

Q1 2019 DOMESTIC EQUITY ADVISOR CALL

Stuart Williams, Head of Equities
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March 2019

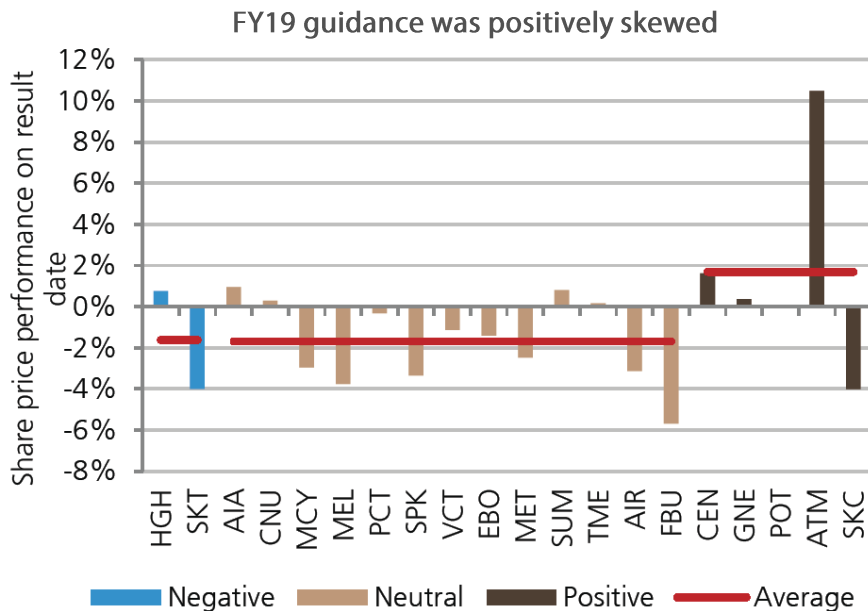
- New Zealand reporting season
- Australian reporting season
- RBNZ Economic drivers
- Viva Energy
- Z Energy
- A2 Milk
- Value Added / Value Detracted

NEW ZEALAND REPORTING SEASON

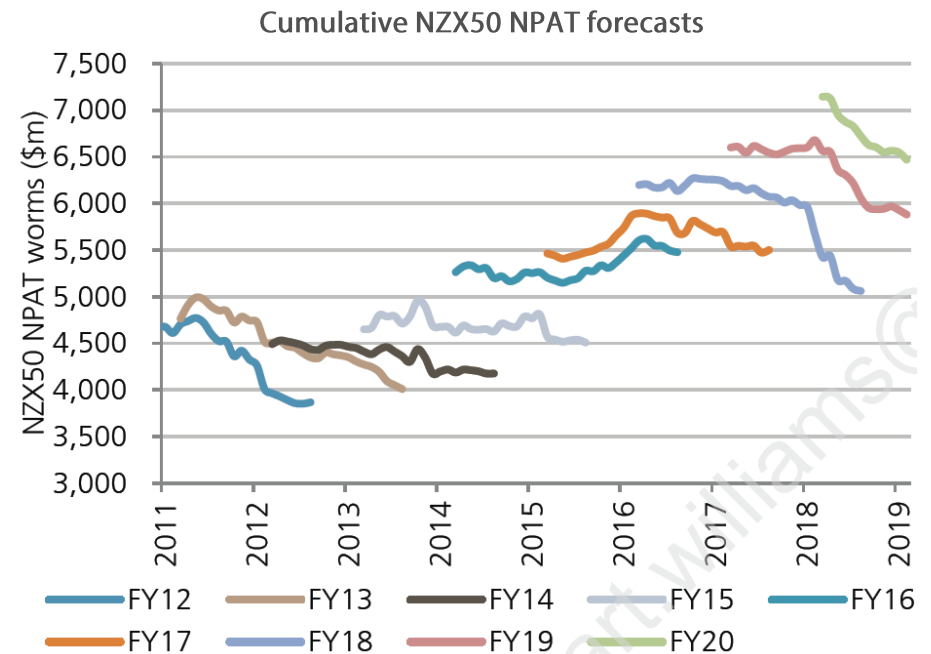
Reporting Season Snapshot: Summary

EPS Result vs Expectations*	Dividend vs Expectations*	Post Result Revenue FY19 Revision	Post Result EBITDA FY19 Revision	Post Result EPS FY19 Revision	Post Result DPS FY19 Revision	Outlook Statement
10 Above	7 Above	9 Upgrades	6 Upgrades	8 Upgrades	4 Upgrades	8 positive
15 In-line	24 In-line	17 Unchanged	14 Unchanged	10 Unchanged	21 Unchanged	16 in line
12 Below	6 Below	10 Downgrades	16 Downgrades	19 Downgrades	11 Downgrades	13 negative

Source: Forsyth Barr analysis, +/- 2.5% vs Forsyth Barr expectations



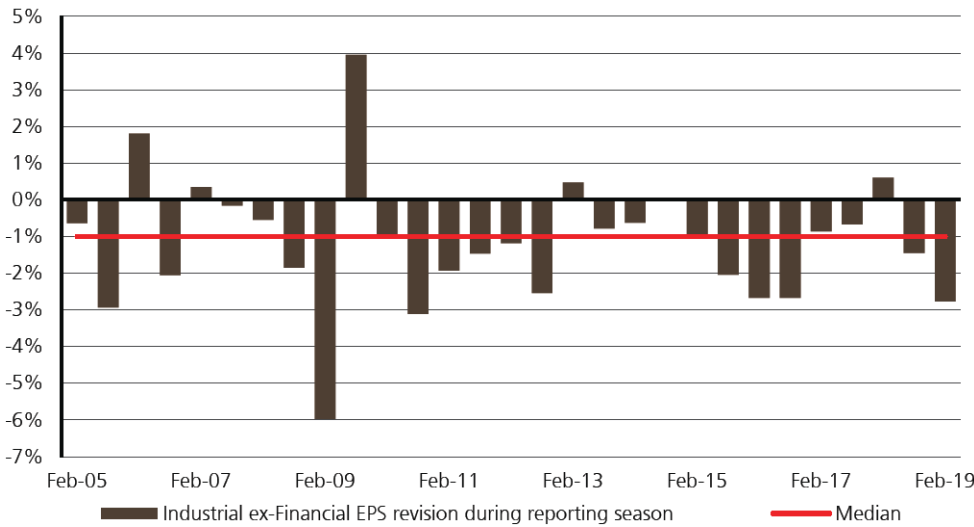
Source: UBS Research estimates, Bloomberg



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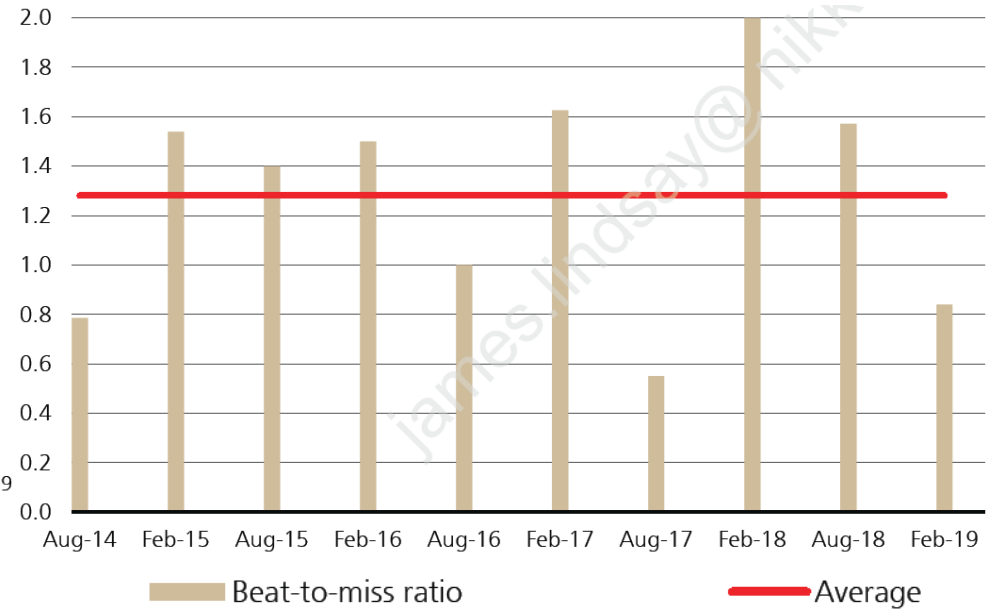
AUSTRALIAN REPORTING SEASON

Revisions to Industrial ex-financial EPS during the Feb19 reporting season were the weakest since 2010



Source: FactSet, UBS, revision to current year FY in Feb, and forward FY in August

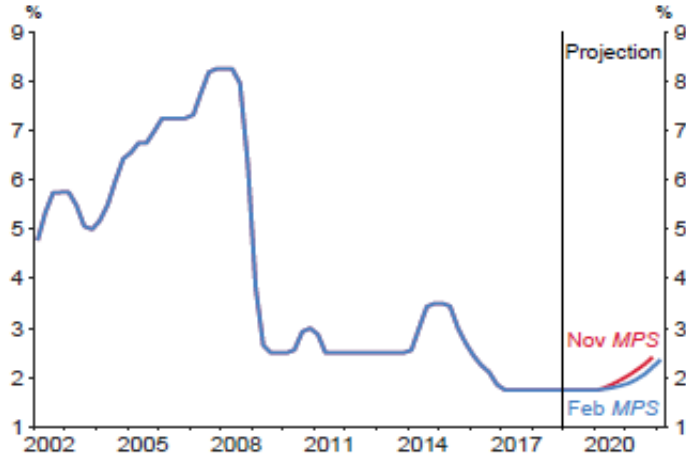
The 0.8 'beat to miss' ratio was the worst since August 2017



Source: UBS, beats and misses are defined from historical quality matrices (current matrix in Figure 28)

NZ ECONOMIC DRIVERS

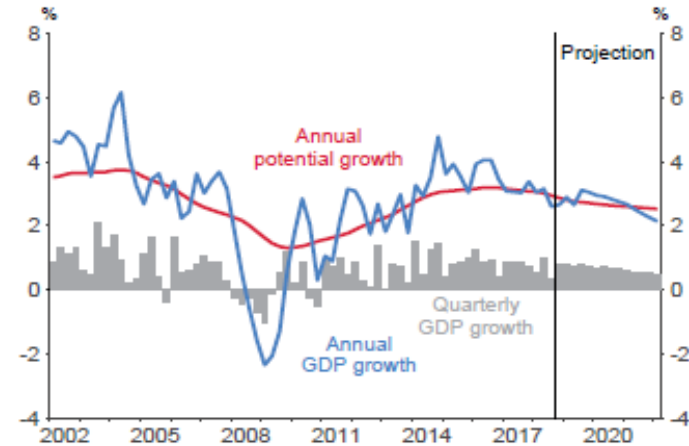
Official Cash Rate



Source: RBNZ estimates.

GDP growth and potential growth

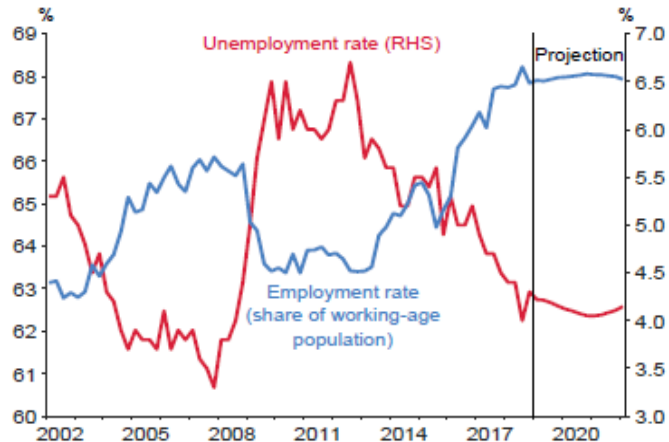
(s.a.)



Source: Stats NZ, RBNZ estimates.

Employment and the unemployment rate

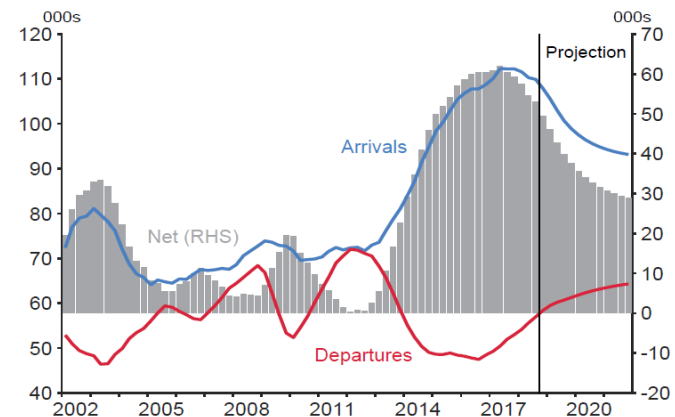
(s.a.)



Source: Stats NZ, RBNZ estimates.

Permanent and long-term working-age migration

(quarterly, annual total)



Source: Stats NZ, RBNZ estimates.

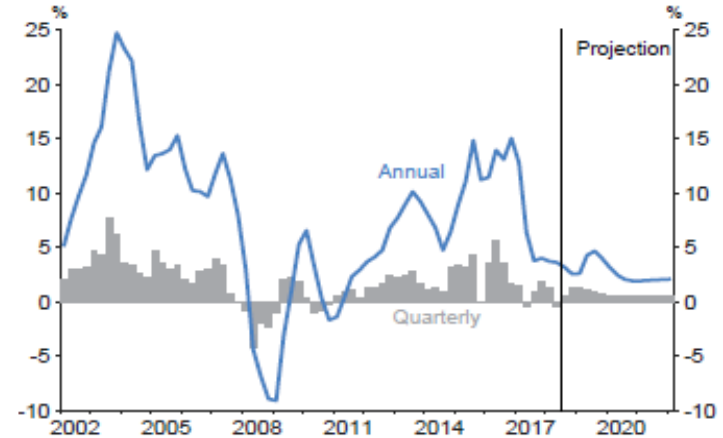
NZ ECONOMIC DRIVERS

Trading-partner GDP growth
(annual)



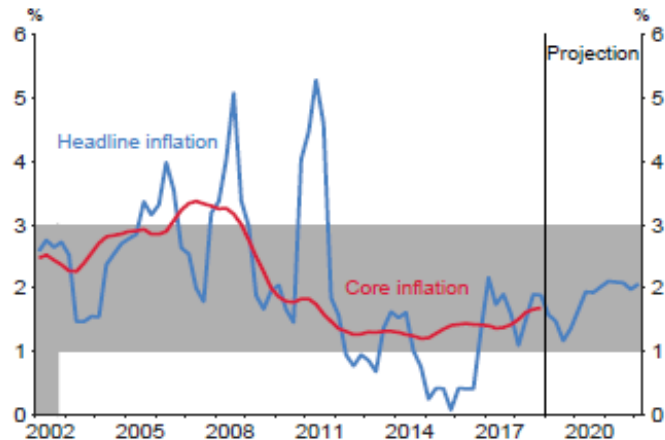
Source: HaverAnalytics, Stats NZ, RBNZ estimates.

House price inflation
(s.a.)



Source: CoreLogic, RBNZ estimates.

Inflation
(annual)



Source: Stats NZ, RBNZ estimates.

Wage inflation and expectations
(annual)

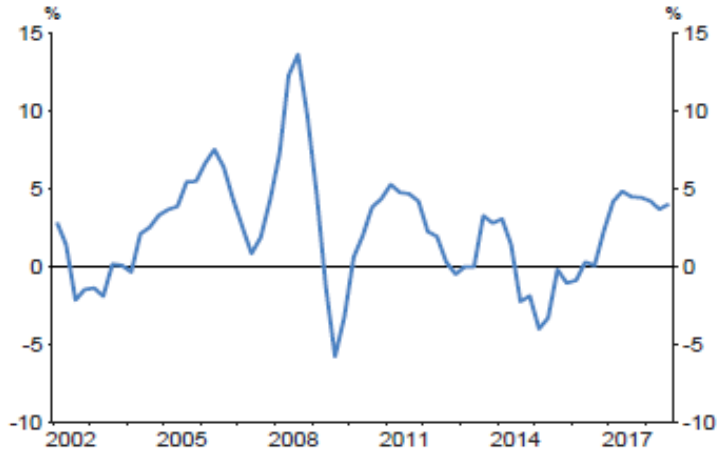


Source: Stats NZ, RBNZ survey of expectations, RBNZ estimates.

Note: Dashed lines are post-2000 averages.

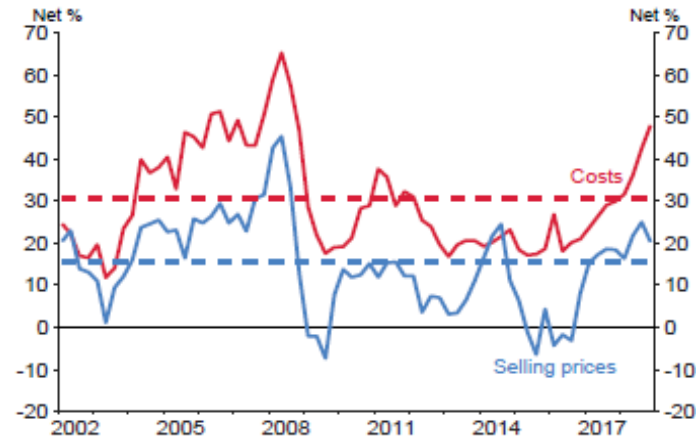
NZ ECONOMIC DRIVERS

Producer price inflation for inputs
(annual)



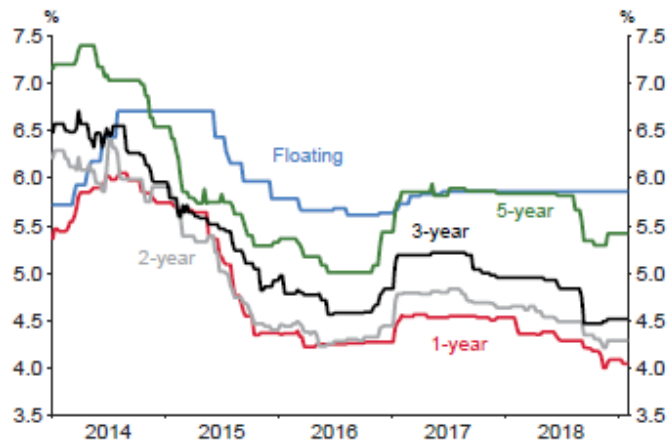
Source: Stats NZ.

Firms' costs and selling prices
(s.a.)



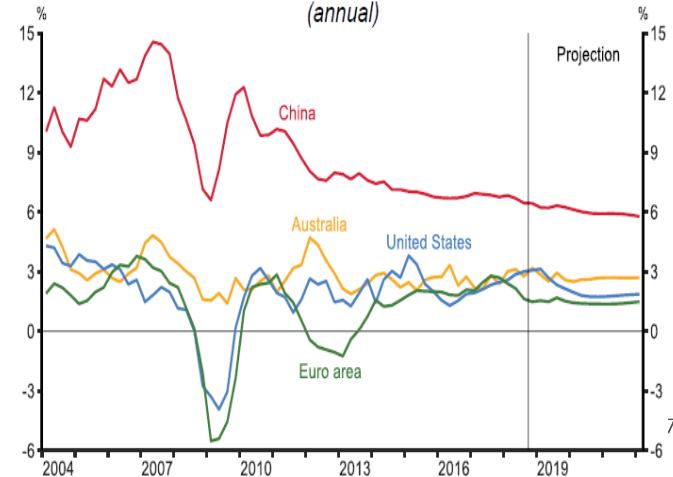
Source: NZIER, RBNZ estimates.

Mortgage rates



Source: interest.co.nz, RBNZ estimates.

Trading partner GDP growth
(annual)



Haver Analytics, RBNZ estimates.

BRENT CRUDE OIL PRICE (USD)



C01 Comdty (Generic 1st 'CO' Future) Daily 04MAR2018-04MAR2019

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December 2018

- Australian retail and commercial fuel business. Operates under the Shell brand and has a most of its retail sites (service stations) run by Coles. Also owns the oil refinery in Victoria.
- Listed in July with \$2.6b raising and \$4.3b market cap which is when we added it to our portfolios.
- Post listing unexpected tax bill relating to the REIT transaction
- Full year earnings guidance downgraded in November. Downgrade primarily relates to lower refining margins. Refining margins can be volatile but should normalise in the medium term
- Remains attractive with strong balance sheet (little debt and ~\$600m investment in Viva REIT) and relatively cheap multiples (11x P/E for FY19)
- Recent meetings with management reaffirm our positive view

March 2019

- Announced revised agreement with Coles which will see VEA take control of retail pricing and expect volumes to increase
- Better than expected result on operational performance, ended the year with no debt
- December quarter stock was down 21%, March quarter to date the stock is up 35%



December 2018

- Disappointing first half result on the back of sharp rise in oil price, increased competition, reduced margins and impact of refinery outage
- Confusing Flick acquisition
- Poor communication around dividend cut and dividend guidance
- Since the early October the oil price has dropped approximately 30%
- Potential for second half result to surprise on the upside
- Earnings should normalise in FY19 along with dividend. Forecast yield >9%

March 2019

- Guidance revised in January - RC EBITDAF range of \$420m - \$450m (\$400m - \$435m) and dividend of 38cps – 47cps (32 – 41cps)
- Revised guidance driven by increased retail volumes (increased fills and decrease in price sensitivity) and commercial customers on m-1 pricing (product sold in December priced on November input cost)
- No relief from cash tax in revised guidance which will support increased dividend in FY20
- December quarter stock was down 21%, March quarter to date the stock is up 11.3%



Result:

Another impressive result

Group profit **+55%** & **~10% ahead** of market expectations

Performance strong in all key geographic regions & channels

Strength evident across revenue, margins and key metrics

Outlook for further lift in sales run rate

Cash balance \$288mn

Changes to Rationale:

Adds another layer of confidence re product demand & material optionality to leverage brand and marketing

Core business – IF ecommerce sales to China to remain the primary value driver

Longer term China potential enhanced via traction in other lucrative channels to market

Admirable level of progress made in US and now deserves greater consideration

Sales channels remain healthy but must monitor for disruption or any change to broader regulation

Step up in investment directed at marketing, brand and capability.

Overall reinforced conviction on LT opportunity & near-term growth trajectory to remain firm

Outcome:

Overall added comfort on near-term growth trajectory

Reinforced conviction on LT opportunity & valuation upside

Positive share price reaction

Earnings forecasts lifted

Target price raised

No changes to portfolio positioning post result

Remains a key OW position in Core Fund and 2nd largest holding in Concentrated

PORTFOLIO CONSIDERATIONS

Considerations	Key stocks owned (companies bolded are held in both the Concentrated and Core funds)
<p>Quality and structural growth</p> <ul style="list-style-type: none"> - demographics supportive - food & the rising Asian middle class 	<p>Metlifecare, Summerset, Ingenia Communities A2 Milk Restaurant Brands Mainfreight Aristocrat Leisure Sky City</p>
<p>Defensive attributes</p> <ul style="list-style-type: none"> - market valuation looks topy - moderating global growth and a slowing domestic economy poses (earnings) risks - confidence in earnings needed in this environment - housing sentiment turning in NZ & poor in AU 	<p>Contact Z Energy, Viva Energy Infratil Westpac, ANZ</p>
<p>Company specific mis-pricing</p>	<p>Metlifecare NZ Refining</p>
<p>Technology, disruption & innovation</p> <ul style="list-style-type: none"> - battery technology and the electrification of transport - creative destruction / disruptive innovation - growing importance of data 	<p>EROAD NEXTDC Orocobre Infratil</p>
<p>Opportunities & Risks</p> <ul style="list-style-type: none"> - Tax Working Group - supportive interest rates - lower for longer - global trade risks escalating – US/ China, Brexit - foreign ownership, passive management & M&A - new regulation - carbon pricing 	

VALUE ADDED / VALUE DETRACTED

February 2019 YTD

Fund	Return %	Benchmark %	Positive Attribution	Negative Attribution
Core	7.03	5.86	VEA Viva Energy ATM A2 Milk AIR Air New Zealand ALL Aristocrat RYM Ryman Healthcare	MET Metlifecare NZR NZ Refining FPH Fisher Paykel Healthcare SUM Summerset Group MEL Meridian Energy Ltd

Fund	Return %	Benchmark %	Positive Contribution	Negative Contribution
Concentrated	7.77	1.06	VEA Viva Energy ATM A2 Milk ORE Orocobre Ltd ALL Aristocrat ZEL Z Energy	ERD EROAD Ltd PEB Pacific Edge Ltd NZR NZ Refining MET Metlifecare FBU Fletcher Building

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