Company	Code	Mkt Cap (Local bn)	Price (local)	12-mth Chg	Fcst 1 PE	Fcst 2 PE	PEG	ROE	Div yld	EPS 3yr CAGR
<b>Global healthcare companies</b>										
AstraZeneca	AZN	97.8	74.58	+21.9%	25.5x	21.4x	1.3x	22%	3.7%	+20.3%
Baxter International	BAX	41.9	81.97	+19.6%	24.2x	21.7x	2.2x	19%	1.1%	+11.2%
Gilead Sciences	GILD	85.1	67.24	-6.5%	9.6x	9.4x	3.7x	33%	4.1%	+2.6%
Illumina	ILMN	47.2	320.76	-5.0%	49.7x	45.2x	3.6x	22%	0.0%	+13.9%
Medtronic	MDT	149.3	111.39	+14.2%	19.9x	18.5x	2.4x	12%	2.0%	+8.5%
Merck & Co	MRK	222.0	87.18	+9.9%	17.7x	15.7x	1.6x	42%	2.6%	+11.0%
Sanofi	SAN	105.9	84.51	+5.9%	14.3x	13.4x	1.9x	8%	3.8%	+7.4%
Takeda Pharmaceutical	4502	7022.7	4455.00	+4.7%	11.2x	10.0x	0.8x	4%	4.0%	+13.4%
<b>Australasian healthcare companies</b>										
CSL	CSL	128.7	283.48	+59.8%	41.6x	35.5x	3.2x	41%	0.8%	+12.8%
EBOS Group	EBO	3.7	22.79	+6.0%	20.2x	19.3x	3.5x	13%	3.3%	+5.8%
Resmed	RMD	31.9	22.18	+48.0%	37.6x	33.2x	3.2x	24%	0.7%	+11.6%
<b>Median</b>				<b>+9.9%</b>	<b>20.2x</b>	<b>19.3x</b>	<b>2.4x</b>	<b>22%</b>	<b>2.6%</b>	<b>+11.2%</b>

Source: Forsyth Barr analysis

In combination, our preferred list (Super Health Group) of 11 companies offers exposure to a broad range of long-term growth thematic, with a median 12 month forward PE multiple of ~20x. We project our Super Health Group to achieve a 3-year target return of +9–15%pa.

For investors that favour healthcare exposure via an actively managed, diversified investment trust, our preference is for **Worldwide Healthcare Trust** (WWH.LN), and **Biotech Growth Trust** (BIOG.LN).

Figure 5. Investment trust fundamentals

Company	Code	Mkt cap (Local bn)	Price (Local)	NAV per share	Prem/ Disc	Div yld	Strategy	Benchmark index
Biotech Growth Trust	BIOG	0.4	8.42	9.3	-9.2%	0.0%	Biotechnology stocks	Nasdaq Biotech
Worldwide Healthcare Trust	WWH	1.6	29.90	30.1	-0.5%	0.9%	Pharma & biotech stocks	MSCI World Health Care

Source: Forsyth Barr analysis

For further detail please see our report "Global Healthcare Sector — Super Health Group Update" also published today.

# Themes of the week

## Macro Snapshot

### Consumer Resilience

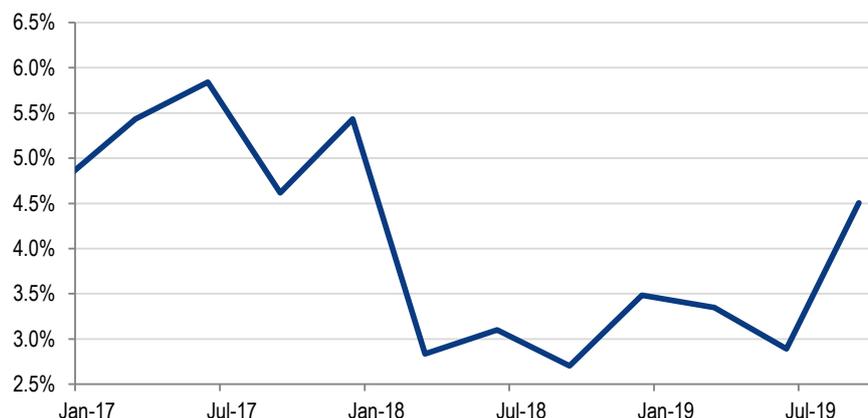
There's been no shortage of negative headlines over the past two years that have kept investors on edge. Late last year and during the early part of 2019, the main concern was the prospect of materially higher interest rates, as the Federal Reserve hiked interest rates and signalled a lot more tightening to come. This had negative implications for growth, and the valuation of most asset classes from property to bonds to shares. While the market tantrum put paid to any further tightening, and instead resulted in the US central bank reversing course and cutting interest rates, the media outlets found other headlines to attract readers.

The big one was, and continues to be, the ongoing trade war between the US and China. The uncertainty this has created has led to a slump in manufacturing growth and global trade, resulting in coordinated warnings about increasing recession risks. The Brexit mess continues to exercise investors' minds, as do the implications of the impeachment hearings in the US, pro-democracy protests in Hong Kong, and increasing military conflict in the Middle East between Iran and its proxies, and Israel.

Despite this negativity, the world economy has not slumped into a recession, and in recent months has shown signs of a rebound in activity. This has been reflected in interest rates bouncing off their recent lows, with yield curves steepening again, and equity markets rising through October and November. Much of the underlying strength in the global economy can be attributed to the resilience of the global consumer.

Consumption makes up the majority of activity in developed economies. This can range from 60–80% of total activity, or between 50–60% in activity ex essential services such as healthcare. In recent months, consumer activity has lifted which has been reflected in stronger retail sales in a number of countries, including New Zealand. The recent trend in consumer data, particularly with unemployment in many countries at multi-decade lows, indicates the recession fears that permeated the market earlier this year were overcooked. The slowdown in growth looks to have bottomed out.

**Figure 6. New Zealand retail trade (yoy growth rate in constant prices)**



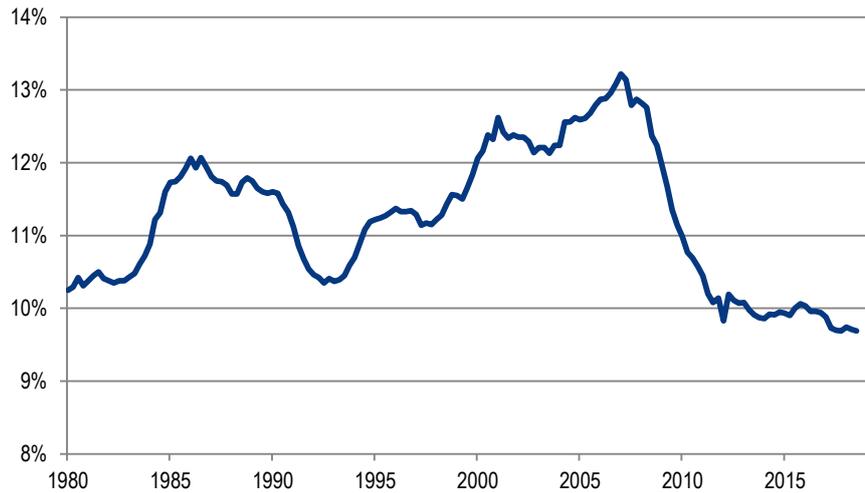
Source: Stats NZ, Forsyth Barr analysis

Consumption is a function of disposable income. Consumers can save or spend their income. If savings go up, consumption must fall and vice versa. Savings include the servicing of debt and mortgage repayments. So as interest rates have fallen, the accounting treatment of savings has fallen, resulting in higher consumption. Disposable income is determined by jobs growth, hours worked and the hourly rate or salary. Consumers also respond to the wealth effect. As the value of their investments in real assets such as property, shares and bonds go up, their propensity to spend increases. These real assets also generate capital transfers in the form of dividends, capital returns and coupons.

Deep into the current economic expansion, employment intentions remain strong. Employers all over the world continue to signal difficulty in finding skilled or experienced staff. This is the best indication of underlying business confidence — employers will only look to invest more in staff if their profits outlook is positive. Unemployment remains at record lows, the combination of which means real (adjusted for inflation) incomes are rising.

Debt servicing costs have also fallen dramatically over the past decade. In the US, household debt servicing as a percentage of disposable income has fallen from just over 13% to just under 10% by the end of 2018. The ratio is lower again as the Fed cut interest rates three times in 2019.

**Figure 7. US Household debt service as % of disposable income**



Source: Federal Reserve, Datastream, Forsyth Barr analysis

Consumers have also never had it so good. Globalisation and competition, disruption and technology, have opened up the world. Producers and businesses are competing hard to provide improved goods and services at the most competitive prices, otherwise they risk going out of business. The online phenomenon has opened up a whole new world for many consumers in choice and price points, which is enticing even higher levels of consumption, in good times and bad.

As the world ages, consumption is supposed to slow down. But the older generation, which retains most of the wealth, is living longer and healthier lives than in the past. This augurs well for consumption to continue, underpinning global growth for some time yet.

Barring any escalation in the trade war between the US and China, 2020 may see a synchronised uplift in growth, as stronger consumption leads to a rebound in manufacturing activity. This assumes interest rates remain anchored by lower than expected inflation outcomes.

## Equities

### Deal fever

Last week saw a flurry of merger and acquisition (M&A) activity.

Last Monday alone there was a raft of international announcements. Brokerage Charles Schwab agreed to buy rival TD Ameritrade for US\$26b. France's LVMH, the world's largest luxury goods company, paid US\$16b to acquire jewellery company Tiffany & Co. Swiss pharmaceutical company Novartis is to pay US\$10b for biotech company The Medicines Co. A Mitsubishi-led consortium agreed buy Dutch energy firm Eneco for US\$5b. And eBay sold its StubHub ticketing business to Viagogo for US\$4b.

Closer to home, in Australia, Canada-based convenience retailer Alimentation Couche-Tard made a conditional, non-binding bid for Caltex. In NZ in recent weeks we have seen Abano Healthcare's board agree to a takeover offer, and Metlifecare announced it has received an "expression of interest from a credible third party to acquire the company".

Conditions are ripe for M&A activity to continue. High stock prices provide companies with a strong takeover “currency” — Charles Schwab is paying with 100% stock for TD Ameritrade. Meanwhile, interest rates and funding costs are low — LVMH is reportedly funding the acquisition of Tiffany & Co with a bond issue priced below 1%.

The takeover activity highlights a few things: (1) confidence amongst corporates in the global economic outlook has improved, (2) the US remains an attractive market to international companies, (3) in the low interest rate environment we are currently in, investors are not the only ones prepared to pay “premium” prices for assets, and (3) cheaper assets will likely attract interest for potential buyers.

**Sanford / New Zealand King Salmon — Open Ocean Opportunity**

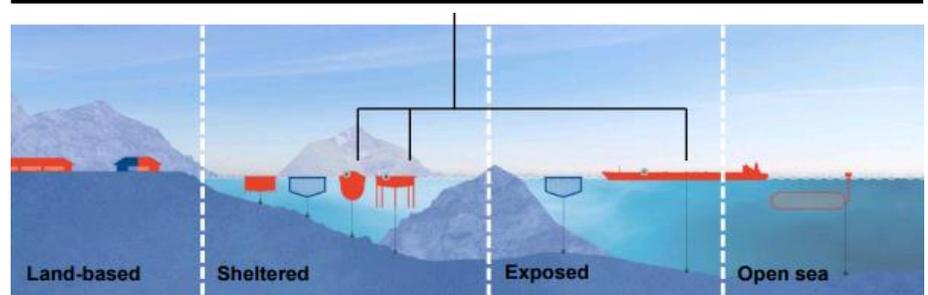
Open ocean marine farming represents a significant long term opportunity for the NZ aquaculture sector, and material potential upside to our valuations of NZ King Salmon (NZK) and Sanford (SAN) over the long-term beyond what is reflected in current share prices.

Marine farming is all about location. The specific environmental conditions necessary limits suitable water space to only a handful of coastlines globally. In NZ, we believe it is unlikely that additional inshore/sheltered sites (such as those currently farmed in the Marlborough Sounds) will be made available given a mixture of cultural, environmental, and political concerns. Volume growth is, therefore, through farming further offshore.

The definitions “inshore”, “exposed”, and “open ocean” for marine farms are not necessarily driven by proximity to shore, but rather the degree of exposure to the wind and sea conditions, and consequently the pen and anchoring designs that are required. Open ocean sea farms represent the largest opportunity for the finfish aquaculture sector. A single open ocean salmon farm can produce around 10,000 tonnes of salmon per annum. That compares to the 13,000 tonnes produced by the entire NZ industry last year. This opportunity is underpinned by the recently announced Government strategy, which is targeting NZ\$3bn revenue from ocean farms by 2035 (vs.NZ\$650m in 2019).

Open ocean opportunities reinforce our positive view on the long-term prospects for NZK and SAN. That said, open ocean technology does remain in a developmental phase with both capital cost and commercial timeframes highly uncertain at this stage. We expect it will be at least 10 years before open ocean farmed salmon is harvested in New Zealand.

**Figure 8. Finfish farming methods**



Source: MOWI, Forsyth Barr analysis

**Palo Alto Networks — Looking through the short-term EPS miss**

Palo Alto Networks (PANW.US) shares sunk -12% on Tuesday after the cyber security company reported a mixed result for the 1Q of FY20. The company missed on margin and free cash flow expectations, with sales slowing more than expected. The company attributed the slowdown to sales incentives being moved to higher growth segments.

The result had some positive notes, with cloud subscriptions and next-gen security billings ahead of consensus, FY20 revenue guidance maintained, and a slight lift in FY20 billings guidance. PANW shares had rallied strongly into the result, so the -12% pullback only returned its share price back to where it was a month ago. Our research affiliates retain a BUY rating on PANW with both UBS (US\$258 from US\$250) and Citi (US\$283 from US\$247) upgrading their target prices following the result.

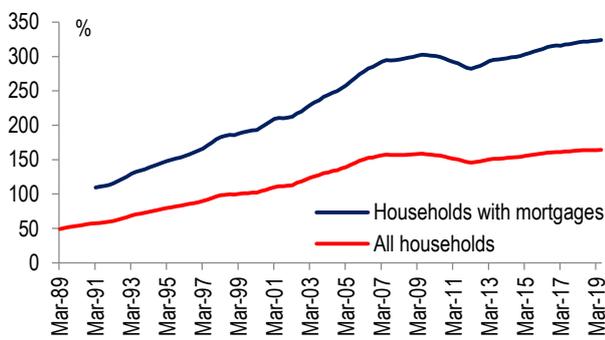
We believe there are three key positive underlying secular drivers in favour of Palo Alto’s products: (1) industry consolidation of vendors supplying cyber security software, (2) increasing referrals in favour of Palo Alto’s products from third party consultants like PWC and Accenture; and (3) strong growth in corporate expenditure on cyber security. We view the sell-down in Palo Alto as a buying opportunity.

## Fixed Income

There was very little to get excited about in the Financial Stability Report (FSR) delivered by the Reserve Bank of New Zealand (RBNZ) last week. Some had been expecting further relief on the loan-to-value ratio (LVR) restrictions, however, with the recent resurgence in the housing market it made sense for the Central Bank to remain cautious. The current environment of low interest rates, the removal of the Capital Gains Tax threat, ongoing attractive mortgage rates, and possible increased funding allocation from the banks to residential mortgages may provide a platform for a surge in house prices over 2020.

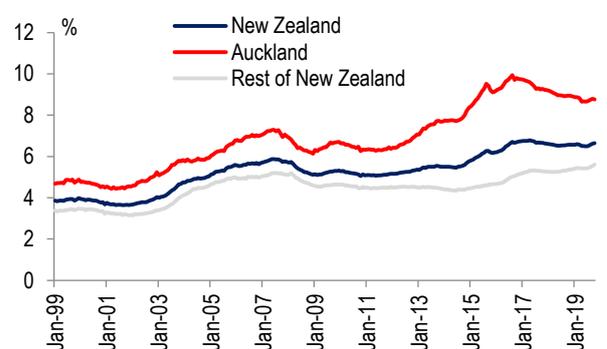
The RBNZ already believe household debt is high, making up around 60% of bank lending and has been growing at 6% p.a. making the ability to adjust the LVR restrictions a key policy tool should it be required in the future. The LVR restrictions first introduced in 2013 have been relaxed twice over the last two years but banks have responded by increasing lending to high LVR borrowers. Will a possible surge in house prices in 2020 put pressure on the RBNZ to raise interest rates?

Figure 9. Household debt-to-income ratio



Source: Forsyth Barr analysis, Stats NZ, RBNZ

Figure 10. House price-to-income ratio



Source: Forsyth Barr analysis, REINZ, Stats NZ, RBNZ

The **big announcement** for the coming week will be the release of the RBNZ's long awaited Bank Capital Review. The outcome of which could have a significant impact for the banks (all of the banks but in particular the big four), the local economy and therefore those who require credit. We have already heard anecdotal evidence that banks have pulled back on its rural lending in anticipation that the RBNZ is unlikely to shift too far from its December 2018 stance.

### What's all the fuss about?

The RBNZ is proposing that all of New Zealand's registered banks hold almost double the existing amount of capital on their balance sheets (i.e. "have more skin in the game" — RBNZ Governor Adrian Orr), along with a number of other technical changes as to how the banks allocate their capital. For example, a bank is required to hold less capital for one of its residential mortgage loans compared to a rural loan, effectively pushing banks' cost of funds increase, which in turn is likely to see those increases passed onto borrowers and a reallocation of capital away from sectors such as rural and into the residential mortgage market.

Whilst the proposed increase of capital is the headline grabber, the bigger story lies beneath this with respect to the type of capital a bank can use to contribute to its regulatory capital requirement. Currently a bank is allowed to use debt-like instruments that form part of its capital. This effectively allows a bank to reduce the overall cost of capital. The RBNZ seem quite content to not allow such debt-like instruments in the future, which will not only impact the banks cost of capital but also limit the number of these type of issues on the NZDX.

### Some positives...and negatives

If we assume that the December proposals are indeed implemented (and we believe Thursday's release will be pretty close to those proposals) then fixed income investors may benefit from further corporate debt issuance. Obviously a safer banking sector will eventually be beneficial for our economy also. The negative impacts as mentioned above is the possible restriction of credit to certain sectors of the economy and additional cost that banks are likely to pass onto borrowers.

# Research Worth Reading

## New Zealand

### Fletcher Building (FBU) — Pressures Reiterated

FBU's initial FY20 guidance reemphasises that earnings remain pressured from a combination of competition, cost, easing NZ demand, and the Australian residential downturn. Guidance was modestly below our expectation, and looking through the balance of the fiscal year, we view risks as clearly down weighted. In our view, value remains insufficient to compensate for risks; maintain UNDERPERFORM.

### Gentrack (GTK) — FY19 — Legacy Drag on SaaS

We downgrade our rating on GTK to UNDERPERFORM as a result of repeated profit warnings during FY19, reduced confidence in the near to medium term earnings outlook, and valuation concerns given it trades at ~35x one year forward PE. The FY19 result suggests profitability is being held back by (1) challenging industry conditions in core markets, and (2) its transition to SaaS (software-as-a-service). The latter is providing a higher quality revenue stream but appears to be having a negative impact on margins.

### Metlifecare (MET) — Downgrade to NEUTRAL — Waiting for NBIO Info

MET's share price has risen around +40% recently following the announcement of a share buyback, a lift in sentiment towards the Auckland housing market, and possible corporate action with MET advising the market that it has received a non-binding indicative offer. We have pulled our rating back to NEUTRAL from OUTPERFORM and investors should wait for more info.

### Vector (VCT) — ComCom WACCs Electricity Price

The Commerce Commission has reset VCT's maximum allowable electricity revenue -6% lower for the regulatory year to 31 March 2021. The price cut was expected in light of the low interest rate used to set the regulated weighted average cost of capita. Looking ahead, the key decisions for VCT are what it does with its dividend and whether it applies for a customised price path. UNDERPERFORM.

## Australia

### Aristocrat Leisure Limited (ALL.AX) — Dollar Storm and adjacencies ramping up

ALL has extended its lead in the North American Class III premium leased market in the October 2019 Eilers & Krejcik Game Performance Report. ALL is outperforming the floor average in the outright market well ahead of its three largest competitors, and holds the top three positions within the segment with Fu Dai Lian Lian Dragon (a new title), Buffalo Gold, and Buffalo Gold Revolution. BUY. (Published by Citi)

### CSL Ltd (CSL.AX) — Revising mid-term forecasts post competitor investor meeting

We recently attended the Takeda plasma investor briefing in the USA. We have reviewed the information presented at that meeting, alongside the data from the recent competitor quarterly results, and feedback from our industry contacts. As a result, we have increased our FY20–22 Immunoglobulin growth forecasts (~40% of CSL revenue) to ~16% pa. Revenue growth will be driven by a combination of underlying market volume growth, underlying price growth, product mix increases and minor market share gains. Maintain NEUTRAL — Our TP increases to A\$282.60 (from A\$252.60). Earnings risk remains to the upside given the strong demand dynamics in the plasma market, and superior plasma collection position of CSL. (Published by Citi)

### Seek Limited (SEK.AX) — Balancing short-term risks vs long-term upside, SEK is now our online classifieds sector preference

Online sector valuations are looking relatively expensive, with favourable long-term scenarios now already priced in for most online classifieds. SEK still has some potential upside and now becomes our sector preference. NEUTRAL. (Published by UBS)

### **Westpac Banking Corporation (WBC.AX) — CEO steps down following money laundering allegations — Upgrade to Neutral**

WBC announced that Brian Hartzler will be stepping down as CEO following a week of intense public and political pressure. Mr Hartzler is now the third CEO of a major bank to have resigned in the last two years following AML allegations and/or the Royal Commission. NEUTRAL. (Published by UBS)

## **International**

### **Home Depot (HD.US) — Further Thoughts on 3Q Results**

HD posted somewhat softer-than-expected 3Q results with same-store sales momentum negatively impacted by the delayed realization of One Home Depot strategic investments and lumber headwinds. That being said, Home Depot's investments do remain largely on track and margins were in line with consensus, with EPS coming in slightly above as well. We think the 'core' HD business remains poised for decent performance in 2020. BUY. (Published by Citi)

### **LVMH Moët Hennessy Louis Vuitton SA (MC.FP) — LVMH reaches agreement to buy Tiffany & Co for \$135/share**

LVMH confirmed that it has reached an agreement to acquire Tiffany at US\$135/share, valuing its equity at US\$16bn. The boards of both companies have approved the acquisition and Tiffany's Board of Directors recommends that Tiffany shareholders approve the transaction, which LVMH expects to close mid-2020. BUY. (Published by UBS)

### **Palo Alto Networks (PANW.US) — Can't Have the Cake, Can't Eat it Either**

Against elevated expectations and PANW's meaningful run-up into results, we think the mixed F1Q report is likely to drag on sentiment and keep shares range bound. The miss on OPM / FCF were disappointing, however next-gen security billings up +217% YoY impressed. BUY. (Published by UBS)

### **Palo Alto Networks (PANW.US) — Mix Surprises but Indicators of Cloud Leadership Shine Through in Q1**

Product declined 4% Y/Y after deceleration in Q4. While we expected weaker product sales (company had pushed sales incentives hard in FY20 away from appliances), management admitted performance here was weaker than plans. We expect some investors will take pause of the surprise, with concerns that product weakness could continue and is a sign of competitive issues. We take the other view, as we expect that the market will soon place a premium on security companies that are "on-side" with the cloud trend, where we see PANW leading. PANW continues to be our favourite security stock. BUY (Published by Citi)

## **Economics/Strategy**

### **Global Economics Weekly — Financial Markets Firing on All Cylinders — For How Long?**

Financial markets seem to be firing on all cylinders. The risky equity and credit markets are supported by crowding-in effect of central bank net asset purchases. Our global equity strategists argue inflows returning could add to the rally. Our rates strategists do not see US fundamentals supporting another "tantrum" and see risk of a European bullish correction. (Published by Citi)

## Calendar

Figure 11. Calendar

	New Zealand	Australia	International
2-Dec	Terms of Trade Q3	Building approvals CoreLogic house price data Nov-19	China: Caixin Manufacturing PMI Nov-19
3-Dec	Delegat Group ASM	Reserve Bank of Australia interest rates announcement Balance of Payments Q3	General Electric Investor Day US: ISM Manufacturing PMI Nov-19
4-Dec		TPG Telecom ASM GDP data Q3	UnitedHealth Group Investor Conference salesforce.com 3Q20 result
5-Dec	Commerce Commission 'Market study into retail fuel' final report Building Work Put in Place Q3 RBNZ Capital Review announcement	Nufarm ASM Retail Trade data Oct-19	Microsoft ASM EU: Retail Sales data Oct-19 US: ISM Non-Manufacturing PMI Nov-19
6-Dec		Metcash 1H20 result Caltex Australia Investor Day Washington H Soul Pattinson & Co ASM Altium ASM	Novartis AG Research and Development Day Medtronic ASM
7-Dec			US: Non-farm Payroll data Nov-19

Black – company news, Red – economic news  
Source: Forsyth Barr analysis

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