

Monday, 27th March 2017

Key Themes this Week

European vs US Equities – Europe Primed to Outperform

This year most analysts predicated their analysis with the assumption that the political risk was too high to allocate meaningfully to Europe. That political risk has declined in recent weeks and European equities have taken advantage. In absolute terms the S&P 500 is up 4.79% while the Euro Stoxx is up 4.9%. However, the S&P put on most of that performance in January & early February. Since March it has traded in a range and is actually down -2.2%. In contrast the Eurostoxx is up 3.75% since March. Two factors have driven this shift. From a European perspective it is the reduction in political risk following the Dutch election and increasingly likelihood of a Macron victory in the French election. From the US side, investors appear to be losing confidence in Mr Trump's ability to deliver on his pro-growth policies. If political risk continues to decline European outperformance should continue.

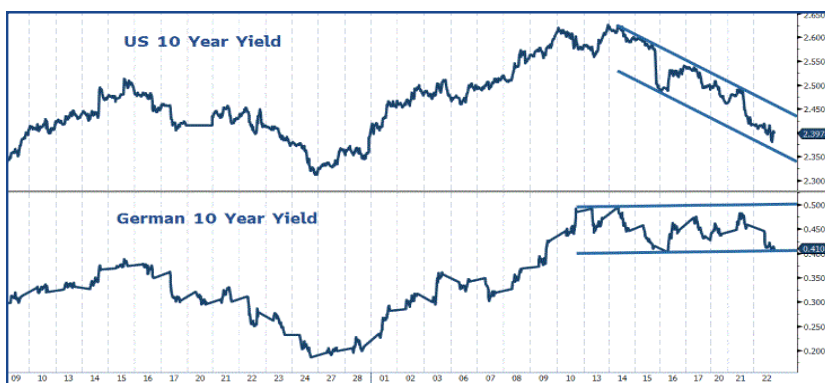
Economic Data – Moderated Expectations

US data has been very strong over the past few months as evidenced by the PMI data on Friday coming in at 53.2. However, this was below consensus expectations of 54.9 and was the lowest reading for five months. We had been expecting some degrading in US economic data as the strength of the data recently is difficult to sustain. The Citibank US Economic surprise indicator, which measures when US economic surprises to the up/down side, is at multi year highs with a reading of 54.1, a level it has not reached since 2013. Any retracement in this does not necessarily mean a recession. Economic data can continue to remain in expansionary territory but not to the same extent as in the second half of 2016.

EURUSD – Euro Bulls Prosper

EURUSD has traded in a range of \$1.04 - \$1.08 so far this year. However, it has appreciated from a low of \$1.05 in early March to its current level of \$1.08. This euro strength comes in a year when most analysts were predicting dollar strength, perhaps even with a move to parity. The major factor has been the move in US and European yields. Since mid-March US yields have traced downwards while European yields have held firm and traded in a range. The main drivers behind are a fairly dovish Fed meeting and in contrast a reasonably hawkish ECB tone that has led to speculation that the ECB may taper earlier than expected. All of this has fed through to yields as can be seen in the below chart. We would expect this to continue in the short term and for the euro to continue to show strength.

US 10 Year vs German 10 Year - Yield Chart



Major Markets Last Week

	Value	Change	% Move
Dow	20597	-317.90	-1.52%
S&P	2344	-34.27	-1.44%
Nasdaq	5829	-72.26	-1.22%

UK Index	7276	-153.94	-2.07%
DAX	11970	-83.18	-0.69%
ISEQ	6542	-191.58	-2.85%

Nikkei	18,986	-536.00	-2.75%
H.Seng	24,187	-315.47	-1.29%
STOXX600	374	-3.79	-1.00%

Brent Oil	50.43	-1.19	-2.31%
Crude Oil	47.57	-0.65	-1.35%
Gold	1258	23.44	1.90%

Silver	17.9139	0.48	2.77%
Copper	259.6	-7.10	-2.66%
CRB Index	431.88	-2.31	-0.53%

Euro/USD	1.0868	0.01	1.20%
Euro/GBP	0.8645	0.00	-0.52%
GBP/USD	1.2571	0.02	1.72%

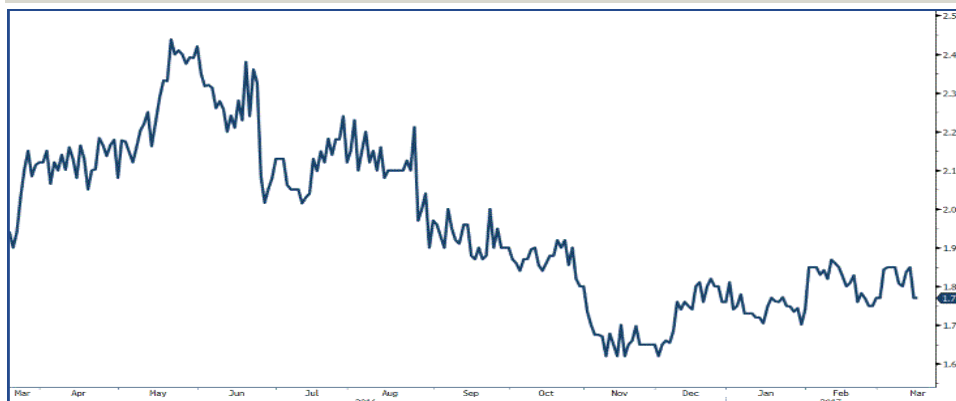
	Value	Change
German 10 Year	0.37%	-0.07
UK 10 Year	1.16%	-0.07
US 10 Year	2.36%	-0.10

Irish 10 Year	1.02%	-0.12
Spain 10 Year	1.67%	-0.18
Italy 10 Year	2.18%	-0.18

BoE	0.25%	0.00
ECB	0.00%	0.00
Fed	1.00%	0.00

Facebook – Short term take profit, but fundamental case intact Closing Price: \$140.34

David Donnelly, CFA | Senior Investment Analyst



Key Metrics	2017e	2018e	2019e
Revenue (\$bn)	37.75	48.02	58.01
EPS (\$)	5.43	6.747	8.311
EV/EBITDA	16.01	12.55	9.96
Div Yield	0	0	0

Share Price Return	1 Mth	3 Mth	YTD
Facebook	3.10%	17.08%	21.98%

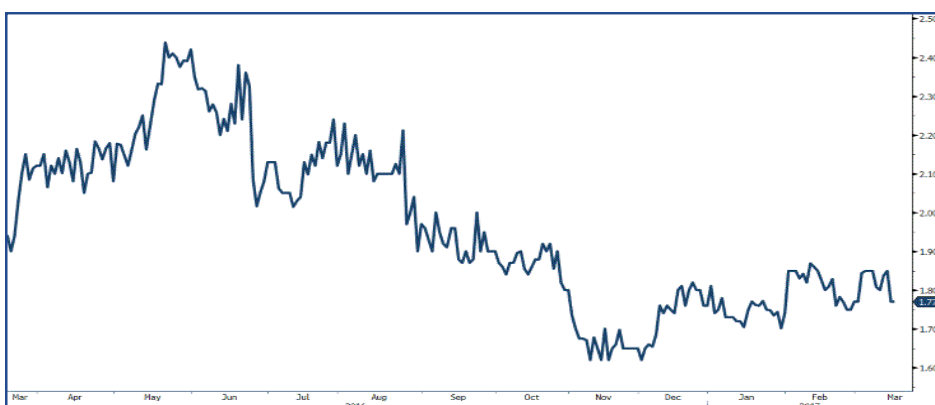
Source: Bloomberg

We see scope for near term weakness in Facebook's shares given the strong returns the company has posted since the start of the year. The stock has rallied c.22% year-to-date and given the current bout of weakness in US shares on the back of concerns regarding the viability of President Trump's economic policies, we see potential for shares like Facebook which have led the rally this year to pull back.

Long term we remain resolutely positive on the outlook for Facebook given its dominant position within the rapidly expanding sector of online advertising. Facebook attracts over 1.2 billion users per day, providing a captive audience for advertisers to target. In our view, an increasing amount of advertising budgets will pivot away from traditional media like television, radio and newspapers toward online and mobile platforms where consumers are spending an increasing amount of time and where ads can be more accurately tailored to the individual interests of individual consumers, thereby increasing effectiveness. As such, we would use this opportunity to bank some profits in Facebook, before re-instating longs at lower levels ahead of first quarter results on April 26th.

Shell - Further asset sales illustrate strong cash management Closing Price: GBp 21.80

David Donnelly, CFA | Senior Investment Analyst



Key Metrics	2017e	2018e	2019e
Revenue (\$bn)	284.3	313.05	323.38
EPS (\$)	1.77	2.21	2.64
EV/EBITDA	6.24	5.51	5.28
Div Yield	6.91	6.94	6.97

Share Price Return	1 Mth	3 Mth	YTD
RD Shell	-0.73%	-7.02%	-7.39%

Source: Bloomberg

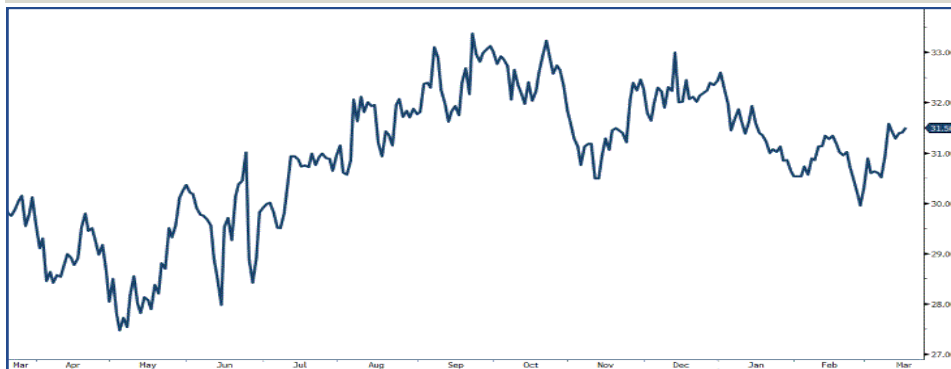
On Friday, Shell announced the sale of further assets in Gabon to the private equity firm Carlyle Group for \$1bn. The sale continues the trend of Shell disposing of mature oil assets and pivoting toward cleaner burning Natural Gas, and keeps the firm on track to complete \$30billion in asset sales by 2018 - a plan which is now just over 2/3rds complete. Roughly 60% of Shell's proven reserves are now Natural Gas.

While oil prices remain low, cash management will be the critical element to the Shell story on the coming 18-24 months in our view. Shell's dividend is 0.95x covered by earnings, however on a cash basis it is far more secure. The dividend costs Shell c.\$9.7 billion per year, and the company had over \$19 billion in cash on the balance sheet at the end of 2016. In addition, a tight focus on costs and capital expenditure is aiding the cash position. Capex guidance for this year is \$25 billion, and there exists scope for this number to be reduced further if oil prices were to decline significantly. This \$25 billion figure is some \$22 billion lower than the combined capex of Shell and BG in 2014. In our view, the prudent management of cash and the sustainability of the dividend for 2017 makes Shell attractive at current levels, as does the expected yield of 6.9%. Elsewhere in the materials sector we will have an update on Tullow and Falcon Oil and Gas in the coming weeks.

Switch Trade – Lloyds into Bank of Ireland

Closing Price: €0.23

Stephen Hall, CFA | Investment Analyst



BOI Key Metrics	2017	2018e	2019e
Revenue (€Bn)	3.01	3.077	3.196
EPS (€c)	2.1	2.2	1.4
P/E	11.14	11.14	10.64
Div Yield	2.56	3.42	5.98

Share Price Return	1 Mth	3 Mth	YTD
BOI	0.43%	-2.90%	0.43%

Source: Bloomberg

Positive momentum in Lloyds’ share price seen in Q4/16 has continued into Q1/17 (+9%) as the Group announced very strong FY16 results and a positive outlook for FY17 ahead of analysts’ expectations across most financial metrics. However, with UK Prime Minister, Theresa May due to trigger Article 50 this Wednesday, the UK financial sector could face near term headwinds. Therefore we recommend a switch trade from Lloyds into Bank of Ireland (BOI) whose share price has retracted in recent weeks and is back approaching key support at 22.7c, as 10 year German Bund yields have retracted from 0.50% to 0.38%. We maintain our Outperform outlook on both stocks, however see greater near term upside potential in Bank of Ireland relative to Lloyds. Bank of Ireland CEO, Richie Boucher announced he is due to retire before the end of 2017. He has been instrumental in guiding the bank through the financial crisis, keeping it out of full Government ownership, helping to significantly improve the asset quality of the Group while returning the Group to sustainable profitability before eventually returning to a sustainable dividend paying bank in 2018 relating to FY17’s financial year. The Bank has a strong executive team in place to manage this transition. The Group currently trades at 0.83x FY17e Price/ Book. Political risks in Europe have reduced in recent weeks which should ultimately be supportive of the European financial space while a strong Irish economy and improving mortgage market should provide a positive backdrop specifically for Bank of Ireland.

From the News - Monday Headlines

- **US** Trump attacks Republicans for wrecking health plans
- **Germany** Merkel gains unexpected lift in regional poll
- **UK** UK manufacturers tell May no EU deal is simply unacceptable
- **Global** The end of global QE is fast approaching
- **Currencies** GBP likely to be volatile as Article 50 trigger looms
- **Oil** OPEC set to extend cuts beyond June
- **Ireland** Report says public staff earn 40% above those in the private sector
- **Samsung** Company looks to Galaxy S8 to regain consumer trust
- **Bank of Ireland** Richie Boucher to step down as CEO

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	Corporate	Corporate	Corporate	Corporate
N/A	Datalex. Ladbrokes. Hostelworld.	N/A	Kingspan (ex div)	N/A
Economic	Economic	Economic	Economic	Economic
US Dallas Fed Manf. GE Retail Sales.	US Services PMI. UK Nationwide House Px.	UK Mortgage Approvals. US Mortgage App.	EC Consumer Conf. US GDP Price Index.	CH Manf PMI. EC CPI est.

Upcoming Events

03/04/2017 N/A

04/04/2017 N/A

05/04/2017 N/A

06/04/2017 Paddy Power Betfair (ex div) Lloyds (ex div)

07/04/2017 N/A

03/04/2017 US PMI. EC Manufacturing PMI.

04/04/2017 EC Retail Sales. US Durable Goods Orders.

05/04/2017 EC Composite PMI. USD ADP Change. US ISM

06/04/2017 CH PMI. EC Retail PMI

07/04/2017 US NFP. US Avg Hrly Earnings

Cantor in The Media

- Today FM Sunday Business Show: Caterpillar - Ronan Reid
[View Clip](#)
- Bloomberg: Good News for Irish taxpayer may be bad news for Irish Investors - Stephen Hall
[View Clip](#)
- Today FM Sunday Business Show—Dominos Pizza Poland - Alan Breen
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Current Stock Trading News

From a market trading perspective we are long Daimler, Green REIT, Royal Dutch Shell and Kingspan and the positions remain in the money.

Cantor Publications & Resources



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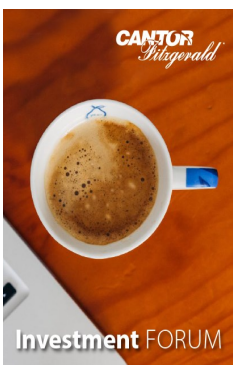
Monthly Investment Journal

Each month our Private Client and Research departments collaborate to issue a publication which highlights the performance of our flagship products, funds and our core portfolio, including the Green Effects fund, most recent Private Equity deals and structured product investment opportunities.

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Featured this Month:

- Care Equity Portfolio: Highest Conviction Stock Picks for 2017
- Stock Watch: Kinross, Remy
- Care Equity Hedge Investment Funds: ETR, TSM
- Commercial Property Investment Opportunity: The Park, Cambridge
- Irish REIT Update: Green REIT, Fibersix REIT



Investment Forum

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Lloyds: Lloyds Banking Group plc, through subsidiaries and associated companies, offers a range of banking and financial services. The Company provides retail banking, mortgages, pensions, asset management, insurance services, corporate banking, and treasury services

Royal Dutch Shell: Royal Dutch Shell PLC, through subsidiaries, explores for, produces, and refines petroleum

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

Facebook: Facebook Inc. operates a social networking website. The Company website allows people to communicate with their family, friends, and coworkers.

Historical Record of recommendation

Lloyds: We have been positive on Core Portfolio stock, Lloyds, since 01/03/14 and no change has been made to our recommendation since.

Royal Dutch Shell: We have been positive on Core Portfolio stock, Royal Dutch Shell, since 20/05/13 and no change has been made to our recommendation since then.

Bank of Ireland: We have reinstated an outperform rating on Bank of Ireland as of 13/07/2016.

Facebook: We have been positive on the outlook for Facebook, and it was added to the core portfolio on the 11/05/2015 and no changes to our recommendation have been since.

None of the above recommendations have been disclosed to the relevant issuer prior to dissemination of this Research.

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Dublin: 75 St. Stephen's Green, Dublin 2. Tel: +353 1 633 3633.

email : ireland@cantor.com web : www.cantorfitzgerald.ie



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