FORSYTH BARR

WEALTH MANAGEMENT RESEARCH
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Wealth Weekly
Staying Overweight Equities

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Exuberance in the Initial Public Offering (IPO) and Special Purpose Acquisition Company (SPAC) markets, the mass retail speculation in GameStop, excessive valuations in some clean energy, internet and software stocks, and recent softness in mega-cap tech stocks all raise the question of whether equity markets have run too hard, too fast. Meanwhile, bond yields have recovered off their lows but fixed interest assets remain very expensive. So what is an investor to do? Our asset allocation committee met last week to weigh up the options.

Overweight equities (especially international), underweight bonds (especially long-dated ones)

The Forsyth Barr Investment Committee (FBIC) met on Friday to consider the economic and investment market environment and review its recommended tactical portfolio allocations to the broad asset classes: fixed income (bonds), cash, NZ/Australian/international equities, and property.

While committee members remain positive on the global outlook, a backdrop of stretched equity valuations and steepening bond yield curves (faster increases in longer-maturity bond yields than in short-dated bonds) creates a more challenging environment for asset allocation. The committee's total recommended exposure to growth assets (equities and property) remains unchanged. **The committee's tactical changes include:**

- **A reduction in fixed income exposure and an increase in cash**. Fixed income risks remain asymmetric, with minimal/low expected total returns on one hand, and potential for capital losses on the other hand if a more robust growth outlook prompts inflation expectations and interest rates to rise. This suggests keeping the average duration of fixed income portfolios around average or shorter than average. While holding more cash is a drag on returns, its opportunity value increases as some equity values become stretched to the point of increasing the likelihood of a correction in equity markets.
- **A further reduction in exposure to NZ property and a reduced overweight in NZ equities**. Yield curves have changed from tailwinds to headwinds on valuations for both sectors, which are yield-sensitive, while the earnings outlook is less optimistic than globally.
- **An increase in overweight exposure to global equities.** Vaccination progress and a monetary and fiscal tsunami of liquidity should be powerful combinations for economic growth. Policy-makers have explicitly expressed an intention to allow economies to "run hot" for some time before adjusting conditions. At an aggregate level, the low expected returns from equities (by historical standards) appear justified by the even lower return outlook on bonds.

Themes of the week

Given the sensitivity of all asset prices to interest rates, **investors will be keenly watching the Reserve Bank of NZ's Monetary Policy Statement, which is due out on Wednesday afternoon**, for signs of the central bankers' thinking on the outlook for rates. The RBNZ has been able to keep short-term rates low, and markets are pricing in only a 6% chance of an Official Cash Rate hike in 2021, but long-term rates have risen by over 1% (i.e. tripled) compared to 6 months ago.

Reporting season is well underway in NZ, with most results at least in line with or beating our forecasts. **Skellerup, Freightways and Contact Energy have so far delivered particularly strong earnings**. **EBOS Group and NZX also had solid results.** Property for Industry and Chorus were closer to our expectations. Results from SKYCITY and Auckland Airport were heavily impacted by COVID-19 restrictions but were still ahead of our estimates.

Looking ahead

Results scheduled for the rest of this week include Mercury NZ and Vector on Tuesday, Meridian Energy and Spark on Wednesday, The A2 Milk Company, Genesis Energy and Precinct Properties on Thursday, and Kathmandu and NZ King Salmon on Friday.

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Updated Tactical Asset Allocation Recommendations

Following its meeting to review tactical asset allocations late last week, **the Forsyth Barr Investment Committee (FBIC) has maintained its recommended overweight in equities and underweight in bonds/cash**, but within these asset classes the committee has:

1. Lifted the overweight in international equities
2. Reduced the overweight in NZ equities
3. Further lowered the underweight in property
4. Lowered fixed interest from neutral to underweight
5. Reduced the degree of underweighting of cash.

The committee's recommendations remain at just below the maximum overweight position in equities that is allowed under our framework. FBIC's view continues to reflect more an aversion to bonds and cash than a view that equities are attractive in absolute terms, as we continue to acknowledge equities are very expensive compared to history.

Asymmetric risks in bonds

Although longer-term interest rates have risen in recent months, we continue to view the risk for total returns from bonds as being asymmetrically tilted to the downside.

- **At current low interest rates bonds are less effective at performing their traditional key roles in portfolios**: Income from bond coupons is low, while the ability of bonds to provide a countervailing capital gain during drawdowns in equity markets is significantly diminished. (Interest rates normally fall when equity markets sink; as interest rates fall, prices of long-dated bonds rise, and vice versa; but because interest rates are already very low and can't fall much below zero, the degree of capital upside from long bonds during periods of equity market volatility is limited).
- Central banks are aiming to achieve above-target inflation, while keeping short-term interest rates low. Historically inflation has been difficult to achieve and we are not convinced that recent inflationary signs will be sustained. However, **if central banks are successful at stoking inflation then real interest rates will decline further** and there is risk of further capital losses on longer duration bonds. **We are more comfortable in shorter duration bonds**, where lower risk to capital values trumps the lower yields.

Advisers face significant bond maturities. Due to a lack of supply of short-duration bonds, replacing these without significantly extending portfolio duration is difficult. As an alternative, **we are comfortable holding a higher level of cash than previously**.

Low rates explain high equity valuations

At an aggregate level, elevated equity prices can be explained by the level of interest rates — the equity risk premium (the level of assumed equity returns above the government bond yield) is within the normal range. **We remain overweight international, NZ and Australian equities, and underweight property.**

The reduced overweight in NZ equities reflects our views that the NZ market is 1) expensive, and 2) significantly more interest rate sensitive than other equity markets. This interest rate sensitivity reflects the dominance of long-duration defensive yield (primarily) and growth stocks. Since the global financial crisis, the NZ market has benefitted from falling interest rates, and has been one of the best performing markets globally. That tailwind is likely now largely over. Even if interest rates do not rise, the room for a tailwind from further significant falls is limited.

NZ property remains expensive, with minimal growth, and is highly sensitive to interest rates. **We encourage a re-weighting from NZ to Australian property, where valuations appear less stretched than in NZ**.

The increase in our overweight to international equities reflects:

1. Our view of better relative value vs. NZ and Australia
2. Greater opportunities overseas to invest in companies that will benefit from an improving economic backdrop
3. The benefit of a (typically countercyclical) hedge from safe haven currencies in portfolios. (During periods of risk-off behaviour in global equity markets, the US dollar, Japanese yen and Swiss franc tend to rise against other currencies, including against so-called commodity currencies like the NZ dollar, which helps offset the declines in foreign equity prices. In this way, a higher allocation to unhedged international equities helps replace part of the hedging role that bonds traditionally played against falling equity markets).

Themes of the Week

Fixed Interest

The RBNZ takes centre stage this week

The highly anticipated Monetary Policy Statement (MPS) from the Reserve Bank of New Zealand (RBNZ) will be the main focus for many investors this week. Not because it is the first of 2021 but because for all of 2020 since the March COVID-19 lockdown, the RBNZ only provided forecasts up to this date. Usually the RBNZ provides a future track for the Official Cash Rate (OCR) at least a few years out, however, given the uncertainty, it justifiably made no commitment past February/March 2021.

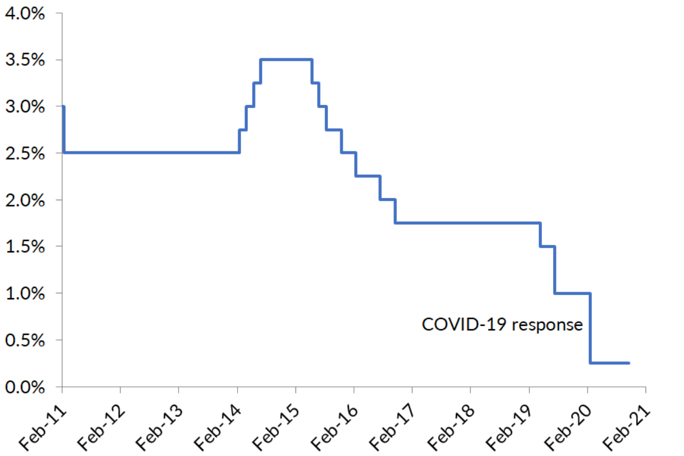
So here we are with some positive economic news flowing not only locally but also globally, steepening yield curves, a weakening USD, ongoing COVID-19 outbreaks and a red-hot property market. **It probably points to a fairly conservative MPS on Wednesday, with still a number of headwinds in the economy to warrant such a mood**.

The market and economists have removed any chance of a negative OCR, and foresee only a modest (6%) chance of an OCR hike in 2021. The chart below illustrates how **the RBNZ has successfully anchored the short end of the curve but the 'market' has pushed the longer part of the curve much higher than six months ago when the RBNZ's quantitative easing (QE) programmes were in full force**.

The Central Bank's QE programmes remain in place although only NZ$1.04b has been drawn down from the Funding for Lending Programme. The current round of corporate reporting suggests corporates remain conservative with undemanding balance sheets commonplace in the New Zealand market. This again is not surprising given a fair few still have temporary debt covenant waivers in place after a tough 2020.

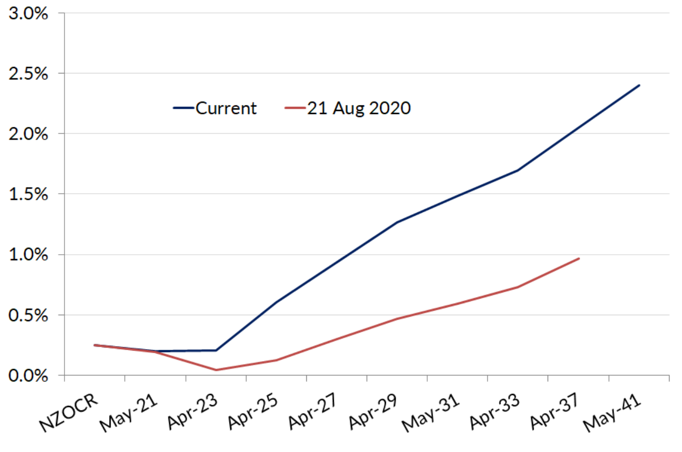
The MPS will be released on Wednesday at 2pm.

Figure 1. RBNZ Official Cash Rate



Source: Forsyth Barr analysis, Refinitiv, RBNZ

Figure 2. NZ Government bond yield curves



Source: Forsyth Barr analysis, Refinitiv

NZ Equities

Auckland Airport (AIA) — 1H21 Result — Earnings Grounded

AIA's 1H21 loss due to COVID-19 — its first as a listed company — is irrelevant as a barometer of its ability to generate profit in the longer-term.

The international passenger business will recover, the question is when? Recent COVID-19 outbreaks in Victoria and Auckland suggest quarantine-free trans-Tasman travel is unlikely ahead of mass inoculations, in our opinion. Our lowered forecasts assume borders reopen in mid-FY22 (i.e. around January 2022) rather than in the coming months. AIA's capex outlook has fallen dramatically, adding to current headroom on the balance sheet, which could ultimately lead to a return of capital once passenger numbers recover. Management has signalled a potential delay in setting new aeronautical prices, which may mean lower pricing for longer, although this could be made up for in the later years of the FY23–27 pricing period.

AIA is a high quality long-term asset but with valuation headwinds from rising bond yields, our rating remains NEUTRAL.

Chorus (CNU) — 1H21 — As expected

CNU's 1H21 revenue, operating profit and dividend were in line with our forecast, while net profit was higher than expected due to lower interest costs.

Management indicated that the company is "tracking towards the lower half" of operating profit (EBITDA) guidance of $640–660m. Capex guidance has increased by NZ$30m to NZ$670–700m, due to higher than expected demand for both greenfield fibre and mass market fibre connections.

At this time the key driver for CNU is the fibre regulatory process rather than its operating performance. The next steps in the process are draft Commerce Commission decisions on CNU's regulatory asset base, regulatory WACC (weighted average cost of capital), and maximum allowable revenue (MAR) scheduled for late 2Q. Our rating remains OUTPERFORM.

Contact Energy (CEN) — 1H21 — Geothermal Generates Equity Raise

CEN released its "no surprises" 1H21 result last Monday alongside the announcement that it will go ahead with its NZ$580m, 152MW Tauhara geothermal project and raise NZ$400m to fund it. **CEN's 1H21 operating profit (EBITDAF) of NZ$246m was as expected, and up +11% on 1H20**.

CEN's January operating result was a new record for the calendar month. A significant lift in wholesale electricity prices and retail price — which are short term in nature — drove us to upgrade our operating profit forecasts for the next three years by +5-7%.

After a significant correction in the share price since early January, we raised our rating on CEN to OUTPERFORM. **Trading on the lowest operating profit multiple and highest dividend yield in the sector, CEN looks good value on a medium-term view**. In the short term we expect selling pressure in CEN due to upcoming changes to the stock's weighting in an index that is tracked by two major clean energy ETFs.

EBOS Group (EBO) — 1H21 Result — Just What the Doctor Ordered

EBO's strong 1H21 result was modestly ahead of our expectations. Growth was driven by industry growth, market share gains and margin expansion. COVID-19 had positive and negative impacts, but overall delivered a modest net benefit. The core Healthcare division's operating profit increased +10%, with the Community Pharmacy and Institutional Healthcare segments growing at an above-average pace, while Consumer Products suffered from a COVID-19-weakened cold & flu season and reduced daigou sales amid pandemic travel restrictions. The Animal Care business performed particularly well, driven by increased pet ownership and higher spend per pet.

Management indicated the strength in performance has continued so far into 2H21. We have upgraded our earnings forecasts by +2–3% and dividends by +4–6% over the next three years.

EBO is a quality business with an impressive track record of execution, a positive growth outlook, defensive product exposures and a conservative balance sheet which offers ample optionality. **Recent share price strength has lifted EBO's one year forward price/earnings multiple to ~23x, which we still view as relatively attractive in the (expensive) NZ market, particularly compared to defensive peers**. We have retained our OUTPERFORM rating.

Freightways (FRE) — 1H21 Result

FRE reported a strong 1H21 result with underlying net profit up +48%, driven by a combination of:

- Parcel volume growth accelerating, helped by market growth together with market share gains in business-to-consumer deliveries
- Price increases
- The first time consolidation of the accretive Big Chill acquisition
- Recovery of margins in the Information Management segment.

Management was cautious on the outlook, as usual. The company is targeting a further $0.50 price increase per residential delivery, which together with relatively rapid growth in the business-to-consumer business should allow the company to sustain a higher level of earnings growth in future. We have retained our OUTPERFORM rating.

Property for Industry — FY20 — Solid Result and Guidance But Priced In

PFI's FY20 operating profit grew +3.3%, largely driven by lower tax and interest expense. This was better than we expected. Net tangible assets lifted by +15cps (+7.3%) to NZ$2.21. Portfolio metrics remained strong, with high occupancy, a moderate weighted average lease term and a diverse tenant and property base.

PFI's FY21 dividend guidance of 7.85–7.90cps implies stronger operating outcomes than we currently forecast. PFI believes its portfolio its c.2.6% under rented. Longer-term, we expect market rent growth to average +2.5% pa over the next five years. PFI expects to sell its last remaining non-industrial asset, Shed 22 in Wellington, after completion of seismic works. Proceeds are expected to be used for new core-industrial acquisitions and/or internal portfolio initiatives.

While industrial property is better positioned than other real estate subsectors and guidance implies better performance than we were expecting, we believe this is largely priced into the stock. PFI is currently trading at a +30% premium to its net tangible assets, vs. the sector at a +15% premium. PFI's FY21 cash yield of 2.7% (based on PFI's guidance) compares to the sector's 3.5% cash yield. We have downgraded our rating from NEUTRAL to UNDERPERFORM.

Skellerup — Refined Processes Unlocks Margins

SKL's 1H21 result was well ahead of expectations, with net profit up +61% from the same period last year. Both operating divisions increased their profits by over +50% year-on-year, helped by impressive increases in profit margins due to operational efficiencies, while revenues were as expected.

Management raised its FY21 net profit guidance range by +8% at the mid-points, to NZ$33m to NZ$37m, which appears conservative, although supply chain congestion, high freight costs and currencies are potential headwinds in 2H21. These headwinds should be temporary though. Management is optimistic about medium-term earnings growth from the company's project pipeline. We have lifted our margin and earnings forecasts over the medium and longer-term.

SKL has strong cash generation, earnings momentum, a positive growth outlook, and a conservative balance sheet which offers optionally. **We continue to see value in SKL at its price/earnings multiple of 20x** — broadly in line with the market — and have retained our OUTPERFORM rating.

SKYCITY — 1H21 Result — Playing a Tough Hand Well

SKC's 1H21 profit was obviously impacted by COVID-19-related restrictions, but we regard the result as strong in the circumstances. Domestic trading was solid when casinos were open, and this has improved further in recent months. The Hamilton casino performed particularly well compared to our estimates. The Adelaide casino is off to a strong start after its expansion, with SKC gaining share of the gaming machine market — and that's before the long-awaited opening of a new carpark in a few months. The online casino had another strong period, although regulatory settings need to change for it to become a significant earnings contributor. The international VIP gambling business remains in hibernation given international travel restrictions.

Under its new CEO, SKC's strategy remains to optimise the core business, complete projects and grow the online business. Management's guidance was cautious. We have upgraded our forecasts by +1–5% for the next three years.

The balance sheet is in a good position and (assuming no further COVID-19 disruptions) the company expects to resume paying dividends for the current half-year (we forecast a 7% cash yield in FY23). **At SKC's price/earnings valuation multiple of 15x our FY23 forecast, we believe investors are being more than compensated for the uncertain outlook**, and we continue to rate the stock OUTPERFORM.

Australian Equities

Australian reporting season on track to be the strongest in 20 years

The Australian reporting season is more than two-thirds through and is shaping up to be the strongest in the last 20 years. Expectations for June 2021 profits for the ASX 200 have risen by a record +4.4%, and there have been more than two companies receiving significant upgrades for every company seeing downgrades. Over the long-term the average reporting season downgrade has been closer to -0.8%. **The strength in the current reporting period indicates the profits recovery is now underway**.

The global pandemic has led Australian companies to adopt a new-found conservatism in running their business and allocating capital. We can see this in the degree of cost containment during the period and expectations are for this to continue. Capital intensity has also generally improved which has helped to deliver a boost to the outlook for free cash-flow and dividends. Expectations for ASX 200 dividends for the 12 months to June 21 have increased by +8.5% (again, the biggest over the last 20 years).

Below we reiterate some of the Australian companies that have delivered results over this month, and that we continue to like at current prices.

Amcor (AMC.AX)

AMC is a global packaging company which develops and produces flexible packaging, rigid containers, specialty cartons and closures for a range of end markets. **AMC reported strong 1H21 results that included revenue growth, margin expansion and EPS growth, along with a dividend increase**.

AMC expects FY21 constant currency EPS growth of 10–14% (up from 5–10% guidance in Sep 20). This growth is underpinned by buy-back accretion and Bemis cost synergies, with modest organic volume growth.

AMC's leading position across key global consumer packaging markets coupled with the defensive nature of the markets is clearly supporting Amcor's earnings base and cash flows despite COVID-19 related uncertainty.

Cleanaway (CWY.AX)

CWY is an Australian waste management solutions company with a defensive asset portfolio and a proven track record of earnings growth. **The company delivered a largely inline 1H21 result along with a slight beat at the earnings line.** CWY won two new contracts (City of Casey and South Australian Council Solutions) and delivered margin expansion in its Solid Waste segment (c.65% of revenue), while its Industrial Waste and Liquid Waste segments also performed well.

The company did not give quantitative guidance but expects FY21 EBITDA to be moderately higher than FY20, which could be on the conservative side given 1H21 EBITDA was up +2.9% on 1H20 despite Victoria (a meaningful state for CWY) being locked down for a large portion of the period.

We continue to like CWY for its diversified business model and strong cash conversion. Additionally, CWY is well positioned to take advantage of any meaningful changes stemming from the Australian federal government's National Waste Policy Action Plan.

Coles (COL.AX)

COL, the supermarket operator, is a relatively defensive and highly cash-generative business. **COL's 1H21 result revealed a slowdown in same-store-sales growth.** However, we were encouraged by the gross margin expansion delivered, as well as lower COVID-19 related costs and improved cash-flow.

We continue to think the outlook is positive for supermarkets, and we expect COL to exit COVID-19 in a structurally stronger position, with lockdowns accelerating the move to online shopping. Cost-out, robust demand and a gradual reversal of COVID-19 costs underpin a high single-digit rate of growth in COL's earnings.

CSL (CSL.AX)

CSL, which harvests and processes plasma from donors and produces vaccines, delivered a **very strong 1H21 result, with revenues growing +15% yoy, while net profit grew +45% yoy**. The key driver was the flu division, Seqirus, with revenues up +38% yoy and EBIT more than doubling. CSL's plasma business was also well ahead, with Immunoglobulin (Ig) slightly weaker and Albumin stronger than expected. Plasma collections remained ~20% below pre-pandemic in December and management has acknowledged this will have negative implications for 2H21.

Full year guidance was unchanged, which implies 2H21 profits of US$360–455m, or one fifth to one quarter of the first half result, which may prove conservative, although there is a risk to FY22 earnings if plasma collection levels remain lower for longer.

While the short-term outlook is somewhat uncertain due to weaker plasma collections, we continue to like CSL as a long-term holding for portfolios. Favourable news flow around CSL112 and plasma collections returning to pre COVID-19 levels could act as re-rating catalysts for the shares.

James Hardie (JHX.AX)

Building materials producer JHX reported a **strong 3Q21 result that was well ahead of expectations**, with global net sales up +20% yoy. JHX delivered volume growth of between +9% and +19% and market share gains across all its regional markets.

Ongoing fiscal and monetary stimulus policy initiatives and low borrowing costs should help sustain the strong construction demand backdrop for JHX's building materials. Unlike many of the peers in its sector, JHX stands out for its ability to steadily grow earnings over time and through cycles. The 3Q21 result highlighted this and the outlook remains positive, with new products on track for May 2021 which are expected to support further growth.

JHX remains one of our preferred Australian stocks, but we recommend holding it at a low portfolio weighting given its high valuation.

Lendlease (LLC.AX)

LLC designs, develops and manages property in the gateway cities of Australia, Asia, Europe and America. The company targets opportunities underpinned by urbanisation, funds growth, ageing populations, sustainability and technology. **LLC's 1H21 result slightly missed expectations as COVID-19 impacted interest in building development**, with many employers putting plans to move or build offices on hold as people were urged to work from home during the pandemic. Performance from its development and investment management segments were softer than expected, while its construction segment delivered a solid result.

While uncertainty over COVID-19 is likely to continue affecting sales in the short term, we continue to like LLC as a long-term portfolio holding. LLC has a development backlog of roughly 20 projects comprising over A$100b in end value, positioning the business well for the next 10–20 years. We believe LLC's growing urban regeneration pipeline and the funds management business should drive earnings growth and increase earnings visibility over the medium-term.

Telstra (TLS.AX)

TLS delivered **1H21 numbers that were a bit soft**, but management reiterated full year EBITDA guidance (with the range narrowed to A$6.6–6.9b), implying a strong second half of the fiscal year.

The big positive was TLS's target for FY22 underlying EBITDA to grow by 'mid to high single' digits from a low base. TLS also raised cost reduction targets and cashflow guidance. Confirmation of the full year dividend and of growth in FY22 EBITDA should put concerns about dividend sustainability to rest.

We believe the stock is substantially undervalued and that new investors will be attracted to the shares as they get increasing comfort that earnings are on the cusp of growth. Additionally, the potential privatisation of the NBN (Australia's broadband fibre network) could help to unlock value in TLS's InfraCo assets.

Research Worth Reading

New Zealand

NZX — Ransomed, Healed, Restored, Forgiven?

NZX reported a stronger than expected FY20 result with a good performance from every division. This was driven by impressive organic revenue growth offsetting higher than anticipated costs. The company has invested heavily in additional headcount and IT infrastructure during FY20, in light of outages occurring during the year, and we expect to see continued investment into FY21. We recognise the largely unknown nature of these infrastructure investments during the year ahead, however, first time FY21 EBITDA guidance appears conservative at this stage. We remain attracted to NZX's diversified revenue streams, stable balance sheet, organic growth in the Smartshares business and momentum building in both the Issuer Relationships and Wealth Technologies divisions, while the business continues to screen well from an ESG context. OUTPERFORM. (Published by Forsyth Barr)

Australia

ANZ Banking Group (ANZ.AX) — First-quarter FY21 trading update

ANZ delivered the strongest revenue performance of the major banks this reporting season, with revenue excluding markets up +4% – versus National Australia Bank (NAB) up +1% and Westpac (WBC) down -1% in the December quarter, and Commonwealth Bank (CBA) up less than +1% in the first half of FY21. ANZ's net interest margin surprised to the upside, up 5 basis points (bp), or 3bp excluding balance sheet activities in the Markets division, benefiting from better institutional spreads, lower funding costs, and positive mix impacts. Costs were arguably the only disappointing feature of the result, coming in flat on the second-half quarterly average, but the cost-savings rhetoric remains. ACCUMULATE. (Published by Ord Minnett)

Charter Hall Group (CHC.AX) — First-half FY21 result review

CHC reported first-half FY21 underlying operating earnings of A$129.3m (27.8cps), +6% above Ord Minnett's forecast due to a better funds management result. In Ord Minnett's view, CHC delivered a high-quality result with strong assets under management (AUM) growth of +19% and good underlying funds management earnings growth, which drove a +4% earnings upgrade. The balance sheet is in good shape with zero net debt. CHC continues to have extremely strong access to capital and, importantly, is able to deploy this capital. CHC is exposed to the better-performing asset classes that are seeing required returns compress. Ord Minnett believes the growth outlook remains robust and sees current share price levels as a good buying opportunity. ACCUMULATE. (Published by Ord Minnett)

Cochlear (COH.AX) — Recovery faster than expected, reduce to Sell on valuation

Citi has downgrade COH to SELL on valuation grounds, despite raising FY21–23e EPS forecasts by +29%/+6%/+2% on faster-than-expected recoveries in major markets. While growth is expected to return in developed markets in 2H21, the recovery of emerging markets ex-China (<20% revenue) will likely take some time and will be a drag on revenue growth in the medium term. COH remains in good a position to gain market share in both Cochlear Implants and Acoustics/BAHA. Longer-term, earnings growth will be dependent on market growth — Citi expects COH to reinvest in expanding the market and maintain a net profit margin of ~18%. The mid-point of FY21 underlying net profit guidance of A$225–245m is +8% above the pre-result consensus. COH reinstated profit guidance and its dividend, highlighting confidence in the recovery of surgery volumes. SELL. (Published by Citi)

Goodman Group (GMG.AX) — 1H21 results: Structural tailwinds driving outperformance

GMG's 1H21 EPS was A$0.331, +9% above consensus of A$0.304 and +10% above Citi's estimate of A$0.301, driven primarily by stronger than expected development earnings. As expected, FY21 guidance was upgraded, to +12% EPS growth. New guidance is +1% above consensus, but may again prove to be conservative. Slower investment income growth in the near term is expected to be offset by strength in the management business. BUY. (Published by Citi)

Rio Tinto (RIO.AX) — CY20 result review

RIO reported CY20 operating earnings (EBITDA) of US$23.9b and a net profit of US$12.4b, in line with Ord Minnett's forecast. The full-year dividend of US$5.57ps was above Ord Minnett's US$5.28ps estimate and +16% above consensus of US$4.80ps, representing a 72% payout ratio. CY21/22 capital expenditure guidance rose +US$0.5bn to US$7.5bn on a higher AUD, while iron ore costs rose US$2/t due to AUD and depletion replacement tie-ins (up only +1% in AUD terms). RIO remains one of Ord Minnett's key sector preferences based on valuation, strong returns and a favourable global growth outlook. BUY. (Published by Ord Minnett)

Santos (STO.AX) — CY20 result review

STO reported a CY20 underlying net profit of US$287m, down -60% on CY19 but within 1–2% of Ord Minnett's estimate and consensus. A final dividend of 5cps was declared, for a full-year payout of 7.1cps. This represents 20% of free cash flow, in line with STO's target payout range of 10–30%. The reported financials were in line with expectations, although the result largely reflected last year's weak pricing environment. Nonetheless, there were some positives, with management appearing to control costs, and growth projects remaining on track. Furthermore, STO offers a far more diverse product suite and asset base than peers. ACCUMULATE (downgraded from BUY). (Published by Ord Minnett)

Sonic Healthcare (SHL.AX) — Covid dominated result beats, base business back to normal

Citi raised its FY21/22/23 EPS forecasts for SHL by +4%/+7%/-7%, reflecting the better than expected 1H21 result and lower interest costs, partially offset by the appreciation of the AUD. As a result of elevated pandemic earnings the balance sheet is under-geared (Net Debt/EBITDA is now 1.0x, the lowest in years) and the company is actively seeking acquisition opportunities. High volumes of COVID-19 testing for longer remains a key upside risk, although it is impossible to forecast given the variables (new variants/outbreaks, pace of vaccination) across eight markets. A strong 2H result is expected based on the revenue growth trend in January and February to-date. Management did not give FY21 guidance due to COVID-19 uncertainties. A strong rebound in the base business revenue and profitability is expected in 2H21 due to the significant impact lockdowns had in 2H20. BUY. (Published by Citi)

Treasury Wine Estates (TWE.AX) — First-half FY21 result review, upgrade to Accumulate

TWE reported a first-half FY21 underlying net profit of A$175.3m, down -23.5% on the same period last year, above Ord Minnett's A$168.3m forecast. Earnings before interest, tax and revaluations of vines (EBITS) also came in better than Ord Minnett's estimates in Australia and New Zealand, Asia and Europe, Middle East and Africa (EMEA), but below in the Americas. A fully franked interim dividend of 15cps was announced, slightly above Ord Minnett's forecast. ACCUMULATE (upgraded from LIGHTEN). (Published by Ord Minnett)

International

Applied Materials (AMAT.O) — WFE & 2H21 Outlook Stronger than Peers; Investor Day is the Next Catalyst; Remain Buy-Rated

AMAT reported a "beat and raise" result. Management expects 2021 wafer fabrication equipment (WFE) sales to be >US$70b (Citi US$71b) with DRAM investments to outgrow NAND in 2021. Management also expects strong foundry/logic spending to continue. Domestic China WFE is expected to be a few billion dollars higher than CY20. Moreover, the company expects 2H21 sales to be higher for all three segments on balanced end market mix, which is in contrast to peers' "flat to down" expectations for the second half of this calendar year. The 6 April investor day is the next catalyst for the stock. Citi views AMAT as a key beneficiary of both the "logic node wars" and the "3D devices" secular themes highlighted in Citi's Semiconductor Equipment 2021 Playbook. BUY. (Published by Citi)

Salesforce (CRM.N) — CRM Demand Still Sounds Healthy

Over the last few weeks UBS spoke with 8 CRM partners and customers for colour on momentum in the January quarter to be reported on Friday (NZT). Net, overall demand for CRM software and for CRM remains strong, with almost every large partner saying that front-office/CRM projects remain a higher priority than back-office/ERP projects. Coupled with still-mixed investor sentiment, UBS believes that the risk-reward for CRM shares is positive heading into the upcoming result. BUY. (Published by UBS)

Calendar

Figure 3. Calendar

Date	New Zealand	Australia	International
22-Feb	Chorus 1H21	Senex Energy 1H21	EU: German IFO Business Climate Index (Jan)
	Freightways 1H21	Ampol FY20	
	Property for Industry FY20	Lendlease 1H21	
23-Feb	Retail Sales (4Q)	APA Group 1H21	JP: Emperor's Birthday
	Tower Insurance AGM	Seek 1H21	UK: Average Earnings Index + bonus
	Mercury 1H21	Spark Infrastructure FY20	UK: Claimant Count Change (Jan)
	PGG Wrightson 1H21	Worley 1H21	EU: ECB President Lagarde Speaks
	Sky Television 1H21		EU: CPI (Jan)
	Summerset FY20		Berkshire Hathaway 4Q21
	Vector 1H21		Intuit 2Q21
			Palo Alto Networks 2Q21
			Republic Services 4Q20
24-Feb	RBNZ Interest Rate Decision	Construction Work Done (4Q)	US: Fed Chair Powell Testifies
	RBNZ Monetary Policy Statement	Wage Price Index (4Q)	US: CB Consumer Confidence (Feb)
	Delegat Wines 1H21	Scentre Group FY20	EU: German GDP (4Q)
	Meridian Energy 1H21	Appen FY20	American Tower 4Q20
	Michael Hill International 1H21	Invocare FY20	Home Depot 1Q21
	Spark 1H21	Steadfast Group 1H21	Medtronic 3Q21
	Steel and Tube 1H21	Sydney Airport FY20	Salesforce.com 4Q21
		Viva Energy FY20	
		Woolworths Group 1H21	
25-Feb	ANZ Business Confidence (Feb)	Private New Capital Expenditure (4Q)	US: New Home Sales (Jan)
	NBNZ Own Activity (Feb)	Building Capital Expenditure (4Q)	US: Crude Oil Inventories
	Air New Zealand 1H21	Afterpay 1H21	Bayer FY20
	The a2 Milk Company 1H21	Flight Centre 1H21	
	Comvita 1H21	Qube Holdings 1H21	
	Genesis Energy 1H21	Ramsay Healthcare 1H21	
	Precinct Properties 1H21		
	Vital Healthcare Properties 1H21		
26-Feb	Trade Balance (Jan)	Construction Work Done	US: Core Durable Goods Orders (Jan)
	Exports & Imports (Jan)	Housing Credit (Jan)	US: GDP (4Q)
		Private Sector Credit (Jan)	US: Initial Jobless Claims
		NextDC 1H21	US: Pending Home Sales (Jan)
		Northern Star Resources 1H21	
27-Feb	CFTC NZD Speculative Net Positions	CFTC AUD Speculative Net Positions	US: Federal Budget

Source: Forsyth Barr analysis

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