

Wealth Weekly

Companies Catching Colds

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Reporting season continues in Australia and NZ this week – it's been pretty disappointing so far. Coronavirus fears returned to the fore late last week as a number of outbreaks appeared outside China. The path the virus will take remains uncertain and the markets will continue to respond according to the latest newsflow about it.

Disappointing Australian & NZ earnings

Australia's February reporting period is two-thirds through and the **results have led analysts to downgrade their profit forecasts for the financial year ending in June by -0.9%**, which is consistent with the average reporting season downgrade since 2001. The weakness in the outlook has been concentrated in the commodity producers which had higher operating costs and may be more vulnerable to slower activity in China because of the coronavirus. Banks' results have been more positive than expected, while earnings in other sectors were mildly weaker than estimates. **Companies mostly admit they don't know how the coronavirus will develop**, but a few have guessed at the potential hit to profits. At this stage Aussie retailers believe inventory levels are high enough to survive 'some time' without bothering their Chinese supplier. BHP believes the impact will be small if the virus is contained by the end of the quarter. Some of the most vulnerable are proving to be tech companies like Altium, Corporate Travel and Wisetech.

In New Zealand, just four of the fifteen companies that have reported earnings so far beat our earnings per share (EPS) estimates, three were in line and eight missed expectations. Median revenues grew +1.9% compared to the second half of calendar 2018. Growth in operating earnings (EBITDA) of +3.5% was more than gobbled up by depreciation, interest and taxes, leaving median normalised EPS down by -2.4%. We viewed seven of the management outlook statements as positive, three as neutral and five as negative. We have upgraded our FY20 EPS forecasts for just one company, left six unchanged and downgraded eight.

Themes of the week

The US yield curve has once again inverted, which means that interest rates for short-term government bonds are higher than rates for long-term bonds. This state of affairs implies that bond investors are pessimistic, and historically it has portended a recession about 22 months later (on average). This time it might just be that the coronavirus has prompted a "flight to safety" in government bonds.

That said, it's hard to point to much of a flight out of equities. **Equity markets and valuations have held up remarkably well** despite risk to growth from the coronavirus. Economic fundamentals justify some of the optimism that's evident in equities, but in the short-term we wouldn't be surprised to see earnings downgrades in companies with links to China, travel, gaming and hospitality. **Apple**, Facebook, auto and toy manufacturers have reported problems related to factory outages in China, and **Air New Zealand** today warned of a \$35-75m hit to earnings due to the virus. Defensive sectors like healthcare and consumer staples look better placed in this environment. Balancing the positive fundamentals with short-term risks, **we retain a neutral allocation to risk assets**.

Looking ahead

We're now into the busiest week of reporting season in New Zealand. **Chorus, Delegat Group** and **Freightways** reported today, with Chorus and Delegat beating expectations while Freightways had a soft result that will probably result in estimate downgrades. **Mercury, Summerset Healthcare** and **Vector** are among those reporting on Tuesday, **Meridian Energy** and **Scales** on Wednesday, **A2 Milk** on Thursday, and **Port of Tauranga** and **Tourism Holdings** on Friday. In Australia, the big names reporting this week include **Bluescope Steel**, **Qube Holdings** (which is expected to provide an update on the potential sale of Moorebank and other logistics assets), **Rio Tinto**, **Afterpay** and **Ramsay Health Care**. The northern hemisphere seems to have faster auditors because the US and European reporting seasons are already practically finished – some of the stragglers reporting there this week are **Palo Alto Networks**, **Salesforce.com** and **Bayer**.

Reporting Season

Company Results – From A-to-NZ

Last week reporting season ramped up across Australia and New Zealand, with a number of our Model Portfolio companies delivering results.

Australian earnings reports

BHP Billiton (BHP) posted a solid 1H20 result, in line with market expectations. Net debt was a little higher than the market had expected and, as a result, the dividend was slightly under market estimates. Production guidance remains unchanged, except for Petroleum where BHP is now guiding to the bottom of the guidance range due to Cyclone Damien. The new CEO, Mike Henry, emphasised BHP's focus on safety, operating performance, capital discipline, social values and increasing portfolio options towards more "future facing" commodities such as copper, nickel and, potentially, potash. We like BHP for diversified commodity exposure, and its attractive yield. We continue to hold BHP in our Australian Model Portfolio.

Cleanaway (CWY) reported a redeeming 1H20 result, following its disappointing FY19 result in August, when it provided a soft outlook commentary for FY20 due to weak economic activity, lower commodity prices and lower collection volumes. 1H20 revenue was largely flat versus 1H19 as guided to, while earnings were ahead of forecasts by a fair margin. CWY's Solid Waste divisional performance was impressive, considering headwinds from lower commodity prices, lost Queensland volumes and higher processing costs. CWY's Liquid Waste division also performed well, while the Industrial & Waste Services division, which is the smallest contributor to earnings, was slightly below expectations. FY20 EBITDA guidance was re-affirmed, with the mid-point slightly ahead of consensus. All in all, this was a solid result and reaffirmed FY20 guidance was positive, given concerns in recent weeks over expected weak economic activity due to bushfires and coronavirus. While CWY's growth outlook has slowed versus prior periods, we continue to hold it in our Australian Model Portfolio given its strong management and leading market position within a favourable industry structure.

LendLease (LLC) delivered an impressive 1H20 result with earnings coming in ahead of market expectations. FY20 consensus numbers imply a 2H earnings skew, which is consistent with management's commentary around the strength of the development portfolio in the 2H. Funds under management grew +5% to A\$37bn and is on track to double over the medium term as roughly \$50bn of LLC's \$98bn urbanisation backlog flows into assets under management. Reassuringly, the company reiterated the \$450 to \$550m provision for the exit of the Engineering division has not changed, with only \$22m drawn to date, meaning LLC has ~A\$500m remaining for potential future indemnities. We continue to hold LLC in our Australian Model Portfolio given its strong growth potential, underpinned by its impressive development pipeline.

Origin Energy (ORG) delivered a respectable beat at the net profit line, on slightly stronger EBITDA but also lower interest, income and tax. The Integrated Gas segment was stronger than expected, but Energy Markets was weaker. The result included strong cash generation and higher guidance for APLNG distributions. Management reiterated FY20 EBITDA guidance of \$1.4-1.5bn.

Santos (STO) posted a largely in-line FY19 result, with FY20 production guidance reiterated. STO continues to demonstrate progress on growth projects, with timelines remaining unchanged and Cooper Basin reporting upgrades to reserves following successful drilling activity in 2019. Unit operating expense guidance of \$7-\$7.40/boe vs consensus of \$8.2/boe was a key positive. We continue to hold STO in our Australian Model Portfolio for exposure to oil and gas. STO trades on an undemanding valuation and has an attractive medium term growth outlook.

Scentre Group (SCG) provided a somewhat disappointing FY19 result. Although funds from operations were largely in line with guidance and consensus, FY20 guidance was -4% weaker than consensus, implying earnings will go backwards by -1%. SCG has lifted its FY20 dividend by +3% – but this means SCG won't be able to continue to lower its payout ratio as it wanted to do. Net operating income growth of +2% came in at the bottom end of the +2-2.5% guidance range, and net tangible assets was down -3c to \$4.46/share. On a more positive note, occupancy was strong at 99.3% and retail sales were solid, with a modest uptick seen in 2H. SCG offers a defensive 6% dividend yield with a modest growth outlook; we view the valuation as undemanding on an absolute basis, and relative to an expensive domestic equity market. SCG provides exposure to quality tier 1 malls, and trades on more attractive fundamentals than the expensive NZ listed property sector. We retain SCG in our Australian Model Portfolio.

Sonic Healthcare (SHL) reported a result in line with expectations. Revenue growth was sound, up +15.3%, but after accounting for the revenue uplift from acquisitions, the organic revenue growth rate was lower at +5%. FY20 EBITDA growth guidance was

unchanged, and SHL appears on track to hit the upper-end of guidance given the current momentum in many pathology markets, the imaging division and a one month contribution of Aurora.

Sydney Airport (SYD) reported a decent FY19 result, featuring in-line non-aeronautical revenues, while aeronautical revenues were weaker than expected, but this was largely offset by better than expected cost control. Of concern was the lack of FY20 distribution guidance due to lack of clarity on the impact from coronavirus. Our research affiliates estimate that international passenger traffic could be down -10-20%, similar to the impact from SARS. While SYD is expensive on a PE multiple basis, we are attracted to the defensive nature of its business, underpinned by its strong competitive position. We continue to hold SYD in our Australian Model Portfolio.

Webjet (WEB) posted a strong 1H20 that was well above expectations, with revenue up +24% and EPS up +40% yoy. WEB's business-to-business segment was particularly strong with revenues up +50%, and EBITDA up +81% vs 1H19, driven by a big improvement in Asia-Pacific profitability. This was somewhat offset by a disappointing performance from the business-to-consumer segment, where revenues and EBITDA were largely flat. Guidance would have been upgraded; however, 2H20 is expected to be negatively impacted by the coronavirus. WEB has taken investors for a volatile ride over the last couple of years, largely due to factors outside the company's control. WEB is forecast to deliver strong earnings growth over the next few years, and in our view, this is yet to be properly priced in. We retain WEB in our Australian Model Portfolio.

New Zealand earnings reports

Auckland Airport's (AIA) 1H20 result provided few surprises, but along with commentary from Qantas (QAN) and Sydney Airport (SYD), we gleaned a greater level of insight into the impact of the coronavirus on the demand outlook. AIA appears to have eased market concerns over the size of the earnings impact from a potential material reduction in international passengers over the next few months. The business is exposed from an aeronautical perspective but largely protected near term by concession agreements in its retail operations. The newsflow, however, is likely to get worse before it gets better given consistent capacity cutting by airlines in response to weak demand because of the virus outbreaks.

EBOS Group (EBO) reported strong 1H20 earnings growth, albeit slightly below our expectations, with margin contraction (business mix and cost inflation) outweighing stronger than anticipated revenue momentum. Key positives in the result were: a step-change in Contract Logistics, another strong print from Institutional Healthcare, and successful integration of Chemist Warehouse volumes – adding to an exemplary track record of business integration. Key negatives were: margin pressure across the group, a material drop-off in Consumer Products, and higher corporate costs. EBO is held in our NZ Model Portfolio.

Fletcher Building's (FBU) earnings continue to decline, understandably in Australia given the construction weakness, but also in NZ as competition and cost pressures continue to impact. Cash flow remains negative. FY20 guidance was maintained, albeit helped by higher land sales gains and lower depreciation. There is no change to our investment view – we see a business that continues to ebb backward, without sufficient value to compensate.

Precinct Properties (PCT) reported a 1H20 result slightly ahead of expectations and is on track for its +5% dividend growth target in FY20 and opening Commercial Bay over the next two months. PCT is expensive on all metrics, however, we like the very unique and high quality nature of its major CBD office assets and arguably the best dirt in NZ with its Commercial Bay precinct in downtown Auckland.

Spark (SPK) delivered another very sound performance. Operating trends remain broadly consistent, and there was not any material new information in the result. Positive growth in mobile revenue underpins SPK's strong position in a healthy and rational market. A robust performance from CCL, SPK's IT services/cloud business, is reassuring after slower growth in 2H19. And the headwind from the decline in legacy voice is moderating as its base declines. In a world hungry for yield, we expect investors will continue see appeal in SPK's consistent delivery, solid market positions, A- rated balance sheet, and attractive dividend yield. We retain SPK in our NZ Model Portfolio.

Vital Healthcare (VHP) reported a 1H20 result slightly ahead of our forecasts and it has reaffirmed its steady dividend guidance for FY20. The balance of FY20 will again feature corporate related activity with the Manager's proposal for a capital restructure. Meanwhile, we expect the portfolio to continue to do its job of providing a very defensive property exposure. VHP remains a key listed property exposure late in the cycle given the defensive nature and the quality of its portfolio. VHP is held in our NZ Model Portfolio.

Themes of the Week

Fixed Interest

Doom and gloom in the fixed income markets

Concerns around the impact of the coronavirus seem to be more present in the fixed income market than the equity market. Stock prices are continuing on their merry way to record highs, seemingly on a regular basis, whereas bond markets are signalling the prospect of a recession. The famous yield curve inversion is back in the headlines, with the 3-month vs 5-year curve now inverted.

Yield curve inversion...

The yield curve is said to be inverted when short-term interest rates are higher than longer-term interest rates. This is once again the case in the world's biggest economy, the US. Why is this an issue? It has been a long held belief that an inverted yield curve is a predictor of an economic recession. Credit Suisse states that on average a recession has occurred 22 months after the US yield curve inverted. Now a recession may or may not eventuate and as we can see in the chart below, the difference ("spread") between the US 10 year Treasury bond and the US 2 year Treasury note has steadily contracted since 2013.

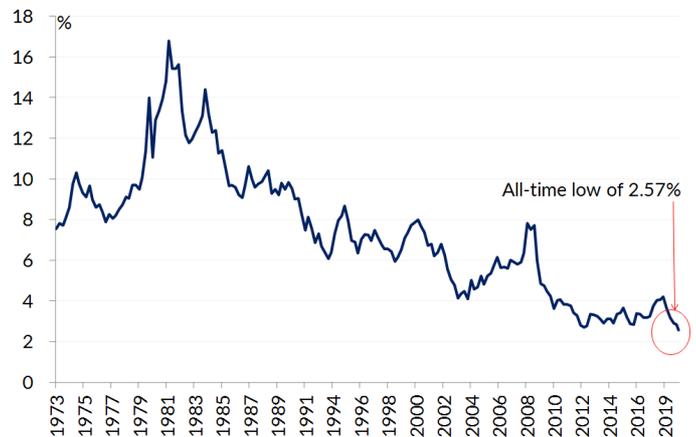
Fears about the economic impact of coronavirus has led to a 'flight to safety', with investors flocking to longer dated US Treasuries, pushing the yield -44bp lower so far in 2020. The state of the US yield curve will be closely watched in order to ascertain its validity as a recession indicator.

Figure 1. Spread between US 10 & 2 year treasury yields



Source: Eikon, Forsyth Barr analysis

Figure 2. US investment grade bond yields



Source: Eikon, Forsyth Barr analysis

Issuance wanted

With only ANZ and Westpac presenting new fixed income opportunities in 2020, it is hoped that corporates will line up to take advantage of strong demand from both retail and institutional fixed income investors. Between now and the end of May there is ~NZ \$3bn of corporate bonds maturing (excluding NZ\$7.5bn of New Zealand Government bonds).

The global search for yield is impacting bonds, not only in New Zealand, but offshore with the yields on US investment grades at their lowest level since records began in 1973. Whilst there has been no shortage of issuance offshore (US\$2.1 trillion in 2019), the New Zealand market has been less active. A number of New Zealand companies can now fund themselves longer and cheaper offshore than they can locally, and some have done so. With interest rates low and credit spreads tight, the challenge to make an attractive bond offer remains.

Macro Snapshot

Equities vs bonds — divergent sentiment

Equity investors tend to be focussed on growth and so are biased towards optimism about the future, while bond markets traditionally worry about the next downside risk. The recent divergence in equity and bond market pricing reflects these inclinations.

Equities up ... Equities continue to trade near record highs and average price/earnings ratios look stretched in some areas — led by the tech growth stocks in the US and defensive sectors in New Zealand. Equity investors retain a healthy appetite for risk. They are clearly looking through the short-term impact of the hit to growth from an extended coronavirus-related shutdown in China and are responding more to the weight of money sloshing around the system as central banks continue to underpin markets amid low inflation. Apart from coronavirus, other underlying fundamentals remain supportive of equities:

- **The US labour market remains robust**, with unemployment at 3.6% and the participation rate continuing to increase. That means employers are willing to take on staff and train them up.
- **Consumer spending remains robust so far** and **residential investment is increasing**, with US building permits surging to a 13-year high in January.
- **US-initiated trade conflicts** have stabilised, for now.
- **Fiscal policy is expanding** in a number of countries as government look to offset subpar growth and low rates with increased borrowing and infrastructure investment.
- **Central banks have become more accommodative again**. China has moved aggressively to counter the impact of coronavirus by injecting liquidity into its credit market.

At a time when equity valuations are elevated, **the main risk to focus on is the potential for downward revisions to earnings growth estimates**. Considering China represents 35% of global manufacturing output, and is the world's largest exporter of goods, the current quarantining of nearly 60 million people in Wuhan and the surrounding Hubei province is effectively leading to a massive labour shortage for the world's largest factories. On Thursday, officials in Hubei province reportedly told local businesses not to resume work before 10 March. Schools are not to reopen until further notice. Commerce Ministry officials expect consumption to stay in recovery mode through Q2, and improve further in H2. It should come as no surprise that global companies are starting to acknowledge that the supplies of materials sourced from China could start to run short in the days and weeks ahead. Some recent announcements include:

- **Apple** warned that Q1 revenue would miss expectations. Contract manufacturers in China have been increasing production more slowly than expected and many retailers of Apple products remain closed for the time being, or have limited operating hours.
- **Facebook** has had to cease accepting orders for its new Oculus Quest. The device was on back order into March and completely unavailable in some countries, but the timeline for widespread distribution has now been pushed out indefinitely.
- **Many auto manufacturers** are now vulnerable to factory closures in China. Fiat Chrysler, Hyundai, Volkswagen, General Motors and Toyota have all indicated that some plants will remain closed due to staff or parts shortages and some will re-open on reduced shifts. Besides shortages of parts, packing material shortages are also affecting the way many items can be transported. Fewer ships and flights are going to and from China at the moment with cargo on the east coast ports of the US expected to drop by at least 20% due to the impact of the virus.
- **Hasbro** (toys) and many clothing labels rely on China for about two thirds of its global sourcing. While shelves are stocked now with new season goods, problems will occur if delays continue beyond a few weeks.

Don't be surprised to see more downward revisions to revenues and earnings in the short term.

Bonds down ... The latest inversion of the yield curve suggests bond investors are worrying about the downside risks to growth from the impact of coronavirus, at the same time as central banks are responding by pumping ever more liquidity into the global financial system. Other risks include:

- **The strengthening of the US dollar**, which becomes a new headwind for US companies' global earnings, particularly if Chinese demand wanes dramatically. The stronger USD is also a negative for commodity prices, emerging market economies and USD borrowers around the world.
- **A deterioration in corporate debt and credit quality**, as low rates have induced an expansion of debt and no doubt distorted the quality of capital allocation.
- **Elevated equity valuations**, which need earnings growth to justify further upside. The key thing to watch will be revisions to the Q1 & Q2 revenue and earnings outlook considering the expected slowdown in China's domestic demand.

In summary, we remain neutral risk assets within portfolios. We have cash to invest and like many are waiting for a reasonable correction. The virus impact can only be a negative, but uncertainty remains as to how bad it will be and for how long it will last. Patience will be key, particularly with valuations at/near record highs.

Equities

Apple's guidance downgrade

Apple announced it would not meet its March quarter sales guidance, provided at its January result, due to two negative impacts from the coronavirus.

1. The stoppage of iPhone manufacturing in China has both lasted longer than expected and the reopening of manufacturing sites has been slower than expected, thereby impacting iPhone supply.
2. The demand for Apple products within China has been negatively impacted due to store closures and residents remaining home. Some Apple stores have re-opened but are on limited hours and are experiencing low customer traffic due to coronavirus concerns.

Importantly, Apple commented that outside of China, customer demand across Apple's product and service categories has been strong to date and in line with Apple's expectations. Strong demand for new products, as was evident in the January result, underpin our long-term view that Apple will leverage its existing ecosystem to drive services and wearables revenue in an era of slowing smartphone sales.

The market gave a relatively muted response to Apple's guidance downgrade, with shares only down a couple of percent from all time highs.

We continue to hold Apple shares in our International Model Portfolio and Global Equity Fund.

Qube management likely to be considering offers for Moorebank

Qube Holdings (QUB.AX), the Australian port operator, is expected to report results tomorrow (Tuesday 25 February), when management is likely to update the market on progress in finding co-investors in – or buyers for – a portfolio of QUB's logistics assets, including the giant Moorebank freight hub in Sydney. The Moorebank site, over which QUB has a 99-year lease, is as large as Sydney's entire CBD and is still under development. It was described in sale documents as the "largest intermodal precinct under development in Australia" and is expected to be worth roughly 80% of QUB's entire logistics portfolio value.

Proposals from interested buyers – reportedly Dexus, Charter Hall and Goodman Group – were due by 17 February. QUB's management is expected to assess these offers and decide over the coming months whether to pursue a debt, equity or financing arrangement, or a full-blown sale.

We originally added QUB to our Australian Model Portfolio as we believed Moorebank gave QUB a long-term competitive advantage in New South Wales to develop a logistics/warehousing hub connecting freight services from Port Botany. Recent warehouse transactions at ~\$2,500 per square meter imply a ~\$2.1bn valuation for Moorebank, so it will be interesting to see what potential investors are willing to pay for the logistics portfolio.

Research Worth Reading

New Zealand

Genesis Energy (GNE.NZ) – Turning the Power On – 1H20 Result Review

Whilst GNE delivered a weak 1H20 EBITDAF result in line with expectations, it also guided to record 2H earnings, with CEO Marc England stating the next 18 months will be GNE's best ever. The 1H20 result was hampered by the Kupe maintenance outage and high thermal generation fuel costs. However, falling thermal fuel costs and a strong retail performance bodes well for 2H20 and beyond. Outperform. (Published by Forsyth Barr)

Australia

Aristocrat Leisure Ltd (ALL.AX) – Key Call: Digital app revenue trends – February 2020

Early data in 1H20 points toward an acceleration in ALL's social casino market. After a slower month in January, ALL's RAID game rebounded in February to post its second largest monthly gain. Momentum appears to be accelerating again and UBS notes that RAID is now 2/3 the size of Fortnite and Call of Duty, and represents ~60% of Aristocrat's social gaming revenue. Buy. (Published by UBS)

BHP Group Ltd (BHP.AX) – In line, production and costs guidance unchanged, new CEO focus is on unlocking further efficiency gains

BHP's 1H FY20 EBITDA and EBITDA margins were in line with consensus. So was EBIT of \$9.0bn. Capex guidance for FY20-21 was unchanged. Cost guidance was also unchanged but Escondida costs will be at the lower end of guidance range. All in all, this was a solid but unexciting result and reaffirms Citi's view that additional capital management is unlikely before August 2021. *Neutral*. (Published by Citi)

Cleanaway Waste Management (CWY.AX) – 1H20 Result – Long-run Thesis intact, Downgrade Risks Fade

Whilst commodity prices will remain volatile, Citi thinks industry rationality and consolidation should be the focus for investors particularly as the Australian waste industry pivots to deal with regulatory changes. Citi is attracted to the long-run margin expansion potential of CWY, double-digit 3 year compound annual growth in EPS (~11%) and quality balance sheet. Buy. (Published by Citi)

Domino's Pizza Enterprises (DMP.AX) – First-half FY20 result review, upgrade to Accumulate

DMP reported first-half FY20 net profit grew +6.4% on the same period last year, but this was behind Ord Minnett's forecast. Ords has reviewed its investment thesis following the result and has upgraded its rating to Accumulate (from Lighten). (Published by Ord Minnett)

LendLease (LLC.AX) – 1H20 result: Re-rating thesis intact

1H EBITDA was +5% ahead of Citi's expectations. Earnings will have to be skewed to the 2H to achieve current FY20 consensus forecasts. Citi continues to believe LLC has the potential to be a multi-year re-rating story given (1) the problematic Engineering division is unlikely to be part of the business beyond CY20, (2) the urbanisation pipeline provides earnings visibility, and (3) a doubling of funds under management over the medium term would provide enhanced earnings certainty. Buy. (Published by Citi)

Origin Energy (ORG.AX) – Strong cash generation will increase FCF and div yield

Underlying NPAT was +9% ahead of Citi's estimates on slightly stronger EBITDA, but also lower interest income and tax. Key positives were very strong cash generation and higher guidance for APLNG distributions. These are incrementally positive for the free cashflow yield and dividend growth, which underpins Citi's Buy thesis. (Published by Citi)

Scentre Group (SCG.AX) – CY19 result review

SCG reported CY19 funds from operations in line with guidance and Ord Minnett's forecast. SCG is facing clear retail headwinds, although improving sales (and disclosure) are encouraging and the stock is starting to outperform peers. In addition, we expect modest earnings growth and see the valuation metrics as attractive versus an expensive equity market. Accumulate. (Published by Ord Minnett)

Sonic Healthcare (SHL.AX) – A solid result, FY20 guidance unchanged

FY20 EBITDA growth guidance was unchanged at +6-8% in constant currencies (cc). This translates to around +2-4% cc organic growth after assuming ~4% cc growth from the Aurora acquisition. We believe the upper-end of guidance could be within reach given the current momentum in many pathology markets, the imaging division and one month's contribution of Aurora. Neutral. (Published by Citi)

Sydney Airport (SYD.AX) – CY19 result: Bracing for (PAX) impact

SYD's CY19 result was in-line with expectations, as weaker than forecast aeronautical revenues were largely offset by better than forecast cost control. Given the uncertainties in forecasting international passenger numbers due to the coronavirus, SYD refrained from providing CY20 dividend guidance. Sell. (Published by Citi) [Forsyth Barr Wealth Management Research retains a positive view on SYD.]

Webjet (WEB.AX) – 1H20 result: Strong beat, but COVID-19 impact factored into 2H20E/1H21E

WEB delivered a solid 1H20, ahead of forecasts, which should have resulted in upgraded guidance. However COVID-19 will impact EBITDA, and while arguably a one-off systemic shock, it has resulted in downgraded guidance. WEB is tracking ahead of its revenue, cost and EBITDA targets and UBS continues to point to strong market share gain opportunities and further upside from increasing directly contracted transactions. Buy. (Published by UBS)

International

FedEx Corporation (FDX.US) – What do the Bears Say? Feedback on Our Recent Upgrade of FDX to Buy

UBS upgraded FDX from Neutral to Buy last Monday. While some investors pushed back on the upgrade or its timing, interest to discuss the call was very strong and many clients agreed with UBS's favourable view. In particular there was good reception to the potential for margin improvement in the Express division and also a positive response to the operating change (with business-to-consumer Express packages being delivered in the Ground network). A number of clients viewed the upside potential as attractive because FDX is currently trading at a low P/E on trough EPS, hence investors could win both in terms of earnings recovery and multiple expansion. Buy. (Published by UBS)

ING Groep (INGA.AS) – CEO Ralph Hamers Leaves for UBS – What Next for ING? Removing from Our Top Picks

ING on Thursday announced that CEO Ralph Hamers will step down from ING on 30 June 2020. He will join UBS on 1 September 2020 and become its CEO on 1 November where he replaces Sergio Ermotti. It is likely this was the new information that prompted ING to pull a heavily oversubscribed AT1 bond deal the day before. Citi has removed ING from its Top Picks list given uncertainty around the future CEO, but believes the market's -4% reaction to the bond deal being pulled may have been too harsh. Buy. (Published by Citi)

Merck & Co (MRK) – TIGIT. First Blood to Roche, but Merck Close Behind. Reiterate Buy.

Roche (upgraded Buy) will likely take centre-stage at the forthcoming American Academy of Cancer Research (AACR) meeting on 24-29 April with its tiragolumab data and RCT in non-small-cell-lung-cancer, albeit in Citi's view, Merck is likely running no more than 6-12 months behind Roche. Citi anticipates that Roche's surprise initiation of an extensive phase III trial program across 5+ indications will likely accelerate Merck's development plans with MK-7684. Buy. (Published by Citi)

Ping An Insurance (2318.HK) – Key Call: 2019 broadly in line; delivering quality improvement

Ping An reported a broadly in-line set of FY19 results. UBS maintained a Buy rating on the basis that Ping An's diversified platform, ecosystem-based business model and technology optionality uniquely position it as a potential domestic champion. Buy. (Published by UBS)

Calendar

Figure 3. Calendar

	New Zealand	Australia	International
24-Feb	Retail Sales Data 4Q19 Chorus 1H20 Result Delegat Group 1H20 Result Freightways 1H20 Result Steel & Tube 1H20 Result	Bluescope Steel 1H20 Result G8 Education FY19 Result Worley Parsons 1H20 Result	
25-Feb	Comvita 1H20 Result Mercury 1H20 Result NZME FY19 Result Summerset Group FY19 Result Vector 1H20 Result	Blackmores 1H20 Result Estia Health 1H20 Result Oil Search FY19 Result Qube Holdings 1H20 Result Caltex Australia FY19 Result	Palo Alto Networks 2Q20 Earnings
26-Feb	Meridian Energy 1H20 Result Metlifecare 1H20 Result Michael Hill 1H20 Result PGG Wrightson 1H20 Result Scales 1H20 Result	Construction Work Done 4Q19 Nine Entertainment 1H20 Result Rio Tinto FY19 Result Virgin Australia 1H20 Result Woolworths 1H20 Result	US: New Home Sales Jan-20 salesforce.com 4Q20 Earnings
27-Feb	Trade Balance Jan-20 a2 Milk 1H20 Result ANZ Business Confidence Feb-20 Air New Zealand 1H20 Result New Zealand King Salmon 1H20 Result Refining NZ FY19 Result	Private Capital Expenditure 4Q19 Afterpay 1H20 Result Flight Centre Travel Group 1H20 Result Ramsay Health Care 1H20 Result Zip Co 1H20 Result	US: GDP Data 4Q19 Bayer AG FY19 result
28-Feb	ANZ Consumer Confidence Feb-20 Port of Tauranga 1H20 Result Tourism Holdings 1H20 Result		JP: Retail Sales Jan-20 JP: Industrial Production Jan-20 EU: CPI Data Feb-20 US: PCE Deflator Jan-20 US: Uni of Michigan Sentiment Survey Feb-20

Source: Forsyth Barr analysis

Analyst certification: For analyst certification relevant to any security recommendation in this report please refer to the most recent research report for that financial product.

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