FORSYTH BARR

WEALTH MANAGEMENT RESEARCH

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Wealth Weekly
Not too Blue, Not too Red — Just Right

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"You're fired!", US voters have told Trump, although not said with the same conviction as the former *The Apprentice* star used to exclaim it. In the highest turnout US election since 1900, the results were closer than betting odds and polls predicted. Democrat Joe Biden has won the Presidency, but the Republicans look to have retained control of the Senate. The split government will hamper Biden's reform agenda. That suited the equity markets just fine, with major benchmarks delivering their best weekly performances since April.

Trump lost, but Democrats didn't win big

The US Government looks likely to remain split between the two major parties. Democrat Joe Biden will control the White House, Democrats will retain a (slimmer) majority in the House of Representatives, and — barring surprise outcomes in two Senate runoff elections in January — Republicans will likely remain in charge of the Senate for at least the next two years.

The Biden administration will likely bring the USA back into the international fold, ending four years of isolationism and diplomatic fireworks under Trump. Climate change (and therefore renewable energy) should move higher up the agenda, environmental regulation will be reinstated, and the hamstringing of the civil service will be reversed. But **partisan behaviour in the US's checks-and-balances system of government means Democrats will struggle to implement much of their policy agenda**. Large fiscal stimulus, partial reversal of Trump's tax cuts, significant healthcare sector reform and regulation of tech giants all look difficult to achieve in this constellation of government. With large stimulus looking less likely, **more of the burden of stimulating the COVID-plagued economy will fall on the US central bank**, which could resort to increased money printing.

Equity markets responded accordingly last week. The perceived lower risk of healthcare, tech and tax reform under a split Congress seemingly outweighed the uncertainty around the outcome of the presidential election. **Healthcare and tech stocks rebounded from pre-election weakness that had been induced by expectations of a Democratic sweep**. **Cyclical stocks lagged on expectations of a smaller stimulus round**. Trump's behaviour before the formal transition of power in January remains a risk.

Themes of the week

While everyone's attention was focussed on the US election last week, central bankers in Australia and England moved their printing presses into "Sport" mode. **This week the Reserve Bank of New Zealand is expected to keep rates and its QE programme unchanged**, but its Monetary Policy Statement may provide a guide on future plans including potentially directly funding the banks — which could have implications for retail deposit and mortgage rates.

Church payment services company **Pushpay** reported a decent result last week, but the outlook was more muted than expected and we have trimmed our estimates as a result. Fishing company **Sanford**, which will report its full results on Thursday, pre-released a weaker than expected profit number due to soft demand, low wild catch and operating de-leveraging.

Overseas we had a strong result from Australian property market darling **Goodman Group**, a weak result (but with improving tendencies) from **Origin Energy**, positive signs in an AGM trading update from **Treasury Wine Estates**, an in-line result from **Alibaba**, and a strong result along with a more cautious outlook from **PayPal**.

Looking ahead

Cyclical stocks got a boost overseas early morning on Tuesday after Pfizer's COVID-19 vaccine was shown to provide a high level of protection. **Tilt Renewables** reported an in-line result on Monday, while **Mainfreight** is expected to announce earnings on Wednesday, and **Infratil** and **Sanford** on Thursday. Further afield **James Hardie, Adidas**, **Siemens, Xero** and **Tencent** are among companies reporting this week. The RBNZ announcements will come on Wednesday.

US Election

When will we really know?

It was a tense few days as counting of votes in the US election continued in Pennsylvania, Arizona, Nevada and Georgia late last week, but media analysts have now concluded that **Democrat Joe Biden is the victor of the US Presidential election**. That being said, between lawsuits and tweets, we don't expect Trump to go down without a fight. We could see recounts and lawsuits in a number of tightly contested states drawing out the process. Any disputes need to be settled by the "safe harbour" deadline of December 8. After this, on December 14, Electors of the Electoral College will cast ballots for president and vice president. Trump will remain in control of the administration (and the nuclear button) until Mr Biden is sworn in as the next President of the United States on 20 January.

No Blue Wave

It also appears the Congressional election results have confounded pollsters and gamblers. The **Democrats look to have fallen short of securing a "Blue Wave"** by sweeping the Presidency, Senate and House of Representatives, which would have provided a platform for significant policy reform. As expected, Democrats have retained control of the House of Representatives, but, against predictions, they lost seats in that chamber. In the unlikely event that Democrats can win two Senate seats in a runoff election in traditionally Republican Georgia in January, the two sides would have an even number of seats in the Senate and the Vice President (Democrat Kamala Harris) would hold the tiebreaking vote; failing that, Republicans look likely to hold onto the majority in the Senate.

What would a split government mean?

Under a split government, we expect **a Republican-controlled Senate will block many Democrat legislative proposals** for the next two years.

A phrase often thrown around by investors is "markets don't like uncertainty". It has surprised many then that equity markets have responded positively to the US election despite not knowing the result for certain. It appears markets are happy to look through the short-term turbulence and reflect on what President Biden with a Republican-dominated Senate may mean for businesses.

A Republican Senate would acutely limit Biden's policy agenda including reducing the likelihood of higher corporate taxes and significantly tougher regulation on the likes of the tech and healthcare industries. It also means government **fiscal stimulus is likely to be lower, requiring more of the support for the economy to come from the Federal Reserve** (the US central bank).

Lower interest rates for even longer and more "quantitative easing" (literally digital printing money) is positive for the valuation of long-term growth stocks (including Big Tech) which dominate the US market. **Less fiscal stimulus support is a headwind for more cyclical companies** whose earnings are tied to economic activity.

More broadly, many countries may be breathing a collective sigh of relief. We expect a much calmer approach to international relations, with Biden looking to rekindle relationships with allies. **On China, we don't expect a materially different approach**, with tariffs and the embargo on Huawei likely to remain in place. But risk of a further escalation in tensions may be less.

While 2020 may spell the end of Trump as President, it doesn't mean the end of Trumpism, populism and divisiveness in US politics. The US remains deeply partisan, with each side highly distrustful of the other's agenda. Although Joe Biden is seen by some as a "consensus builder", achieving meaningful reform that will address the causes of this divide will be highly challenging. We do expect US politics will be less hot-blooded under a Biden Presidency, but tension will remain, simmering beneath the surface and likely to rise again in the years ahead. It will remain an issue investors need to navigate.

In two years' time, voters will have another opportunity to unite Congress. Senators serve six year terms, with elections for a third of the Senate held every two years. So in two years there'll be another election for a third of the Senate, as well as the House of Representatives, where all seats are up for election every two years.

Themes of the Week

Fixed Interest

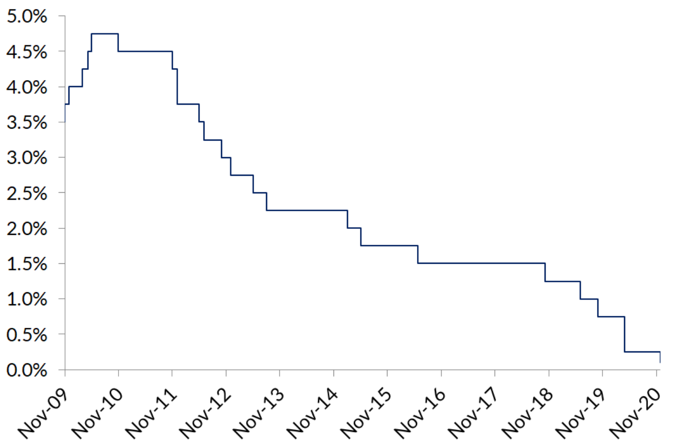
Central banks still battling COVID-19

Another round of central bank meetings occurred last week. The printing presses were pushed into overdrive with further stimulus added in Australia and the UK. While the world was gripped with the US election (and the Melbourne Cup in Australia), the Reserve Bank of Australia cut its Cash Rate from 0.25% to 0.10% (Figure 1) as previously signalled, and announced "the purchase of A$100bn of government bonds with maturities of around 5 to 10 years over the next six months." What will it buy? The RBA "will buy bonds issued by the Australian Government and by the states and territories, with an expected 80/20 split". These purchases will occur at a rate of around A$5b per week.

The Bank of England also joined in the party by announcing it would "create" (read "print") another £150b and use that to purchase government bonds. The total quantitative easing (QE) programme will reach a staggering £895b by the end of 2021.

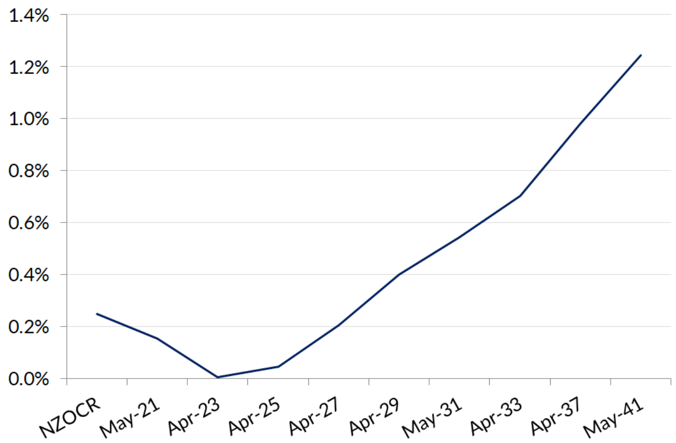
The Reserve Bank of New Zealand (RBNZ) will meet this week. No changes to either the Official Cash Rate of 0.25% or its QE programme (which is suppressing bond yields — Figure 2) are expected at the meeting. The Monetary Policy Statement should provide a much sought after update on where the central bank believes the country is heading, with updated economic forecasts. The market is also expecting details of the RBNZ's proposed bank lending programme, which could have a significant impact on retail interest rates.

Figure 1. RBA Cash Rate now just 0.1%



Source: Forsyth Barr analysis, Refinitiv

Figure 2. NZ Government Bond yield curve



Source: Forsyth Barr analysis, Rifinitiv

NZ Equities

Pushpay (PPH.NZ) — 1H21 Result: Changing Customer Mix

While church donation software provider Pushpay's (PPH) 1H21 result was solid, it wasn't quite as strong as we had expected, management's guidance for the rest of the financial year was not as positive as anticipated, the company's new growth strategy looks less attractive than previously, and the resignation of a significant shareholder from the board accentuates existing investor fears of an overhang in the shares.

PPH's operating revenue in the six months to the end of September grew by half and operating profit almost tripled compared to the same period last year. But the growth was driven largely by increased donations rather than higher church customer numbers (+4%, the majority of which wer small or medium churches) and there was higher than expected churn in customers.

With the market for the top 1,700 US megachurches seemingly near saturated, PPH is now focussing on winning medium-sized churches. Competition for these customers is higher, they are less sticky, and they have historically exhibited a lower growth rate of attendance and donations. We expect the company to rely more on growth through acquisitions to reach its revenue target, which is a less capital efficient way to grow.

We have cut our forecasts and valuation multiple to reflect PPH's less attractive growth path, and reduced our target price from $13.86 to $11.44. **We have retained an OUTPERFORM rating given 1) a high quality product offering with positive endorsements from large US megachurches, 2) an attractive addressable market and 3) a cash generative business model.**

Sanford (SAN.NZ) — Swimming Against the Current

Fishing company Sanford (SAN) pre-released underlying FY20 EBIT of NZ$38.3m, which was down -41% on the prior year and -14% below our expectations. **The weakness was due to even softer than expected restaurant demand in the COVID-19 environment, compounded by lower than expected wild catch volumes of Patagonian toothfish and the effect of lower revenues on a partly fixed cost base**.

A normalisation of restaurant demand and food supply chains is likely to be the key catalyst required to change the tides. The timeframe for this is uncertain, but it seems unlikely to come soon. Whilst recent data suggests salmon export volumes are recovering, salmon prices remain under pressure and are likely to remain so as elevated inventory washes through the market. We look for signs of success from SAN's efforts to redeploy volumes into other sales channels.

We have reduced our medium-term earnings assumptions for SAN, pushing out a recovery in demand. Although the balance sheet remains within covenants, **the weaker earnings combined with elevated capex requirements raise questions around capital allocation and potential dividend cuts**.

Reflecting our reduced forecasts, we have lowered our target price by -6% to NZ$7.00. **Whilst we do not expect demand to normalise soon, we view the current share price as an attractive entry point for long-term investors wanting exposure to a unique set of fishery and marine farm assets**.

SAN will report its FY20 result on Thursday, 12 November, when we will look for commentary on progress in appointing a new CEO following the recent abrupt departure of Volker Kuntsch.

Australian Equities

Goodman Group (GMG.AX) — Strong result with upside to FY21 earnings guidance

The 1Q21 update from industrial property developer and manager Goodman Group (GMG) showed stable operating metrics, while strength in the demand for logistics facilities drove higher development work in progress (WIP). WIP is now at A$7.3bn, up +12% from A$6.5bn in June 2020 and expected to grow further through the rest of FY21. GMG now suggests WIP will increase above A$8b in FY21, primarily driven by ongoing demand for industrial facilities, with high value multi-storey logistics and data center developments. GMG’s development yields at 6.7% remain very attractive versus transactional capitalisation rates, and occupancy rates are stable at 97.8%.

GMG's assets under management (AUM) increased to A$48.4bn from A$48.0bn in June 2020 as growth from revaluation gains, largely driven by compression in capitalisation rates, were somewhat offset by asset sales of A$1.7bn in Europe. Excluding the disposal, the growth was +4.4% or an annualised rate of over +18%. **The company reaffirmed EPS guidance of 62.7cps, implying +9% growth for the year**. Our research affiliates believe this guidance is conservative, with both Citi (NEUTRAL) and UBS (NEUTRAL) expecting +11% EPS growth. This “upside” to company guidance is largely captured in consensus estimates of +10.3%, and **GMG shares are on a forward PE of 30x, double the sector average ex-GMG**, reflecting the company’s superior growth profile and strong track record of execution.

Origin Energy (ORG.AX) — September quarter soft but outlook improving

Energy conglomerate Origin Energy (ORG) reported a soft September quarter, missing expectations across the board. But there were some positives from the result and signs of an improving outlook.

Revenue for the quarter was down -46% yoy, driven by weak realised pricing for both LNG and domestic gas. However, ORG’s APLNG reported the strongest realised LNG prices relative to peers. **LNG prices are expected to recover this quarter**, with both contract and spot prices now significantly higher.

ORG's electricity and gas sales volumes to business customers remain -5–7% lower yoy due to COVID-19. ORG's retail electricity and gas sales volumes have recovered to pre COVID-19 levels in all states except Victoria (VIC). **UBS expects total electricity and gas volumes will recover to pre COVID-19 levels by FY22**. But this requires VIC volumes to recover strongly given VIC accounts for 46% of ORG's total gas volumes and 18% of total electricity volumes.

There was no change to ORG's full year guidance.

Both Citi and UBS retain BUY ratings on ORG on the basis that **earnings are expected to lift from FY21E as oil prices, electricity and gas volumes recover and as ORG's new customer relationship management system delivers cost savings**. Additionally, drilling results at Beetaloo basin could provide a positive catalyst. ORG is trading with an implied oil price of only US$33/bbl, vs UBS and Citi's long-term oil price forecast of US$55/bbl. Shares continue to look cheap on an **FY21 PE of 19x on trough earnings, with a 5% dividend yield**. UBS and Citi have target prices of $7.40 and $7.00, implying over 70% upside from current prices, and we continue to hold ORG in the AU Model Portfolio.

Treasury Wine Estates (TWE.AX) — Risks remain but are largely priced in

Treasury Wine Estates (TWE) has been an extremely poor performer, with its share price declining -60% over the past two years. Most recently the TWE has been the target of a politically motivated Chinese anti-dumping investigation. However, our Australian research affiliate believes there is no evidence to suggest TWE has dumped premium wines in China.

Additionally, there are signs that TWE's operating environment is improving. **The company's AGM trading update showed improving conditions in the Americas, Australia and EMEA**. Better industry-wide sales are expected to improve the supply-demand balance in key markets, although on-premise consumption remains weak. TWE is also making progress on its restructure in the US with market share gains in its focus brands, but the Penfolds demerger has been put on hold.

Last week both UBS and Citi upgraded TWE shares from NEUTRAL to BUY, citing an attractive risk-reward, with most of the downside in relation to China already factored into the share price. Risks remain and near-term performance is likely to be driven by the outcome of the Chinese anti-dumping investigation, with clarity expected within the next month.

International Equities

Alibaba (BABA.US) — 2Q21 largely inline but timing on ANT IPO remains unknown

Alibaba's (BABA) 2Q21 results met expectations across the board, with a slight beat at the profit-line. BABA's domestic retail marketplaces have fully recovered from the pandemic. Quarterly revenue growth of +30% yoy was the slowest pace on record for a 2Q period, and a deceleration on 1Q21. Customer Management revenues grew +20.4%, Taobao online physical goods gross merchandise value (GMV) grew in the high-teens (suggesting continued strength post the pandemic), and Tmall GMV grew +21%. Cloud computing revenues were up +60%, the fastest pace since December, and the segment is on track to turn profitable in 2H21, but plans to prioritise market-share gains could stunt margin expansion.

BABA did not update guidance for FY21 revenue but is well positioned to beat its fiscal 2021 sales growth target of +27.5%. **A strong singles day 11/11 shopping festival remains a near term catalyst**.

But the timing of both the Ant Group IPO and Alibaba's Southbound Stock Connect are uncertain. New fintech regulation has delayed Ant's IPO, and could create further concerns for BABA, as potential limits on Ant's consumer credit growth could impact Taobao's GMV.

PayPal (PYPL.US) — Decent 3Q20 results but guidance left investors wanting more

PayPal (PYPL) reported a good set of 3Q results, but forward looking guidance was more mixed than expected. Total revenues of US$5.46b exceeded consensus of US$5.34b whilst EPS of US$1.07 also beat expectations for US$0.94. The beat was characterised by higher payment volumes and lower operating expenses. PayPal added 15.2m net new active accounts, and had 361m active accounts at 3Q20-end. Active account growth was driven by strength in PayPal, Venmo, Honey and Xoom. Merchant Services also continued to grow strongly, with a ~38% increase in total payment volume growth.

Investors expected PYPL to provide initial guidance for the next fiscal year (FY21) as it has done at prior 3Q results, however, the company indicated that due to a wide range of potential outcomes, any guidance would be too broad to be meaningful. Instead **management pointed to sustained strength in volumes but a deceleration in EPS growth**.

Research Worth Reading

New Zealand

Power Points — Labour Retains Power — November 2020

The Labour Party's landslide victory in the 2020 election should help boost medium-term electricity demand through incentives to electrify transport and industrial heat, however, it also increases long-term uncertainty due to the 100% renewable electricity policy, in our opinion. The sector had a strong month of October, with all of the large listed generator/retailers outperforming the NZX 50 Index, and we continue to see upside if NZAS remains open for longer as a result of increased dividend expectations. There continue to be positive signs for the smelter, and we expect an announcement from the company sooner as opposed to later now that the government has been formed. If NZAS remains open for longer, we expect Contact Energy (CEN) and Genesis Energy (GNE) to be the key beneficiaries in the sector, and they remain our preferred, OUTPERFORM-rated sector picks. We have NEUTRAL ratings on the other electricity companies. (Published by Forsyth Barr)

Real Estate Reflections – A Look Under the Hood

The listed property vehicles (LPVs) outperformed the broader market for a fourth consecutive month in October (+5.9% vs. the NZX 50 +2.9%) as low interest rates continue to support valuations and laggards catch-up. Portfolio activity continues to tick along with further acquisitions completed, and assets officially being marketed. 1H21 results will be reported this month, and with COVID-19 rent relief impacting earnings across the sector the focus will be on leasing outcomes and market commentary. We continue to favour Investore (IPL) for its defensive attributes and acquisition driven growth, along with Stride (SPG) for the leverage in its asset management platform. (Published by Forsyth Barr)

The a2 Milk Company (ATM) — Proprietary Channel Checking in China

Our colleagues at Forsyth Barr Asia in Hong Kong recently visited 34 stores in China, interviewing sales reps and store managers, analysing ATM's shelf presence, pricing, and the perception of New Zealand sourced infant formula. We complemented this with a proprietary online survey, receiving 105 responses from end consumers. Our findings provide confidence that ATM is performing well in the key offline channel. It also supports our view that the recent daigou-linked downgrade is a temporary issue, particularly as channel mix readjusts. OUTPERFORM. (Published by Forsyth Barr)

Z Energy (ZEL) — 1H Delivered, More Needed — 1H21 Result

ZEL did what it needs to do, delivering a solid 1H21 result and providing FY21 EBITDAF guidance that did not disappoint. More of the same is needed though if ZEL is once again to find favour with the market and that will take time. Our forecast changes are minor (FY21 EBITDAF increased +NZ$5m to NZ$246m), our target price is unchanged (NZ$4.35), and we continue to see long-term value in ZEL. If it can continue to avoid negative news, we are confident it will re-rate upwards, particularly on an announcement that distributions will resume. OUTPERFORM. (Published by Forsyth Barr)

Australia

Amcor (AMC.AX) — F1Q21 Result — Initial Thoughts

AMC's 1Q21 EBIT of $358m beat expectations of $336m on strong volume growth in the Americas and Asia-Pacific. Group volume growth improved to +2%. Margins increased by +1.4% to 13.0% in Flexibles. Synergies from the integration of AMC's acquisition of Bemis increased to $100m to-date, and management expects this to increase to $180m by the end of FY22. Negatives in the result included a -2% headwind to net income from currency movements. AMC has announced a share buyback and increased its dividend. BUY. (Published by Citi)

CSL (CSL.AX) — It's a wrap (of relevant SepQ results)

Some of the key points from September quarter results from CSL's competitors/suppliers/royalty contributors include: 1) Grifols and Takeda noted "<15%" and "some" declines in plasma collections in 2020 (respectively); and 2) Sanofi and GSK are both experiencing very strong flu vaccine demand in the northern hemisphere, and expect a longer tail of doses to be administered through the December quarter. Notwithstanding current plasma collection and cost per litre pressures, UBS notes a range of potential mitigators across CSL group that should assist in underpinning (modest) FY21 earnings growth: 1) normalised albumin sales in China; 2) shift to subcutaneous from intravenous immunoglobulin; 3) efficiencies in sales, general & administrative expenses; 4) strong flu vaccine demand. BUY. (Published by UBS)

Senex Energy (SXY.AX) — Sale of Cooper Basin assets

SXY announced the sale of its Cooper Basin assets to Beach Energy for a A$87.5m cash consideration, equivalent to its approximate book value at sale. Management expects the proceeds to further strengthen SXY's balance sheet and result in a net cash position, although the sale price is below Ord Minnett's estimate of value for the assets. BUY. (Published by Ord Minnett)

National Australia Bank (NAB.AX) — Clean and Conservatively Provisioned

A large loan-loss provision top-up in 4Q20 was the unexpected surprise that has differentiated NAB from its peers. Unpacking the COVID-related collective provisions reveals a conservative set of estimates that now gives NAB the highest coverage in the sector. Citi has upgraded its cash earnings forecasts by +12–15%, with bad debt revisions more than offsetting modest core earnings downgrades. NAB remains a play on improving credit quality given its strong capital position and conservatively set loan-loss provisions, suggesting that it can outperform peers. NAB is Citi's new top pick in the Australian banks sector. BUY. (Published by Citi)

Westpac Banking Corp (WBC.AX) — Credit Outlook Stabilises

FY20 cash earnings of $2,608m were +10% above Citi's expectations as 4Q20 bad debts of just 7bp were materially lower than expectations. Many key metrics — lending, net interest margin and costs — were very weak, reflecting the scandal-ridden year. However, WBC appears to be forming an FY21/22 self-help narrative. An acceleration of compliance spending and the finalisation of the management team lay the foundations for the recovery of these key metrics. Improving credit quality will dominate near-term, while it will take longer to see benefits of self-help. BUY. (Published by Citi)

International

ING Groep (INGA.AS) — 3Q20 Call Takes — Selloff Today Way Too Harsh — Buy

UBS held a call with ING management, with most questions focussing on capital, the net interest income (NII) outlook and cost control. ING now has more excess capital (37% of market capitalisation today vs 23% before), the NII outlook is more positive than the market believes (in UBS's opinion) and the new CEO has his eyes firmly on cost control. UBS finds the negative share price reaction as overdone given the fundamentals in earnings heading into 2021. ING trades on 0.42x Price/Tangible Book Balue for FY21, for c.10% sustainable Return on Tangible Equity and 7% dividend yield. ING's long-term Return on Equity ambition remains 10-12%. BUY. (Published by UBS)

Qualcomm (QCOM.O) — Big Beat and Raise as the 5G Ramp Continues. Still Our Top Pick. Raising Estimates and Maintain Positive Catalyst Watch/Buy.

QCOM posted 4Q results and provided guidance well above consensus due to better-than-expected demand for 5G phones. Citi raised its estimates and reiterated its Buy rating on QCOM due to further upside driven by the ramp up in 5G. QCOM remains Citi's top pick in the US semiconductor sector and Citi maintains a positive Catalyst Watch on the stock. BUY. (Published by Citi)

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Calendar

Figure 3. Calendar

Date	New Zealand	Australia	International
9-Nov	Tilt Renewables 1H21 Fonterra Shareholders Fund AGM	Building Approvals	UK: BoE Governor Bailey Speaks EU: ECB President Lagarde Speaks Infineon Technologies FY20
10-Nov	Electronic Card Retail Sales (Oct)	NAB Business Confidence (Oct) NAB Business Survey (Oct) James Hardie 2Q21	UK: Average Earnings Index (Sep) UK: Claimant Count Change (Oct) EU: German ZEW Economic Index Adidas 3Q20
11-Nov	RBNZ Interest Rate Decision RBNZ Monetary Policy Statement Mainfreight 1H21 Contact Energy AGM	Westpac Consumer Sentiment (Nov) Fortescue Metals AGM Computershare AGM Newcrest Mining AGM	US: EIA Short-Term Energy Outlook US: JOLTs Job Openings (Sep) Estee Lauder AGM
12-Nov	External Migration & Visitors (Sep) Infratil 1H21 Sanford FY20	Melbourne Institute Inflation Expectations Xero 1H21 Telstra Investor Day Sonic Healthcare AGM	UK: GDP (Q3) UK: Manufacturing Production (Sep) UK: Governor Bailey Speaks Siemens FY20
13-Nov	Business NZ Purchasing Managers Index (Oct) Food Price Index (Oct)		US: Core Consumer Price Index (Oct) US: Initial Jobless Claims US: Crude Oil Inventories EU: ECB President Lagarde Speaks Tencent 3Q20
14-Nov	CFTC NZD Speculative Net Positions	CFTC AUD Speculative Net Positions	US: Producer Price Index (Oct) UK: Governor Bailey Speaks

Source: Forsyth Barr analysis

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