FORSYTH BARR

WEALTH MANAGEMENT RESEARCH

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Wealth Weekly

Vaccines, Elections, Earnings All Positive

WEALTH MANAGEMENT RESEARCH
wmr@forsythbarr.co.nz
+64 4 499 7464

COVID-19 vaccine news has been the primary source of excitement in markets. Pfizer and BioNTech, which reported positive interim results from their vaccine last week, could apply to the FDA for emergency use authorisation as early as this week, and Moderna, which reported similarly strong interim results this morning, isn't far behind.

Companies mostly meeting or beating expectations

Pfizer/BioNTech early last Tuesday said their COVID-19 vaccine candidate, BNT162b2, appeared to be more than 90% effective. On top of that, Eli Lilly received emergency use authorisation from the US Food & Drug Administration for its neutralising antibody treatment, bamlanivimab, in high-risk patients with early-stage COVID-19. Early this morning, Moderna announced that its vaccine candidate, mRNA-1273, is 94.5% effective. **The positive vaccine news greatly reduced the probability of the worst-case scenario** — that the pandemic and associated disruptions to life and economic activity might linger for years.

Cyclical sectors like travel and leisure, energy, financials and office property had been left behind in the post-March rally, as investors seeking relief from artificially low interest rates shifted into pandemic-proof defensive and growth stocks like technology and biotech. **The cyclical laggards stand to gain if a vaccine and/or treatment helps economic activity** — such as travel, dining out, live entertainment, employment and interest rates — return to more normal levels.

Indeed, last week's vaccine news prompted the biggest outperformance by US small cap value stocks over small cap growth stocks seen in a single day over the last two decades. It was a similar story in the US following this morning's news from Moderna. It hasn't been all positive for cyclicals since last week's vaccine news though; **defensive and growth stocks made a comeback when the COVID-related news deteriorated later last week**, and they held up better than last week on today's Moderna news.

It will take time for vaccines to be distributed. In the meantime the pandemic and its economic consequences will have to continue to be managed. In the US, the Republican-led Senate is in no mood to cooperate with the incoming Democratic administration on a big fiscal stimulus bill. It remains to be seen how the new President's team will manage the pandemic and economy; President-elect Biden's advisers have so far indicated that a US nationwide lockdown is not required. But **equities are priced on expectations, and a rosier outlook for a pandemic-free world is another positive for earnings forecasts.**

Themes of the week

Locally, **the Reserve Bank postponed the start of the transition period to higher bank regulatory capital requirements and said its Funding For Lending Programme, by which it will directly fund the banks, will start in December**. Both are positives for the bank sector and for borrowers. Not so much for depositors.

With the prospect of a vaccine hopefully heralding the beginning of the end for COVID-19, risks around the US election diminishing, and policymakers globally remaining supportive of economies and bond prices, **we increasingly prefer equities over cash and bonds**. Our investment committee last week dialled up the recommended portfolio allocations to New Zealand and international equities, while maintaining a favourable view on Australian equities.

A few Australian companies reported last week as the US 3Q20 reporting season wound down. **We saw strong results from Amcor, James Hardie and Xero**. At its investor day **Telstra highlighted a pathway towards unlocking value** in its infrastructure assets. Further afield **there were good results from McDonald's, Tencent, Siemens and Walt Disney**.

Looking ahead

Results are due this week from **Investore Property** (today), **Napier Port**, **Serko** and **Aristocrat Leisure** (Wednesday), **Nvidia** (Thursday), and **Ryman Healthcare** (Friday). **Precinct**, **Vital Healthcare** and **A2 Milk** are among companies holding AGMs this week.

Markets Pfizzing on vaccine hopes

Early last Tuesday NZT, pharmaceutical company **Pfizer with biotech partner BioNTech announced that the initial phase III trial results have found their COVID-19 vaccine to be "more than 90% effective"**. Early today, **Moderna followed up with a similarly impressive result from the first read-out of its late-stage trial of mRNA-1273, saying it was 94.5% effective**.

BioNTech co-founder and CEO Ugur Sahin described the findings as "the best possible outcome". Pfizer CEO Albert Bourla called it "a great day for science and humanity". Anthony Fauci, head of the US National Institutes of Health, called the 90% effectiveness "just extraordinary" and saw it as a positive sign for other vaccines under development. Stéphane Bancel, CEO of Moderna, said the result had "given us the first clinical validation that our vaccine can prevent COVID-19 disease, including severe disease".

Stock markets around the world have rallied, led by those sectors most hit by COVID-19 such travel and leisure. "Stay-at-home" sectors (previous COVID-19 beneficiaries) have lagged or, in some cases, pulled back sharply

Miracle of science

The vaccines developed by both BioNTech and Moderna use a new technology, messenger-RNA (mRNA). If approved, they would be the first vaccines to use this technology. Unlike traditional vaccines, mRNA vaccines do not use an inactivated (or attenuated) virus. Instead they cause the body to create a protein from the virus, which the immune system recognises and learns to attack.

Phase III trials are the last and most rigorous stage before a vaccine is submitted for approval. The current trials, which commenced in July, are extensive with over 73,000 participants between them. The early results from both vaccines showed the groups that received vaccines had over 90% fewer cases of COVID-19 than those that received placebos. These initial results are promising. No vaccine in the world is 100% effective. Experts had warned that a COVID-19 vaccine might only be 60–70% effective.

The phase III studies are ongoing and additional data could affect results. That said, it looks like they will comfortably exceed the US Food and Drug Administration's (FDA) approval hurdle of at least 50% effectiveness.

The companies plan to file for emergency authorisation to distribute their vaccine in the coming weeks, once half of the patients in the studies have been observed for safety issues for at least two months. **Pfizer said so far there were "no safety concerns" and Moderna said its trial also "did not report any significant safety concerns"**.

The three companies indicated they could manufacture up to 70m doses of the vaccine this year, and and a further 1.8–2.3b next year (treating half that number of people at two doses each). **New Zealand is reported to have secured 1.5 million doses of the Pfizer/BioNTech vaccine, enough for 750,000 people**, however, it is not yet clear where we sit in the queue.

There is still a lot we don't know

Whilst the Pfizer/BioNTech and Moderna vaccines are highly promising, experts are warning there is still a lot we don't know. How long will the vaccine last? The companies expect "at least one year". Does it affect children and elderly differently? Will it prevent people from carrying and transmitting the virus? Does it reduce incidences of severe illness and death? Are there longer-term side effects? We need to appreciate the hyperspeed at which this development is travelling. Vaccines typically take 10–15 years to develop. The only real way to know the long-term implications is to wait and see. There will also likely be distribution challenges. The vaccine must be stored at super-cold temperatures, –70° to –80°C, which could make distribution difficult.

Will there be others?

Pfizer/BioNTech's and Moderna's **early successes bode well for the eight other vaccine candidates in the late stages of testing**. AstraZeneca, along with Oxford University, is expected to report findings within weeks.

The beginning of the end?

There is no debate that the news from Pfizer/BioNTech and Moderna is very positive. **For markets it provides a timely sentiment boost**, at a point when the focus was shifting to escalating second waves of the virus in Europe and the US. **It reinforces that, medium-term, a medical treatment for the virus is likely**. Getting these quickly to enough people, however, will not be straightforward. In the near-term, economies around the world will face varying ranges of restrictions. And the pandemic will leave economic scars. But it's clear the market's focus will now turn to vaccine news flow. Fingers crossed, today's news marks the beginning of the end for COVID-19.

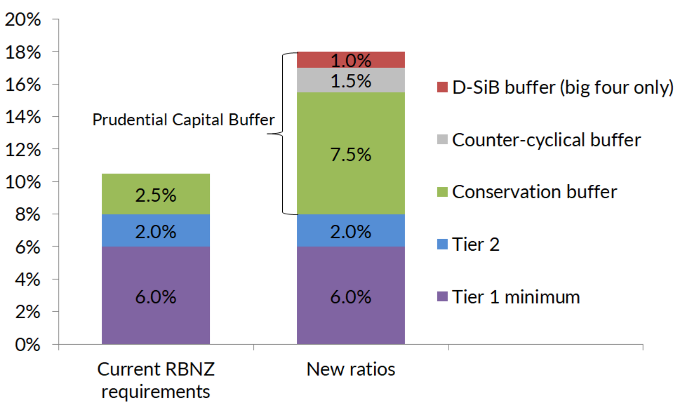
Themes of the Week

Fixed Interest

Capital can kicked down the road again ... sort of

The Reserve Bank of New Zealand delivered some welcome news to the banking sector last week with **another 12 month extension of the start of the transition period to increase regulatory capital**. Beginning in 2017 and finally ending in December 2019, the RBNZ undertook a review of bank capital requirements. Bank capital is effectively the capital that shareholders put up, or as the RBNZ likes to say, what amount of "skin in the game" a bank should hold. The significant increase (Figure 1) was set to occur from 1 July 2020 to 1 July 2027, however, COVID-19 has seen the start delayed by two years (now starting 1 July 2022). This is, in our view, a pragmatic approach to the current situation the economy finds itself in.

Figure 1. Bank regulatory capital requirements



Source: Forsyth Barr analysis, RBNZ

Figure 2. New Zealand capital securities

		Size (NZ$m)	1st Call date	Maturity
Tier 1	ANBHB	500	25/05/2020	Perpetual
	KCFHA	150	27/05/2020	Perpetual
Tier 2	ABB050	400	15/12/2021	15/12/2026
	BNZ090	550	17/12/2020	17/12/2025
	WBC010*	400	1/09/2021	1/09/2026

Source: Forsyth Barr analysis, *WBC010 is not subject to RBNZ regulatory rules

What didn't change?

The RBNZ has not, however, delayed the phasing-out period that will see **the current crop of loss-absorbing capital securities (Figure 2) begin to lose their capital recognition at a rate of 12.5% pa beginning on 1 July 2021**. At present, fixed income securities issued by ANZ, ASB, BNZ and Kiwibank contribute capital to the respective banks, however, this contribution will begin to decline, forcing the likely redemption of ABB050, ANBHB, BNZ090 and KCFHA in due course. To date, banks have been unable to replace these securities as the RBNZ is yet to finalise what it would like to see in their place, with the RBNZ ruling out any loss-absorbing features in future securities. We expect to see what the new rules may look like in the coming weeks.

Direct funding coming to a bank near you soon

The RBNZ also announced it will start its Funding for Lending Programme (FLP) in December, with the final details being released soon. This is aimed at reducing the funding costs of banks, which in turn is supposed to lead to lower borrowing costs for households and businesses. The RBNZ is also looking at reintroducing loan-to-value restrictions as the property market runs hot, however, banks themselves are already doing this, with the ASB setting its own LVRs on property investors.

Asset Allocation

Turning the dial to minimum cash, maximum tolerable equities

The Forsyth Barr Investment Committee (FBIC) met last week to review its recommended asset class allocations between cash, bonds, listed property and equity.

The committee increased the recommended exposures to equities by:

- Deepening the underweight position in cash
- Staying neutral in bonds
- Moving from neutral to overweight in international equities
- Maintaining a modest overweight in Australian equities
- Lifting the overweight position in NZ equities

FBIC's decision reflects an aversion to cash and bonds at current interest rates, more than the attractiveness of equities. Equities on average look expensive compared to history, but less so than fixed interest assets, and they are tolerably priced considering the potential for earnings rebounds in some sectors and considering that policymakers have been willing to underwrite significant economic risks.

Cash & bonds unable to do their job as well as they used to

We expect interest rates to remain at ultra-low levels. Central banks, led by the US Federal Reserve, have committed to keeping cash rates around zero until at least 2023. The current pace of bond purchases via quantitative easing is also expected to continue while COVID-19 maintains a threat over the economy.

Bonds no longer effectively play two traditional key roles in portfolios: income is low, and (because yields are already close to zero) the hedging effect usually provided by falling bond yields/rising bond prices to equity market volatility is significantly diminished. Central banks are aiming to achieve above target inflation. Historically this has been difficult to achieve, but if they are successful then real inflation-adjusted interest rates will decline further and there is a risk of capital losses on bonds.

Equity valuations are high, but with policymakers effectively issuing free market insurance, they have room to move even higher

COVID-19 provided a stern test for the global economy and, thanks to policymakers, it has been navigated without a depression or even a deep and protracted recession. **Elevated equity prices can be rationalised by the ultra-low level of interest rates, the low threat of inflation, and the willingness of central banks and governments to do whatever it takes to prevent financial and economic contagion** like we saw in the global financial crisis.

With policymakers having effectively removed the depression-type risk that has usually been associated with investing in equities, equity investors are able to justify paying more for equities than they used to while still earning the same return per unit of risk they're taking.

To put it in more technical terms, a key reason why equities normally have lower valuations (and higher returns) than bonds is because they are riskier than bonds. The degree to which equities are riskier than bonds influences how much more of a return investors can expect from equities than from bonds; this is referred to as the equity risk premium (ERP) — the difference between prevailing long-term government bond rates and the total return that investors require from equities. An ERP exists to pay investors for a depression-type risk. By lowering the depression-related risk associated with investing in equities, policymakers are allowing the equity risk premium (ERP) to fall. Despite equity valuations already looking high, the ERP is actually above the long-term average level, because government bond rates are so low. If the ERP falls further, this means valuations would rise and (assuming earnings are flat or rising) stock prices would rise.

Assuming this environment continues, even owning stocks solely for dividends should provide significantly better returns than holding bonds or cash.

Company earnings also look positive

Confidence that corporate earnings can recover through 2021 and 2022 is supported by the US election outcome, getting on top of the pandemic, and continued fiscal stimulus.

The split-party outcome of the US election reduces the likelihood of US tax increases or an increased regulatory burden on companies. The consensus view is that it's unlikely Democrats will win both seats in runoff elections in Georgia, leaving the US Senate with a Republican majority. So politicians on either side of the House won't have unchecked power, and radical policy shifts seem unlikely. Historically, economic growth was about -0.5% pa lower but S&P 500 equity returns were about +6.5% pa higher during periods when control of Congress was split than when both the House and Senate were controlled by Democrats.

The rebound in infections in the Northern Hemisphere autumn/winter may cause the economic recovery to stall. But we now know that social distancing and even lock-down-light approaches are effective in reducing/stamping out viral outbreaks. The global economy could also enjoy another rebound in spending and activity once the current viral surge eases. Last week's announcement from Pfizer and BioNTech that their vaccine has a high rate of efficacy increases confidence that a medical treatment will vanquish COVID-19 in the medium-term.

More fiscal support has been committed around the world — some targeted (infrastructure) and some not (tax relief). But the era of austerity is over, with the return of big governments and bigger fiscal deficits. In the short-term this should support the economic recovery.

We like NZ and international equities even better than Australian

The decision at the FBIC meeting to recommend increased NZ and international equity exposures reflected:

- Confidence that our NZ Equity Research team continues to identify appropriate NZ stock opportunities for portfolios, plus the tax efficiency and defensive nature of the domestic market
- Lessened volatility risks in the northern hemisphere
- Our Wealth Management Research team's view that better value-for-risk is available in international equities than in Australia.

The New Zealand equity market, while looking expensive, is supported by similar factors as the US — very accommodative central bank policies, election uncertainty out of the way with a single party majority, strong commodity prices and terms of trade, and a government committed to fiscal stimulus. In addition, New Zealand's largely 'COVID-free' status should continue to see the domestic economy remain open, unlike many in Europe over the next few months. The closed border remains a hurdle to a number of important sectors (tourism, education, hospitality, horticulture), but based on current data, the domestic economy is tracking ahead of expectations. The economy could rebound further if conditions allow a travel bubble to be opened with parts of Australia or Asia at some stage. The recent reporting season was positive, with many companies delivering better than expected earnings.

Australian results and updates

Amcor (AMC.AX)

AMC's 1Q21 result was largely in line with expectations, with high-teens earnings growth. Both the Flexibles and Rigids divisions delivered overall volume growth in the period (+2% and +4%, respectively). The strong start to the year has given management confidence to lift its FY21 constant currency EPS growth guidance range to +7–12% (previously +5–10%).

We are attracted to the relatively defensive nature of AMC's business in consumer packaging markets. Some 70–80% of its revenue is exposed to in-home consumption and on-the-shelf-products. AMC is set to deliver an earnings and cash uplift from years of restructuring initiatives and the integration of its Bemis acquisition. Should the company deliver on its targets for modest organic volume growth, cost synergies from Bemis, and accretive stock buybacks, **we expect a c.5–10% annualised earnings growth rate and a sustainable ~4.5% dividend yield over the next three years**. AMC is in our Australian Model Portfolio.

James Hardie (JHX.AX)

JHX's 2Q21 result was no surprise after the company had provided a trading update on 14 October. Net profit grew +22% vs the prior corresponding period, helped by a strong improvement in demand across all markets, and a reduced operating cost base. **Management reiterated its FY21 net profit guidance range of US$380–420m, and operations appear to be tracking well** based on the trading update for the 3Q21. Helped by reduced inventories, JHX expects to reduce debt by US$400m, and reinstate the dividend at the FY21 result. Management confirmed it will invest in an Innovation Platform in FY22 to drive future growth. The aim is to develop customer-led innovations that compete with other adjacent exterior siding and associated products (outside of the vinyl and wood-look categories). It may take some time before benefits from this programme are seen.

JHX is leveraged to the US and Australian housing market and strong execution should see the company deliver positive market share gains. But **the shares are largely priced for these expectations**. We continue to hold JHX shares in our Australian Model Portfolio but recommend a "half" weighting given its full-but-fair valuation.

Telstra (TLS.AX)

At its investor day TLS announced a restructuring of InfraCo and is planning a partial sale of its mobile tower assets. Figures in TLS's investor presentation imply the mobile tower assets are worth approximately A$4.8b based on valuations of listed US peers (Crown Castle and American Tower). But TLS steered away from an outright sale, saying it intends to bring in outside investors while keeping control of its 'strategic' (regional) towers. That should still help investors see the value in an undervalued asset.

TLS raised its FY23 return on invested capital target from >7% to 8%, which will put its EBITDA in the A$7.5–8.5b range it needs to sustain a 16cps dividend. This represents a big uplift from the A$6.5–7.0b guidance range for FY21, but it appears achievable assuming mobile EBITDA returns to growth. TLS is now also aiming for mid-teens NBN reseller margins in FY23. **These comments/ changes are all net positive and should help market confidence around TLS.** We like TLS due to: i) its undemanding valuation and attractive c.5% dividend yield; ii) its defensive underlying earnings; iii) the improved competitive outlook for its mobile business; and iv) the steps it is taking towards unlocking value from its infrastructure assets. **TLS is in our Australian Model Portfolio.**

Xero (XRO.AX)

XRO delivered an impressive 1H21 result, driven largely by a strong margin as lower advertising and travel costs helped offset ongoing heavy investment into R&D. Weakness in the June quarter was more than offset by a strong recovery in the September quarter. Revenue was a notch above forecasts, with XRO adding +168k subscribers during the half, however, there was some weakness in subscriber additions in International markets. Customer churn of 1.11% was in-line with the prior corresponding period, whilst average revenue per user (ARPU) grew +3%, a strong outcome amidst COVID-19 impacts to small businesses. XRO finished the half with a net cash balance of ~$178m.

Our Australian research affiliate sees scope for further near-to-medium-term growth and outperformance on the basis of XRO's i) leading positions in its key Australasian and UK markets, ii) ample liquidity for bolt-on M&A opportunities, iii) ongoing growth in cloud software penetration, and iv) opportunities to enter new markets. **Whilst the outlook for XRO is positive, we struggle with its lofty valuation**, and do not hold it in our Australian Model Portfolio.

Global results

McDonald's (MCD.N)

MCD's 3Q20 results showed a recovery in worldwide sales. Revenue was in-line and EPS better than expected but the outlook for FY21 and FY22 operating margins was softer than expected. Group sales declined by -2.2% y-o-y in 3Q, which was better than the -14% in the first half of the year, as the US returned to growth and sales improved but remained down on the prior year in markets like France, Germany and the UK. Management guided to mid-single-digit sales growth in 2021 versus 2019. But **profitability targets were slightly watered down from prior expectations** as higher capex and general and admin costs are required to support digital enhancements and global expansion.

MCD has performed well relative to peers in the face of COVID-19, and is **well-positioned for a rebound in profitability and to gain market share in a post-pandemic environment.** The shares look fairly valued in our view, and while we don't hold MCD in the International Model Portfolio it looks like a solid Hold for those that do own shares.

Siemens (SIEGn.DE)

SIEGn's 4Q20 result largely met or beat expectations. Management guided to flat growth in its automotive and machine tool end markets in FY21, but this may prove conservative given a more positive commentary from peers. SIEGn sees no long-term growth impairment from COVID-19.

SIEGn is engaged in a wide range of energy, transportation, and industrial markets, and is the largest player in factory automation equipment globally. Following the spinoff of Gas & Power, and with more asset sales on the horizon, **SIEGn is expected to eventually become more focussed on Digital Industries and Smart Infrastructure.** SIEGn's focus on strong cost management in the face of end market weakness should provide earnings support. **We continue to hold SIEGn in our International Model Portfolio.**

Tencent (700.HK)

Tencent's 3Q20 results beat expectations on revenue and earnings. **The online games business delivered robust growth** (+45%). **Fintech revenue grew healthily** at a similar rate to prior quarters. Overall China advertising activity appears to have largely returned to normal conditions, although Tencent's cloud business seems to be experiencing a slower recovery. Looking into 4Q20, smartphone games momentum should continue, driven by the release of new games, a mix-shift to higher value ads, and healthy growth in fintech. **Management said Tencent's gaming and digital entertainment businesses are not expected to be a focus of the government's Antitrust Guidance, and its fintech business is not expected to be significantly impacted by the Online Micro Lender Rule.**

We continue to like Tencent as its mobile games growth and pipeline remain strong, and fintech, cloud and advertising offer multiple secular growth drivers. Tencent should be able to drive earnings growth by monetising its sticky, integrated mobile user platform on WeChat. Tencent is in our International Model Portfolio.

Walt Disney (DIS)

DIS delivered 4Q20 results that beat expectations across the board, helped by strong cost management. Total revenue was +5% ahead of consensus, and its adjusted **EPS loss of -20cps was far better than the -70cps that was expected.** At a segment level Parks, Direct to Consumer & International (DTCI), and Media Networks all topped revenue expectations, while Studio Entertainment revenue was the only miss due to ongoing COVID-19 disruption. DIS' operating income beat was largely driven by its Media Networks segment which benefitted from a recovery in advertising, and lower production costs due to delayed college football, narrower-than-expected losses at Parks, and DTCI also helped.

As of 3 October, **Disney+ had 73.7m subscribers, up from 57.5m last quarter, and ahead of expectations for 66m.** Guidance was limited but management highlighted investment in the direct-to-consumer (DTC) channel as its top priority, and kept the dividend on hold. While DIS+ continues to gain traction, **we remain on the sidelines as headwinds from the pandemic are likely far from over, and continued investment in DTC is likely to weigh on earnings for some time.**

Research Worth Reading

New Zealand

Air New Zealand (AIR) — Valuing Loyalty — Upgrade to NEUTRAL

Vaccine news and related positive sentiment aside, the recovery profile for AIR is likely to be uneven and long-dated. AIR's asset value continues to be an appropriate valuation benchmark while the business is loss-making or generating returns below its cost of capital in our opinion. However, this valuation anchor inconveniently ignores the Airpoints business, which is scalable, asset-light and generates relatively stable earnings. We believe it is a higher multiple business than AIR's aviation business and contributes a material part of AIR's current share price. This may sound fanciful, yet a number of US airlines have recently used their loyalty schemes as collateral to raise funding. AIR still requires a capital raise to mend its balance sheet, but this will be made easier with a more positive vaccine outlook. We upgraded our rating to NEUTRAL. (Published by Forsyth Barr)

Infratil (IFT) — 1H21 Result — Value In, Cash Out

We walked away with three main takeaways from IFT's 1H21 result: 1) Vodafone, after various adjustments, experienced a modest organic decline in EBITDAF; 2) management appears comfortable with current leverage levels and views "ad-hoc" cash injection from Longroad/other and/or asset sales to likely be sufficient to cover cash needs; 3) CDC continues to be the main driver of net asset value growth, but is also likely to drive continued performance fees. We make numerous minor asset value adjustments and move Wellington Airport (WIA), CDC and Vodafone NZ to a peers-based market multiple valuation approach. NEUTRAL. (Published by Forsyth Barr)

Mainfreight (MFT) — 1H21 Result — Foot Firmly on Pedal

Positive forward commentary highlights the ongoing strength of MFT's profit growth profile. Management appears confident of another very strong six month period through 2H21, which should translate to meaningful market consensus earnings upgrades. The caution apparent at the investor day around pre-Christmas Australasian volumes has disappeared given "extraordinary tonnage" in recent weeks. We expect revenue growth to accelerate through the second half as new customer wins boost activity levels and the COVID-19 disruption doesn't repeat (at least to the same extent as in 1H21). MFT is not cheap in relative terms. At ~29x one year forward PE it trades broadly in line with key international peers. But given its quality attributes, strong earnings growth outlook and opportunities to expand in Europe and the Americas, we retain an OUTPERFORM rating. (Published by Forsyth Barr)

Sanford (SAN) — FY20 Result — Looking to the Horizon

A challenging operating environment materially weighed on SAN's FY20 result, and whilst earnings were disappointing, it was largely a function of COVID-19 disruption. Key longer-term earnings drivers remain intact, with no underlying changes to asset productivity or long-term growth opportunities. However, SAN’s earnings are likely to remain under pressure while COVID-19 disrupts global restaurant trade, with a normalisation of food supply chains a key catalyst for a change in tides. Whilst we do not expect this to occur any time soon, we view the current share price as an attractive entry point for exposure to a series of unique fisheries and marine farm assets for investors that are willing to be patient. OUTPERFORM. (Published by Forsyth Barr)

Z Energy (ZEL) — Pumping Up the Volume

Z Energy's (ZEL) October 2020 volumes showed a continuing positive trend, including Caltex retail volumes and commercial diesel volumes. In addition, retail and refining margins are holding or improving. ZEL still has work to do, but there is positive momentum in the business. Barring another nationwide Level 3 or 4 lockdown, ZEL should deliver FY21 EBITDAF earnings within guidance. That in turn will enable ZEL to provide FY22 dividend guidance with a degree of confidence. We expect continued positive news flow will help unwind the significant discount the stock is currently trading on and reiterate our OUTPERFORM rating. (Published by Forsyth Barr)

Australia

BHP Group (BHP.AX) — Steel decarbonisation briefing feedback

BHP provided a briefing on steelmaking decarbonisation initiatives. BHP highlighted that overall, there would be a very different regional split with respect to lower carbon steel, driven by technology availability, government policy and the maturity of different economies. This suggests that in the medium term it is unlikely the global steel industry will converge on a single model to reduce emissions. BUY. (Published by Ord Minnett)

CSL (CSL.AX) — Vaccine news implications, upgrade to Accumulate

After underperforming the domestic market by about -17% over the past six months, the encouraging news from Pfizer/BioNTech regarding the efficacy of their COVID-19 vaccine candidates provides a two-fold boost to CSL's outlook; 1) It suggests a pathway back to normal for plasma collection, and 2) the vaccine candidates CSL is manufacturing now appear more likely to succeed, based on similar antibody profiles, raising the potential for a new multi-year revenue stream. ACCUMULATE. (Published by Ord Minnett)

Ramsay Health Care (RHC.AX) — Q1 revenue and costs negatively impacted by COVID, as expected

RHC provided revenue growth figures, but EBITDA was not disclosed and no FY21 guidance was provided. A significant amount of uncertainty remains for RHC in the short term due to COVID-19, especially in France and the UK. The key driver for FY21 is how quickly Australian surgical and non-surgical volumes normalise; Citi assumes European operations are EBIT neutral in FY21. Citi expects the market to focus more on FY22 earnings. NEUTRAL. (Published by Citi)

Sonic Healthcare (SHL.AX) — Positive AGM update

SHL is experiencing record COVID testing volumes in the USA and Europe — the base business is negatively impacted but less than in the first waves of the pandemic. In Australia, COVID testing is at 50% of prior peak levels while the base business has returned to positive growth. At its AGM, SHL announced that October revenue was up +33% on pcp. No EBITDA information was provided. SHL had previously disclosed 1Q21 revenue (+29%) and EBITDA (+71%). Citi has increased its FY21–FY23E EPS estimates by +58%/+28%/+5% and upgraded to BUY (from NEUTRAL). Acquisitions beyond COVID remain a key upside risk. BUY. (Published by Citi)

Sydney Airport (SYD.AX) — Vaccine breakthrough implications

SYD saw its share price climb +12% in the two days following the positive news that the COVID-19 vaccine being developed by Pfizer and BioNTech had reported more than 90% efficacy in its first interim analysis. This bodes well for the travel and tourism sector, although widespread vaccination is still many months away. In Ord Minnett's view, the current share price implies domestic passenger numbers will recover to pre-COVID (2019) levels by the end of 2021 and international by late 2022. This is effectively one year ahead of Ord Minnett's current domestic forecast and two years ahead of its international forecast. BUY. (Published by Ord Minnett)

International

Apple (AAPL.O) — New Macs Enhance Apple's Product Lineup Ahead of Holiday Season

AAPL announced its new line of 13.3" MacBook and MacBook Air laptops and the Mac Mini with its own line of silicon, M1. The new chipsets are designed on 5nm process nodes, with 16n transistors, 8-core CPU and a unified memory architecture which is expected to drive significantly faster CPU performance, faster video and image processing and enhanced battery life. BUY. (Published by Citi)

Qualcomm (QCOM.O) — Virtual Non-Deal Roadshow Shows Still Early Innings in the Growth Story. Expect More Upside and Remains Our Top Pick.

Citi held an investor meeting with QCOM and discussed topics such as: 5G, growth, M&A, Huawei, and Apple. Citi believes the company's upside is just starting, driven by adjacencies and the 5G upgrade cycle and Citi expects consensus estimates to continue to increase and the stock to outperform. Citi reiterates its Buy rating on QCOM due to higher EPS growth. QCOM remains Citi's top pick in its sector in the US. BUY. (Published by Citi)

Unilever (ULVR.L) — A mispriced post COVID-19 narrative (for a staples stock)

Citi's analysis points to downside risk to Unilever's margins in 2H20, but Citi would use it as an attractive entry point for a mispriced story. Unilever is not the best vaccine play in the consumer staples sector, but Citi thinks it offers a combination of scale-driven earnings recovery and mispriced portfolio optionality. Citi resumed coverage of ULVR following a period of restriction with a BUY rating and new target price of £54.00 for the UK-listed ULVR.L and EUR60 for the Amsterdam-listed UNA.AS. BUY. (Published by Citi)

Calendar

Figure 3. Calendar

Date	New Zealand	Australia	International
16-Nov	Auckland Airport Monthly Traffic	RBA Governor Lowe Speaks	JP: GDP (Q3) CN: Industrial Production (Oct) Vodafone Plc 1H21
17-Nov	Business NZ PMI RBNZ Offshore Holdings (Oct) CFTC NZD Speculative net positions Investore Property 1H21 Precinct Properties AGM Vital Healthcare Property AGM	RBA Meeting Minutes RBA Assist Gov Kent Speaks RBA Assist Gov Debelle Speaks CFTC AUD Speculative net positions Afterpay AGM	EZ: ECB President Lagarde Speaks
18-Nov	GlobalDairyTrade Price Index Producer Price Index (Q3) Napier Port FY20 Serko 1H21 a2 Milk Company AGM Abano Healthcare AGM	Melbourne Institute Leading Index HIA New Home Sales Wage Price Index (Q3) Aristocrat Leisure FY20	US: Retail Sales (Oct) UK CPI (Oct) EZ: CPI (Oct) British Land 1H21 SSE 1H21 Walmart 3Q21 Home Depot 3Q20
19-Nov	AFT Pharmaceuticals 1H21 Rakon 1H21 Foley Wines AGM Harmoney Corp listing expected	Employment Change (Oct) Participation Rate (Oct) Unemployment Rate (Oct) BlueScope Steel AGM Goodman Group AGM Mirvac Group AGM Seek AGM	US: Building Permits (Oct) US: Crude Oil Inventories EZ: ECB President Lagarde Speaks Nvidia Corp 3Q21 Lowe's 3Q20
20-Nov	Credit Card Spending Ryman Healthcare 1H21 BLIS Technologies 1H21 (tbc)	Retail Sales (Oct) Sydney Airport Oct Traffic Update LendLease AGM	US: Initial Jobless Claims US: Philadelphia Fed Manufacturing Index (Nov) US: Existing Home Sales (Oct) UK: Retail Sales (Oct) CN: PBoC Loan Prime Rate Intuit 1Q21

Source: Forsyth Barr analysis

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