

Wealth Weekly

What's Up With Oil?

WEALTH MANAGEMENT RESEARCH

wmr@forsythbarr.co.nz

+64 4 499 7464

A couple of down days in equity markets early last week hinted at remnants of investor concern about the outlook, especially after the unprecedented drop of a benchmark oil price into negative territory, but the pessimism didn't last. Corporate results have been barely denting the rebound, especially where stocks had already sold off ahead of earnings. It remains to be seen how markets will react if countries face a second wave of COVID-19 infections after economies gradually reopen over the coming weeks.

When black gold lost its lustre

The unthinkable happened in the oil market early last week when the price of a crude oil futures contract fell deep into the red. Technical factors were partly to blame, but the price move also highlighted the pressures of oversupply relative to exceptionally weak demand. **Historically, very low oil prices have been followed by strong rebounds after producers cut output and demand recovers.** Last week's price action illustrates that investing directly in securities linked to oil prices is tricky for private investors. Equities of energy producers provide a more accessible indirect exposure to an eventual recovery in the oil sector.

Our preferred way to gain exposure to an almost inevitable recovery in the oil price is through the ASX-listed large cap companies with strong balance sheets and diversified revenue streams, such as **BHP** and **Origin Energy**. However, for those looking for a more pure oil exposure, we recommend **Santos** among the large caps and **Senex** among the small caps.

Domestically, **Z Energy** is facing its toughest operating environment ever. Lockdown fuel volumes are materially down. However, retail margins are up materially because of low crude oil prices, helping offset the volume declines. The impact of lower fuel volumes and refining margins on Z Energy's earnings is likely to be at least partly offset by cost cuts. The company could still come close to hitting a debt covenant. Longer-term, ZEL has a strong market position.

Themes of the week

Fixed interest investors are sitting in something of a doctor's waiting room as they anticipate diagnostic test results on the financial state of several bond issuers. **The uncertain duration and impact of the pandemic containment measures on earnings of companies like Z Energy and SKYCITY make it hard to know how they will fare** when the companies report earnings and their debt covenants are put to the test. Bond holders shouldn't get too worried about the pending diagnosis though, because it's the equity holders who should get the amputation if the prognosis demands it. Both companies have valuable assets and strong market positions, which should enable them to raise equity capital if the board expects a covenant breach to occur.

Equity investors are focussing on the numerous positives for the market: massive fiscal and monetary stimulus, falling infection rates, and relatively attractive dividend yields compared to bond yields. The main negative factor in the outlook is the uncertainty about how long it will take for economies to reopen and for economic activity to return to normal. Commentators point to the likelihood of second and third waves of infection, which raises the possibility of deeper, longer-lasting economic impacts. Whatever happens, ecommerce companies will likely be among the long-term winners from shifts in consumer behaviour.

Looking ahead

Management commentary alongside earnings releases will remain of interest this week. We expect earnings reports from **Alphabet, Amazon, Microsoft, ANZ, Origin Energy, ResMed** and **Apple**. Capital raisings are continuing, with **Qube Holdings** and **National Australia Bank** among the latest companies to tap their shareholders for a top-up of cash.

When Black Gold Lost its Lustre

Early last week the price of US West Texas Intermediate crude oil futures contracts for delivery in May went deep into negative territory – as low as -US\$45/barrel. Unfortunately, that doesn't mean petrol pumps will soon be crediting your card as you fill up the tank. The price soon recovered back into the low teens. Other benchmark oil futures prices dropped a bit too, but not nearly as much. How can a commodity price go negative? And how can you play the rebound?

How we got here

Weak demand coincided with a price war

In January, China's pandemic containment measures had weakened global demand and prices for oil.

In early March, possibly in retaliation for new US sanctions on Russian government-controlled oil company Rosneft, Russia decided it was time to once again humble the US shale oil industry, which has a relatively high breakeven cost of production. The country refused to play along with OPEC's oil price cuts, which prompted Saudi Arabia to open the spigots and discount prices. An oil price war ensued, with prices plunging.

The increase in supply from OPEC+ was to soon coincide with an even more dramatic reduction in oil demand caused by the measures many countries took to limit the spread of COVID-19, which drastically curtailed vehicle and aircraft travel.

In early April OPEC, Russia and even the US agreed to cut oil supply in May and June by 15m barrels per day. The supply cuts will then taper off gradually. But **analysts believe that even if all producers stick to the supply cuts they've agreed to, these reductions are only a third to half the magnitude needed to bring supply into equilibrium with demand.**

In the meantime, oil tanks are filling up, refineries aren't processing as much crude as they usually do, and full tanker ships are sitting idle off of coasts unable to unload their cargoes into refineries. **The supply chain, some analysts say, is heading for bursting point by late May.**

When speculators meet the real economy, he or she who controls the hardware can dictate the terms

How can a commodity price go negative?

With oil prices having reached low levels by historical standards, a lot of institutional and retail investors in recent months thought it would be a good idea to speculate on oil prices recovering. History suggests that wouldn't be a bad bet if you could implement it well, but it's harder to do than it may seem. One way investors have tried is to buy crude oil futures contracts, or commodity funds like USO.N or OOO.AX that invest in such futures. Futures contracts are standardised, exchange-traded agreements to deliver or take a certain amount of a particular grade of oil at a date and place in the future. Futures expire, and before they do the holders roll them over into newer futures. The current structure of the futures curve already prices in oil price rises over the coming months, which means investors lose money at each rollover (although that's incidental to this story).

Some futures, like NYMEX's West Texas Intermediate (WTI) crude futures, are settled with physical oil; that is, if you hold the contract when it expires, you have to pay dollars and receive oil. The WTI futures contracts, with a May 2020 delivery date, were set to expire last Tuesday. Heading towards the expiry date, the speculators and fund managers had a choice to make:

- Buy the opposing (delivery) side of the contract to cancel out their need to take delivery of oil.
- Secure some oil storage capacity in Cushing, Oklahoma – a transshipment point with lots of tanks and pipelines flowing into and out of them.
- Sell the futures to someone with storage.

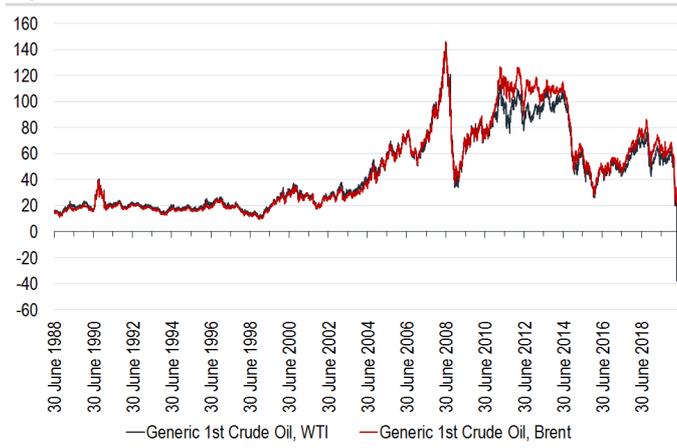
What happened next isn't totally clear. Probably because there had been more demand to speculate on rising prices than falling ones, there weren't enough offsetting contracts available to buy to close out the open contracts.

The storage owners – knowing this contract expiry was coming and with storage filling up fast because of high oil supply and low oil demand – could set the prices for storage at whatever level they pleased.

Physical traders couldn't access storage at reasonable prices and so couldn't buy the open contracts. That forced the sellers to keep lowering their offer prices. **With oil storage prices higher than oil prices, it became worthwhile for holders of futures to pay buyers with storage to take the futures (which would soon convert into barrels of oil) off their hands.**

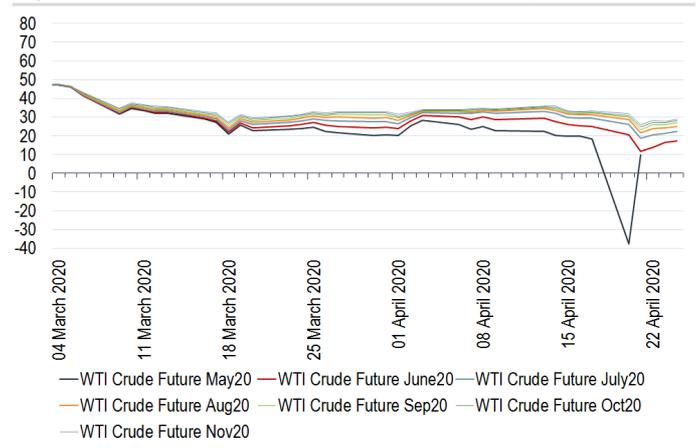
Consequently, the WTI crude futures price went negative, as low as -US\$45/barrel on Monday, the day before the contracts expired. The WTI contract for June delivery ended the day at US\$20.43/barrel but in subsequent days fell as low as \$10/barrel before recovering. The prices of Brent crude futures, which don't have physical settlement, fell too, but only to US\$25.57/barrel on the day, although they also touched below US\$20 in subsequent days.

Figure 1. Oil prices, 1988–2020 (WTI & Brent, US\$/barrel)



Source: Bloomberg

Figure 2. WTI oil futures, March – April 2020 (US\$/barrel)



Source: Bloomberg

Where to from here?

The current combination of plentiful supply and an unprecedented collapse in short-term demand for oil is unusual. **Historically, significant price declines have been followed by supply cuts, normalisation of demand and bounces in prices.**

We don't know for sure if or when storage capacity will fill up. Supply will adjust downwards as the highest-cost producers slowly react to lower prices. US shale producers will idle their rigs at least temporarily; some with too much debt may go broke and others will delay capex to conserve cash. Trump has ordered the US Administration to buy oil for the US's strategic reserve, and promised government bailouts to keep the US industry afloat. On one hand such support will slow down the pace of a downward adjustment in supply, keeping prices low for longer. On the other hand it might bluff OPEC+ into believing its attempt to bury the US shale industry will prove fruitless, which might prompt the cartel to capitulate and agree to further supply cuts in an attempt to bolster prices again.

We also don't know how quickly pandemic-induced demand constraints will end, but we know that they will eventually. As life returns to normal, so will (unfortunately) the burning of oil.

The supply pendulum usually swings too far in both directions, and demand has always recovered. As they say, this time is almost never different.

Australian Oil Stocks – More than one way to play

Our preferred way to gain exposure to an inevitable recovery in the oil price is through the ASX-listed large cap companies with strong balance sheets and diversified revenue streams, such as **BHP** and **Origin Energy**. However, for those looking for a more pure oil exposure, we recommend **Santos** among the large caps and **Senex** among the small caps.

Hybrid Large Caps: Buy BHP & Origin Energy

BHP (BHP): We expect BHP will benefit from an eventual recovery in the oil price and increased Chinese stimulus. BHP has a strong balance sheet, is a low cost producer, and is well positioned to benefit from an increase in infrastructure spending globally (China being the key market). The Chinese Government is expected to deliver infrastructure stimulus in the September quarter of this year, which will likely see an increase in demand for steel products, which is positive for the medium term outlook for iron ore volume and prices (iron ore makes up ~40% of BHP's group revenue).

Origin Energy (ORG): Origin retains a bullet proof balance sheet and provides high quality exposure to oil prices. We believe the reopening of industrial production in China could support a recovery in oil demand. In addition, ORG's defensive electricity/energy assets are generating high free cash flow yields in the current market to help cover the drop in earnings from its LNG assets due to low oil prices. It's worth noting that around 20–30% of ORG's APLNG production gets sold into the domestic market, which is not indexed to oil prices.

Pure plays on the oil price: Large cap Santos, small cap Senex Energy

Santos (STO): STO provides exposure to a mixture of oil and gas, and has balance sheet capacity to fund growth projects. We remain positive on STO's growth prospects in the long term and on management's ability to drive continued operational outperformance. We think the balance sheet is now the strongest among large cap explorers & producers. 35% of STO's oil production is contracted on fixed prices linked to CPI. Even if oil prices remain low for a prolonged period of time, STO has sufficient headroom in debt covenants.

Senex Energy (SXY): SXY continues to deliver on rolling out development wells at Project Atlas, with production levels coming in ahead of expectations. Project Atlas supplies domestic gas, and is contracted at domestic gas prices. Domestic gas prices are not indexed to the oil price, as LNG prices are. It has been a very frustrating year for SXY investors and the recent collapse in oil prices added to the disappointment. However, whilst SXY does have LNG/oil exposure through Roma North & Surat Basin, SXY has forward hedges (15 months) in place at prices substantially higher than current levels. This is a massive positive.

Oil Search (OSH): OSH is Papua New Guinea's largest oil and gas producer, operating all of the country's producing oil and gas fields, as well as holding minor exploration interests abroad. Following the recent capital raise OSH's balance sheet is in reasonable shape but it lacks the capital needed to fund growth projects. Although OSH looks cheap, it is a higher risk exposure and therefore we prefer Santos from an overall risk/reward perspective.

Themes of the Week

Equities

Z Energy (ZEL) – Refining the Outlook

Z Energy (ZEL) is facing its toughest operating environment ever, making the 2Q20 and 3Q20 retail margin collapse look like a walk in the park. Lockdown fuel volumes are down materially. However, the blended provisional petrol/diesel MBIE importer margin is up materially, helping offset the volume declines. We have cut our FY21 EBITDAF forecast to reflect lower fuel volumes and a lower refining margin outlook. Our target price is unchanged at \$4.00 as operating cost cuts boost earnings relative to prior expectations. We also retain our OUTPERFORM rating.

ZEL has a strong market position that will hold it in good stead during the next few months. There is a strong likelihood that some smaller service stations will have to shut, allowing ZEL to gain market share. In addition, ZEL's cost out programme (with details to be revealed at the FY20 result) will leave it in a stronger position post COVID-19.

Lockdown volumes lower than envisaged, but retail margins higher

Lockdown volumes are tracking lower than envisaged when we made our initial COVID-19 forecast changes before the lockdown took effect. Total ZEL volumes are down -71% vs. pre-lockdown volumes, with retail down ~-80% and jet fuel down -76%. However, MBIE retail margins are tracking materially higher, aided by falling crude oil prices. In the first three weeks of April petrol margins are +44% higher than 2H20 at 43.2cpl, a new record.

Revised forecasts reflect weaker volume and gross refining margin outlook, but stronger fuels margin outlook

We have cut our FY20 EBITDAF forecast -\$10m to \$362m, towards the upper end of ZEL's revised \$355m to \$365m guidance range. All of the earnings cut is due to a large \$27m provision, offset by strong retail margins. Our FY21 EBITDAF forecast is down -\$28m (-11%) to \$238m on lower volume and refining margin assumptions, partially offset by higher retail margins and greater cost out. In updating our forecast, we have considered the timing of possible Alert Level changes and volumes at each Alert Level. Whilst our short-term forecasts are down on earlier expectations, there is still a huge amount of uncertainty about the outlook. Volumes, fuel margins and refining margins are likely to be volatile for some time yet.

Debt covenants appear under threat, but ZEL still has time

Our revised forecasts suggest ZEL will get very close to breaching its 3.5x net debt/EBITDAF retail bond covenant. However, 1H21 earnings remain critical, as our analysis also shows that ZEL is unlikely to breach the 3.5x level twice in a row, if it can avoid doing so in 1H21. ZEL, therefore, has time to assess how earnings are tracking in 1Q21 before making a decision on remedial action.

Fixed Interest

Sitting in the 'waiting room'

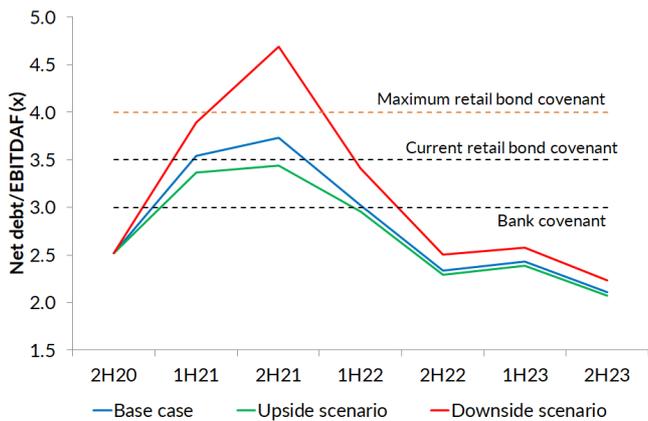
The current state of the financial markets in New Zealand seems to be similar to that of a doctor's waiting room. We have had the initial health scare in COVID-19 and some temporary fixes were applied by companies such as drawing down unused banking facilities or raising (or preparing to) capital. However, like applying a band-aid to a cut leg, many companies are likely to be wondering 'have we done enough?'. With little in the way of new company information likely until reporting season (March balance date companies report in May followed by June balance date companies reporting in August), we enter this quiet period (the doctor's waiting room) as the market tries to assess the medium to longer term impacts of the COVID-19 lockdown. One of the key unknowns will be how companies with debt covenants tied to earnings, such as debt to EBITDA, will fare. What does a breach of these covenants mean? How does it impact the bonds? How would the companies prevent or remedy a breach? We highlight a couple of possible issues below.

Z Energy (ZEL – unrated)

Z Energy (ZEL) has three unrated retail bonds quoted on the NZDX. They have a covenant stated as the total debt divided by the EBITDA (operating earnings) of the ZEL Group. This covenant is tested every six months on 30 September and 31 March (test dates). A breach will occur if the ratio is greater than 3.5x on two consecutive test dates. However, ZEL also has bank debt and debt via the unforgiving United States Private Placement (USPP) market, and whilst we understand the bank covenant is lower at 3.0x we remain

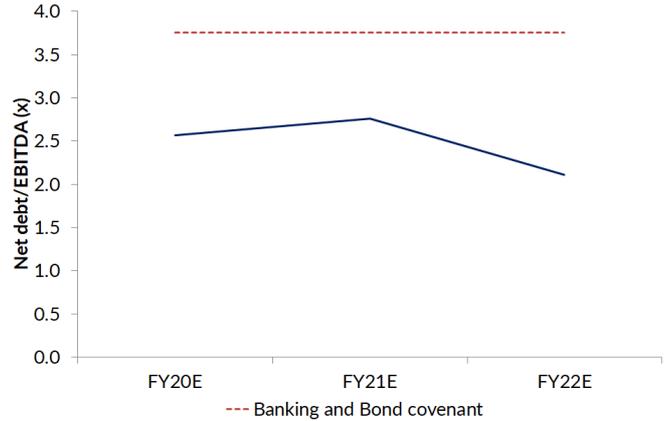
in the dark regarding the USPP covenant. ZEL has the ability to move the bond covenant higher to a maximum of 4.0x if the bank agrees and we would assume that those discussions are likely taking place as we speak. Figure 4 below illustrates the importance of this flexibility given the possible scenarios around the covenant and the unknown track of ZEL's earnings.

Figure 3. ZEL Debt:EBITDAF



Source: Forsyth Barr analysis

Figure 4. SKC Debt:EBITDA



Source: Forsyth Barr analysis

SKC (BBB-)

Another interesting case is SKYCITY Entertainment Group (SKC) which also has a senior bond quoted on the NZDX (SKC040). SKC, unlike ZEL, maintains a BBB- credit rating from S&P but its bond does contain a similar covenant set at 3.75x. SKC also has debt sourced via its banks and the USPP market but does not maintain any flexibility if a breach occurs. The covenant is a hard limit with a breach only having to occur once when it is tested on 30 June and 31 December every year. If a breach was to occur then SKC040 would, in our view, become due and payable. SKC has stated it is well funded at present, with undrawn bank facilities available to remedy any possible early redemption of SKC040 if required.

As in the case of ZEL, SKC's earnings are very difficult to accurately forecast given the uncertainty about the period of lockdown measures and about what rules may apply. Earnings have no doubt taken a hit, but by how much and how long before normality (of some form) returns. We, therefore, caution that our forecasts have a number of assumptions.

In other words, we won't know until we get into the doctor's office and a prognosis is delivered!

Both ZEL and SKC have strong market positions which, if necessary, will enable them to raise equity capital to prevent or remedy a covenant breach. Consequently, if anyone should be quaking in their boots, it's the equity holders more than the bond holders.

Macro Snapshot

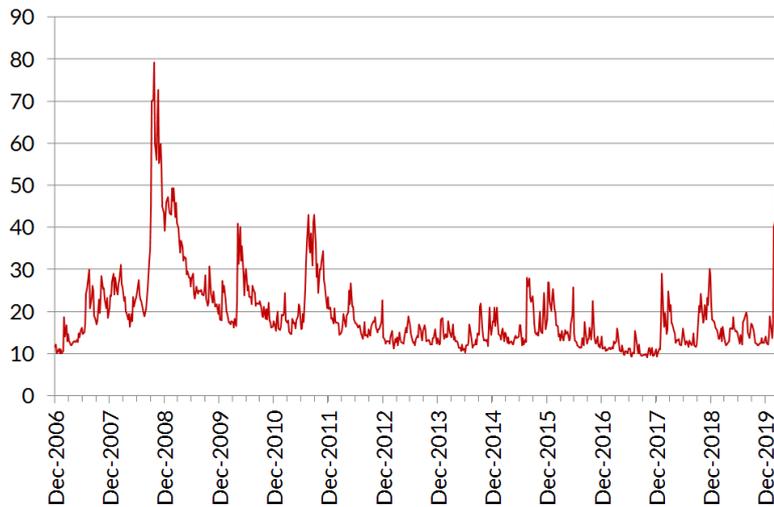
Reasons to vacillate

Volatility in the equity market is still elevated but way off its recent highs. Price action looks to have reverted to trading off daily news while trade volumes are subdued, reflecting a lack of conviction either way.

The positives and negatives around the pandemic, the economy, government and central bank stimulus will continue to offset each other. That will make it very difficult to predict the length and depth of earnings pressures facing companies over the next one or two years.

Our recommended approach is to remain neutral equities overall until confidence emerges one way or the other.

Figure 5. VIX volatility index



Source: Eikon

Several positives for the market

The positive story for the market can be encapsulated in a number of points:

- Central bank and government support packages both have been unprecedented in size and swift in timing
- Market sentiment remains negative, which for contrarians is a positive factor
- COVID-19 infection rates look to have peaked in the major economies
- The market remains forward looking, discounting the short term bad news and pricing in a recovery
- The dividend yield for many companies compared to government bond yields is widening to a multi-year high, despite many companies under pressure to defer/cancel dividend payments

One big negative remains

To offset the positives, the main negative remains the ability of countries to re-open their economies after lockdowns. Even in the US, where public trust in Trump's political handling of the pandemic is lacking, Treasury Secretary Mnuchin doesn't believe the US economy will be fully open until August/September this year.

The problem emerging now is second waves of infections. Singapore has had to institute and extend a hard lockdown following the emergence of disease flare-ups in its migrant worker dormitories. China, which is trying to reopen, is finding pockets of new outbreaks. In Beijing, cinemas and gyms that had been open for two weeks, with very strict controls on attendance numbers and hygiene, have now been closed again as new infections emerge.

This will be the challenge for most economies with businesses facilities reopening but demand remaining subdued due to lack of normal consumer behaviour.

Reports are also rising of studies suggesting that asymptomatic spread of the disease is relatively common. Studies in China and the UK now indicate up to 20% of carriers may be symptom free but still infectious. While this implies many more people may have been infected than previously thought, they are still far too few to speak of any sort of "herd immunity". If correct, this will require widespread and ongoing community testing, as well as very detailed contact tracing, before economies will get up to anything like normal activity.

The big winner: eCommerce

One obvious winner in the current environment is ecommerce. Even the online giant, Amazon, has been caught off-guard by the huge demand and has had to go on a massive hiring spree. Amazon's stock is up +30% this year while the S&P 500 index is down -13%. Despite official retail sales collapsing in most economies, online sales have been surging in sectors as diverse as groceries, alcohol, clothes and furniture. Some sectors have reported 90% of their sales are now being generated by online demand. The pandemic will have motivated many consumers to try different aspects of ecommerce for the first time and the expectation is that for many, this habit will become permanent and the growth in ecommerce will continue, pandemic or not. Retail and consumer orientated businesses will all need to accelerate their online experiences to accommodate permanent changes in consumers' habits.

Research Worth Reading

New Zealand

Food for Thought – China Channel Checks

China is a key market for a number of New Zealand exporters and with activity in China recovering post the peak COVID-19 impact it will continue to provide evolving insights on consumer preferences and behaviours. Early insights show sales channel mix and consumer behaviour trends have evolved and changes are likely to be enduring, in our view. Within our coverage **a2 Milk** (ATM), **Scales** (SCL) and **Comvita** (CVT) are best positioned to benefit. (Published by Forsyth Barr)

The a2 Milk Company (ATM.NZ) – FY20 Guidance – Healthy Demand

ATM provided FY20 guidance for another stellar year, ahead of prior expectations, as demand remains strong for its products. In what has been a highly dynamic environment, with no shortage of challenges, ATM and its supply chain partners have navigated impressively. In the current uncertain backdrop, ATM ticks a number of boxes with (1) a product in strong demand, (2) a large (and growing) net cash position, (3) attractive growth outlook with a long runway still remaining (in our view), and (4) a good track record of execution. OUTPERFORM. (Published by Forsyth Barr)

Argosy (ARG.NZ) – Steady 2H Revaluation

ARG's March 2020 valuations have resulted in an +NZ\$61.7m (or +3.6%) increase over book value. This increase (vs. peers who have recently reported declines) reflects large weightings to Industrial (+6.8%) and Office (+2.9%). ARG's NTA increases +2% to NZ\$1.30 but gearing increases to c.39% (towards top of its 30-40% range). ARG remains a useful member of a listed property portfolio given its diversified portfolio centred on the industrial segment, and is trading at a large discount to NTA which offsets some near-term uncertainties. Our earnings and target price are unchanged. NEUTRAL.

EBOS Group (EBO.NZ) – Temporary Pulse Spike

EBO provided a market update confirming strong 3Q20 trading, helped by a spike in demand in its categories as a result of COVID-19, albeit this appears to be short-lived. Outlook comments from EBO point to some caution given an uncertain consumer demand outlook. The company retained prior qualitative FY20 guidance for a "significant increase in earnings" which still leaves plenty of scope for interpretation. FY20 is tracking well to be a strong year, albeit we see some risk of a lower underlying growth outlook in FY21. EBO is a well-run business but trading broadly in line with our view of fundamental value, while multiples are not cheap in light of a modest underlying growth outlook. NEUTRAL. (Published by Forsyth Barr)

Kiwi Property Group (KPG.NZ) – Retail Revalued

KPG's March 2020 valuations have resulted in a -8.5% decline in asset values, driven by retail/mixed use assets. Questions remain with regard to how KPG's retail assets track post-lockdown and we expect the news flow to remain challenging. We have not changed our earnings forecasts at this stage but continue to expect a sharply lower dividend than in FY19, though an improvement on the 50% FY20 payout. UNDERPERFORM. (Published by Forsyth Barr)

Metlifecare (MET.NZ) – Company Update

As we have done with the other aged care operators, we have materially reduced near-term earnings expectations for MET based on a scenario of a very soft operating environment in terms of sales and development activity over the next six months, followed by a recovery period of 18-24 months. There are significant operating uncertainties, but MET is significantly better placed than last cycle and has the lowest gearing in the sector by a considerable margin. NEUTRAL. (Published by Forsyth Barr)

Australia

Australian Banks – This is Not a Drill! Repeat, This is Not a Drill!

Unlike other banking regulators which have banned dividends in the near term, APRA has ordered the Australian Banks to run a real-life COVID-19 stress-test to inform key capital management decisions like dividends. In Citi's base case, it expects the banks to adopt a U-shaped recovery scenario, resulting in ~25% dividend cuts over the next 12 months. COVID-19 will have a profound impact on earnings, dividends and credit quality. However, Citi last week believed the likelihood of dilutive capital raisings, implied by current

share prices, to be low. Citi retains its BUY on the sector. (Published by Citi.) [Subsequently, National Australia Bank has cut its interim dividend and announced a capital raising].

Bapcor Limited (BAP.AX) – Equity raise targets reduced leverage; operational flexibility & growth strategy in focus. Retain Buy.

BAP has completed a \$180m institutional equity placement, at a -8.5% discount to prior close. The raise will reduce leverage and provide flexibility to execute its growth strategy. BAP's Australian store network remains fully operational, gross margins are steady and COVID-19-impacted like-for-like sales growth have stabilised in April. Beyond near term disruptions, BAP remains well placed to deliver resilient earnings growth at an attractive valuation. BUY. (Published by UBS)

REA Group (REA.AX) – Advertising data update

New house listings have declined as a result of COVID-19, although uptake of premium or ancillary products has continued to grow versus the same period last year, trailing only the previous highs reached during the last spring selling season. The continued growth in premium/ancillary product uptake during the COVID-19 crisis should cushion some of the downturn in new listings, which accelerated to -31.9% YoY for the week ending 12 April. ACCUMULATE. (Published by Ord Minnett)

Sydney Airport (SYD.AX) – Traffic down 95%, but liquidity boosted

SYD's trading update revealed operating conditions and an outlook broadly in line with UBS's recently updated expectations. Traffic is currently tracking down c.-95% due to travel restrictions. Importantly, the company's announcement of a further \$850m of bank debt brings total liquidity to \$2.8bn which should comfortably cover \$1.3bn of debt refinancing commitments. This strengthened debt position has given SYD confidence to rule out the need to raise equity at this time. BUY. (Published by UBS)

International

Netflix (NFLX.US) – Current Environment Demonstrates Long Term Platform Moat

NFLX unsurprisingly benefited from a blowout increase in global net subscriber additions in Q1. Beyond the current dynamic, UBS likes NFLX's long-term secular growth platform, with sustained subscriber additions, expanding operating income margins (despite content & marketing investments), and continued to progress towards becoming cashflow breakeven. BUY. (Published by UBS)

Ping An Insurance Group – Key Call: Mixed Q120 on coronavirus; recovery ahead

Ping An's Q120 was a mixed bag. New business value in life insurance declined -24%, which was a slight miss relative to expectations. But, new client acquisition of 8.7m through online channels was a bright spot, which should support cross-selling of protection products following the epidemic. UBS maintains its BUY rating based on Ping An's prudent asset & liability management, its ecosystem-based model and technology optionality, despite some short term headwind on agent reform. BUY. (Published by UBS)

Sanofi (SASY.FP) – SAR442168 (BTKi) Phase IIb data in relapsing MS presented

Sanofi is excited by the data from the Phase IIb trial of its oral BTK inhibitor (SAR442168 ('168)) in the treatment of relapsing multiple sclerosis and has shared hopes for multi-blockbuster status if it is approved, following positive top-line data in February. BUY. (Published by UBS)

Thermo Fisher Scientific Inc. (TMO) – 1Q20 Recap: Solid Results with 2Q Guidance Above Expectations

TMO kicked off 1Q20 earnings for the life science tools industry, providing the first glimpse into the COVID-19 impact on 1Q20 results. The company saw a net negative impact from coronavirus disruption, despite a +3% revenue tailwind from incremental diagnostic testing volumes and associated revenue, which were offset by a -6% revenue headwind as COVID-19 measures kept customers from returning to work, primarily in China (-25% decline). BUY. (Published by Citi)

Walt Disney Co (DIS.US) – Reflecting COVID-19 and Recession Risks; Lowering Target to \$135

Several of Disney's segments are being impacted by COVID-19. Citi has reduced its Disney target price from \$161 to \$135 but maintains a BUY rating. At current levels, the impact of COVID-19 appears largely priced into Disney's equity. Over time, Citi expects the business to gradually return to "normal" and investors to continue to embrace Disney's direct-to-consumer pivot. BUY. (Published by Citi)

Calendar

Figure 6. Calendar

Date	New Zealand	Australia	International
27-Apr			JP: BoJ Monetary Policy Statement JP: BoJ Outlook Report (YoY) Bayer 1Q20
28-Apr	Employment Change (QoQ) Exports (Mar) Imports (Mar) Participation Rate (Q1) Trade Balance (Mar) Unemployment Rate (Q1)	CPI (Q1) CPI (Q1) Trimmed/Weighted Mean CPI (Q1)	US: CB Consumer Confidence (Apr) JP: BoJ Press Conference Merck & Co 1Q20
29-Apr	ANZ Business Confidence (Apr) NBNZ Own Activity (Apr) Summerset AGM Refining NZ AGM	Export Price Index (QoQ) Housing Credit (Mar) Import Price Index (QoQ) Private Sector Credit (MoM)	US: GDP (QoQ) US: Pending Home Sales (MoM) US: Crude Oil Inventories US: FOMC Statement US: Fed Interest Rate Decision CH: Manufacturing PMI Alphabet 1Q20 Astrazeneca 1Q20 Bank of China 1Q20
30-Apr		AIG Manufacturing Index (Apr) Manufacturing PMI New Home Sales (MoM) PPI (Q1) ANZ Bank 1H20 Origin Energy 3Q20	US: Initial Jobless Claims EU: CPI (YoY) EU: Deposit Facility Rate (Apr) EU: ECB Press Conference EU: ECB Interest Rate Decision (Apr) Amazon.com 1Q20 Microsoft 3Q20
1-May		Commodity Prices (YoY) CFTC AUD & NZD Speculative Net Positions ResMed 3Q20	US: ISM Manufacturing PMI (Apr) UK: Manufacturing PMI (Apr) Apple 2Q20 Baxter Pharmaceuticals 1Q20 Comcast 1Q20 Gilead Sciences 1Q20

Source: Forsyth Barr analysis

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