

Equity Strategy

Alert to Fewer Restrictions

ANDY BOWLEY

 andy.bowley@forsythbarr.co.nz
 +64 4 495 8246

MATTHEW LEACH

 matthew.leach@forsythbarr.co.nz
 +64 4 495 1324

FORSYTH BARR RESEARCH TEAM

 fb.research@forsythbarr.co.nz
 +64 4 499 7464

With COVID-19 cases slowly dissipating in NZ the investor mindset is moving towards a post lock-down world, despite no definitive timing from the government as to when the country will shift from Alert Level 4 to 3, or lower. Lock-down, or Alert Level 4, has had a profound impact on businesses and consumers. As the country moves to less acute restrictions on daily life, the impact on business activity will be stepped increments. The final step from Alert Level 1 to no alert could be long dated, meaning borders remain closed for an extended period of time. In tandem with this, the economic consequence of business failures, particularly in the travel, tourism and hospitality sectors, will be rising unemployment, which will likely have a prolonged impact on the ultimate recovery slope. Our portfolio positioning, therefore, continues to centre on defensive names with secure yields. However, we also recognise that opportunities among beaten up companies heavily impacted by COVID-19 will emerge. The upcoming business activity injections will provide some positive company initiated newsflow for the first time in weeks. Companies that are due to benefit most from a shift from Alert Level 4 to 3 under our interpretation of the key differences include Fletcher Building (FBU), The Warehouse (WHS), and Restaurant Brands (RBD).

Alert Level winners

Our analysis of company exposures to alert level changes suggest the biggest winners will be during (1) the shift to Alert Level 3 – building sector players FBU, Metro Performance Glass (MPG) and Steel & Tube (STU) and selected retailers; and (2) the shift from Alert Level 1 to no alert – Transport and Tourism players Auckland Airport (AIA), Air New Zealand (AIR) and Tourism Holdings (THL). Between Alert Levels 3 and 1 many companies will benefit to a broadly similar extent.

Figure 1. Our analysis of Alert Level winners

Alert Level 4 to 3		Alert Level 3 to 2		Alert Level 2 to 1		Alert Level 1 to no alert	
Fletcher Building	7	Abano Healthcare	6	SKYCITY	4	Auckland Airport	8
Metro Performance Glass	7	Briscoe Group	3	Z Energy	2	Air New Zealand	6
Steel & Tube Holdings	7	Freightways	3	Metlifecare	2	Tourism Holdings	6
The Warehouse Group	6	Kathmandu Holdings	3	Summerset Group	2	Refining NZ	5
Restaurant Brands NZ	4	Michael Hill Intl	3	Comvita	2	NZME	3

Source: Forsyth Barr analysis. NOTE: refer to Figure 2 for full analysis. Numbers represents change in company exposure to COVID-19 between each alert level.

Greater definition on alert scale this week

The New Zealand government is due to provide detailed guidance on what Alert Level 3 will look like, on Thursday 16 April. In the meantime, we assume that the general requirements at each level will remain similar to the definitions provided on the way into lock-down, albeit it is very unclear as to what will and won't be allowed at each Alert Level. In broad terms we expect a shift to Alert Level 3 will ease many of the restrictions currently being placed on businesses, however, those sectors that are either exposed to aviation, older demographics, or physical distancing, will continue to be challenged.

Wide range of potential economic impacts, highly dependent on timeframes at each Alert Level

The New Zealand Treasury's scenarios on the economic impact of COVID-19, that were published yesterday, estimate that unemployment will rise to at least 13% over the next 3–6 months, without any further government stimulus beyond the ~NZ\$20bn already announced. The range of potential economic outcomes is very wide, reflecting the high level of uncertainty at all levels in relation to how COVID-19 unfolds and what further stimulus is provided. Treasury assumes that Alert Level 1 reduces output by 5–10% from normal; Alert Level 2 by 10–15%; Alert Level 3 by 25%; and Alert Level 4 by 40%.

Shifting down the Alert Levels

We show in Figure 2 our interpretation of the exposure that each New Zealand company in our coverage universe has to the domestic alert system. The analysis where possible is based principally on each company's New Zealand business, given the alert system is only relevant to New Zealand.

Figure 2. Our analysis of company exposures to each Alert Level in New Zealand

	Company exposure (10 - massive/little revenue/loss making, 0 no impact or benefit). Excludes cyclical economic impact on each company.					Key beneficiaries (numerical difference between each alert level)			
	Level 4	Level 3	Level 2	Level 1	No alert	Level 4 to 3	Level 3 to 2	Level 2 to 1	Level 1 to none
Fletcher Building	10	3	2	1	0	7	1	1	1
Metro Performance Glass	10	3	2	1	0	7	1	1	1
Steel & Tube Holdings	10	3	2	1	0	7	1	1	1
The Warehouse Group	10	4	2	1	0	6	2	1	1
Restaurant Brands NZ	10	6	3	2	0	4	3	1	2
Briscoe Group	10	7	4	2	0	3	3	2	2
Kathmandu Holdings	10	7	4	2	0	3	3	2	2
Freightways	7	4	1	0	0	3	3	1	0
Mainfreight	6	3	1	0	0	3	2	1	0
Napier Port	5	2	0	0	0	3	2	0	0
Port of Tauranga	5	2	0	0	0	3	2	0	0
Michael Hill Intl	10	8	5	2	0	2	3	3	2
Z Energy	8	6	4	2	0	2	2	2	2
NZME	8	7	4	3	0	1	3	1	3
Asset Plus	5	4	2	0	0	1	2	2	0
Kiwi Property Group	5	4	2	1	0	1	2	1	1
Stride Property	5	4	2	1	0	1	2	1	1
Metlifecare	4	3	2	0	0	1	1	2	0
Summerset Group	4	3	2	0	0	1	1	2	0
Argosy Property	3	2	1	0	0	1	1	1	0
Precinct Properties NZ	3	2	1	0	0	1	1	1	0
Gentrack	2	1	0	0	0	1	1	0	0
Vector	2	1	0	0	0	1	1	0	0
Contact Energy	2	1	1	0	0	1	0	1	0
Genesis Energy	2	1	1	0	0	1	0	1	0
Mercury	2	1	1	0	0	1	0	1	0
Meridian Energy	2	1	1	0	0	1	0	1	0
Property For Industry	2	1	1	0	0	1	0	1	0
Trustpower	2	1	1	0	0	1	0	1	0
Spark NZ	2	1	1	1	0	1	0	0	1
Investore	1	0	0	0	0	1	0	0	0
Tilt Renewables	1	0	0	0	0	1	0	0	0
Abano Healthcare Group	10	10	4	2	0	0	6	2	2
SKYCITY	10	10	7	3	0	0	3	4	3
Tourism Holdings	10	10	7	6	0	0	3	1	6
Air New Zealand	10	10	8	6	0	0	2	2	6
Sky TV	6	6	4	2	0	0	2	2	2
NZ King Salmon	5	5	3	2	0	0	2	1	2
Sanford	4	4	2	1	0	0	2	1	1
Infratil	4	4	2	1	0	0	2	1	1
PGG Wrightson	3	3	1	0	0	0	2	1	0
Comvita	3	3	2	0	0	0	1	2	0
Refining NZ	7	7	6	5	0	0	1	1	5
Arvida Group Limited	2	2	1	0	0	0	1	1	0
Augusta Capital	2	2	1	0	0	0	1	1	0
Delegat Group	2	2	1	0	0	0	1	1	0
Goodman Property Trust	2	2	1	0	0	0	1	1	0
Oceania Healthcare	2	2	1	0	0	0	1	1	0
Ryman Healthcare	2	2	1	0	0	0	1	1	0
Auckland Airport	9	9	9	8	0	0	0	1	8
Skellerup Holdings	2	2	2	1	0	0	0	1	1
EBOS Group	1	1	1	0	0	0	0	1	0
Fonterra	1	1	1	0	0	0	0	1	0
Scales	1	1	1	0	0	0	0	1	0
Synlait Milk	1	1	1	0	0	0	0	1	0
Vital Healthcare	1	1	1	0	0	0	0	1	0
Chorus	0	0	0	0	0	0	0	0	0
F&P Healthcare	0	0	0	0	0	0	0	0	0
NZX	0	0	0	0	0	0	0	0	0
Pacific Edge	0	0	0	0	0	0	0	0	0
The a2 Milk Company	0	0	0	0	0	0	0	0	0

Source: Forsyth Barr analysis NOTE: In this table we only consider the New Zealand operations for each company.

The Alert Levels

The New Zealand government introduced a COVID-19 alert system to the public on 21 March 2020, the day it entered Alert Level 2. Three days later the country entered Alert Level 3, and two days after that, Alert Level 4. We expect the retreat back through the Alert Levels to take considerably longer as the government appears intent on eliminating COVID-19 from New Zealand.

While we don't have any superior insight as to when the Alert Levels will change we assume the following timeframes will apply to Alert Level changes from today:

- Alert Level 4 to 3: one to four weeks
- Alert Level 3 to 2: one to four months
- Alert Level 2 to 1: three to six months
- Alert Level 1 to no alert: six months to two years

Admittedly and unashamedly the ranges of these timeframes are wide, which reflects the level of uncertainty still posed by COVID-19 and our government's response to eliminating it from New Zealand.

Figure 3. NZ Government Alert Levels

LEVEL	RISK ASSESSMENT	RANGE OF MEASURES (can be applied locally or nationally)
Level 4 - Eliminate Likely that disease is not contained	<ul style="list-style-type: none"> • Sustained and intensive transmission • Widespread outbreaks 	<ul style="list-style-type: none"> • People instructed to stay at home • Educational facilities closed • Businesses closed except for essential services (e.g. supermarkets, pharmacies, clinics) and lifeline utilities • Rationing of supplies and requisitioning of facilities • Travel severely limited • Major reprioritisation of healthcare services
Level 3 - Restrict Heightened risk that disease is not contained	<ul style="list-style-type: none"> • Community transmission occurring OR • Multiple clusters break out 	<ul style="list-style-type: none"> • Travel in areas with clusters or community transmission limited • Affected educational facilities closed • Mass gatherings cancelled • Public venues closed (e.g. libraries, museums, cinemas, food courts, gyms, pools, amusement parks) • Alternative ways of working required and some non-essential businesses should close • Non face-to-face primary care consultations • Non acute (elective) services and procedures in hospitals deferred and healthcare staff reprioritised
Level 2 - Reduce Disease is contained, but risks of community transmission growing	<ul style="list-style-type: none"> • High risk of importing COVID-19 OR • Uptick in imported cases OR • Uptick in household transmission OR • Single or isolated cluster outbreak 	<ul style="list-style-type: none"> • Entry border measures maximised • Further restrictions on mass gatherings • Physical distancing on public transport (e.g. leave the seat next to you empty if you can) • Limit non-essential travel around New Zealand • Employers start alternative ways of working if possible (e.g. remote working, shift-based working, physical distancing within the workplace, staggering meal breaks, flexible leave arrangements) • Business continuity plans activated • High-risk people advised to remain at home (e.g. those over 70 or those with other existing medical conditions)
Level 1 - Prepare Disease is contained	<ul style="list-style-type: none"> • Heightened risk of importing COVID-19 OR • Sporadic imported cases OR • Isolated household transmission associated with imported cases 	<ul style="list-style-type: none"> • Border entry measures to minimise risk of importing COVID-19 cases applied • Contact tracing • Stringent self-isolation and quarantine • Intensive testing for COVID-19 • Physical distancing encouraged • Mass gatherings over 500 cancelled • Stay home if you're sick, report flu-like symptoms • Wash and dry hands, cough into elbow, don't touch your face

Source: Forsyth Barr analysis

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Advisor. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisors are available on request and free of charge.

Disclosure: Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("**Forsyth Barr**") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Forsyth Barr confirms no inducement has been accepted from the researched entity, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication.

Analyst Disclosure Statement: In preparing this publication the analyst(s) may or may not have a threshold interest in the financial products referred to in this publication. For these purposes a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the entity being researched.

Disclaimer: This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.