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Wealth Weekly
From Sickcare to Healthcare

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This week, as the COVID-19 pandemic continues to rage outside our borders and vaccination programmes gather pace, we take a broader look at the long-term direction of healthcare systems, and at what types of companies might benefit from helping to bring the sector into the digital age.

Global healthcare — Longing for a connection

Already a large and complex environment, **the healthcare sector is characterised by more pain points than most. One area that appears particularly ripe for change is the lack of connectivity**, with patients' health records scarcely being shared between clinics; **another is costs rising faster than GDP**, with 20% of these costs not spent on generating better health. In a report we published on 15 January, *Longing for a Connection*, we: 1) outlined our thesis of the thematic trends we believe are set to reshape/disrupt the healthcare sector; 2) provided a brief overview of the healthcare sector; and 3) identified global companies that we feel are favourably positioned to benefit from these trends. These **"connected healthcare" companies should profit from higher growth rates, facilitate the interoperability of healthcare data, and/or reduce healthcare systems' inefficiencies**. Our two preferred "connected healthcare" companies currently are **Royal Phillips** and **Boston Scientific**.

Themes of the week

Also in the healthcare sector, **pharmaceutical and biotech companies continue to look inexpensive despite possessing attractive defensive growth attributes**. As part of our pre reporting season analysis, we have identified six pharma/biotech stocks that in our view offer investors good growth prospects at a reasonable price: **AstraZeneca, Baxter, Bristol-Myers Squibb, Merck & Co, Sanofi and Takeda**. As a group these six companies have underperformed the MSCI World Index by -11.8% since 30 October.

The international information technology sector performed well in 2020, with most stocks rebounding from the lows experienced in April. Six stocks within this group look attractively priced given their growth outlooks: **Adobe, Fiserv, Microsoft, NVIDIA, Salesforce.com** and **Visa**. They have underperformed the MSCI World Index by -13.3% since late October.

Consumer discretionary stocks had a good run in 2020, benefitting from cost cutting measures and increased movement to direct-to-customer sales and online ordering. Four consumer discretionary stocks with high growth and earnings potential that still offer good value are: **Amazon, Alibaba, Kering** (owner of Gucci) and **McDonald's**.

Consumer staples stocks did not fare as well in 2020, with defensive companies slow to rebound from April lows and the whole sector broadly underperforming the market for the year as investors preferred higher growth stories. **The Coca-Cola Company** and chocolate snack maker **Mondelez** appear to offer solid return potential from current levels.

Several fund managers provided updates last week. The managers of Bankers Investment Trust, a diversified global equity trust, are **preferring European and Asian stocks in the expectation that they will benefit most from an economic rebound this year**. Polar Capital Technology's managers are **seeing strong fundamental outlooks for many companies, but also pockets of over-valuation in parts the tech sector**. Scottish Mortgage's managers have **turned away from several US technology platform giants** in favour of earlier stage companies in areas like healthcare data, transportation and clean energy. We believe having some exposure to technology and growth funds in portfolios makes sense for investors considering the favourable secular trends, but taking profits from over-sized positions may be warranted given signs of euphoric trading behaviour in some high-growth stocks.

Looking ahead: Reporting season in full swing in the Northern Hemisphere

Companies reporting results this week include LVMH, 3M, GE, Microsoft, Johnson & Johnson, Starbucks, Apple, Boeing, Facebook, Tesla, McDonald's, Mondelez, ResMed, Eli Lilly and Samsung. The US Fed will hold a press conference on Thursday.

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Connected Healthcare

Ample opportunities in healthcare technology

In reviewing the healthcare sector, we found a sector ripe for change. Demographic trends require a shift from an ambulance-at-the-bottom-of-the-cliff approach towards a preventative, patient-centric and value-based approach. The slow adoption of digital technology has left health care systems data rich but information poor and hindered adoption of new and better delivery models. We believe a shift is occurring towards a more connected health care system. Many of these trends have been publicised for years and it will take more time for change to occur. But as Bill Gates has said, **"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten"**.

If our thesis comes to fruition it will require large investments and structural shifts.

The key trends in our healthcare thesis are:

1. **Ageing and increasingly unhealthy populations** are driving a higher proportion of high-cost, chronic conditions
2. **Digital transformation —** better harnessing healthcare data — can enhance patient outcomes and unlock efficiencies
3. **A shift in delivery and reimbursement** towards a more preventative approach, based on the quality of outcomes and delivered through multiple channels, can further improve outcomes and efficiency

We believe the best opportunities to invest within the healthcare technology sector can be found in companies that are driving a more connected ecosystem. Those with exposure to chronic diseases, enabling enhanced efficiencies, and/or interoperable and agnostic software/devices will be well placed to capture the benefits of a shift towards this connected ecosystem.

Our preferred stocks that we believe are well placed to benefit from this theme are **Royal Philips** (PHG.AS) and **Boston Scientific** (BSX).

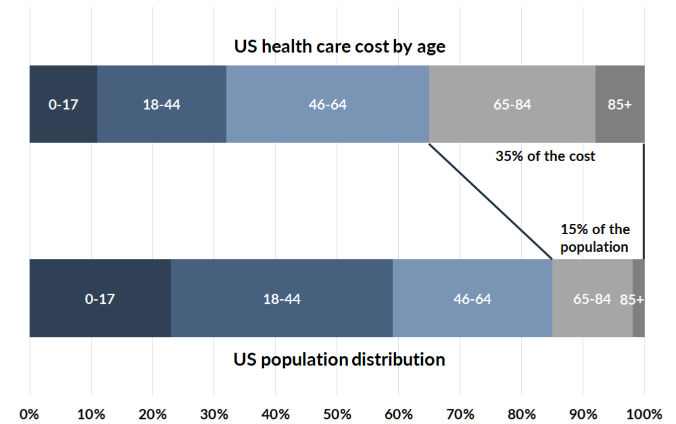
Ageing populations & modern lifestyles drive costs higher

Chronic conditions are already on the rise. Since 1990 the percentage of global deaths caused by non-communicable (predominantly chronic) diseases such as heart disease, stroke, diabetes and cancer, has increased from 58% to 73%, a trend that is expected to continue as populations age.

In the US, over 65s (15% of the population) account for 35% of health care costs, a proportion likely to continue increasing as populations age.

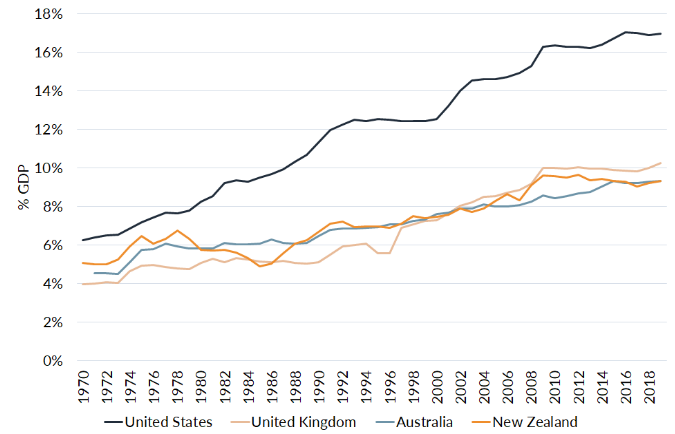
Unhealthy lifestyles also contribute to more under-65s suffering chronic conditions.

Figure 1. Higher proportion of costs from over 65s



Source: US Census Bureau, Centres for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, Forsyth Barr analysis

Figure 2. A rising share of GDP is being spend on healthcare



Source: OECD, Forsyth Barr analysis

Unnecessary practices, duplication and other inefficiencies mean that around 20% of health care expenditure in OECD countries (US$1.3tn) is not being applied to generate better health, and sometimes even harms health.

There are a number of different approaches to reducing inefficiencies, but broadly speaking we find two key areas: 1) digitalisation and connectivity, and 2) altering the delivery model.

Slow adoption of digitalisation

Many healthcare systems around the globe are in the process of digitalising their health care services via the introduction of electronic health care records. **It is estimated the healthcare sector produces as much as 30% of all the world's stored data, but the majority of this is not integrated.**

The answer is connected systems with seamless data interoperability. A connected and digital system would allow patient data from multiple clinics to be collated, providing clinicians with a better understanding of the patient and enabling more personalised care and reduced harm during care — both improving patient outcomes and cutting costs.

Wearable health monitoring technologies like smart watches present an opportunity to collect personal data for individual care or anonymous large-scale analysis. This is an area where tech companies such as Google and Apple are beginning to encroach on established healthcare systems.

Companies with the ability to 1) collect, store, cleanse and analyse data; 2) offer cybersecurity; 3) efficiently scale IT infrastructures and/or; 4) interact with various hardware/softwares, will be at the forefront of the digitalisation effort.

From sickcare to healthcare — changing delivery models

Most western healthcare systems operate more like "sickcare" models — treating patients predominantly after they become ill. A preventative approach could flag emerging problems earlier when the diseases are easier to treat. **Value-based care models — where reimbursement is tied to the quality of patient outcomes — are in their infancy but gaining popularity**. Providers who stand to benefit under this model are those who are able to produce better outcomes per episode of care and per dollar of costs; these are likely to be the providers with the most knowledge and the best technology. Improving patient data capabilities should reduce the barriers to implementing such a model.

How to invest in the "connected" healthcare theme?

Nine of the companies we believe are favourably exposed to these connected healthcare themes are outlined in our report, *Longing for a Connection*, published on 14 January. **Royal Philips** and **Boston Scientific** are currently our top picks. Others on our watchlist are Abbott Laboratories (ABT.N), IQVIA Holdings (IQV.N), Masimo (MASI.O), Medtronic (MDT.N), Stryker (SYK.N), Thermo Fisher Scientific (TMO.N) and Veeva Systems (VEEV.K).

Royal Philips (PHG.AS) is a Netherlands-based health technology company that has recently refined its focus towards the healthcare space. The company is a leader in diagnostic imaging, image-guided therapy, patient monitoring and health informatics, as well as in consumer health and home care. PHG's business segments are; Diagnosis and Treatment (44% of sales), Connected Care (c. 24% of sales), Personal Health (c.30% of sales).

The company's goal is to become a global HealthTech leader, with the objective of driving profit growth by seamlessly connecting care across the health continuum: healthy living, prevention, diagnosis, treatment and homecare. The ultimate goal is to help reduce the cost of healthcare by using digital innovative products to improve the information between patients and medical specialists/ operators.

We believe the substantial investment that PHG has made to enable/execute its vision statement should underpin double-digit profit growth over the medium term, and lead to positive re-rating of its price/earnings multiple.

Boston Scientific (BSX.N) is a developer, manufacturer and marketer of minimally invasive medical devices. It is a leader in devices for heart conditions, and focusses on manufacturing cardiovascular and cardiac rhythm management products. BSX also makes devices used for electrophysiology, endoscopy, pain management (neuromodulation) and urology.

The company is in the midst of an evolution: introducing new products, integrating several acquisitions and expanding operating margins. Despite short-term impacts from COVID-19, in the long term BSX's meaningful pipeline, developed both through internal R&D and investments and acquisitions, should allow the company to return to its premium growth profile on both the top- and bottom-lines.

We have switched BSX for Medtronic (MDT) in our International preferred list. BSX has a slightly different offering to MDT, with more of a focus on minimally invasive medicine. BSX features in both Citi and UBS's top picks for healthcare in 2021.

An alternative way to invest in healthcare technology companies is through a diversified healthcare investment trust like **Worldwide Healthcare** (WWH.L) — which invests across all healthcare sectors including pharma, biotech, devices and services — or through a medical devices ETF like **iShares US Medical Devices** (IHI.N).

Themes of the Week

International Equities

As the December quarter reporting season ramps up, we last week previewed which stocks within our preferred sectors (pharmaceuticals, technology and consumer) look attractively priced relative to analysts' expectations of their future earnings growth. Below we have briefly summarised the investment cases of the companies that look well placed on our metrics.

Pharmaceuticals

AstraZeneca (AZN.L) — AZN has an impressive growth outlook thanks to six drugs in its portfolio which are well positioned within their respective segments. There is scope for AZN to deliver ahead of market expectations over the medium-to-long term if new indications lead to higher sales of key drugs, such as Farxiga and Lynparza.

Baxter (BAX) — BAX's CEO Joe Almeida has overseen significant changes over the last couple of years, resulting in a significant step up in margins. New product launches are expected to support revenue growth and further margin expansion over the next few years. We continue to like BAX given the relatively defensive nature of its business and the company's high earnings visibility.

Bristol-Myers Squibb (BMY) — BMY's acquisition of Celgene lessens its reliance on key drug Opdivo, and provides pipeline optionality. BMY's mature product portfolio should deliver strong cash generation in the near term which will support the development of new drugs in the pipeline.

Merck & Co (MRK) — MRK is one of the world's largest pharmaceutical and animal health companies. MRK's execution and forethought on novel pathways to approval is unique vs its competitors, and its key drug Keytruda (for the treatment of numerous cancers) enjoys a healthy lead time and has a large addressable market.

Sanofi (SASY.PA) — Sanofi specialises in therapeutic areas such as diabetes, cardiovascular, multiple sclerosis, immunology, blood and rare diseases. It also has leading positions in consumer health, vaccines, and emerging markets. Sanofi's Dupixent will be a key driver of top-line growth, especially following the €1.8bn impairment charge on the Bioverative acquisition, due to increased competitive risks for key asset Eloctate in haemophilia from Roche's Hemlibra.

Takeda (4502.T) — Takeda generates revenue across 14 global brands in five key segments: i) Gastrointestinal (GI), ii) Rare Diseases; iii) Plasma-derived Therapies (PDT), iv) Oncology; and v) Neuroscience. These five divisions make up around 80% of Group revenue. We are impressed with Takeda's corporate governance, proactive ESG stance across every aspect of its businesses, and its favourable medium term growth prospects.

Information technology

Adobe (ADBE.O) — ADBE develops, markets, and supports computer software products and technologies. The company's products allow users to express and use information across all print and electronic media, offering a line of application software products, type products, and content for creating, distributing, and managing information. The last couple of years have been highlighted by the subscription transition and expanding addressable market delivering much greater value from the Creative Cloud part of the business where ADBE maintains a dominant market share. ADBE's leadership position in Creative Cloud, Document Cloud, and Experience Cloud is expected to help drive near-term EPS growth of 15–20% p.a.

Fiserv (FISV.O) — FISV is a leading financial service technology provider in the core banking and payment processing industry with a high proportion of recurring revenues. FISV is seeking to capitalise on the digital transformation in the financial industry by building end-to-end solutions through the acquisitions of First Data and Ondot Systems. Banks are expected to ramp up their modernisation initiatives to counter emerging competition from new fintech entrants. FISV has historically delivered attractive earnings growth underpinned by its stable and recurring revenue streams, operating leverage, consistent cash conversion, and substantial share repurchases. We expect FISV to offer defensive double-digit EPS growth over the medium term helped by synergy benefits from its recent acquisition of First Data. We view its revenue mix and model to be durable in the wake of COVID-19, making it an attractive fintech investment offering growth at a reasonable price. It trades at an undemanding valuation.

Microsoft (MSFT.O) — MSFT has successfully transitioned its legacy software models towards a subscriber-based cloud platform, which has resulted in a substantial uplift in profitability. MSFT's cloud-computing platform, Azure, continues to post impressive growth, with expectations for this to continue. MSFT's recent announcement of its strategic partnership with Cruise/General Motors to accelerate the commercialisation of autonomous driving is evidence MSFT is still looking to participate in additional growth areas.

MSFT has underperformed the broader market since September 2020 despite a promising growth pathway for MSFT's current product portfolio.

NVIDIA (NVDA.O) — NVDA has established a significant head-start in the race to capture market share as new technologies revolutionise a number of end markets, such as Level 5 autonomous vehicles, virtual reality, gaming-as-a-service, blockchain, and smart cities.

Salesforce.com (CRM) — Several tailwinds are behind CRM's cloud based platform, including a growing number of connected devices and channels and the need for businesses to be agile and mobile with customer-facing activities. CRM continues to gain market share in its respective markets while also expanding its total addressable market via acquisitions.

Visa (V) — V's growth outlook is underpinned by a move from cash to electronic payments, and the increasing penetration of eCommerce and online transactions. As COVID-19 subsides we expect spending trends will continue to improve, and a resumption of international travel will be a significant positive for V's higher-yielding cross-border revenues.

Consumer discretionary

Amazon (AMZN) — AMZN looks set to continue growing rapidly, driven by: Growth in Amazon Web Services (cloud), international expansion of Amazon Prime, broadening of its logistic operations, continued entry into new retail market segments (fashion, pharmacy), and market share gains in its retail businesses.

Alibaba (BABA.K) — We expect BABA will continue to benefit from accelerated user and merchant adoption of eCommerce, online grocery shopping, cloud computing and remote-work applications, driven by the epidemic. Longer-term sales and profit growth is expected to be driven by global expansion and the monetisation of newer business segments.

Kering (PRTP.PA) — Kering is continuing with its strategy of "toning down" Gucci's (c.80% of EBIT) often flamboyant style to capture an older, non-millennial demographic and rebalance the brand's product and price mix. Outside of Gucci, Kering's other brands are delivering above-industry average revenue growth, which is expected to lead to significant margin expansion opportunities.

McDonalds (MCD) — MCD is well equipped to navigate COVID-19 challenges, particularly versus smaller restaurants given its digitally-enabled drive-through, delivery and take-away operations. In its top markets, 75% of the population (1bn potential customers) live within three miles of a McDonalds allowing faster delivery which leads to greater customer satisfaction and repeat diners. Over the next 12 months recovering economies should drive continued improvement in industry same-store-sales and earnings. Drive-through is expected to remain the strongest sales channel of MCD's while dine-in capacity grapples with ongoing seating restrictions and temporary closures. We think MCD is poised to further benefit from the ongoing shift to delivery, with improved margins after ending its exclusive agreement with UberEats in late-2019, and from the roll-out of non-dine-in restaurants going forward. We believe MCD will see a rebound in profitability and increased market share in a post-pandemic environment, especially given the need for cheap, quick, and tasty dining options.

Consumer staples

Coca-Cola (KO) — KO offers a superior top-line growth outlook versus its consumer packaged goods peers, coupled with one of the best diversified brand portfolios. Recent strength has come from both developed and emerging markets. COVID-19 has accelerated the company's path to cut SKUs (stock keeping units), streamline innovation and other initiatives.

Mondelez (MDLZ.O) — MDLZ possesses sustained sales growth momentum, solid margin expansion opportunities, and an attractive valuation. As the global snacking leader with almost 21% market share, the company holds number one positions in biscuits and candy, is tied for number one in chocolate, and is number two in gum.

Funds

As we start the new year, various fund managers have been providing updates and outlooks for the period ahead.

Bankers Investment Trust (BNKR.L)

Bankers, a well-diversified global fund run by half a dozen regional managers, has reduced its consistently overweight UK allocation from 26% to 20% over the past year, as **the lead manager prefers exposure to Europe and Asia, which he thinks will benefit most from economic recovery and a rotation into cyclical/value stocks**.

The trust's performance has continued to be broadly in line with global benchmarks, which is good for a fund that has been structurally underweight the outperforming US-market. **We believe BNKR remains an appropriate choice for core global equity exposure**. The trust's price has been trading close to its net asset value

Scottish Mortgage (SMT.L)

Scottish Mortgage is a large global fund with a portfolio full of companies with novel business models and promising technologies. The fund was up +109% over the last 12 months.

SMT's managers are cautious on Big Tech stocks whose pace of innovation is slowing and which face rising costs to comply with political/regulatory scrutiny. They performed strongly amid the pandemic, but this may have only brought forward growth from the future rather than growing the addressable market. Having sold the fund's stakes in Apple, Facebook and Alphabet in recent years, the managers are keeping an eye on Amazon (the trust's second largest holding) where growth is getting harder to come by, but an outright sale is not imminent.

The currently popular transport and clean energy sectors seem to be growing themes in the portfolio. Tesla remains the largest holding after some profit-taking by the managers in August. Other investments that are exposed to the theme of disruption in the transport space include Chinese EV maker Nio, freight forwarding software company Convoy, and recyclable rocket developer SpaceX.

Another area where the managers see ample opportunity is in companies that are helping to make better use of the vast amount of healthcare data, for example to improve clinical decision-making based on genomic analysis.

While Silicon Valley has for decades dominated the tech world, SMT's managers now see China as the source of the most interesting technological and business innovations.

SMT's unique approach, its unlisted portfolio and its low fees make it particularly suitable for long-term growth-oriented investors, although given the exuberance and strong performance being seen in some areas of the market (including in Tesla), **it is worth considering trimming oversized holdings of SMT back to target levels**. SMT last traded close to its net asset value.

Polar Capital technology funds

Polar Capital's technology fund managers see the outlook for the tech sector as mixed, with high valuations in some areas on one hand and very promising growth opportunities on the other. They've trimmed positions in most of the highest-valuation stocks and in Big Tech (following the Democrat wins in the Georgia senate races, which they believe increased the likelihood of tech sector regulation and tax increases).

The Polar Capital tech funds are reasonably cautiously managed, which makes them a sensible way to maintain a portfolio's tech exposure at times when parts of the sector are characterised by euphoric investor behaviour. Polar Capital Technology's (PCT.L) -7.7% discount to net asset value is particularly attractive at the moment, although as with Scottish Mortgage, if positions in the trust have grown significantly relative to the rest of a portfolio it may be prudent to take some profits.

Research Worth Reading

New Zealand

Fisher & Paykel Healthcare (FPH) — 3Q21 Surge; All Eyes on the Vaccine

FPH provided a strong 3Q21 trading update, with the magnitude and duration of COVID-19 tailwinds (once again) larger than expected for its Hospital products. Data points and industry anecdotes point to similar trends for respiratory peers and competitors. It has been difficult to accurately forecast the upside, and we expect it to be equally difficult to pre-empt the magnitude and timing of the demand slowdown, driven by the success (hopefully) of vaccine rollouts, starting with high risk groups. We expect to see a decline in earnings as hospital hardware and IV consumables demand fades from elevated COVID-19 boosted levels, even when giving FPH the benefit of the doubt that growth in Optiflow consumables can continue from current levels. There remain a lot of unknowns and there is risk the market overcapitalises current earnings. We see better risk/reward elsewhere in the NZ market and global healthcare sector. UNDERPERFORM. (Published by Forsyth Barr)

Mercury (MCY) — Trading On Up

MCY has reported strong retail 2Q21 operating statistics, and with a better hydro outlook and strong trading performance has lifted FY21 EBITDAF guidance +NZ$30m to NZ$535m. We have increased our FY21 EBITDAF forecast +NZ$27m to NZ$538m and raised our target price +15cps (+2.6%) to NZ$6.00. MCY will be reporting its 1H21 result on Tuesday, 23 February 2021, and we are forecasting a good one, with 1H21 EBITDAF of NZ$268m, +NZ$13m higher than 1H20. However, in our view, MCY is expensive and there is no change to our UNDERPERFORM rating. (Published by Forsyth Barr)

Oceania Healthcare (OCA) — 1H21 Result — Inflection

We walk away from OCA's 1H21 result with increased confidence in our view that OCA has reached an earnings inflection point and is on track to double annuity EBITDA from FY20 to FY23. Specifically, we note three positive developments; 1) OCA reported positive free cashflow and reduced net debt from its FY20 result (May year end), the first aged care operator to do so for several years; 2) annuity EBITDA grew by ~+30% versus 2H20 and +20% versus 1H20 – we firmly believe that OCA's earnings have troughed and will continue to grow over the coming years; and 3) we were encouraged by the large proportion (we estimate 80–90%) of delivered care suites that were sold under an occupational right agreement versus care beds with an associated premium accommodation charge. We reiterate our OUTPERFORM rating with an increased target price of NZ$1.70. (Published by Forsyth Barr)

Z Energy (ZEL) — Holiday Volumes Offset Margin Squeeze

ZEL 3Q21 volumes and shop sales were strong but not enough to offset a decline in retail margins. We have trimmed our FY21 EBITDAF forecast -NZ$3m (-1.1%) to NZ$243m and lowered our target price -5cps (-1.1%) to NZ$4.30. ZEL continues to trade on undemanding value metrics, and in our view only has to deliver on FY21 EBITDAF guidance with the promise of a modest FY22 dividend to positively rerate. We reiterate our OUTPERFORM rating. (Published by Forsyth Barr)

Australia

BHP Group (BHP.AX) — Second-quarter FY21 production report

BHP released its second-quarter FY21 production report. The results were broadly in line with Ord Minnett’s estimates for iron ore, which saw a 281Mtpa shipment rate, with copper ahead, while coal and petroleum missed Ord Minnett’s numbers. Ord Minnett has lowered its EPS forecast by -8% for FY21 after factoring in a number of charges listed by the company, but maintains a 70% dividend payout ratio for the first half. Despite the softer first-half cashflow outcome, Ord Minnett remains attracted to BHP’s valuation metrics. BUY. (Published by Ord Minnett)

Santos (STO.AX) — Fourth-quarter CY20 production report

STO released a solid December-quarter CY20 production report 1) Production, sales volumes and revenue came in above estimates. 2) Pricing was slightly below forecasts, although this is expected to improve given higher benchmark oil prices and liquefied natural gas (LNG) spot prices, 3. The company generated a 6%-plus free cashflow yield in CY20. Ord Minnett believes this will increase this year given better pricing and potentially some modest production growth. Overall, Ord Minnett remains positive on STO as its preferred stock in the sector. BUY. (Published by Ord Minnett)

International

Intel (INTC.O) — Estimates Still Biased Higher On Strong Demand Backdrop and Evolving Mfg Narrative; PT to US$75

Coming off this earnings report, UBS continues to very much like the set-up in the stock — raising its target price again from US$71 to US$75 and reaffirming INTC as a top idea in US semiconductors for 2021. Investor discussions since the CEO change announcement reflect more willingness to consider potential longer-term transformation and value creation. While UBS thinks INTC should absolutely continue to push aggressively on its own process development, this does not preclude the company from developing more of a technology partnership with key foundries like TSMC rather than a typical "transactional" relationship between fabless and foundry. This type of a partnership could also leverage new US tax credits for onshore manufacturing for further value creation. The evolution of this narrative and the closure of the process gap could allow INTC to bring recent advancements in architecture and its superior software ecosystem to bear. BUY. (Published by UBS)

Microsoft (MSFT.O) — Positive Topline Set-Up, Less So with Margins

Citi sees a positive set-up around key top-line metrics for MSFT, with likely upside to Azure growth metrics and forward Azure numbers moving higher after continued strong contract signing and consumption indications. Citi expects margin headwinds in Q2 (gaming mostly), while Citi expects any server/Office licensing weakness will be compensated by continued PC strength that was not contemplated in guidance. Citi expects stable to higher consensus numbers coming out of the report, juxtaposed well with a recent investor bias towards using MSFT and other mega caps as a “source of funds” to continue to buy growth stocks. BUY. (Published by Citi)

Walt Disney Co (DIS.N) — DTC Leader + Reopening beneficiary; Upgrade to Buy

UBS upgraded DIS to Buy from Neutral with a US$200 target price based on a sum-of-the-parts valuation and expectations for continued strength in the direct-to-consumer (DTC) business. UBS believes DIS is positioned to achieve scale similar to industry leader Netflix with 340m+ global subscribers by 2024 (UBS forecast 316m at Netflix) while its premium intellectual property creates pricing power and enables the company to spend less per subscriber on content, driving better economics over time. UBS now expects DTC revenues to reach US$43b in FY24, above the prior estimate of US$27b and the consensus of ~US$35b, with profitability in FY23. UBS believes this will support a DTC valuation similar to Netflix, while Parks becomes a beneficiary of vaccine availability and pent-up demand for leisure travel in 2H21. BUY. (Published by UBS)

Calendar

Figure 3. Calendar

Date	New Zealand	Australia	International
25-Jan			EU: ECB President Lagarde Speaks EU: German ifo Business Climate Index (Jan)
26-Jan	Credit Card Spending	Australia Day	UK: Average Earnings Index +Bonus (Nov) UK: Claimant Count Change (Dec) LVMH 4Q20
27-Jan		CPI (4Q) NAB Business Confidence (Dec)	US: CB Consumer Confidence 3M Company 4Q20 General Electric 4Q20 Johnson & Johnson 4Q20 Microsoft 2Q21 Starbucks 1Q21 Verizon Communications 4Q20 General Electric 4Q20
28-Jan	Trade Balance (Dec)	Export & Import Price Index (4Q)	US: Core Durable Goods Orders (Dec) US: Crude Oil Inventories US: FOMC Statement US: Fed Interest Rate Decision US: FOMC Press Conference Apple 1Q21 Abbot Laboratories 4Q20 Boeing 4Q20 Facebook 4Q20 Tesla 4Q20 Samsung Electronics 4Q20
29-Jan		PPI (4Q) Private Sector Credit (Dec) Housing Credit ResMed 4Q20	US: GDP (4Q) US: Initial Jobless Claims US: New Home Sales (Dec) EU: German GDP (4Q) EU: German Unemployment Change (Jan) McDonalds 4Q20 Mondelez 4Q20
30-Jan	CFTC NZD Speculative net positions	CFTC AUD Speculative net positions	US: Pending Home Sales (Dec) Caterpillar 4Q20 Colgate Palmolive 4Q20 Eli Lilly 4Q20

Source: Forsyth Barr analysis

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