

Wealth Weekly

20 Stocks We're Happy to Buy Today

WEALTH MANAGEMENT RESEARCH

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Market volatility remains extreme as the coronavirus pandemic and an oil price war unfold. But history shows that people are resilient, governments and central banks usually step in to provide support, and economic activity typically rebounds quickly after a crisis. Consequently, crisis periods have usually turned out to be a good time to buy equities. We aren't advocating going overweight equities, but amid the current market pullback it is worth considering rebalancing portfolios to bring them up to a neutral allocation to risk assets.

Time to rebalance portfolios following pullback

COVID-19 panic has hit markets, with equities falling into correction territory. Some humility is warranted, as no one can know how far COVID-19 will spread and what the end market impact will be. It certainly will impact economic activity, but **if we stand back and look at previous examples of how viruses such as SARS and the Swine Flu affected markets, then the correction has probably been more drastic than the base case economic impact merits.** Central banks have indicated they will provide whatever support is necessary, with the US Federal Reserve already delivering a surprise 50 basis point cut to interest rates, and markets are pricing in a high probability of further cuts this month. Once COVID-19 fears abate, we expect markets will return to the environment we have experienced in the last 18 months of desperately seeking yield, which is likely to see inflows back into equities.

On pages 2–4 of this report **we have highlighted some stocks that we believe have sold off more than is warranted** since market volatility picked up in mid-February.

Themes of the week

Crude oil futures fell as much as 30% in trading on Monday. In response to the collapse of its OPEC alliance with Russia, Saudi Arabia announced the biggest cut in oil prices for more than 30 years while promising to boost oil output to more than 10 millions barrels a day. Investors, already concerned about global energy demand hitting an air pocket due to COVID-19, now need to factor the effects of a price war between Saudi Arabia and Russia into the global economy. Russia felt that if it and OPEC reduced production, US shale oil producers would increase production to fill the gap, which would have left Russia worse off than if it could produce more at a lower price. They may or may not have counted on the lowest-cost and most responsive producer, Saudi Arabia, opening its spigots and launching a price war. Lower oil prices are negative for oil producers and their suppliers, and for the high yield credit markets where a lot of US shale producers obtain their debt funding. But lower prices ultimately leave consumers with more disposable income. **Equity markets are quick to price in the initial negative impact of lower oil prices, and slower to price in the stimulatory effect.**

The stimulus from lower oil prices comes on top of rate cuts from a plethora of central banks. Last week we saw the US Federal Reserve (Fed) cut its benchmark interest rate by -50bp in response to the on-going COVID-19 situation. This was the first time the Fed had cut interest rates outside of its normal meeting schedule since the Global Financial Crisis. The Bank of Canada also joined the Fed (-50bp) and the Reserve Bank of Australia (-25bp) in reducing interest rates. Our own Reserve Bank of New Zealand (RBNZ) has been very quiet on the matter; however, the market still expects the RBNZ to deliver a -50bp cut when the Central Bank next meets on 25 March.

Looking ahead

Analysts and investors will remain on edge this week as they get their heads around the latest developments in oil markets and keep an eye out for any further signals of support from central banks and governments around the world in light of the COVID-19 outbreak. The European Central Bank is scheduled to release its interest rate decision early on Friday morning. Locally, electronic card retail sales data for February will be released on Tuesday and consumer sentiment data on Friday, providing an indication of how consumers have been feeling.

Time to rebalance portfolios following pullback

Given that equities have pulled back to levels seen a few months ago, it may be a good opportunity to rebalance portfolios to maintain a neutral allocation to equities. Below we profile some of the stocks that we believe are attractive following recent pullbacks.

New Zealand equity ideas

Air New Zealand (AIR)

AIR's volatility makes it unsuitable as a long-term buy-and hold stock, but for active investors AIR offers one of the most favourable structural positions of any airline globally. It has a dominant domestic business with ~80% market share, and an international business that has mitigated competitive threats through joint ventures, lower cost capacity, and strong loyalty among high-yielding NZ travellers. AIR's structural position and balance sheet strength leave it well placed to weather the COVID-19 storm. **OUTPERFORM.**

Arvida Group (ARV)

ARV continues to steadily lift the quality of its retirement village product and aged care operation, and has future growth prospects centred on brownfield and greenfield expansion. ARV has a defensive earnings profile given its heavily needs based portfolio, highly rated care facilities and wide geographic spread of operations. ARV has established a strong track record of delivery since listing on the NZX in 2014. Relative to its listed peers, ARV has an attractive dividend yield and compares favourably on Price/NAV and earnings multiples. **OUTPERFORM.**

Contact Energy (CEN)

The fall in electricity sector share prices in the past two weeks presents a buying opportunity for investors seeking high quality defensive yield. It is hard to see a scenario where electricity sector earnings would be impacted by COVID-19. Furthermore, central banks are reacting by lowering interest rates, helping electricity sector valuations. Our preferred name in the sector is CEN. We believe the COVID-19 and NZAS closure risk is more than priced into the share price. CEN is offering an attractive dividend yield and has one of the best potential development projects (Tauhara) in the country. **OUTPERFORM.** We also have **OUTPERFORM** ratings on Trustpower (TPW) and Genesis Energy (GNE).

Sanford (SAN)

SAN offers investors exposure to the aquaculture industry through its extensive mussel farm holdings and its Stewart Island salmon farm. Improvements in growing techniques (e.g. SaptNZ hatchery) in combination with recent branding and sales channel efforts are expected to drive near-term earnings growth. Risk to SAN's near-term earnings from COVID-19 related disruption is limited, in our opinion, and we view current earnings multiples as an attractive entry point. **OUTPERFORM.**

SKYCITY (SKC)

SKC is one of the largest gaming operations in Australasia. Its earnings and valuation are driven by the Auckland site, which contributes ~70% of group EBITDA. SKC's share price has fallen roughly -20% since the emergence of COVID-19, with the market cap decline equating to ~3x annual profit. While we see clear downside to earnings from the VIP International Business and some risk to near-term domestic visitation, current valuation metrics more than compensate for this. SKC has an attractive asset base, defensive (primarily domestic exposed) earnings and offers a healthy cash dividend yield of c.6%. **OUTPERFORM.**

Australian equity ideas

Aristocrat Leisure (ALL)

ALL develops and manufactures gaming machines, gaming systems and software, with over 80% of group revenue earned internationally. We like ALL for its substantial market share gains, increasing recurring service revenue from its participation video slot machine business, and fast-growing digital division. The majority of any negative COVID-19 impact to ALL is likely to be confined to Macau, which is less than 5% of its revenue exposure.

Goodman Group (GMG)

GMG is a global vertically-integrated industrial property company, with operations in Australia, New Zealand, Asia, Europe and the UK. GMG's strategy of focussing on metropolitan developments and last-mile logistics properties is aligned with structural trends, such as eCommerce driving demand for logistics warehousing. GMG maintains a strong capital position and earnings growth is

expected to be supported by strong performance fees reflecting accrued outperformance in its fund management business, lower financing costs, and future development opportunities. GMG is yet to highlight any impact from COVID-19.

James Hardie (JHX)

JHX manufactures building products for new home construction and remodelling, globally. In recent periods JHX has struggled to deliver market share gains within the US fibre cement market due to capacity constraints. In recent quarters this appears to have turned, with JHX re-establishing its ability to increase share in the US market. JHX has not yet mentioned any impact from COVID-19.

Qube Holdings (QUB)

QUB is a logistics company, operating in divisions including Automotive, Bulk and General Stevedoring, Landside Logistics and Strategic Development Assets. Through Qube's purchase of Moorebank, Qube has secured a key long-term competitive advantage in NSW to develop a logistic/warehousing hub connecting freight services from Port Botany. COVID-19 has led to lower container volumes out of China, and cancellation of some shipping lines. Anecdotes suggest log export volumes from Australia to China are down around -20%, but are expected to recover once virus concerns abate.

Sydney Airport (SYD)

SYD has the concession to operate Australia's largest airport, Sydney's Kingsford Smith Airport, until 2097. Sydney Airport offers exposure to a relatively defensive asset class, given high barriers to entry, limited substitutes, and a track record of sustained growth. February airport traffic results indicate a SARS-like impact to international traffic, which is expected to be in the order of -10% to -20%. Traffic recovered quickly following past virus-induced reductions in passenger numbers. In our view, the sell-off in SYD's share price more than accounts for the COVID-19 risk.

Webjet (WEB)

WEB operates one of Australia's most visited online travel agents. Although WEB is expected to face short-term earnings headwinds due to COVID-19, in our view the stock has been materially oversold. Longer-term we expect WEB will experience a step-up in margins as its revenue base shifts towards higher-margin ancillary products, such as car hire, insurance and hotel bookings.

International equity ideas

Alibaba (BABA)

BABA has built the foundations of an integrated, multi-channel distribution business covering content through to merchandising. Ancillary businesses like HeMa (its fast growing supermarket chain) and Alibaba Pictures should help BABA maintain its high rate of growth. We expect that COVID-19 could lead to fewer people visiting brick and mortar stores and relying more on e-commerce.

Amazon (AMZN)

AMZN, the largest US online retailer, looks set to continue growing rapidly, driven by: growth in Amazon Web Services, international expansion of Amazon Prime, broadening of logistics operations, continued entry into new retail market segments (fashion, pharmacy), and market share gains in the e-commerce business. AMZN has given up the share price gains following its recent strong result.

Comcast (CMCSA)

CMCSA is a diversified US media and telco operator. CMCSA owns a prominent content portfolio and has strong production capabilities thanks to the acquisition of NBCUniversal in 2013, DreamWorks Animation in 2016 and more recently Sky Plc in 2018. In our view, CMCSA should be relatively immune from COVID-19 and may even see a benefit from increased viewership as consumers stay home.

Medtronic (MDT)

Medtronic is one of the largest and most diversified global medical device manufacturers. Medtronic's scale advantages in R&D, manufacturing and marketing position it well to maintain share in a market that is growing with the ageing population. Asia is a key growth area for MDT and will likely be impacted by COVID-19; however, medical device demand is largely needs-based, so surgeries may be postponed but are unlikely to be cancelled.

Nike (NKE)

We continue to like NKE for its global leading position in athletic apparel. As a streetwear and sneaker brand, NKE is well placed to benefit from the trendy athleisure (comfortable and casual attire) segment of the sportswear market. NKE has indicated that

COVID-19 would negatively impact Greater China sales, however, at current prices we are attracted to NKE's long-term growth outlook underpinned by investments in product innovation, supply chain speed and digital initiatives.

Palo Alto Networks (PANW)

Growing online threats and consequences have made cybersecurity one of the top growth stories in technology. PANW is establishing itself as a full security platform, and we are positive on PANW's long-term growth prospects, with the company building an early leadership position in cloud security offerings, and reducing reliance on up-front revenue sources. Any impact from COVID-19 is likely to be limited to travel disruptions for PANW's sales reps given the company's high-touch sales model.

Siemens (SIE)

SIE is a diversified electrical equipment conglomerate. SIE is being restructured into decentralised business units. De-conglomeration will make SIE simpler, leaner and more profitable and should unlock some of the current discount to the intrinsic value of its parts. SIE is yet to point to any impact from COVID-19.

Visa (V)

V is a global leader in digital payments technology that should continue to see solid volume growth over the medium-to-long-term, enabled by expanding merchant adoption, growing mobile usage, and greater prepaid and commercial activity. In-store transaction volumes may decline as a result of COVID-19, but this is likely to be offset by increased online shopping volumes. Visa may even experience a net benefit if would-be cash transactions move to online.

Walt Disney (DIS)

DIS is a world-leading producer, marketer and distributor of entertainment content and operator of theme parks. DIS has a strong track record of leveraging its premium content library and strong franchises across its business segments. Management's priority is shifting the business model away from traditional distribution channels towards direct-to-consumer. Disruption from COVID-19 is expected to impact DIS's theme park operations, but should only be temporary.

Figure 1. Stock ideas: Recent price changes and current consensus fundamentals

Company	Code	FX	Price return since 18 Feb	Last price	Consensus target price	Implied up / downside from last price to TP	Consensus 12mth forward PE	Consensus forecast 1yr EPS growth	Consensus forecast net div yield
New Zealand equities									
Air New Zealand	AIR.NZ	NZD	-29.9%	\$1.95	\$2.38	+21.9%	9.2x	-11.7%	11.3%
Arvida	ARV.NZ	NZD	-11.2%	\$1.66	\$1.75	+5.6%	n.a.	n.a.	3.4%
Contact Energy	CEN.NZ	NZD	-14.7%	\$6.50	\$6.00	-7.7%	33.9x	-22.7%	6.0%
Sanford	SAN.NZ	NZD	-14.5%	\$6.70	\$8.15	+21.6%	13.1x	+11.1%	3.4%
Sky City	SKC.NZ	NZD	-16.8%	\$3.08	\$3.89	+26.2%	16.3x	-27.1%	6.5%
Australian equities									
Aristocrat Leisure	ALL.AX	AUD	-21.3%	\$28.81	\$37.68	+30.8%	17.8x	+10.8%	2.3%
Goodman Group	GMG.AX	AUD	-13.2%	\$14.38	\$16.35	+13.7%	24.8x	+12.0%	2.1%
James Hardie	JHX.AX	AUD	-17.2%	\$25.64	\$32.27	+25.9%	20.9x	+20.2%	1.7%
Qube	QUB.AX	AUD	-25.6%	\$2.50	\$3.22	+28.9%	32.4x	-2.7%	2.3%
Sydney Airport	SYD.AX	AUD	-20.6%	\$6.66	\$8.24	+23.7%	38.7x	-3.3%	5.9%
Webjet	WEB.AX	AUD	-45.6%	\$6.74	\$15.07	+123.6%	9.9x	+5.6%	3.5%
International equities									
Alibaba	BABA.K	USD	-11.0%	\$196.22	\$256.29	+30.6%	28.2x	+30.0%	0.0%
Amazon.com	AMZN.O	USD	-15.4%	\$1,823.00	\$2,404.29	+31.9%	65.7x	+25.7%	0.0%
Comcast	CMCSA.OQ	USD	-17.4%	\$38.13	\$51.17	+34.2%	12.6x	+2.3%	2.4%
Medtronic	MDT.N	USD	-18.2%	\$92.18	\$125.96	+36.6%	17.6x	+7.8%	2.3%
Nike	NKE.N	USD	-18.4%	\$83.23	\$110.11	+32.3%	32.3x	+10.0%	1.1%
Palo Alto Networks	PANW.K	USD	-38.0%	\$154.47	\$243.12	+57.4%	38.2x	-15.5%	0.0%
Siemens	SIEGn.DE	EUR	-24.7%	\$80.49	\$129.04	+60.3%	11.7x	+11.4%	4.9%
Visa	V.N	USD	-18.0%	\$173.17	\$227.82	+31.6%	30.2x	+12.2%	0.7%
Walt Disney	DIS.N	USD	-24.2%	\$105.49	\$158.63	+50.4%	21.6x	-7.5%	1.7%

Source: Eikon, Forsyth Barr analysis

Themes of the Week

Macro

Markets quick to see downside of falling oil prices ... slower on the upside

Oil prices plunged on Friday and again when markets reopened this week, after OPEC and its sidekick Russia failed to agree to further oil production cuts, or even to maintain production at current levels.

The context for Russia's refusal to agree to oil production cuts is that **demand for oil has weakened**. Oil prices were already under pressure following the trend decline in global GDP, increasing use of alternatives, more efficient consumption of energy, and the demographic decline in working age populations. Monitoring of traffic congestion levels in all major cities where COVID-19 has taken hold indicates the disease outbreaks are causing consumer activity to retrench quickly, which is being reflected in reduced demand for energy.

Russia's refusal to cut production in order to support prices in a weak environment was aimed at driving US producers – which have higher breakeven production costs than Russia and the Middle East – to reduce their output. Thanks to the development of fracking technology to retrieve previously inaccessible domestic oil and gas, in the last decade the US became self sufficient in oil and gas, and now even exports it. This changed the global oil industry landscape. In contrast to the US, most OPEC members and Russia rely significantly on energy production and sales for their national revenues, so they have an incentive to keep either prices or production high.

The initial reaction by financial markets to a collapse in oil prices is usually negative. Lower oil prices hit producers hard, resulting in the capping of wells, deferral of capex and the retrenchment of staff. Energy producers make up a large share of the high-yield debt markets, causing credit spreads to widen. While energy makes up a smaller share of global GDP than it did a decade ago, it is still perceived as material, hence, the initial plunge in equity markets today (Monday).

At the same time, lower oil prices are deflationary, resulting in stronger demand for government bonds, pushing benchmark interest rates lower overall. **Over time, as lower oil prices are sustained, the impact becomes a material positive for the global consumer.** Energy costs remain a significant variable in the real incomes of households. A sustained reduction in prices lifts real disposable incomes, and eventually consumption. **The market is usually quicker to price in the initial negative impact on producers than to recognise the positive impact on consumption that will come later.**

Figure 2. WTI crude oil prices (US\$ per barrel), December 1985 to March 2020



Source: Eikon, Forsyth Barr analysis

Fixed Interest

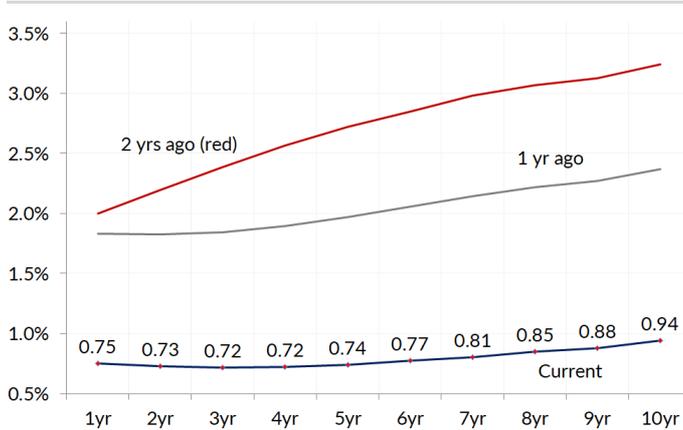
Central Bankers respond – will it work?

Last week we saw the US Federal Reserve (Fed) cut its benchmark interest rate by -50bp in response to the ongoing COVID-19 situation. This was the first time the Fed had cut interest rates outside of its normal meeting schedule since the Global Financial Crisis (GFC). The Bank of Canada also joined the Fed (-50bp) and the Reserve Bank of Australia (-25bp) in reducing interest rates. Our own Reserve Bank of New Zealand (RBNZ) has been very quiet on the matter, however **the market still expects the RBNZ to deliver a -50bp cut when the Central Bank next meets on 25 March.**

The market is actually expecting a lot more from central banks, with interest rate cuts now forecast from The Bank of England (next meeting 26 March), The European Central Bank (12 March) and the Bank of Japan (19 March). The key question remains: will this monetary policy response actually work? At present you may argue it has not delivered as share markets around the globe continue to fall despite the Fed's action and rhetoric. **Monetary policy will not fix broken supply chains and therefore a targeted fiscal response from governments is probably more desirable.** All sorts of record lows were achieved last week (with new ones already set at the beginning of this week) from government bond yields to corporate bond yields.

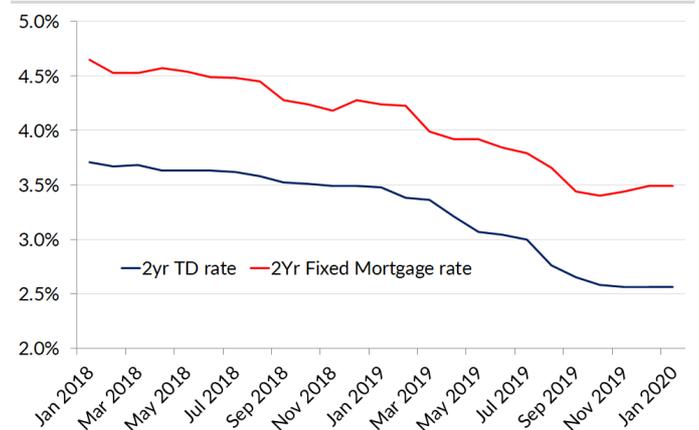
The emergence of an oil war has also startled markets, with oil falling -20% on Monday morning only to be matched by the yield on **the US 10 year Treasury bond, which now sits around 0.51%.** This is an unprecedented rally for 10 year Treasuries given only three weeks ago the yield was 1.55%! This means normal service has resumed (albeit for an unknown period of time) where the yield on New Zealand's 10 year Government bond is higher than the US.

Figure 3. New Zealand Swap curve



Source: Forsyth Barr analysis, Thomson Reuters

Figure 4. Deposits versus mortgages



Source: Forsyth Barr analysis, RBNZ

Banks are doing ok ...

The low (even lower now!) interest rate environment is not a great one from a bank's point of view, however, **New Zealand banks appear to be weathering the storm quite well as they look to maintain some of the highest net interest margins in the world.** Figure 4 (above right) illustrates how the margin between the two year term deposit rate and the two year fixed mortgage rate is now back at levels it was two years ago at 93bp. This margin had been as low as 63bp in April 2019. The spread on banks' floating mortgage books, however, is much healthier, with a spread between the 90 Day Bank Bill Rate and floating mortgage rate at a high of 441bp. Whilst this analysis oversimplifies the funding costs of a bank, it does illustrate the various revenue streams that banks have (and we are not even mentioning credit card interest rates!).

Equities

NZ Tourism Outlook – Being Brave While Industry Battens Down the Hatches

Inbound NZ tourism growth through 2020 will be materially impacted by the coronavirus (COVID-19) outbreak, which hit in the middle of the peak season and threatens to depress tourist arrivals for the remainder of the year. But we believe the market has overreacted 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.

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 those of its competitors and historically its responses to black swan events have been rapid and rational.

Auckland Airport (NEUTRAL): AIA is largely insulated from 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.

Aristocrat Leisure (ALL.AX) – BUY the Dip, targeting sub-A\$33

One of our Australian research affiliates recently caught up with the management team of gaming company Aristocrat Leisure (ALL.AX) to discuss the company's exposure to China and potential supply chain impacts from the coronavirus outbreak. **The impact to ALL appears to be limited, albeit the company is not completely immune.**

ALL does not have any direct manufacturing or operations in China, but does have Chinese based suppliers for components (screens etc). But since the US-China trade war began, a large number of ALL's suppliers started diversifying production away from China into other countries in Asia, such as Cambodia. Additionally, ALL's component suppliers keep surplus stock and ALL has its own inventory which should be sufficient for the next few months. This should enable ALL to get through the COVID-19 outbreak without any major supply chain impacts in the short-term.

The majority of any negative impact to ALL is likely to be confined to Macau. ALL's revenue exposure outside of the US and Australia is just 5%, which includes Asia, with Macau being its largest exposure.

There are some concerns about the sudden and large drop-off in tourism out of Asia/China, however, recent anecdotes from Las Vegas-based casino operators suggest gaming activity is holding up well, and there has been little impact so far from COVID-19. For the two months to the end of February, Caesars' gaming volumes were up around +9% vs the same period last year.

ALL's Digital (social gaming) segment is expected to be unaffected by COVID-19 and could even see a slight positive due to people staying at home and spending more time gambling online. Revenue trends for ALL's hit title RAID continue to accelerate. As of the last result, RAID was still unprofitable but seems to be tracking at an annualised revenue of \$250m and growing, based on industry data, which could put it on track to be profitable by the second half of the fiscal year.

Our affiliate is still expecting a strong interim result for the 6 months ending 31 March 2020. Negative hits from COVID-19 (mostly in Macau) will likely be offset by currency tailwinds (strong USD earnings).

We believe the virus-related pullback provides a compelling buying opportunity in ALL.

Research Worth Reading

New Zealand

Arvida Group (ARV) – March Market Update: ARValuable as Gold

ARV has released its March update and the business is on track for strong EPS growth in FY20 as it continues to advance all parts of its business. It continues to steadily lift the quality of its retirement village product, aged care operation and has future growth prospects centred on brownfield and greenfield expansion. **OUTPERFORM.** (Published by Forsyth Barr)

Power Points Silver Linings – March 2020

February 2020 was an interesting time for both the wholesale electricity market and the electricity stocks themselves. The combined effect of COVID-19 and rekindled NZAS closure fears has resulted in electricity stocks underperforming the market, creating buying opportunities. Our preferred stocks are Contact Energy (CEN), Genesis Energy (GNE) and Trustpower (TPW) which we have upgraded to **OUTPERFORM.** (Published by Forsyth Barr)

Sanford (SAN) – Catching Fish, Not a Cold

Coronavirus (COVID-19) related trade disruption is unlikely to have had a significant impact on FY20E earnings, in our opinion. We believe the recent sell off has created an attractive entry point for investors to gain exposure to a company offering (1) near-term earnings growth at attractive multiples, (2) possible upside to our long-term forecasts from additional aquaculture water space, and (3) in an industry backed by a Government growth strategy. **OUTPERFORM.** (Published by Forsyth Barr)

SKYCITY (SKC) – Stacked Hand; Upgrade to OUTPERFORM

We believe SKC now offers a favourable risk/reward proposition, following recent share price weakness. There has been no shortage of challenges and valid questions remain about return on capital from major projects however none of these are new issues. Valuation levels are attractive against peers, our valuation and the NZ market, while its land value and sustainable yield also provide downside protection. **OUTPERFORM.** (Published by Forsyth Barr)

Australia

Afterpay (APT.AX) – 4 key takeaways BUY

Ord Minnett's top four takeaways from the APT 1HFY20 results were: 1) In the US and UK, Afterpay has captured ~10% of checkout value, on average, for its online retailers, after only 20 months in the US and 8 months in the UK; 2) Marketing spend has increased due to the push into the US and UK; and 3) gross bad debts continue to trend down. **BUY.** (Published by Ord Minnett)

BHP Group (BHP.AX) – Valuation review, upgrade to Accumulate

Ord Minnett acknowledge there is still uncertainty around the spread of COVID-19 and its impact on global growth. Given BHP's current valuation, however, Ords believe the shares could rerate over the medium term. Ord Minnett believe BHP's valuation metrics look compelling based on its price to net present value multiple of 0.81x, FY21E enterprise value to operating earnings multiple of 5.3x, 6.5% dividend yield and 7.2% free-cash-flow yield. **ACCUMULATE** (from HOLD). (Published by Ord Minnett)

Rio Tinto Limited (RIO.AX) – Feedback from CEO roundtable

UBS caught up with RIO management for a roundtable discussion. Some key messages were: 1) China stimulus is expected - the uncertainty is around timing, sector and magnitude but is likely to be commodity intensive and focussed on downstream (manufacturing, services and construction); 2) RIO maintains a watching brief on battery minerals, with lithium offering appealing scale RIO sees the quality of the resource as key to winning in the space; and 3) RIO downgraded iron ore shipment guidance in February 20 due to cyclone Damien, with production impacted by water in the pits, but tonnes are still moving. **NEUTRAL.** (Published by UBS)

Ramsay Health Care (RHC.AX) – First-half FY20 result review

Ramsay delivered a strong result due largely to the timing of payments in France, although the focus was on the weak Australian hospital business. In Ord Minnett's view, the margin compression was unsurprising given the timing of health fund contract negotiations. As long as Ramsay can negotiate a satisfactory contract with Medibank, Ord's is confident earnings will improve in the

second half. However, Ord's sees limited potential upside to its target price, along with the risk that the Medibank negotiations stall. HOLD. (Published by Ord Minnett)

International

Apple (AAPL.US) – Supply Shock Would Likely Be Absorbed But Near-Term Demand Risk Is Increasing

UBS thinks that given the spread of COVID-19 to other regions there is increasing demand risk for Apple. Expectations from supply chain companies is for production to gradually return by the end of Q1 and normalise in Q2, although UBS thinks there is still some uncertainty around component shortages on the assembly side. UBS remains cautious in the near-term – particularly on the demand side if the US suddenly goes into a multi-quarter recession – but has kept CY21 estimates unchanged at this time. BUY. (Published by UBS)

Nike (NKE.US) – Lowering PT Due to Coronavirus, but Still an Exceptional Long-Term Story; Reiterate Buy

Nike indicated on 4 February that the coronavirus would negatively impact Greater China sales. UBS assumes sales pressure will persist through Nike's 4Q (ending in May) before a 2H21 rebound. UBS continues to apply a 37x target P/E on its FY21 EPS estimate to value NKE, and continues to forecast high-teens EPS growth once Nike recovers from this episode. BUY. (Published by UBS)

Siemens (SIE.DE) – Siemens Energy: A sneak peek into the new-co

Into 2020, UBS sees a year full of potential positive catalysts for the stock. These include: 1) Up to 50% of Siemens having a different ownership structure (increasing its focus on products and de-emphasising project businesses); 2) Incremental cost-outs of 2.2bn; and 3) Resolution of the management and transition debate. BUY. (Published by UBS)

Luxury Goods – Coronavirus: Growth Interrupted, Further EPS Downgrades

The luxury goods sector has underperformed the market since the coronavirus outbreak in mid-January. While luxury demand has been relatively resilient in the face of uncertainty over the past year, it is likely to be different this time. Beyond the coronavirus outbreak, risks of renewed protests in Hong Kong, upcoming US Presidential elections (in November) and geopolitical tensions in the Middle East are among the key factors that could severely impact consumer sentiment, luxury earnings and valuation. (Published by Citi)

US Software – COVID-19 Thoughts: High-flying but Not Immune and Some Possible Beneficiaries

While it is impossible to tell if the COVID-19 outbreak will get substantially worse, under current conditions, software companies that sell into enterprises as well as those with higher revenue exposure in Asia and Europe are likely to see more near-term impact. Software generally lacks a supply chain, although the handful of companies that sell appliance form factors (including Palo Alto Networks) could see some disruption, as has been seen with Apple and Microsoft. Travel disruptions bring some challenges, especially for high-touch sales models. (Published by Citi)

Calendar

Figure 5. Events this week

Date	New Zealand	Australia	International
9-Mar			JP: GDP (Q4)
10-Mar	NZ: Manufacturing sales volume (Q4)	AU: NAB Business Confidence (Feb)	UK: GDP (MoM) UK: Manufacturing Production (Jan)
11-Mar	NZ: Electronic card retail sales (Feb)	AU: RBA Assistant Governor Debelle speech AU: Westpac Consumer Sentiment (Mar)	
12-Mar		AU: Home loans AU: MI Inflation Expectations	UK: Autumn Budget (tentative) US: Consumer Price Index (Feb) US: Crude oil inventories
13-Mar	NZ: Westpac Consumer Sentiment NZ: Business NZ PMI (Feb)		US: Producer Price Index (Feb) EU: ECB interest rate decision Prudential Plc CY19 result

Source: Bloomberg

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