

# Equity Strategy

## Relaxing Restrictions; Looking to Alert Level 2

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COVID-19 data points remain encouraging for New Zealand and the government has just provided clearer guidelines on Alert Level 2, which appear less restrictive than we initially envisaged (and prior guidance), albeit no definitive timeline on when that shift may occur. The key area of relaxation is to permit domestic travel — providing a unique window of opportunity for New Zealanders to explore their backyard without international tourists. COVID-19 and government restrictions has had material economic implications, particularly for any business exposed to international tourism with borders likely to remain closed for an extended period of time. Nonetheless, the current trajectory of the virus is encouraging for a faster progression through the Alert Levels than we had previously expected. The post COVID-19 world will be subject to lower growth and low interest rates, in our opinion, which will create scarcity value among higher quality income and growth companies — this is reflected in our portfolio positioning. Companies under our coverage that we expect to benefit most from a shift from Alert Level 3 to 2 are Abano Healthcare (ABA) and the non-food retailers including Michael Hill (MHJ), The Warehouse Group (WHS), Briscoe Group (BGP) and Kathmandu (KMD).

**Looking to Level 2 "a safer version of normal" — guidance becoming clearer, consumer behaviour still the unknown**

Alert Level 2 will see most businesses re-open, albeit with meaningful restrictions. It will see bubbles dissolve, schools re-open, domestic travel recommence and the return of a range of social opportunities (shopping, eating out, sport, public places). However, restrictions around physical distancing, gathering numbers and health & safety measures will likely increase business costs. While the guidelines are much clearer, consumer behaviour is not. There is likely to be some level of pent up demand on re-opening, at least initially (evidenced by the rush to takeaways on re-opening during Level 3), while the consequences of lock-down (actual or perceived risk of business failures, salary reductions, job losses) and consumer caution will have a meaningful impact on the recovery slope.

**Decision due Monday 11 May**

The New Zealand government is due to review whether we are ready to move to Alert Level 2 on Monday 11 May. It has been indicated there will be 48 hours notice, hence, the earliest first full day of Alert Level 2 is Thursday 14 May. A phased entry also hasn't been ruled out. If NZ moves to Level 2 next week it will mean we are tracking broadly to Treasury's best case scenario for economic recovery (one month at Level 4, one month at Level 3 and then 10 months at either Level 1 or 2), detailed in mid April.

**Alert Level winners under our coverage for each remaining change**

- Alert Level 3 to 2: Key beneficiaries are consumer facing companies given the re-opening of stores, malls and dental practices, albeit with meaningful restrictions. Under our coverage this includes ABA and non-food retailers (BGP, KMD, MHJ, WHS).
- Alert Level 2 to 1: An expected removal of restrictions and lower risk perception should most benefit casino and hospitality operator, SKYCITY (SKC), and enable materially improved productivity on-site for the building sector.
- Alert Level 1 to 0: A re-opening of borders has a material impact for Transport and Tourism players Auckland Airport (AIA), Air New Zealand (AIR) and Tourism Holdings (THL).

**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
Restaurant Brands NZ <b>8</b>	Abano Healthcare Group <b>8</b>	SKYCITY <b>4</b>	Auckland Airport <b>7</b>
Fletcher Building <b>6</b>	Michael Hill Intl <b>7</b>	Fletcher Building <b>4</b>	Air New Zealand <b>6</b>
Metro Performance Glass <b>6</b>	The Warehouse Group <b>6</b>	Metro Performance Glass <b>4</b>	Tourism Holdings <b>6</b>
Steel & Tube Holdings <b>6</b>	Briscoe Group <b>6</b>	Steel & Tube Holdings <b>4</b>	Refining NZ <b>5</b>
	Kathmandu Holdings <b>6</b>		

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.

## 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
Air New Zealand	10	10	7	6	0	0	3	1	6
Tourism Holdings	10	10	7	6	0	0	3	1	6
SKYCITY	10	10	6	2	0	0	4	4	2
Abano Healthcare Group	10	10	2	0	0	0	8	2	0
Michael Hill Intl	10	9	2	0	0	1	7	2	0
Kathmandu Holdings	10	8	2	0	0	2	6	2	0
The Warehouse Group	10	8	2	0	0	2	6	2	0
Briscoe Group	10	8	2	0	0	2	6	2	0
Fletcher Building	10	4	4	0	0	6	0	4	0
Metro Performance Glass	10	4	4	0	0	6	0	4	0
Steel & Tube Holdings	10	4	4	0	0	6	0	4	0
Restaurant Brands NZ	10	2	1	0	0	8	1	1	0
Auckland Airport	9	9	8	7	0	0	1	1	7
NZME	8	7	2	2	0	1	5	0	2
Z Energy	8	6	3	2	0	2	3	1	2
Refining NZ	7	7	6	5	0	0	1	1	5
Freightways	7	4	1	0	0	3	3	1	0
Sky TV	6	6	4	2	0	0	2	2	2
Mainfreight	6	3	1	0	0	3	2	1	0
NZ King Salmon	5	5	3	0	0	0	2	3	0
Asset Plus	5	4	2	0	0	1	2	2	0
Kiwi Property Group	5	4	2	0	0	1	2	2	0
Stride Property	5	4	2	0	0	1	2	2	0
Napier Port	5	2	0	0	0	3	2	0	0
Port of Tauranga	5	2	0	0	0	3	2	0	0
Infratil	4	4	2	1	0	0	2	1	1
Sanford	4	4	2	0	0	0	2	2	0
Metlifecare	4	3	2	0	0	1	1	2	0
Summerset Group	4	3	2	0	0	1	1	2	0
Comvita	3	3	1	0	0	0	2	1	0
PGG Wrightson	3	3	1	0	0	0	2	1	0
Argosy Property	3	2	1	0	0	1	1	1	0
Precinct Properties NZ	3	2	1	0	0	1	1	1	0
Spark NZ	2	2	1	1	0	0	1	0	1
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
Skellerup Holdings	2	2	1	0	0	0	1	1	0
Vital Healthcare	2	2	0	0	0	0	2	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
Gentrack	2	1	0	0	0	1	1	0	0
Vector	2	1	0	0	0	1	1	0	0
Fonterra	1	1	1	0	0	0	0	1	0
Scales	1	1	1	0	0	0	0	1	0
EBOS Group	1	1	0	0	0	0	1	0	0
Synlait Milk	1	1	0	0	0	0	1	0	0
Investore	1	0	0	0	0	1	0	0	0
Tilt Renewables	1	0	0	0	0	1	0	0	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 first 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.

The progression to lower Alert Levels is likely to be a difficult balancing act between public health, political and economic decisions. Assuming NZ's transmission rate (reproductive rate or R0) remains below one for the remainder of Alert Level 3 then we expect a relatively quick progression to Alert Level 2 – our base case had assumed three weeks at Level 3 (to 18 May inclusive). There is potential it is slightly faster, although a staged progression may see an intermediary step and a slightly longer timeline. When the move might be from Alert Level 2 to 1 (and 0) is less certain and will likely be driven by (1) how long it takes for a period of zero transmission, or (2) a robust contact tracing approach. The current trajectory of the virus is encouraging for a shorter duration than we had previously estimated.

**Figure 3. New Zealand Government Alert Levels**

Alert Level	Snapshot	Entered	Duration (days)
Level 4 - Lockdown	Likely disease is not contained	26/03/2020	33
Level 3 - Restrict	High risk disease is not contained	28/04/2020	?
Level 2 - Reduce	Disease contained, but risk of community transmission remains	?	?
Level 1 - Prepare	Disease is contained in NZ	?	?

Source: Forsyth Barr analysis, COVID19.govt.nz

### Revised Alert Level 2 guidance is a little less restrictive than prior indications

Figure 5 highlights the key changes in guidance for Alert Level 2 since initial insights were provided. The key area of relaxation is to permit more activity outside of the home, including domestic travel.

**Figure 4. Key changes to Alert Level 2 guidance (7 May vs 20 April)**

Guidelines	Prior – as at 20 April 2020	Current – as at 7 May 2020
Gatherings	Gatherings of up to 500 allowed outdoors and up to 100 indoors	Gatherings only allowed for up to 100 people indoors or outdoors
Public health measures	People should keep 2m apart in all settings outside the home	People should keep their distance (ideally 2m) from people they don't know in public, with 1m distancing in other environments
	Stay at home where possible	Leave home, but in a safe way
Domestic travel	People advised to avoid non-essential inter-regional travel	You can travel, but do it in a safe way
Education	Tertiary education, schools and early learning centres <u>can</u> open	Tertiary education, schools and early learning centres <u>will</u> open

Source: Forsyth Barr analysis, COVID19.govt.nz

### New Zealand current COVID-19 status

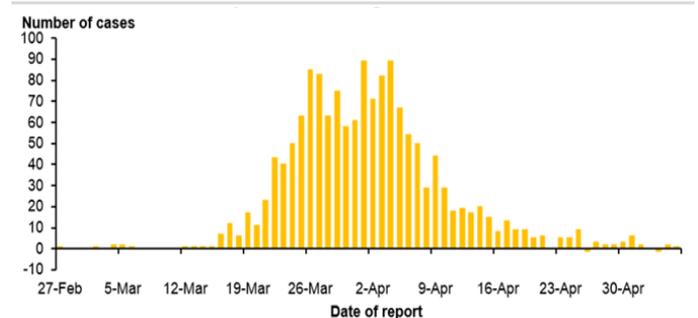
New Zealand COVID-19 cases have diminished materially, including two days of 0 new cases. Almost 90% of our cases have also now recovered. Refer Figure 6 and 7 for more detail.

**Figure 5. New Zealand COVID-19 status – 7 May 2020**



Source: Forsyth Barr analysis, Ministry of Health

**Figure 6. Daily confirmed and probable COVID-19 cases in NZ**



Source: Forsyth Barr analysis, Ministry of Health

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