Morning Round Up

Eurozone inflation picks up
Eurozone annual inflation rose to 1.1% in December 2016. This marks the first time that inflation has crossed the 1% mark since September 2013. Headline inflation climbed 0.6% while core inflation moved from 0.85% to 0.95%. From a policy perspective it is core inflation that is watched most closely so the ECB more than likely will not adjust its policy path based on this data. Other European economic data continues to be strong. The overall Eurozone Composite PMI came in at 54.4 beating estimates and posting the highest number since May 2011 yesterday. The overall PMI was buoyed by the underlying big economies with good Services PMIs for Germany, France & Spain in the past week. Italy was the only one of the big four to underperform.

US Fed Minutes Release
It would appear the main theme stemming from the Fed meeting on Dec 13th is uncertainty. Almost all of the Fed officials said the risks of growth surpassing their forecasts had increased due to the possibility of more expansionary policies under President–elect Trump. This has resulted in more questions about the possible trajectory of rate rises in the future. In summary the committee are still dovish but are now keeping a particular eye on the effects of Trump’s policies. They continue to note that a gradual approach for rate rises is appropriate. The possibility of another significant dollar increase was also noted as a risk factor. In other US news auto sales posted their best year on record in 2016 with December being a particularly good month.

Chinese currency swings & macro data
China’s offshore renminbi rose 1.3% vs the US Dollar and had its biggest one day gain in a year. This was in the wake of new regulations that allow Chinese authorities to demand more paperwork regarding FX transactions and restrict outbound corporate acquisitions and investments. This is part of the continuing efforts by Chinese authorities to slow capital outflows that have been negatively impacting the currency. Chinese Services PMI also strengthened to a 17 month high of 53.4. The overall Composite PMI rose to a 45 month high of 52.9. In other Asian news Japanese Services PMI rose to 52.3 for December and represents the third consecutive month of growth.

Bank of Ireland - Price Chart
**Bank of Ireland (Outperform)  Target Price under review  Previous Close: 26.1c**

**News**
Bank of Ireland (BKIR) has been the 2nd best and best performing stock in the ISEQ Index and our Core Portfolio, respectively in the first week of 2017, up 11.5% in just two trading sessions. Positive sentiment has been broad based towards European financial stocks in 2017 with the Euro Stoxx 600 Bank Index being the best performing sub-component of Euro Stoxx 600. On the 9th December, we discussed “10 tailwinds which are benefiting Bank of Ireland’s share price” and the majority still hold true apart from the recent stabilisation in higher bond yields in Europe and a modest weakening in the pound since, with EURGBP moving from 83.8p to 85.6p.

**Comment**
Bank of Ireland’s share price closed 2016 at 23.4c, marginally below our 12 month target price of 23.8c from our “Brexit Aftermath: Significant negativity reflected in the price” report issued in July 2016. We maintain our “Outperform” outlook on the stock, however we are moving our target price to “Under Review” as we update our financial forecasts and model to reflect year-end 2016 numbers. The bank is due to release FY16 results on the 8th March. From a technical standpoint, BKIR’s share price is trading within a well-defined upward sloping trend channel since October 2016 and we see a band of resistance between 27c – 27.4c which could lead to a period of consolidation given the sizeable rally seen over the past 3 months if achieved in the near term. 27.2c is the pre-Brexit referendum closing price. It has re-rated to exactly 1.0x FY16e Price/ Book, a slight premium to the broader Stoxx 600 Bank Index at 0.85x. Please refer to Bank of Ireland chart on page 1.

Stephen Hall, CFA | Investment Analyst

**Kerry Group (Outperform)  Strong performance since inclusion in Core Portfolio  Previous Close: €68.82**

**News**
On the 16th November, we added Kerry Group to our Core Portfolio, which turned out to be the low of 2016. We felt the selloff in Kerry had gone too far as defensive stocks underperformed cyclical stocks in light of Donald Trump’s election victory, and reiterated our preference to pick up fundamentally strong businesses on any significant share price weakness. Despite the 11% rally in the interim, we are happy to pick up the stock at current market prices. The company is due to report FY16 results on the 28th February, where the market is expecting revenue of €6.1bn, net income of €555m, and an adjusted EPS of €3.21.

**Comment**
Fundamentally, the underlying business is very strong and is well positioned to benefit from shifts in consumer trends reflecting increased preference for health and wellness offerings, clean-label solutions with less additives and chemicals, organic lines and convenient products available through more fragments retail and foodservice channels. It reported a 70bps improvement in operating margins at Q3/16 due to a reduced spend on the Kerry Connect programme, product innovation, improved product mix and increased operations leverage. Kerry’s ability to deliver organic volume growth differentiates it from other mega cap consumer staples names like Unilever, Nestle and Danone. The company’s balance sheet is strong with a net debt to EBITDA ratio expecting to be below 1.6x at FY16 year-end and is a highly cash generative business with a FY17e Free Cash Flow yield of 4.7%. Valuations still appear reasonable, currently trading at 19.8x FY17e earnings. The 12 month consensus target price is €78.3, offering investors a further 13.8% upside potential if achieved. We still feel risk/ reward for a new long position looks attractive at current market prices.

Stephen Hall, CFA | Investment Analyst
Cantor Publications & Resources

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Issuer Descriptions: (Source: Bloomberg)

**Bank of Ireland:** Bank of Ireland provides a range of banking, life insurance and other financial services to customers in Ireland and United Kingdom.

**Kerry Group:** Kerry Group PLC is a major international food corporation. The Group develops, manufactures, and delivers innovative taste solutions and nutritional and functional ingredients

**Historical Recommendation**

**Bank of Ireland:** Our Target Price has been moved to Under Review as of 05/01/2016

**Kerry Group:** We added Kerry to our Core Portfolio on the 16/11/2016.

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