HUGOvision

Assessing the economic and political environment in New Zealand

February 22 2019 | **Confidential to HUGO members**

A ray of light on gloomy NZ-China relations? **Page 2**

While the rift between Wellington and Beijing is about more than just the GCSB decision to reject Huawei as a 5G provider, that issue has become the lightning rod for efforts from both sides to stop the relationship running off the rails.

Capital gains tax gambit – fairness vs economic dynamism **Page 3**

There is little doubt that residential investment property will be wound into an expanded capital gains tax regime. Less clear is how and whether to include SMEs. The govt has given itself until April 30 to cut a deal with coalition partners and assess backlash from business over the potential for an expanded regime to curtail investment. Taxing gains at a taxpayer's highest marginal tax rate is a sleeper issue – the regime would be aggressive doing so, but it needs to raise enough money to fund tax cut sweeteners to Labour's base among low and middle income earners.

Electricity incumbents largely off the hook **Page 3**

The final report of the Electricity Pricing Review group looks almost as benign as its draft report last year and there are few signs the govt plans any radical interventions of its own. Compared with the fiery rhetoric that accompanied its announcement, the ultimate outcome looks relatively unthreatening.

The real story of the latest polls: NZ First's sustained decline **Page 4**

Some political media – particularly TV3, whose ratings desperation is pushing it to tabloid hyperbole in its news service – characterised the latest polling as a disaster both for National and Simon Bridges. Yet National continues to poll above 40% near the half-way mark of this govt. Bridges may yet be toast, but NZ First's consistent sub-5% ranking is of greatest significance.

Will the BRRs survive past 2020? **Page 4**

The Budget Responsibility Rules have proven vital to establishing the govt's credibility as fiscally prudent both with the business community and international credit rating agencies. However, if that credibility beds in, will there be scope to relax, say, net Crown debt targets after the 2020 election? The Greens' review of their commitment to the rules is the first test of that.

Corporate earnings in full swing **Pages 6-8**

Fletcher Building appears to be on the mend, the power companies are starting to talk seriously about new grid investment, NZ Post saw revenues increase for once, and Auckland Airport will reduce its pricing in response to Commerce Commission directives – just a few of the developments flushed out in the rush of corporate earnings over the last fortnight. Corporate Roundup extends to three pages in this edition. We will update legislative developments in the next issue.

Text finalised February 22

POLITICS AND POLICY

Repairing the China relationship – bamboo shoots?

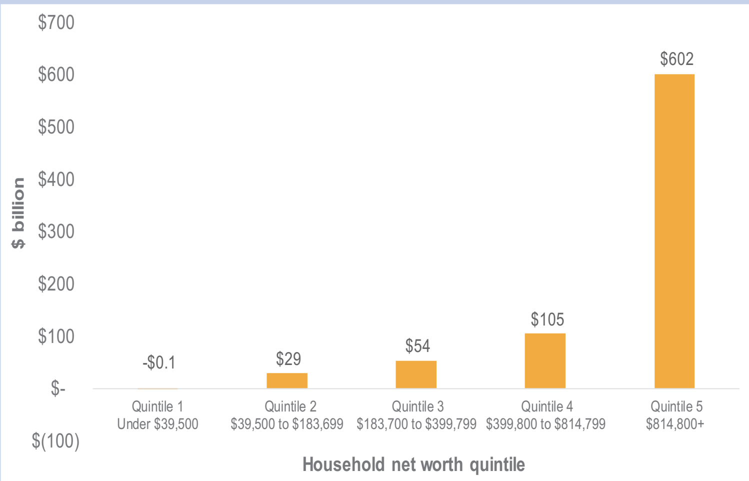
The NZ media did a sterling job for the Chinese govt in collectively talking up the rift with NZ, which is real but has required very little effort from Beijing or the Chinese embassy in Wellington to amplify for NZ domestic consumption.

Our view is that the disclosures this week about the UK's GCHQ lab, where Huawei gear is tested, is crucial. We are aware that GCSB minister Andrew Little spent time with the GCHQ on his recent European visit and was surprised to learn how differently the UK assesses the Huawei threat compared to the US and its willing sidekick, Australia. Huawei's frustration that the GCSB knock-back to Spark's application to use its equipment in the 5G network was in part based on the fact it lacked technical specificity. That made it nigh on impossible to offer technical mitigation. A GCHQ-type approach might open practical pathways to mitigation and put the issue back on track. For now, Spark is in wait and see mode before deciding whether to lodge a revised application to the GCSB.

The GCHQ disclosures have coincided with other efforts to de-escalate tension between Beijing and Wellington. Important to this are signs that **Jacinda Ardern is recognising the extent to which she has let Winston Peters and his pro-US chief of staff, Jon Johansson, dictate NZ foreign policy. We expect to see efforts to change that too.**

In short, the Huawei decision has become a major embarrassment for the govt. Whether it will change management of the PM's relationship with her deputy remains to be seen.

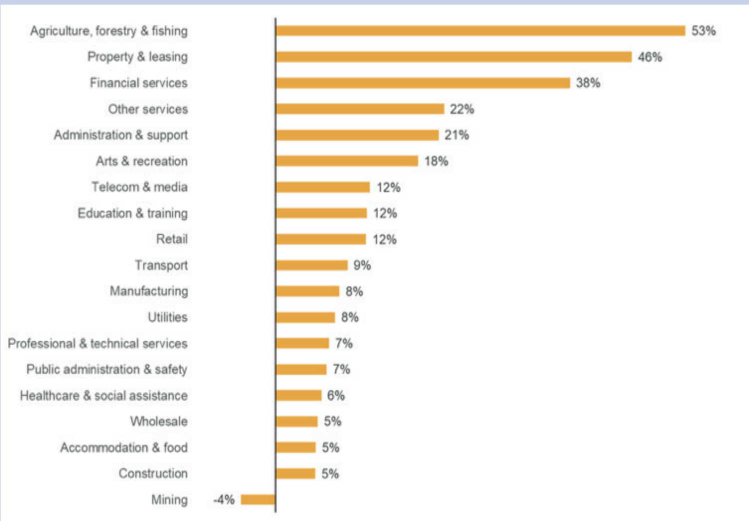
The wider clash of values and geo-political interests that underlies the deteriorating relationship between China and the West remains as real as ever.



Who owns what assets?

If the govt is to win the argument for an expanded capital gains tax, it will need every NZer in the bottom four quintiles in this graph to understand that the top 20% has substantially more capital assets than the rest of them put together.

The graph, from the TWG report, shows household net worth, excluding the family home. It demonstrates in a single picture the core of Labour's 'fairness' argument.



Where are capital gains earned?

A key conundrum for Labour is revealed in this graphic from the TWG report showing untaxed realised gains as a proportion of total accounting profits from 2013-17 by industry.

The sale of businesses (including farms) represents a larger source of capital gains in aggregate than sales of property and buildings.

Every source of potential capital gains tax that is negotiated away reduces the capacity to reduce personal income tax – a key component of keeping low and middle income earners on board with the politically charged proposals.

Capital gains tax – can the govt pull it off?

The Tax Working Group's report creates the conditions for the Labour-led govt to cut income tax for low and middle income earners, improve their KiwiSaver entitlements, and introduce an expanded capital gains tax that its core support base sees as holy writ.

Forget the fact that the TWG report itself acknowledges that the packages it is proposing would make very little difference to income inequality. The symbolism of the move is vital to Labour's narrative of fairness.

The biggest question is whether it will do any more than apply a regime to residential investment property. There are strong reasons to think that it will not, the most compelling of which is NZ First's opposition to taxing small business owners on the gains from a life's work and a desire to see farms protected from CGT.

The farms question may be simple enough if it can be limited to exempting rollovers caused by family succession/inheritance, as the TWG proposes.

Its chair, Sir Michael Cullen, suggested there should be a difference between that situation and "selling to a foreign buyer". What about selling to a local, non-family buyer?

Hovering at 3% in the two opinion polls published in the last fortnight makes NZ First hungry for demonstrable policy wins.

It may be, however, that this is a win the govt can give. It will be hearing loud and clear from the investment community that applying an accrual/unrealised capital gains tax on NZ and Australian shares will have very significant negative implications for all types of PIEs, as well as creating headaches for private equity and small-time investors.

NZ SME owners will also be baulking at the prospect of paying tax on the gains of, sometimes, a life's hard work for relatively modest reward.

Perhaps the biggest sleeper issue is whether the govt will accept the recommendation to tax capital gains at the top marginal tax rate of the individual taxpayer. That would make it a surprisingly aggressive regime, but if it's to fund tax cuts elsewhere, it must raise sufficient revenue.

It would also seem a quixotic outcome if the govt were to end up discouraging productive investment in NZ by applying the same CGT regime as it would be using to discourage investment in residential property.

Much of the early media coverage has focused both on what might be taxed and the negative reactions of those likely to be affected.

The govt's challenge is to get its messaging around fairness right to counter inevitable criticism.

Acceptance of the basic inequity demonstrated in the top chart on page 1 is crucial to overcoming the political opposition to CGT that helped lose Labour the 2011 and 2014 elections, and was an Achilles Heel in the 2017 campaign.

Note this week's One News Colmar Brunton poll showing 46% support (vs 41% opposed) to a CGT if income tax cuts were part of the deal.

Electricity price review – slap #2 with a wet bus ticket

It's looking very much as if the incumbent large players in the electricity sector can breathe a sigh of relief about the likely policy actions to emerge from the Electricity Pricing Review.

The final report, issued this week, will now go through another round of public consultation and the govt could yet decide to take unexpected action.

But the final report is similar in tone on the key issues to the original report – no evidence of profiteering being the most important rejection of a common charge made against the sector. It would now require ministerial imagination to come up with more substantial reforms than those proposed.

The most important of these, whether for political symbolism or real impact:

- prompt payment discounts are banned. Given how much many customers feel a sense of reward from claiming PPDs, the challenge before final policy decisions in **April** is to find a new name for the same thing. Perhaps direct debit discounts – DDDs?
- an end to win-back activity that sees large retailers try to bribe switchers, often to smaller competitors, to change their mind and stay with their existing supplier;
- a National Policy Statement on transmission pricing. Transpower proposed this solution, which effectively allows a political decision on an apparently insoluble technical problem;
- mandatory market-making for the futures market and improved disclosure on generation plant and fuel availability;
- make mandatory the voluntary code of conduct relating to vulnerable customers. In the end, the review panel concluded energy poverty was a big

issue, but not one the electricity sector should be solely responsible for solving.

Compared to the fiery rhetoric from NZ First that saw the review inserted into the coalition agreement, this appears to be a let-off, barring political surprises.

The real story in those polls: NZ First is in trouble

The latest 1 News Colmar Brunton poll has Labour support up two points to 45% and National down four points to 42%. The Greens were up 1 point to 6% while NZ First was down a point to 3%. In preferred prime minister polling, Jacinda Ardern went up five points to 44%, while Simon Bridges dropped one point since the last poll in Nov to 6%, as is Judith Collins. Polling occurred between Feb 9 and 13.

Some political media have fixated on National's fall to the low 40s in this and an earlier TV3 Reid Research poll, and the continuing lack of traction that Simon Bridges is exhibiting. **We don't think that's where the focus should be.** The fact that National, with an unpopular leader, remains above 40% in two major polls near the mid-way mark to the next election is close to astounding, even if National still has no credible coalition partner.

Labour's support in the high 40s indicates Jacinda Ardern's re-emergence on the world stage continues to work politically for Labour, but it is at the expense of any uplift for the Greens.

Labour is also apparently cannibalising the NZ First vote. This is the real news of these polls – that despite having a string of policy wins and the Provincial Growth Fund, NZ First is well below the 5% threshold. That is a **recipe for populist outbursts and unpredictable policy behaviour** from NZ First.

The Reid poll put National at 41.6% – down 3.5 points and Labour on 47.5%, up 4.9 points, the Greens on 5.1% and NZ First on 2.9%. Ardern's preferred PM rating was up 1.6 points to 41.8%, Simon Bridges was down 3.9 to 5%. Judith Collins was up 2.5 points to 6.2%. The poll and was taken over Jan 24 to Feb 2.

Hospital funding

Almost all DHBs are expecting to report deficits this financial year, with a cumulative projected year-end deficit for all DHBs of around $346m. Health Minister David Clark issued all CEOs a letter effectively saying that historical underfunding is not a good enough excuse for projecting long term deficits. Clark is signalling "additional measures and reporting" for DHBs requiring equity support, given that the availability of such support is "limited".

Greens seek differentiation on fiscal policy

The Greens have become the first of the Labour-led govt's partner parties to reconsider their commitment to the Budget Responsbility Rules. This was inevitable and it's likely both Labour and NZ First will do the same as long as the govt's credibility on fiscal management with rating agencies solidifies. The medium to long term risk is that looser fiscal settings will encourage higher ongoing opex by govt rather than finding ways to find infrastructure capex.

Baking in substantial ongoing annual revenue commitments is more difficult to manage in a downturn than one-off capex investments, however questionable the ROR on those public assets may be.

Taxing borderless companies

As foreshadowed in the first Hugovision this year, the govt is proposing a digital services tax which would include multinational companies such as Google, Facebook and Uber. The value of cross-border digital services in NZ is estimated to be around $2.7b and, depending on design, the tax should raise $30m to $80m on a tax rate of 2-to-3% of turnover. The move is an expression of frustration that the OECD multi-national tax work is moving slowly although NZ will continue to be part of that project. The Tax Working Group also proposed that the domestic withholding tax regime be widened "as far as practical" to include platform service providers such as Uber and AirBnB.

Polytech reform

Education Minister Chris Hipkins's training sector reform proposals would see all polytechs and currently privately owned ITOs brought under a single national umbrella govt agency.

Hipkins says this is the answer to employers' complaints there's not enough coordination between on-the-job and off-the-job vocational training.

Scott Morrison visit

The meeting between the PMs of Australia and NZ today will be their first formal encounter and takes place against the background of what the Chinese Ambassador has called "rough water" in the relationship between NZ and China (*see separate item*).

Ironically the Australians would probably much prefer to be talking to Winston Peters rather than Ardern on China. It is expected that this whole area, including the situation in the Pacific – where there is some greater alignment – will occupy a significant part of the talks.

It is an important difference which has not been seen in trans-Tasman relations since the ANZUS breakdown in 1985.

Budget date: May 30

Grant Robertson's second Budget will be delivered on May 30. The first 'well-being' budget will focus on five areas: helping businesses transition to a low-carbon economy; ensure access to and development of digital technology; lift Māori and Pacific incomes, skills and opportunities; reduce child poverty; and support mental health.

Monetary policy

Reserve Bank governor Adrian Orr held the official cash rate steady and repeated the language from his last review in Nov, saying he expects no movement through 2019 and 2020 and the next move could be up or down. Changes to the bank's forecasts in the latest monetary policy statement show the first move to the OCR is not anticipated until the first half of 2021, and the move will be up. The NZ dollar jumped just over one US cent after the Reserve Bank's bias towards eventually hiking interest rates wrong-footed traders who were more wary about global risks.

Confidence and activity indicators

The **BNZ-BusinessNZ performance of services index** rose 3.1 points to a seasonally adjusted 56.3 in Jan, compared to Dec, tracking ahead of its long-term average, and above the 55 reading this time last year.

Growth in new orders slowed for a third month in a row, according to the latest **BNZ-BusinessNZ performance of manufacturing index.** The new orders sub-index fell to 52.2 – still showing an expansion, but down from 55.2 in the Dec survey and 56.9 in Jan last year. It was the lowest since Dec 2017. The overall index fell to 53.1 from 54.8 in Dec and 55.8 a year earlier.

Confidence amongst investors has fallen to the lowest levels in more than two years in the **ASB Investor Confidence Report.** Net investor confidence fell by 9% points from +19% to +10% in the three months to Dec. 25% expected investment returns in the next 12 months to increase compared with 29% last quarter, 39% expect returns to stay the same compared to 42%, while 15% expected decrease, up from 10% in the third quarter.

Farmer confidence in the economy hit its lowest level since July 2009. Only 5.1% of respondents in Federated Farmers' twice-yearly survey said they expected general economic conditions to improve during the next 12 months, while 45.9% expected they would worsen and 46% said they would stay the same. A net 40.8% of farmers were pessimistic versus a net 39.4% in the prior survey in July.

Labour market

Jobs Online figures show the number of job advertisements rose by 2% in the Dec 2018 quarter with health and primary industries contributing most to the rise.

The govt declared a seasonal labour shortage in Hawke's Bay. This allows people on visitor visas to apply to work on orchards and vineyards in the region. It will apply for six-weeks from Feb 25. The Ministry of Social Development says there is a worker shortage of about 300 to 400 people.

Migration

Estimated annual net migration in calendar 2018 was 48,300 people, down from a still provisional estimate of 52,700 in 2017. Statistics NZ says migrant arrivals are provisionally estimated at 145,800 in 2018 while migrant departures are estimated at 97,500. Statistics NZ calculates the true net figure for 2018 could be plus-or-minus 1,800 people and it revised the year-ended-Nov figures to 48,000, which it says remains an estimate. That's compared to the 43,400 figure for the year ended Nov it reported last month, a revision much bigger than last month's plus-or-minus 1,500 caveat.

Tourism indicators

There were 529,300 **visitor arrivals** in Dec 2018, the highest for any month. Stats NZ said Dec 2018's figure was 15,900 higher than Dec 2017, which was the previous record holder. The US led the increase in visitor arrivals, up 4,900 compared with Dec 2017. In the year ended Dec 2018 there were 3.86m visitor arrivals. This was up 129,500 from 2017.

Total guest nights rose to almost 4.2m in Dec, 1.4% more than a year earlier. This was less than half the increase posted in Oct and Nov. Domestic travellers spent 2.29m nights, 3.4% more than a year earlier. International guest nights fell 0.9% to almost 1.91m.

Real estate

Real Estate Institute figures show there were 4,372 houses sold across the country in Jan, down 2.5% from Jan 2018, while the median time it took to sell was 48 days, two more days than a year earlier. This is the longest time to sell for any month since Feb 2012. **Massey University's quarterly home affordability report** showed a 2.2% decline nationwide in the period as a 4.6% lift in the median house sale price was enough to outweigh a 0.5% increase in incomes and lower mortgage rates. While the deterioration was most stark in Southland, Northland and Taranaki, which all registered double-digit declines, Southland remains the most affordable region, followed by Taranaki.

CORPORATE ROUND-UP

Corporate earnings season

Fletcher Building showed first evidence of a turnaround in fortunes, although investors were underwhelmed by margin issues in Australia. FBU turned in an $89m half year net profit vs a $273m loss in the previous comparable half. The company is looking again at the vertical high-rise market, where contracting conditions appear to be shifting in constractors' favour as project sponsors accept they cannot shift risk onto service providers to the extent that had previously become common. FBU may pay a 30cps dividend for the year ending June after the US$840m sale of Formica has settled, analysists said. Fletcher's last payout was in 2017.

Steel & Tube Holdings reported a $5.6m profit for the six months ended Dec, up from $3.8m in the same six months a year earlier, reflecting an improvement in cash flows to $11.1m. That compares with a negative $16.4m cash outflow in the six months ended June 2018.

A2 Milk's first-half profit climbed 55% as it continued to expand market share in China. Net profit rose to $152.7m in the six months ended Dec 31 from $98.5m a year earlier as sales climbed 41% to $613.1m. Sales of infant formula totalled $495.5m for the half, an increase of 45.3% on the prior year, driven by share gains in China and Australia.

Spark's first-half profit dipped 5.6% due to Southern Cross Cables not paying a dividend while it considered investing in a new underwater cable. Net profit fell to $153m in the six months ended Dec 31 from $162m a year earlier when Southern Cross paid a $28m dividend. Underlying earnings rose 7.2% as it increased margins.

Port of Tauranga increased first-half net profit 4% to $49m in the six months ended Dec 31, from $47.1m a year earlier. In Oct, it forecast full-year net profit of $96m to $101m, from $93.4m in the June year and now says earnings should come in at the upper end of that range. The company reported 8.8% cargo growth in the six months to 13.57m tonnes.

Nib NZ posted a 30% slide in first-half profit as the local arm of the Australian health insurer's claims bill rose at a faster pace than it could win new policyholders. Underlying earnings fell to $10m in the six months through Dec, as it paid out $69m in claims, up 9% from a year earlier. Premium revenue rose 6.2% to $113m, with a 1.7% gain in policyholders to 104,399.

AMP's life insurance NZ arm reported a 45% slump in operating earnings to A$39m for calendar 2018, largely reflecting A$180m of capitalised losses and about A$50m of experience losses. The Australian parent's overall result was a 97% fall in net profit to just A$28m, down from A$848m in 2017. AMP attributed the profit fall to the reputational impact of the Australian royal commission, the costs of remediating past misconduct and the "subdued performance" of the wealth protection operations. The group's underlying profit fell 35% to A$680m.

Suncorp Group's NZ insurance arm more than doubled profit to $103m, as gross written premiums rose 8.2% to $831m.

Ebos Group's net profit fell 4% to A$67m in the six months to Dec 31, versus A$69.9m in the same period a year earlier.

Sky TV chief executive John Fellet's last results announcement was to report revenue for the six months to Dec 31 down 8.4% to $403m compared to the same half in 2017. Net profit was also down 19.6% to $53.6m and revenue from residential satellite subscriptions was down almost 10% to $322m.

Skellerup Holdings reported net profit of $13.4m for the six months through Dec, up from $11.7m a year earlier. Revenue rose 3% to $120.2m. Earnings before interest and tax rose 11% to $19.4m, with almost all the increase coming from the industrial arm's sales to the global water, wastewater, roofing, mining and automotive sectors.

Contact Energy reported net profit rose to $276m for the six months ended Dec 31, from $58m a year earlier, boosted by a $172m gain from the sale of its Ahuroa gas storage facility and its Rockgas LPG business.

Meridian Energy reported a 39% increase in first-half profit, boosted by NZ generation volumes climbing to 6,546 gigawatt-hours and sustained high wholesale prices in Oct and Nov. It had a net profit of $152m in the six months through Dec, up from $109m a year earlier.

Hallenstein Glasson Holdings reported sales for the six months ended Feb 1 were $151.2m, up from $146.8m in the same six months a year earlier. It expects net profit for the six months will come in at $15.7m-$16.2m, up from $15.1m the previous year.
Livestock Improvement Corp's net profit for the six months to Nov 30 was $32.8m versus $15.1m in the prior year as farmers turn to artificial breeding to develop A2 herds and avoid Mycoplasma bovis.

Among **SOEs** to report, **NZ Post** was notable for producing its first revenue increase since 2015 as growth in sales from parcels delivery offset continuing falls in mail volumes. Net profit for the six months ended Dec 31 rose 16.6% to $7m from $6m in the previous first half while revenue rose 4.2% to $471m from $452m.

Kiwibank's net profit rose to $62m for the six months ended Dec from $42m in the same six months a year earlier. Its deposit book grew 9.2%, or by $1.2bn, after growth of $200m in the previous full year, while its mortgage book grew by 7.2%, or by $1bn, double the previous full-year growth.

KiwiRail appears to be seeing a bounceback in revenues thanks principally to the reopening of the Picton-Chch rail connection destroyed in the 2016 Kaikoura quake. Total revenues were up 12% to $328.8m and ebit was $16.3m. On an NPAT basis, where depreciation and capex always push KiwiRail into the red, the HY loss was $104.6m, down from $193m in the previous half-year.

Infrastructure

Auckland's major rail projects – the **Central Rail Link** and the proposed **light rail** systems for south and west Auckland – have both experienced setbacks. The CRL's total cost may now be $1.5b higher, at around $5b, than was originally estimated. Part of the explanation appears to be contractors pushing back on risk-bearing. The CRL will aso now need longer platforms than originally designed as the service is expected to be at peak patronage when it opens. The tunnels for the CRL are not able to accommodate double-decker carriages, meaning longer single-storey carriages will be required. Meanwhile, **NZTA** has advised stakeholders that the procurement process for light rail from the CBD via Mangere to the airport is on hold while the **NZ Super Fund** and its Canadian investment partner, **CPDQ**, generate their own proposal. This may not include the West Auckland line. Process has become a little murky.

The govt announced the establishment of the long-heralded independent capital works assessment body, **Infrastructure NZ/Te Waihanga**.

Primary industries

A second type of fruit fly, (the "facialis fruit fly") has been found in a surveillance trap in Otara. This is a different species to the Queensland fruit fly and the detection is not related to the find in Devonport, where a second fly has been found. Movements of fruit and vegetables, similar to those in Devonport, have been put in place.

Dairy product prices rose for the sixth **Global Dairy Trade** auction in a row, though gains were less than expected. The GDT price index rose 0.9% from the previous auction two weeks ago. The average price was US$3,271 a tonne vs US$3,265 a tonne at the previous auction. Some 25,324 tonnes of product was sold, up from 23,326 tonnes.

Deloitte's wine industry survey shows for only the third time in its 12 year history all five winery tiers had profitable results in 2018. The survey indicated a 1.8% lift in average prices. Wine companies with more than $20m in revenue show the largest average after-tax margin, at 18.7% of revenue, with smaller wineries showing lower, more variable returns.

The govt is ending the policy of selling leasehold **high country Crown land** to tenant farmers. About 40 farms are currently in the tenure review process.

The Commerce Commission granted clearance to global seed producer DLF Seeds A/S to acquire **PGG Wrightson Seeds.**

Energy

Trustpower says it might have to write down the value of its generation assets by as much as $170m after revising its view on future electricity prices. A draft independent review cuts the generation assets' value to $1.85b to $1.9b from about $2.02b.

Contact Energy says its 20-year-old gas-fired Taranaki Combined Cycle plant could be retired in favour of the greater flexibility provided by Genesis Energy's dual-fuel Rankine units at Huntly. No decisions are expected soon. It is also considering a new geothermal plant, possibly 50MW-plus, at its Tauhara steamfield. The company suffered an environmental incident when a geothermal well failure led to large quantities of mud washing into the Waikato River.

Meridian Energy says its up to 140MW wind-farm proposal at Maungaharuru , near Napier, is the country's next most logical addition to grid-scale generation capacity.

OMV expects to invest more than $500m in Taranaki to maintain the Maui and Pohokura fields. It is working to restore reliable production at Pohokura and is considering redeveloping the declining Maui field.

The Commerce Commission issued South Canterbury electricity lines company **Alpine Energy** with a formal warning for breaching its regulated quality standard in 2016.

Banking, insurance and finance

Heartland Group reported a net profit of $33.1m for the six months ended Dec, up from $31.1m, with growth from its Australian reverse mortgage unit, business lending and its Open-for-Business digital lending platform.

Tower expects net profit of more than $22m in the year ending Sept 30, turning around a loss of $6.7m in the Sept 2018 year.

CORPORATE ROUND-UP

NZers' **trust in banks** does not appear to have been dented by scandals exposed by Australia's royal commission into financial services. Consumer banking satisfaction went up for three of the big four Australian-owned banks in the latest Roy Morgan survey and the overall satisfaction with banks rose to 79.1% from 78.2% a year ago. **ANZ** was the only major bank to see its customer satisfaction rating fall - down 1.9 points to 77.1%. **TSB** bank was the top rated bank, overtaking **Kiwibank** with a 6.1 point gain to 88.5%, while Kiwibank's rating grew just 0.7 points to 84.6%. **Westpac** was the lowest rated of the big four, although it still rose 2.1 points to 76.5%.

Low-fees KiwiSaver start-up **Simplicity** is expected to make major announcements shortly, including an equity injection from a high profile NZ backer.

Transport, tourism and logistics

Auckland International Airport will cut fees for airlines in response to Commerce Commission findings the planned hikes to cover the cost of a $1.8 billion infrastructure spend weren't justified. AIA reported an 11% decline in first-half profit, due largely to a smaller property valuation gain than a year earlier. Underlying earnings edged up in line with expectations.

A dry dock to handle the country's biggest vessels is affordable and can form the basis of a new marine servicing industry. **KiwiRail chair Greg Miller** says a new facility would reduce the cost and risk shippers face getting surveys completed in Australia or Singapore. The new ferries the firm plans to get "sets the stage" for the project to integrate a new dock with other facilities to form a marine services hub.

KiwiRail acting chief executive Todd Moyle told MPs it is "critical" the government builds a 20-kilometre spur extension to link the Auckland-to-Whangarei line to the port at Marsden Point. This potential new line is part of a business case the Ministry of Transport is aiming to complete by May on options for upgrading the rail link from Auckland northwards.

USX-listed **Skyline Queenstown** is finalising a $100m-plus project to upgrade its gondola after the Environment Court granted a resource consent.

Media and entertainment

NZME net profit fell to $11.7m in the 12 months ended Dec 31 from $20.9m a year earlier. It spent $6.1m on its new digital classifieds businesses and hopes for 10,000 paid digital subscribers when it begins a premium content paywall later this year. It expects to spend $1.2m in 2019 on its digital subscriptions service, but only expects modest returns before 2021.

Stuff's new owner, **Nine Entertainment,** is optimistic it will find a buyer for NZ's biggest online news group this year. In its first reporting period as a subsidiary of Nine, the NZ business reported ebitda of A$14.5m in the six months ended Dec 31, compared to A$18.9m a year earlier. The 23% decline compared to a 14% slide in revenue to A$126m, print advertising slumped 21% to A$55.8m, circulation revenue of A$43.1m was down 4% and digital revenue was flat at A$22.1m.

TVNZ chief executive Kevin Kenrick is not ruling out possibly buying at least some of Stuff's assets but **Spark NZ** ceo Simon Moutter said the telco had no interest in Stuff.

Spark announced a beta launch for its sports streaming service next month as it prepares to broadcast the Rugby World Cup online this year.

Capital markets

NZX will pursue sales growth this year, after wearing the cost of reshaping its business in 2018. Net profit fell to $11.6m in calendar 2018 from $14.8m. That was largely due to $3m of impairment charges NZX booked in selling its Farmers Weekly, AgriHQ and grain information businesses. Operating earnings from continuing operations were flat at $27.3m.

Burger Fuel Worldwide will test the waters for a potential buyer after a review questioned the franchisor's current listing.

Corporate actions

Fisher & Paykel Healthcare and ResMed agreed to settle all outstanding patent infringement disputes with no payment or admission of liability by either side after racking up millions of dollars in legal fees in a fight that spanned the globe.

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