

Wealth Management 2020 Vision of 2021?

WEALTH MANAGEMENT RESEARCH

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The year of the virus makes way for the year of the vaccine, or at least we hope. Despite apparent armageddon for markets in March and continued challenging health situations in many countries, the global economy is learning to live with COVID-19. At the end of a turbulent roller coaster ride, it's ended up being a solid year for markets. The outlook appears a Goldilocks environment for risk assets including equities - low interest rates, substantial fiscal support, with improving economic activity and corporate earnings. Market valuations are elevated but are supported by low rates and a lack of attractive investment alternatives. Investors, however, should remain mindful of risks. The most apparent are issues with vaccine distribution, or earlier withdrawal of fiscal or monetary policy support particularly if inflation emerges, but as 2020 has shown, unexpected and impactful events can and do happen.

Five investment themes for 2021

- **Supportive macro environment:** A combination of **low rates, rising employment, asset inflation, strong capex intentions, and healthy consumer confidence bodes well for a robust macro backdrop**, supporting (1) a further recovery in corporate earnings through 2021 and (2) a bias to growth focused companies and risk assets.
- **From virus to vaccine:** **With vaccine roll-out at its infancy, we believe markets have priced in a lot of vaccine hype.** The two early pace-makers, Pfizer and Moderna, both have high efficacy rates and limited side effects. We do not yet know the durability, acceptance or longer term side effects. Any negative vaccine news will dent confidence in key vaccine leveraged sectors.
- **Merger and acquisition opportunities:** We believe we could be at the very start of a significant M&A cycle. **Our screening highlights a number of potential M&A candidates.**
- **Climate change investing:** The "E" of ESG is becoming more important as investor mandates and investment philosophies change. **This is a multi-year theme that investors can no longer ignore.**
- **China's assertiveness:** The global order is slowly changing. **China's increasing assertiveness on the US and Australia (trade war) has not been missed**, its neighbours (militarisation), and in Hong Kong (legislative). This poses an increasing economic risk that countries and companies need to navigate.

Themes of the week

Last week **The a2 Milk Company (ATM) provided the market with a disappointing pre-Christmas update**, materially downgrading FY21 guidance with a sharp and protracted decline in daigou not made up for by other channels. Whilst the magnitude of ATM's guidance downgrade was a shock, we view the issues as largely temporary (stemmed from COVID-19), with brand metrics and end demand seemingly positive, and expect growth to return from FY22. At current levels we see favourable risk/reward, however, it will likely take time to rebuild market confidence.

With the international reporting season in the rear-view mirror we have completed our review of companies on our watch list. We have split these companies into three groups using our "target 3-year return" investment framework: (1) Stocks that present good value (49 companies), (2) Stocks that are fair value (31 companies), and (3) Stocks that are fully valued (16 companies)

In last week's report we identified a dozen stocks with exposure to themes we like from Group 1. This week **we highlight a dozen companies from Group 2 that are approaching fair value, but still frame up reasonably well on a risk/reward basis.**

Looking ahead

Cavalier Corporation and Enprise Group are among New Zealand companies holding AGMs this week. **The US and UK are due to report gross domestic product statistics for the third quarter**, which will be of interest to investors. The US will also deliver figures on Existing Home Sales, New Home Sales, and Initial Jobless Claims.

Five key themes for 2021

2020 has been a rollercoaster year for financial markets (which has clearly reinforced the danger of making and overly relying on predictions!). As we look ahead to 2021 we do see a good backdrop for risk assets - interest rates are low, governments are supporting economies with substantial stimulus, a significant spike in inflation feels unlikely, economic activity and company earnings should improve, and vaccines are being rolled out around the world. But investors should still be mindful of risks - significant unexpected events can and do happen. The most apparent risks are issues with vaccine distribution, or earlier withdrawal of fiscal or monetary policy support particularly if inflation emerges, but as 2020 has shown, we also have to remain conscious of unknown unknowns which can occur at any time.

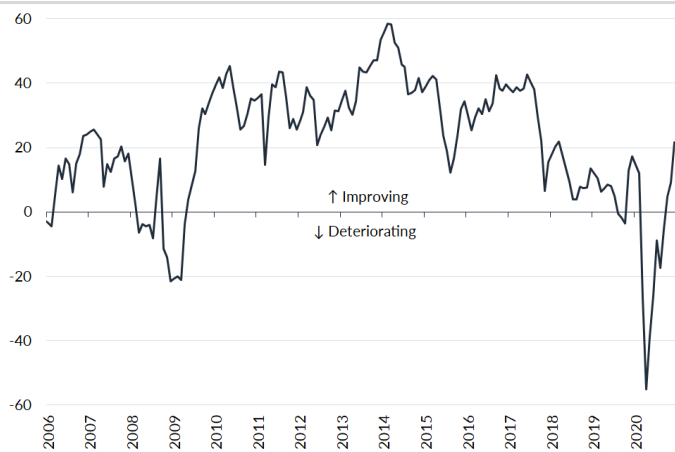
Theme #1: Supportive macro environment

For most it generally feels good to be in New Zealand at the moment. It's summer, we're COVID-19 free, and the economy is gearing up into a sustained recovery from the 2020 trough that was significantly shallower than the economists expected earlier in the year.

While some sectors remain hard hit (i.e. higher education, tourism), others are offsetting. Economic conditions should continue to improve through 2021 given the combination of: (1) low interest rates, (2) increased household savings through COVID-19, (3) a booming housing market and strong construction demand, (4) improving consumer and business confidence, (5) robust business investment intentions, and (6) COVID-19 restrictions easing around the world helping exporters.

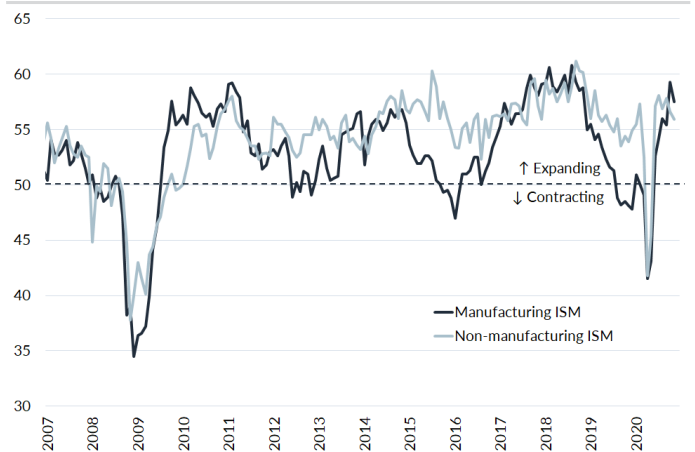
When we look further afield, and particularly at escalating COVID-19 waves in North America and Europe, it's easy to feel fortunate we live in New Zealand. However, like here, most economies have navigated the pandemic better than initially anticipated supported by huge policy responses from central banks and governments. Like New Zealand, low interest rates, high savings, firmer asset prices (including housing), and better-than-feared labour markets are buttressing many consumers, which in turn is helping business confidence and investment plans. Confidence has only been boosted by the start of vaccine roll-outs which provide a light at the end of the COVID-19 tunnel. Many economic projections have activity returning to 2019 levels by the end of 2021.

Figure 1. NZ business confidence (own activity outlook)



Source: NZ ANZ Business Survey, Forsyth Barr analysis

Figure 2. US business confidence (ISM Indices)



Source: Institute for Supply Management, Thompson Reuters, Forsyth Barr analysis

Theme #2: From virus to vaccine

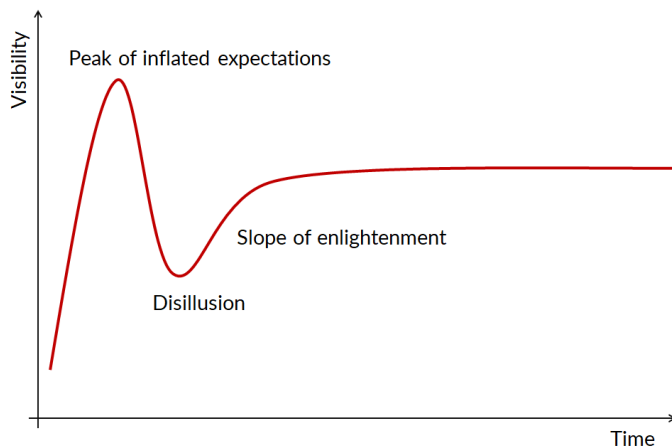
If 2020 was the year of the virus, 2021 is hopefully the year of the vaccine. Inoculations have already begun in the UK and US, and will start soon in other countries. This is good news that plays to the reopening of the most impacted of sectors. However, there is the risk the vaccine roll-out takes longer and is less effective than some lofty expectations.

Why do we say this? There are a variety of risks/issues associated with vaccine roll-out:

- **Delivery:** Delivery will take time as there are potential issues of speed and scale when it comes to mass producing vaccines. Common bottlenecks can occur at the fill/finish and delivery stages. New Zealand will get its first vaccine doses from March 2021 at the earliest. The government has yet to announce its vaccine roll-out plan, which we expect to stretch into 2022 and beyond. It has acquired two vaccines to-date (1.5m doses of the two dose Pfizer vaccine and up to 5m doses of the single dose Janssen vaccine) but may require more.

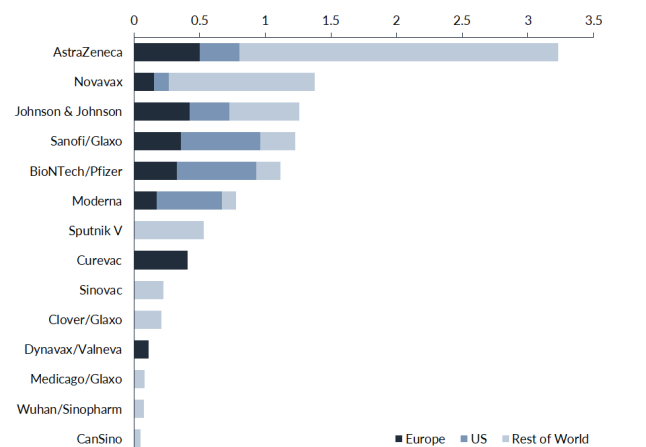
- **Acceptance:** Some people may be reluctant to take a new vaccine. To protect the entire population from the virus — achieving herd immunity when enough people are protected that a virus dies out — a certain proportion of people need to be immune. This threshold varies (for measles it's 96% of people, for polio it's only 80%) and is determined by factors including the vaccine efficacy and virus's infectiousness. For COVID-19, modelling suggests the figure is 60–70%. A recent Gallup survey suggests 58% of Americans are willing to be vaccinated today, with 26% preferring to wait to make sure it's safe.
- **Durability:** Efficacy rates (of the Pfizer and Moderna vaccines) have surprised on the upside but durability is unknown. How long protection lasts for will only be answered over time. COVID-19 will remain in global circulation for many years to come, in our opinion. By comparison the measles vaccine is readily available internationally, has been around for over 50 years, and has relatively high compliance and efficacy of 95%–99%. Yet in 2018 there were ~10m cases of measles globally, including some in New Zealand.
- **Side effects:** Risk of serious side effects emerging from mass inoculations should not be discounted from any new vaccines particularly given the speed of development and testing in this instance. Historically there have been approved vaccines that have been withdrawn after the later discovery of side effects.
- **Strategy shift:** Like other countries, New Zealand's strategy will eventually need to move to from elimination to containment. Only one virus (smallpox) has ever been eradicated by vaccination. Therefore, it's likely that some ongoing level of COVID-19 infection will continue regardless of the success of vaccines.

Figure 3. Hype cycle for vaccine roll-out



Source: Forsyth Barr analysis

Figure 4. Vaccine doses under contract



Source: Airfinity, Forsyth Barr analysis

Theme #3: Potential M&A opportunities

COVID-19 impacted the level of merger and acquisition (M&A) activity in 2020, but the NZX still lost Metlifecare (MET), Abano (ABA) and Augusta Capital (AUG). Looking ahead, with cheap debt, cashed-up private equity players, strong corporate balance sheets, and a general shift up the risk curve for many sovereign and pension funds, we believe we could be at the very start of a significant M&A cycle.

Globally we've already seen a flurry of M&A activity recently. In New Zealand, Infratil (IFT) recently knocked back a bid from Australian Super, but it is undertaking a "strategy review" (code for potential sale) of its stake in Tilt Renewables (TLT). In Australia, Coca-Cola European Partners agreed to acquire Coca-Cola Amatil, private equity group ARES Management has said it is willing to purchase AMP, and Northern Star has agreed to acquire Saracen Minerals. Internationally recent large deals include the purchase of IHS Markit by S&P Global for U\$43bn, Nippon Telegraph & Telephone buying the remaining 30% stake in NTT DOCOMO for the equivalent of U\$40bn and, Nvidia buying Arm from Softbank for U\$40bn.

Figures 5 and 6 highlight our NZ equities teams' and our Australian research partners' view of potential M&A targets across Australasia.

Figure 5. Potential NZ M&A targets (in alphabetical order)

Name	Code
The a2 Milk Company	ATM
Comvita	CVT
EBOS Group	EBO
Fisher & Paykel Healthcare	FPH
Freightways	FRE
Gentrack	GTK
Heartland Group	HGH
Infratil	IFT
Kathmandu	KMD
Kiwi Property Group	KPG
Pacific Edge	PEB
PGG Wrightson	PGW
Sky City Entertainment	SKC
Skellerup	SKL
Sky TV	SKT
Stride Property Group	SPG
Spark	SPK
Tourism Holdings	THL
Tilt Renewables	TLT
Z Energy	ZEL

Source: Forsyth Barr analysis

Figure 6. Potential AU M&A targets (in alphabetical order)

Name	Code
ADBRI	ABC
ALS	ALQ
Amcor	AMC
AMP	AMP
Ampol	ALD
APA Group	APA
AUB Group	AUB
Bapcor	BAP
BHP Group	BHP
Boral	BLD
Bravura	BVS
Challenger	CGF
Crown Resorts	CXN
Downer	DOW
Eclix Group	ECX
G8 Education	GEM
GWA Group	GWA
Lynas	LYC
Medibank	MPL
Metcash	MTS
National Storage REIT	NSR
Nine Entertainment	NEC
Nufarm	NUF
Oil Search	OSH
Ooh!Media	OML
Origin Energy	ORG
Santos	STO
Senex Energy	SXY
Service Stream	SSM
Skycity Entertainment	SKC
Sonic Health	SHL
Star Entertainment	SGR
Tabcorp	TAH
Tassal	TGR
United Malt	UMG
Vocus	VOC
Whitehaven	WHC

Source: The Australian Financial Review, The Australian, Bloomberg, Factset, Refinitiv, Forsyth Barr analysis

Theme #4: Climate change investing

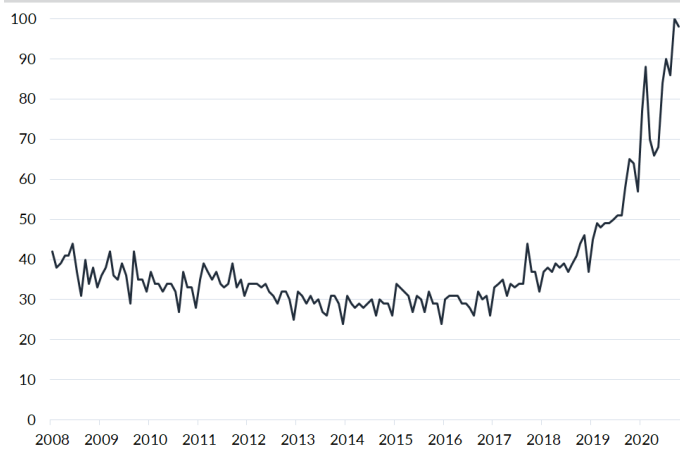
There are now around 130 countries which have already achieved, legislated to achieve or, have a plan to achieve, net-zero carbon emissions by 2050. Following the election of Joe Biden the US is the most recent country to join this group. We expect growing pressure on countries without a plan (or a credible one) to follow. This may result in increased pressure (or even legislation) on companies to reduce emissions.

Climate change investing to date has already had a meaningful impact on the performance of some sectors and some companies both globally and domestically. In New Zealand for example, Meridian (MEL) and Mercury (MCY) have experienced significant valuation re-ratings compared to Genesis (GNE) and Contact (CEN) reflective, in part, to their 100% renewable electricity generation.

The growing valuation differential reflects the two key aspects of climate change investing: (1) an exclusion-based approach that has dominated ESG investing to date (i.e. coal), and (2) a more scientific approach to combating climate change that reward companies with low, no, or reducing emissions. The second point is increasingly the future of climate change investing, in our opinion. Some large superannuation funds have already adopted a net zero carbon target for their portfolio holdings by 2050. Many companies including those in sectors like resources (not traditionally thought of as helpful in fighting climate change) have adopted a net zero goal by 2050. We see growing demand for emissions reducing technologies such as batteries and solar - many real estate companies, for example, are increasingly using renewable energy on their properties. Meanwhile, the Banks are targeting a net zero lending portfolio by 2050. The increased focus on carbon emissions will continue to support share prices of those companies deemed to be helping, and

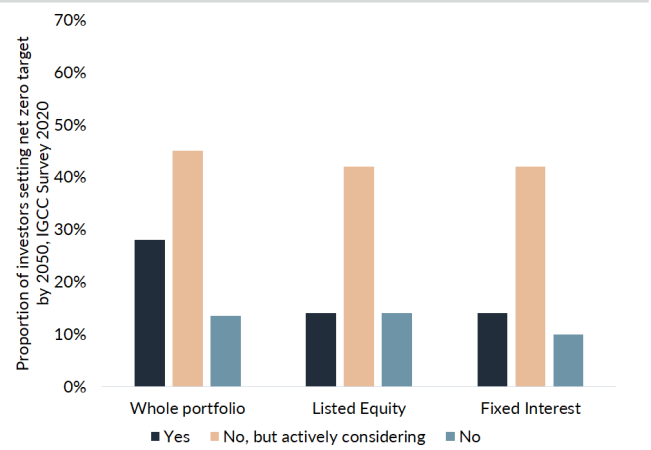
penalising those who are not. Please refer to our recent report *ESG with a Capital "E": Part of the Problem or Part of the Solution?*, dated 7 December 2020, for further discussion.

Figure 7. Google searches for "ESG"



Source: Google trends, Forsyth Barr analysis

Figure 8. 80%+ of the ANZ investing community either at, or are considering, net zero emissions targets...



Source: IGCC, Forsyth Barr analysis

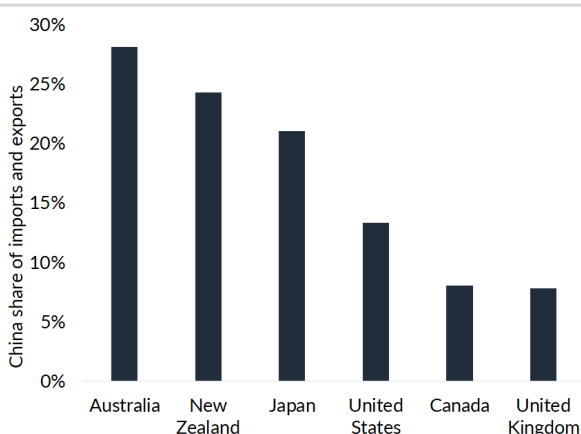
Theme #5: China assertiveness

China is increasing its assertiveness through a combination of political, military and economic means. It has been a key winner from COVID-19 having handled its outbreaks relatively quickly with strict control measures. Consequently, the domestic economic toll was short lived with less stimulus than other countries. China's approach to the South China Sea (militarisation), Hong Kong (legislative), its Indian (conflict) and Bhutan (encroachment) borders through 2020 suggest an even more assertive manner through 2021.

US Presidential Elect Joe Biden is unlikely to take a significantly different course from President Trump to China relations. While his approach may differ visually (less brinkmanship, more predictability and solidarity with other allies), he's unlikely to dial-back tariffs, at least in the short term.

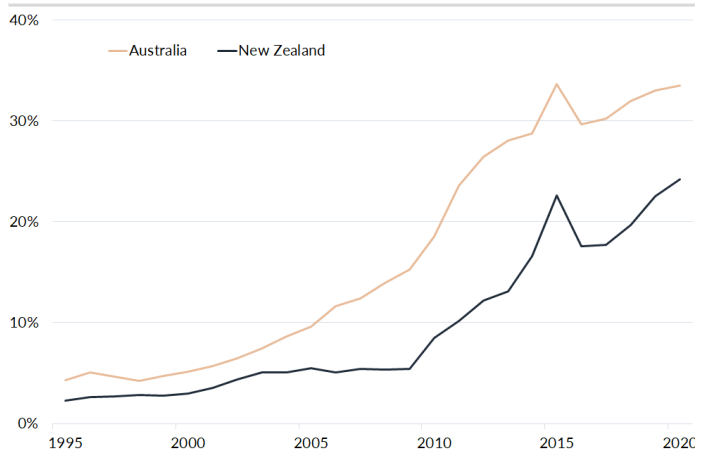
Like the US, other countries are also reassessing their economic reliance on China and seeking greater supply chain diversification. In contrast, New Zealand and Australia's reliance on China as a trading partner has been increasing. In a world that is likely to become more factionalised (China vs. the US/west) this will become an increasingly challenging tightrope for countries and companies to walk.

Figure 9. China % of exports + imports, selected countries



Source: International Trade Centre, Forsyth Barr analysis. Goods only, 2019.

Figure 10. China's share of Australia and NZ's imports + exports



Source: Stats NZ, Forsyth Barr analysis

Growing Australian spat

China's increasing economic assertiveness has played out to Australia's detriment through 2020. The evolving trade war between the two has been brewing for several years but was ignited by Australia calling for a global inquiry into the origins of the coronavirus pandemic, including China's handling of the initial Wuhan outbreak. Initially, barley exports were hit with an 80% tariff, then it banned beef from a number of Australian abattoirs and added quotas on coal. Since then lobster and wine have also been hit.

Themes of the Week

Equities

The a2 Milk Company (ATM) - The Grinch Stole Christmas

ATM provided a disappointing pre-Christmas update, materially downgrading FY21 guidance with a sharp and protracted decline in daigou not made up for by other channels. While pressures in the daigou channel are well known, management was evidently too optimistic on the recovery path. ATM also indicated disruption in the daigou channel “is now having a more significant impact in the cross border e-commerce channel (CBEC)”, after what appeared to be a strong start to 1H21. Channels are complex and inter-linked, and a lack of specifics and opaque commentary from ATM hasn’t helped. There is a lot of unknowns, with recent announcements a stark reminder visibility is low and the high margin of error in earnings forecasts. ATM does appear to be prioritising longer-term brand positioning and brand health, rather than short-term profit.

Our interpretation of the issue is – ATM responded to daigou problems by pushing more inventory into CBEC, however, this looks to have made the situation worse, with price discounting on some platforms creating even more pressure on daigou margins. From here we expect ATM to squeeze inventory to CBEC (i.e. less supply) to attempt to drive prices higher. However, we do not expect daigou to meaningfully recover until freight prices are lower (reliant on commercial flights). Our base case is daigou pressure is largely temporary and it recovers slowly when daigou margins improve (to ~70% of prior levels by FY24E), and ATM continues to take market share (off what is still a low base) in Mother & Baby Stores, with its China label IF. We think this supports a return to growth from FY22E.

The path forward is unlikely to be smooth. FY21 is not risk-free, channels to market are opaque with very limited visibility (including for management), geopolitical risk heightened and ATM credibility materially dented; hence, it will take time for any rebuild in market confidence. The company does have a large cash balance which provides the option to help market confidence with a share buyback – this is “being considered”.

Since August, ATM’s cash-adjusted 12 month forward price-to-earnings multiple has contracted to ~24x, from 32x, on what we view as suppressed EPS (down ~40%). The market now appears to be pricing some combination of (1) daigou not recovering or getting worse (geopolitical tensions and/or changed behaviour), (2) Chinese consumer demand moderating for the brand and/or (3) inventory issues.

We view the issues as largely temporary (stemmed from COVID-19), with brand metrics and end demand seemingly positive, and expect growth to return from FY22. At current levels we see favourable risk/reward, however, it will likely take time to rebuild market confidence. We retain our High Risk OUTPERFORM rating.

Global Reporting Season Review

We reviewed close to 100 global stocks in our universe of interest over the reporting period, October-November, to help provide insights and recommendations. Using our “target 3-year return” investment framework, we have divided this list into three primary groups based on current fundamentals and valuations:

- Group 1: Stocks that present good value.
- Group 2: Stocks that are fair value.
- Group 3: Stocks that are fully valued.

Group 1: Stocks that present good value.

In last week's Wealth Weekly we highlighted 12 companies from Group 1 (Stocks that present good value) that are exposed to themes we are targeting. This list included; **Activision Blizzard**, **Alibaba**, **Allianz**, **Amazon**, **Baxter International**, **Fiserv**, **Merck & Co**, **Microsoft**, **Mondelez**, **Royal Philips**, **Salesforce.com**, **Takeda Pharmaceutical** and **Tencent**.

Group 2: Stocks that are fair value.

From Group 2 (Stocks that are fair value), we selected 12 companies listed below that whilst looking close to fair value, still frame up reasonably well on a risk/reward basis:

- **Adobe** – Adobe is one of the largest software companies in the world, leading the way in digital imaging and print publishing products. Adobe is expected to benefit from continuing Digital Media trends.
- **Alphabet** – We continue to like Alphabet for portfolios given its exposure to key secular growth segments in Internet, impressive track record on execution, and an attractive double-digit earnings growth outlook at a fair valuation.

- **Apple** — We believe Apple can continue to leverage its sticky ecosystem to drive services and wearables revenue, however, we believe the stock is fairly valued at current prices.
- **Facebook** — Facebook trades at a slight PE multiple discount to its large-cap internet peers, and offers an attractive revenue and earnings growth outlook. The sophistication of FB's ad platform and products should continue to attract advertising.
- **Home Depot** — Home Depot continues to benefit from strong macro tailwinds and is more defensive against the shift to online than other retailers given its exposure to home improvement. In our view, Home Depot's positive growth outlook is largely priced into shares.
- **Kering** — Kering owns a diversified portfolio of luxury brands, with exposure across multiple geographies. The company has shown impressive cost management and maintains a strong balance sheet and liquidity.
- **Mastercard** — Mastercard's growth outlook is underpinned by a move from cash to electronic payments, and the increasing penetration of eCommerce and online transactions.
- **Nike** — We continue to like Nike for portfolios although at current prices the stock looks largely fair value. NKE is well placed to benefit from growth in the athleisure segment of the sportswear market, and its DTC channel appears to be gaining momentum.
- **NVIDIA** — NVIDIA is a market leader in graphics processing units (GPUs), which are used in gaming, data centers, and automotive end markets. NVIDIA's valuation largely reflects its attractive growth prospects.
- **Republic Services** — Provides solid waste collection services for commercial, industrial, municipal, and residential customers.
- **Schneider Electric** — Schneider Electric is a multi-national company providing energy and automation solutions, using IoT enabled architecture capabilities from homes to data-centres to power plants.
- **ServiceNow** — ServiceNow is a platform-as-a-service provider, providing technical management support, such as IT service management, to the IT operations of large corporations, including providing help desk functionality.

Group 3: Stocks that are fully valued.

Within Group 3 (Stocks that are fully valued), we identified 16 companies that appear expensive based on our "target 3-year return" investment framework. This list includes; **Applied Materials, Aptiv, ASML Holdings, Colgate-Palmolive, Costco Wholesale, FedEx, Heineken, Illumina, Intuit, Intuitive Surgical, L'Oreal, LVMH Moët Hennessy, Paypal, Starbucks, Tesla, and T-Mobile.**

Please contact your Investment Adviser for research on the companies mentioned above.

Research Worth Reading

New Zealand

Chorus (CNU) – Another Piece in the Regulatory Puzzle

CNU recently provided (for the first time) opex and capex estimates that feed into the (work-in-progress) regulatory framework for its ultrafast fibre broadband (UFB) network. These are initial estimates only and precedents do highlight the Commerce Commission may not fully accept CNU's proposals. It is, however, favourable relative to our assumptions, reducing the risk of a material divergence vs. our medium-term forecasts. Step-by-step, the UFB regulatory process is edging toward completion expected in 3Q/4Q 2021. Conclusion should provide clarity of strong free cash flow (we forecast a 7–8% FCF yield) funding a substantial lift in dividend once the UFB network is complete. **OUTPERFORM.** (Published by Forsyth Barr)

Spark NZ (SPK) – A Beacon of Value; Upgrade to OUTPERFORM

We upgrade SPK to **OUTPERFORM**. We now expect SPK to navigate the headwinds of COVID-19 without a significant pullback in earnings, and likely maintain its NZ\$25cps dividend. We believe such an outcome will reinforce SPK's qualities – a solidly positioned business with an impressive execution track record, robust valuation metrics, a strong balance sheet, and an attractive dividend income in a yield hungry world. **OUTPERFORM.** (Published by Forsyth Barr)

Summerset Group (SUM) – SUM Doing Better than Others

Summerset (SUM) has provided FY20 underlying profit guidance for NZ\$96m to NZ\$98m, this excludes the NZ\$8.6m wage subsidy following its decision to repay it in light of strong recent performance and the positive outlook across the sector. This is a positive update and ahead of our prior expectations of NZ\$89.5m (excluding the wage subsidy). It has become increasingly clear that SUM has not only outperformed over the difficult COVID-19 first half of 2020, but that it has also emerged stronger than its peers. **OUTPERFORM.** (Published by Forsyth Barr)

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ATM provided a disappointing pre-Christmas update, materially downgrading FY21 guidance with a sharp and protracted decline in daigou not made up for by other channels. Since August, ATM's cash-adjusted 12 month forward PE has contracted to ~24x, from 32x, on what we view as suppressed EPS (down ~40%). The market now appears to be pricing some combination of (1) daigou not recovering or getting worse (geopolitical tensions and/or changed behaviour), (2) Chinese consumer demand moderating for the brand and/or (3) inventory issues. We view the issues as largely temporary (stemmed from COVID-19), with brand metrics and end demand seemingly positive, and expect growth to return from FY22. It will likely take time to rebuild market confidence. At current levels we see favourable risk/reward, with re-set expectations. **OUTPERFORM.** (Published by Forsyth Barr)

Transport Trends – An Exceptional Year – Bring on 2021

The transport sector ends what has been an exceptional year (on so many fronts) in relative strength given a combination of reality, optimism and hope. Valuations have recovered strongly from the late March trough thanks to a combination of interest rate compression, an improved forward outlook and superior market positioning of most of the listed players. Aviation remains most challenged, but optimism stems from the hope of trans-Tasman and Pacific Island bubbles opening up in the new year. In contrast, the reality for freight and parcel industry players has been a swift market recovery and customer opportunities arising in part from supply chain congestion. There remains a reasonable degree of uncertainty for the year ahead, yet the onset of mass vaccinations and a steadily improving macro backdrop suggests optimism isn't misplaced. We prefer **OUTPERFORM** rated transport operators Mainfreight (MFT) and Freightways (FRE) in the sector.

Australia

ANZ Banking Group (ANZ.AX) – Worldline joint venture

ANZ announced it will enter into a joint venture (JV) with Europe-based Worldline to provide payments technology and merchant services in Australia. The JV will be on a 51%/41% basis and controlled by Worldline, with disclosed cash consideration for the 51% stake of AU\$485m. Ord Minnett sees strategic merit for ANZ in the transaction given the JV will have more scale to invest in

technology necessary to compete with the larger major banks and Tyro Payments (TYR, ACCUMULATE). ACCUMULATE. (Published by Ord Minnett)

Sydney Airport (SYD.AX) – Traffic update

SYD provided its November traffic update and announced it will not pay a CY20 distribution, in line with Ord Minnett's expectation. Domestic traffic was weaker than Ord Minnett expected in November. Total passenger numbers (PAX) dropped 91%, with domestic declining 87% and international falling 97%. Ord Minnett reduced their second-half CY20 domestic PAX to a decline of -85% (from -80%) and international PAX to a decline of -95% (from -90%). Based on Ord Minnett's estimates, the current share price is factoring in an optimistic recovery – Ord Minnett estimates it implies domestic PAX will recover to pre-COVID levels by 1H21 and international PAX by the end of 2021. LIGHTEN. (Published by Ord Minnett)

International

Abbott Laboratories (ABT.N) – At-Home Test at Scale Could Lead to Secondary Markets

ABT announced Emergency Use Approval (EUA) for the first virtually guided, at-home rapid test using eMed's digital health platform. Ultimately, UBS thinks ABT could also look to offer over-the-counter (OTC) tests that are not guided and also expand this guided and the OTC model internationally. UBS thinks this could lead to secondary markets in the future like employer testing, travel, entertainment, or for visiting vulnerable relatives. UBS continues to like shares of ABT; its business has been resilient and it has some of the best growth drivers in medtech including testing near-term, Libre, structural heart, and Alinity. BUY. (Published by UBS)

Apple (AAPL.O) – 5 Reasons Apple Stock Can Trade Higher in 2021; Maintain Buy

Despite AAPL shares trading up +70% in 2020 compared to the S&P 500 +13% and NASDAQ +38%, Citi reiterates their BUY rating and increases their estimates and Target Price to \$150 (from \$125 prior). Citi's estimate revisions are predicated on stronger-than-anticipated demand across several products including iPhones, Wearables and PCs/Tablets. Citi believes future upside in stock price will likely come from sales and EPS upside rather than valuation multiple expansion. Citi does recognize that some new risks have emerged, namely the Apple and Google exclusive search agreement, app store 30% take rate, and mega cap legislative scrutiny, but Citi does NOT believe these will materialize in 2021 and will create more occasional headline risk rather than fundamental risk. Such headlines could provide a near term stock pullback which Citi would use as a buying opportunity for AAPL shares. BUY. (Published by Citi)

FedEx Corporation (FDX.N) – Two Questions, Two Answers

Coming off FDX's earnings call Citi's bullish thesis is still intact. There is some fair criticism of opex management at Ground, but Citi thinks there are two key questions for the stock and Citi has two answers. First, are Ground margins still going up? Yes. Pricing gains are real and the labor cost inflation that impacted F2Q is due to a pull forward of hiring ahead of peak and partially related to underutilization of the workforce due to COVID absences. These dynamics are temporary and mean margins can keep going up, particularly when you consider that mix is unlikely to get worse and likely gets better as B2B recovers. Second, are estimates going up? Yes. Express is performing better than expected and revenues in all three segments are trending higher. So Citi sees US\$2+ upside to F22 consensus EPS. Citi still expects shares to be down on the Ground margin miss, but believes it's hard not to be constructive if you're thinking longer-term than this quarter. BUY. (Published by Citi)

US Semiconductors – Checks Indicate Strong End to 2020 – Lead Times Beginning to Stretch Out. Expect Upside During 4Q20 Earnings

Citi's latest checks indicate overall business in the semiconductor industry is strengthening, with increasing instances of lead times stretching out amid shortages of various components from microprocessors to power management. As a result, Citi expects upside to 4Q20 guidance and believe there could be substantial upside to estimates through the beginning of 2021 due to double ordering. Citi recommends investors buy any dips in the near term as Citi believes the chances for an inventory build are good. Citi's favourite names remain Qualcomm (QCOM.O), Texas Instruments (TXN.O), Analog Devices (ADI.O), Broadcom (AVGO.O), NVIDIA (NVDA.O), Lam Research (LRCX.O) and Marvell Technology (MRVL.O).

Calendar

Figure 11. Calendar

Date	New Zealand	Australia	International
21-Dec	Credit Card Spending	Mid-Year Economic and Fiscal Outlook	CH: PBoC Loan Prime Rate
22-Dec	Westpac Consumer Sentiment (1Q)	Retail Sales	UK: GDP (3Q)
23-Dec	Cavalier Corporation AGM Enprise Group AGM	Housing Credits Private Sector Credit (Nov)	US: GDP (3Q) US: Existing Home Sales (Nov)
24-Dec			US: Initial Jobless Claims US: New Home Sales US: Crude Oil Inventories
25-Dec	Christmas Day	Christmas Day	Christmas Day US: Core Durable Goods Orders (Nov)
26-Dec	CFTC NZD Speculative Net Positions	CFTC AUD Speculative Net Positions	

Source: Forsyth Barr analysis

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