

Wealth Weekly

Uneven Markets, Uneven Recovery

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Equity markets had an overdue rough week, with the strong run in tech stocks pulling back on Thursday and Friday before the "buy-the-dip" mentality came to the rescue part way through Friday's US trading session. Locally, we had surprisingly positive updates from SKYCITY and Tourism Holdings, and a more subdued one from Sanford.

Food service still struggling, pokies picking up, property stable

Fishing company **Sanford** gave a trading update which highlighted the ongoing weak demand from the food service channel as consumers stay away from restaurants due to the pandemic. The company has increased its in-market sales spending to try to shift volumes into retail channels. The recovery path remains uncertain and earnings are likely to remain under pressure until consumers return to restaurants in greater numbers. Sanford is a cyclical stock, but we continue to like the fishing quotas and aquaculture licenses that back the valuation and the long-term earnings growth potential.

Casino operator **SKYCITY** delivered a creditable FY20 result in the circumstances — a timely reminder of the resilience of gaming spending and the dominance of domestic customers as contributors to the company's earnings. But what boosted the stock on Thursday were the recent trading insights and outlook commentary, both of which were better than expected. There remain a number of unknowns and the share price could remain responsive to COVID-19 (and vaccine) related newsflow. At the current share price, we believe investors are being compensated for the risks.

At the more sedate end of the market, **Property for Industry** reported an in-line interim result as COVID-19 impacts on rents were less than expected. The portfolio remains in good health, but the incentives the company has to pay to attract new tenants could pick up in the short to medium term. It will be interesting to see what valuations the company can achieve for the sale of its remaining non-core assets, and whether the company can generate value with the proceeds. Similar to peers Goodman Property, Investore and Vital Healthcare, Property for Industry's stock is trading at a hefty premium to its net tangible assets.

Themes of the week

Fixed income investors will be relieved to see that the local bond issuance scene is awakening from its COVID-19 induced slumber. Interestingly, most of proceeds of bond issues over the last couple of years were used to refinance bank debt, not to fund company expansion. That raises the question of whether there will be much demand from businesses to increase their borrowings to fund capex and growth amid the economic uncertainty ahead, even if short-term rates go into negative territory as the Reserve Bank is signalling. We expect businesses will likely be cautious despite the ultra-low cost of borrowing, a headwind for the pace of economic recovery.

Looking ahead

A number of central banks around the world will hold meetings over the next couple of weeks. The Bank of Canada and European Central Bank will kick things off this Thursday, before the US Federal Reserve, Bank of Japan and Bank of England make their pronouncements on the following Thursday. Locally, Thursday will see the release of Electronic Card Retail Sales data for August. **AFT Pharmaceuticals** and **Investore Property** will hold their AGMs on Tuesday and Wednesday respectively. **Briscoe Group** and **Restaurant Brands** will report results on Tuesday, and **Sky Network TV** on Thursday. Overseas, sport apparel marketer **Lululemon Athletica**, enterprise software developer **Oracle**, exercise maker **Peloton** and US supermarket chain **Kroger** are among the companies expected to report earnings this week.

NZ Company Updates

A trading update from Sanford, the FY20 result from SKYCITY Entertainment Group and the 1H20 interim result from Property for Industry were among the highlights for the local equity market last week. We have **OUTPERFORM** ratings on Sanford and SKYCITY and a **NEUTRAL** on Property for Industry; all three are in our New Zealand Equity Model Portfolio.

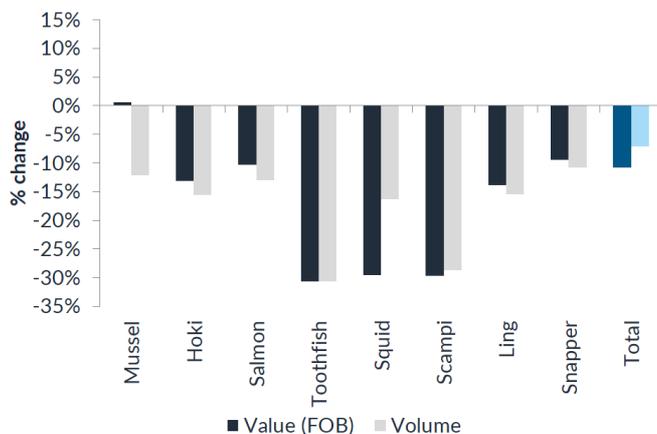
Sanford (SAN) – Foodservice Fallout

SAN said its June quarter sales revenue was -15% below the same period last year, due to lower prices and volumes of commodity wild catch products like squid, and slower sales of some higher value species (exports shown Figure 1). **The company is holding back some supply in the hope of getting higher prices once demand improves.** Inventory levels are rising as a result, and Sanford has cut its capex and dividend plans to give the balance sheet some breathing room. Encouragingly, SAN's Aquaculture operations, which are key drivers of the company's value-add strategy, continued to grow although at a slower pace than before COVID-19.

Management commentary suggested **September quarter sales are likely to be down a similar magnitude as last quarter** as the food service channel is taking time to return to normal in some markets (Figure 2). We downgraded our FY20 and FY21 forecasts to reflect the update and the associated impact on profits. **We now expect the company's earnings in FY21 to be below FY19, with growth only returning from FY22.**

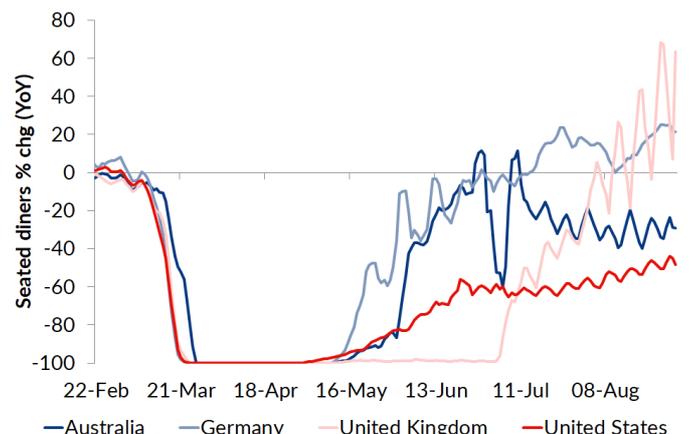
We believe the market had already started to price in the negative headwinds ahead of this trading update. SAN's share price has fallen -7.2% since the end of June, and is down -26% year-to-date (vs the NZX 50 which is up +3.2%). Whilst we expect earnings growth and forecasts to remain subdued in the near term, **we view recent weakness as an attractive entry point for long-term investors who are willing to tolerate the cyclical ups and downs** associated with the stock. SAN's value is backed by its fishing quotas and marine farm licenses, and by the medium to long-term earnings growth outlook. **OUTPERFORM.**

Figure 1. Export growth by species (10 month FYTD vs pcp)



Source: Statistics NZ, Forsyth Barr analysis

Figure 2. Restaurant bookings (year-on-year changes)



Source: Forsyth Barr analysis

SKYCITY (SKC.NZ) – FY20 – Quality Outcome Given the Hand Dealt

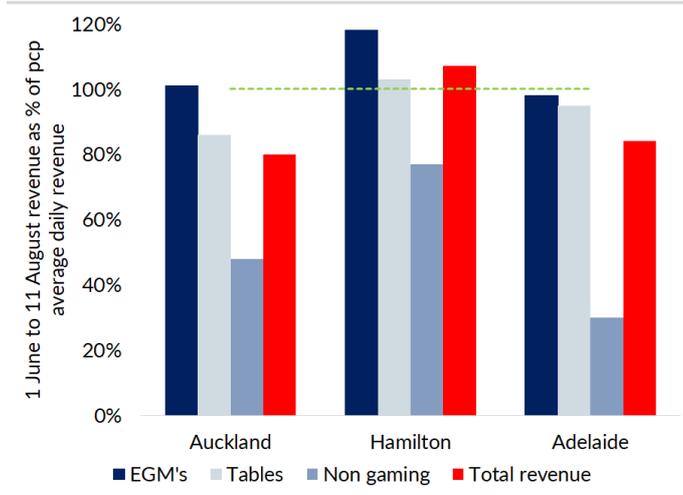
The NZ International Convention Centre fire, asset divestments and COVID-19 disruptions made for a complex FY20 result for SKC. In the end the company's earnings were at the upper end of the pre-released guidance range, with EBITDA of NZ\$201m that was -34% below the prior year's level.

The highlight of SKC's result was trading and outlook commentary showing a rebound in spending on re-opening, particularly for the key gaming business. The strength of the rebound surprised on the upside. Figure 3 shows how, between the end of June and the start of Auckland's second lockdown, **SKC's revenue from electronic gaming machines (EGMs, aka pokies) was back to similar levels as in the equivalent period last year.** But table games and restaurant/hotel/parking revenues still lagged well behind last year's levels. SKC guided to FY21 normalised EBITDA to be "above FY20" (assuming no change in COVID-19 settings), but still materially below pre-COVID-19 levels.

Following the recent capital raise **SKC has reasonable liquidity, balance sheet headroom and near-term covenant relief to get through various scenarios**, including should we see another period of temporary casino closure. We assume dividends will resume

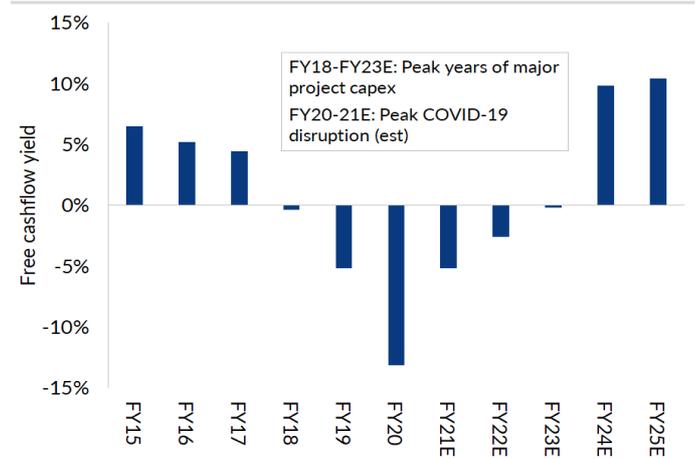
from 2H21, offering an attractive gross yield from FY22E of c.7%, which will be backed by **solid free cash flow once capex eases off in FY24** (Figure 4). Our target price increased +5% to \$3.25. Our rating remains **OUTPERFORM**.

Figure 3. Pokies back to normal, Hamilton ahead of last year



Source: SKYCITY, Forsyth Barr analysis

Figure 4. SKC's medium term free cash flow profile is attractive as major project capex ends after an extended period



Source: SKYCITY Forsyth Barr analysis

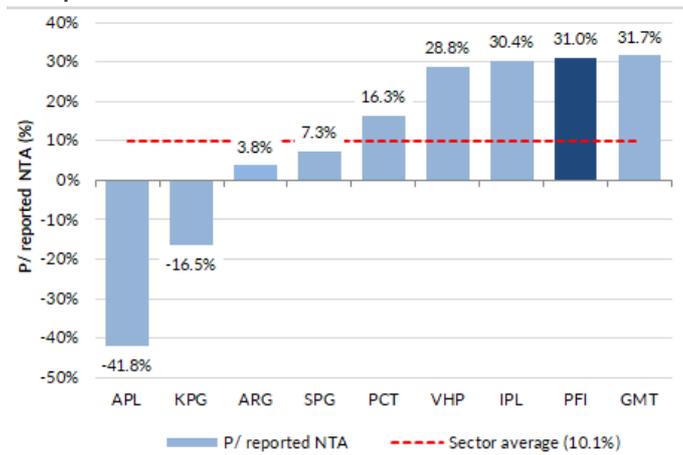
Property for Industry (PFI) – 1H20 Result – Rock Solid Despite Virus

Property for Industry reported an in-line interim result. **COVID-19 rental abatements were lower than expected and cash rent collection has been over 95% in recent months.** There have been only a couple of business failures among the ~140 tenants in PFI's portfolio. **Leasing incentives remain low but are expected to tick up** as landlords compete to secure tenants in a softer market (PFI has 19% of rent expiring or vacant over the next three years). **Portfolio fundamentals remain strong** with 99.0% occupancy, a weighted average lease term of 5.3 years, and gearing of 29% (comfortably below PFI's 35% target).

PFI aims to sell its remaining non-core properties (which account for 9% of portfolio value). Selling prices should be supported by solid investor demand in an environment of low interest rates, but high valuations might equally make it challenging for PFI to earn a decent return from reinvesting the capital.

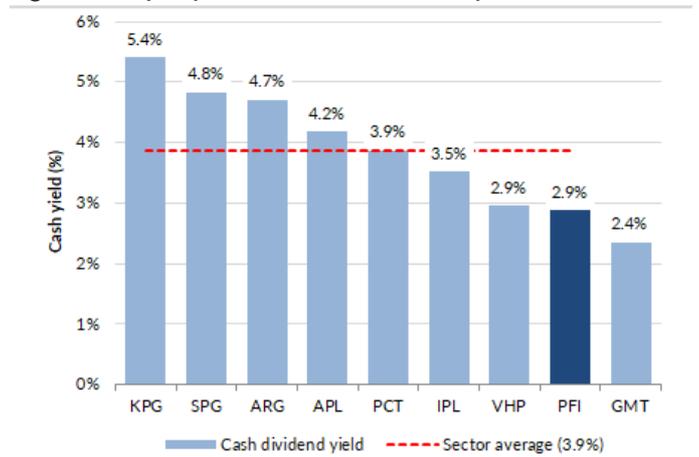
We have lifted our estimates for the next three years to reflect lower-than-expected COVID-19 rent abatements, partially offset by higher tenant incentives. That, together with a higher dividend payout ratio, lifted our distribution forecasts by c.+10% to a **cash dividend yield of just under 3% p.a.** (Figure 6) which equates to a gross dividend yield of just over 4%. Lower discount rates helped lift our target price to NZ\$2.64. The stock is trading at around a +31% premium to its net tangible assets (NTA) – Figure 5. We remain **NEUTRAL** rated on PFI.

Figure 5. Property sector price/NTA (net tangible asset) multiples



Source: Forsyth Barr analysis

Figure 6. Property sector forecast dividend yields



Source: Forsyth Barr analysis

Themes of the Week

Fixed Interest

Demand not meeting supply

The post-COVID-19 world throws up a lot of questions about how monetary and fiscal policy should and will work. Once we are out of the grips of the pandemic, some robust debate on these issues will be warranted.

We have touched on the prospect of negative interest rates in previous publications. **There appears to be a desire from the Reserve Bank of New Zealand (RBNZ) to make negative rates a reality** (Figure 7), despite other countries having reversed their decisions to go negative after realising it did not work.

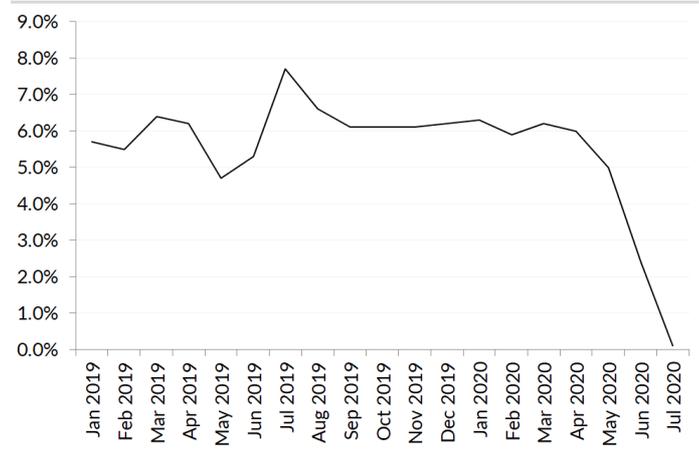
The theory behind low or negative interest rates seems sound. The reality is that the demand from borrowers does not seem to be there for further debt, no matter how low the interest rates. **Figure 8 below highlights the lack of demand for debt from the business community even as lending rates have fallen.** In times of great economic stress most businesses will become more conservative, lower or halt dividend pay-outs, slow or defer capex and maybe think twice about expansion plans, none of which points towards taking on more debt.

Figure 7. Forward interest rate guidance (OCR)



Source: Forsyth Barr analysis, Bloomberg

Figure 8. Annual growth rate – Business lending



Source: Forsyth Barr analysis, RBNZ

The local bond market is finally up and running in New Zealand, which is great for fixed income investors. But looking at all of the bond issues over the last couple of years, very few have been to fund expansion; the vast majority have been to repay bank debt, in other words – just refinancing.

So we ask again, **what will be the outcome of negative interest rates?** There will come a time when the world returns to normal and businesses once again feel confident to invest, but given lending rates on offer to corporate and retail clients are unlikely to be negative, is there any great difference between where they are now and where they may head to?

Research Worth Reading

New Zealand

Recovery Heat Map; Waiting on the World to Change

Our COVID-19 recovery heatmap (Figure 9) has shown a broad improvement in the last week, albeit indicators remain well below levels experienced prior to the re-escalation of the Alert Levels in August. Domestic passenger flights have increased sharply since the government lowered Auckland's Alert Level to 2.5, as Aucklanders who have been unable to travel in recent weeks took advantage of fewer restrictions. There is also improvements evident in vehicle traffic and workplace visitation.

Figure 9. Forsyth Barr COVID-19 recovery heatmap

Week ending	27-Mar	03-Apr	10-Apr	17-Apr	24-Apr	01-May	08-May	15-May	22-May	29-May	05-Jun	12-Jun	19-Jun	26-Jun	03-Jul	10-Jul	17-Jul	24-Jul	31-Jul	07-Aug	14-Aug	21-Aug	28-Aug	04-Sep
Active COVID-19 cases	331	764	706	582	344	208	122	56	28	1	1	0	0	0	0	0	0	0	0	0	30	89	113	75
Alert Level	4	4	4	4	4	3	3	2	2	2	2	1	1	1	1	1	1	1	1	1	2.3*	2.3*	2.3*	2.2*
Economic sentiment	-1.2	-1.0	-1.4	-1.3	-1.0	-1.0	-0.7	-0.9	-0.4	-0.7	-0.7	-0.7	-1.0	-0.8	-0.7	-0.6	-0.4	-0.5	-0.6	-0.4	-1.5	-1.2	-1.3	
BBB credit spreads	284	303	280	256	240	226	211	198	189	179	178	173	166	144	147	144	144	143	136	134	137	135	133	
Wage subsidy paid (NZ\$bn)	3.8	5.4	8.9	10.1	10.5	10.6	10.8	10.9	11.0	11.0	11.2	11.9	12.3	12.7	12.9	13.0	13.0	13.1	13.1	13.1	13.2	13.4	13.7	
Jobseeker Support/CIRP	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%	43%	43%	45%	48%	50%	51%	52%	53%	54%	54%	55%	56%	57%	
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%	-2%	0%	-1%	-2%	-10%	-10%	-8%	-3%	-9%	-10%	-23%	-22%	-19%	
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%	0%	1%	-1%	-2%	2%	2%	2%	1%	0%	1%	-3%	-18%	-17%	
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%	-2%	4%	-1%	-3%	4%	5%	4%	1%	1%	-4%	2%	-1%	2%	
Heavy vehicle traffic	-29%	-60%	-62%	-61%	-47%	-37%	-22%	-9%	-4%	-4%	2%	0%	-2%	-11%	1%	-1%	2%	-1%	1%	4%	0%	-8%	-7%	
Light vehicle traffic	-47%	-82%	-82%	-83%	-79%	-58%	-49%	-30%	-12%	-8%	2%	-4%	-4%	-11%	1%	3%	1%	1%	-1%	4%	-11%	-27%	-22%	
Domestic passenger flights	-18%	-81%	-99%	-99%	-99%	-98%	-98%	-95%	-81%	-71%	-59%	-57%	-57%	-57%	-53%	-34%	-33%	-36%	-40%	-38%	-41%	-78%	-92%	-59%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-98%	-99%	-98%	-99%	-99%	-100%	-99%	-99%	-98%	-99%	-98%	
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-50%	-39%	-43%	-33%	-30%	-26%	-16%	-16%	-16%	-30%	-26%	-40%			
Building consents	-80%	-31%	-56%	-55%	-11%	-30%	-31%	-19%	-13%	-23%	-40%	-25%	2%	-18%	-14%	-24%	-2%	-12%	-8%	-2%	-3%	-4%	5%	

Source: Forsyth Barr analysis

Abano Healthcare (ABA) – Return of the Scheme; Lower Risk This Time

ABA's COVID-19 impacted FY20 result (which was broadly as expected) was outshone by a new takeover offer from BGH Capital and the Ontario Teachers' Pension Plan Board. The new via Scheme Implementation Agreement (SIA) (at NZ\$4.45/share) provides more certainty, with specific price adjustments (maximum of -NZ\$0.75/share) should various adverse events occur. Given this, and board support, the transaction's barriers appear low, however, there is always some uncertainty in a takeover process. NEUTRAL. (Published by Forsyth Barr)

Power Points – Yield Powers a Sector Change – Sept 2020

August is normally dominated by result announcements, but in 2020 with the exception of Mercury (MCY), dividend yields and the potential closure of the NZ Aluminium Smelter have been more important factors. All of the generator/retailers performed better than the NZX 50 in August, with yield hungry investors being the key drivers of the share price, although increasing confidence that NZAS will remain open for longer and MCY's strong FY21 guidance were also a factor. We now view the chances of a deal keeping NZAS open beyond August 2021 as 50/50. We are positive on the long-term sector outlook. Our preferred stocks are Contact Energy (CEN), Meridian Energy (MEL) and Tilt Renewables (TLT). (Published by Forsyth Barr)

Tourism Holdings (THL) – The Great New Zealand Motorhome Sale

THL is taking advantage of buoyant domestic motorhome demand by aggressively increasing its sales objectives for the next 12 months. This should reduce the dilutive impact of vehicle holding costs in the absence of inbound tourist demand. The strong demand for ex-fleet vehicles is providing a welcome cashflow boost and – given robust margins – a profitability injection. THL could now conceivably generate underlying profits in each year through COVID-19. The resultant impact on THL's net asset value (NAV) at year end FY21 is positive. A reopening of the Tasman border (hinted at by Australia's Prime Minister on Friday) would support that. We lift our target price accordingly, though retain a NEUTRAL rating. (Published by Forsyth Barr)

Australia

Afterpay (APT.AX) – Acquisitions to expedite global expansion

There is plenty to like about APT, including i) a large and underpenetrated total addressable market, with the market shifting towards instalments; ii) multiple growth levers; iii) new monetisation streams; and iv) a strong balance sheet. However, with the shares trading at a price of 28x FY21 forecast revenue, Citi does not see the risk-reward in the stock as compelling. NEUTRAL. (Published by Citi)

CSL (CSL.AX) – PPTA: another retrospective, we add plasma centre data too

Of the 89 plasma collection centres opened over the last year, 39 (~44%) were owned by CSL. However, CSL noted at its result that it is more focussed on optimising existing centres that are currently underutilised due to COVID-19 than on further expanding its plasma collection network. UBS is currently forecasting a -20% decline in plasma collection in the April-September period with recovery thereafter. With specialty products requiring far less plasma to extract sufficient quantities, there is no impact on sales from a lower supply perspective. However, with ongoing high COVID-19 case numbers in the US, raw plasma supply disruption may be evident for an extended period. BUY. (Published by UBS)

Lendlease Group (LLC.AX) – Strategy reset

LLC has given a comprehensive update on strategy and set out a refinement of its existing vision. Ord Minnett would have liked greater visibility on the development pipeline in terms of Stage 1 built form, funding and completion timeframes to support its target of \$8bn of annual completions. However, the update was a meaningful step forward in redefining strategic parameters and positioning for the next phase of its growth. HOLD. (Published by Ord Minnett)

National Australia Bank (NAB.AX) – Sale of MLC Wealth

NAB announced the sale of its MLC Wealth business to IOOF Holdings (IFL, rated HOLD by Ord Minnett) for A\$1.44bn. In Ord Minnett's view, the transaction makes strategic sense, is a relatively clean exit, and will enable NAB to narrow its focus and further simplify the group. ACCUMULATE. (Published by Ord Minnett)

ResMed Inc (RMD.AX) – US Medicare data

US Medicare 2019 data was released recently and Ord Minnett looks at the implications for RMD. Ord Minnett remains cautious on the outlook for RMD due to the near-term challenges to patient testing for sleep apnoea during the pandemic, as well as the risk of weaker demand for sleep therapy during the expected economic downturn. LIGHTEN. (Published by Ord Minnett)

International**Intel (INTC.O) – 10nm Tiger Lake Launch Provides First Glimpse Into A New Product Focussed Approach At INTC**

At the Tiger Lake (Mobile central processing unit) product launch, INTC confirmed roughly 50 Tiger Lake-enabled PC products will be on shelves for holiday season. The stock has underperformed the semiconductor index by -40% as investors focus on slippage in the launch date of INTC's 7nm chips. With Mobile accounting for ~20% of INTC's revenue, UBS thinks a successful Tiger Lake launch serves as a blue-print for execution that can be replicated across multiple product families, enabling a gradual de-coupling between products and process – a first step in nullifying AMD's manufacturing advantage. BUY. (Published by UBS)

NVIDIA Corp (NVDA.O) – Ampere GeForce Delivers Triple Double; Remain Buy-Rated

NVDA's management hosted a Q&A event for investors and talked about the Ampere GeForce launch driving a strong upgrade cycle similar to Pascal on both pricing and units. Despite highly attractive prices, management expects gross margins to improve over time and feels good about the overall gaming gross margin mix. BUY. (Published by Citi)

Siemens (SIEGn.DE) – Notes from Siemens Energy CMD

Siemens Energy hosted its virtual Capital Market Day, ahead of its planned spin-off from SIEGn on 28 September. The announced financial targets were broadly in line with expectations. Citi still expects the spin-off to act as a re-rating event for the remaining SIEGn company. Excluding the listed stakes in Healthineers and Siemens Gamesa Renewable Energy, Citi estimates that the remaining company trades at 9.5xEV/EBITA for 2021, a >30% discount to the sector. BUY. (Published by Citi)

Calendar

Figure 10. Calendar

Date	New Zealand	Australia	International
7-Sep		AIG Services Index (Aug) ANZ Job Advertisements	CA: Labor Day US: Labor Day
8-Sep	AFT Pharmaceuticals AGM Briscoe Group 1H21 Result Restaurant Brands NZ 1H20 Result	NAB Business Survey (Aug) NAB Business Confidence (Aug)	JP: GDP (Q2)
9-Sep	Manufacturing Sales Volume (Q2) ANZ Business Confidence Investore Property AGM	Westpac Consumer Sentiment (Sep) Home Loans Invest Housing Finance	Lululemon Athletica 2Q21 Result Slack Technologies 2Q21 Result
10-Sep	Electronic Card Retail Sales (Aug) Sky Network TV FY20 Result	Melbourne Institute Inflation Expectations	US: EIA Short-Term Energy Outlook US: JOLTs Job Openings (July) CA: Bank of Canada Interest Rate Decision EZ: ECB Monetary Policy Statement & Interest Rate Decision Zscaler 4Q20 Result
11-Sep	Business NZ Performance of Manufacturing Index (Aug) Food Price Index (Aug)		EZ: ECB Press Conference US: Initial Jobless Claims US: Producer Price Index (Aug) US: Crude Oil Inventories UK: GDP UK: Manufacturing Production (Jul) Oracle 1Q21 Result Peloton 4Q20 Result
12-Sep		CFTC AUD Speculative Net Positions	US: Core Consumer Price Index (Aug) Kroger 2Q20 Result

Source: Forsyth Barr analysis

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