Daily Note
Views, news and topics from today's markets
CANTOR Fitzgerald
Tuesday, 16th May 2017

Morning Round Up

Euro Data – Car Sales

Car sales across the European Union fell 6.6% in April marking the first year on year decline in 5 years. European economic data has been quite strong of late and we believe this data point is a once-off related to recent changes in UK car tax changes. UK sales fell by 19.8% as a result. Sales in the first four months of the year rose by 4.7%, half the growth rate of the same period last year and the slowest opening four months since 2012. If that were to continue it would suggest Europe's car market growth may be plateauing after several years of strong growth. The US car market is widely regarded as having already peaked. We will need to see more data points to continue the trend in Europe. However this data should be noted when assessing the Q2 numbers of the likes of Daimler and BMW.

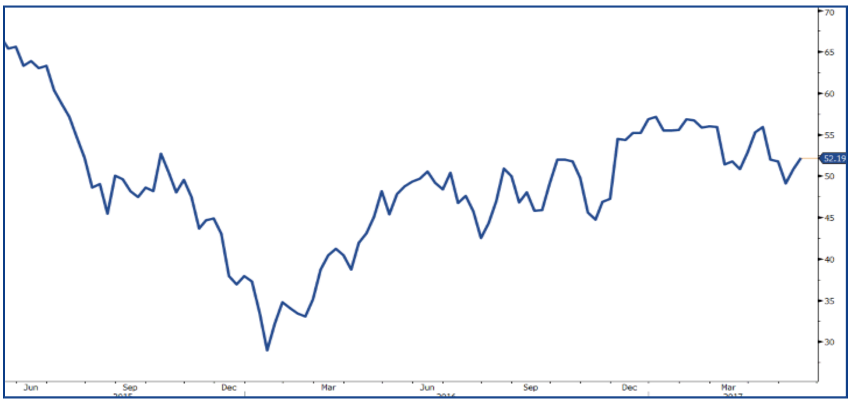
EURUSD – A Slow Grind

The euro climbed back above $1.10, erasing its recent decline in the wake of the Macron victory. It may receive a further boost today with the 2nd estimate for Eurozone GDP growth expected to come in at 1.7%. The US dollar has not been helped by recent concerns about the current White House administration, including the latest controversy surrounding Mr Trump potentially handling intelligence over to the Russian Foreign Minister. On the euro side, European economic data remains strong with growth expectations picking up. However, any move in inflation will have to be sustained in order for the ECB to move on rates. Consensus expectations are for no rate moves before 2018. There may however be talk of tapering on the ECB's part which should further strengthen the euro. In the short term at least it looks like euro bulls are winning the day.

Oil – OPEC to Extend Cuts

Oil got bid up yesterday as Saudi Arabia and Russia said they backed extending an OPEC-led agreement to cut output until March 2018. Both countries pledged to do "whatever it takes" to reduce global stockpiles and balance the market. They face an increasingly daunting challenge from US shale producers with US output surpassing both OPEC and EIA estimations and offsetting any of OPEC's production cut effects so far. Both countries recommended that the next round of reduction should be on the same terms as the first deal which was a reduction of 1.8m barrels a day. US rig count continues to increase while Libya and Nigeria, both exempt from the OPEC deal, are expected to increase production over the coming months. It remains to be seen if this extension will have the desired effect.

Brent Crude - price chart



Key Upcoming Events

25/05/17 - OPEC meets
08/06/17 - UK General Election
13/06/17 - Fed Meeting

Market View

Markets rallied yesterday as European economic data continues to come in strong. Oil rallied as an OPEC extension was announced. Mr Trump continues to be embroiled in controversy with supposed intelligence leaks to the Russian foreign minister. Market focus today will be on US housing numbers and Eurozone GDP estimates.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	20982	85.33	0.41%	6.17%
S&P	2402	11.42	0.48%	7.30%
Nasdaq	6150	28.44	0.46%	14.24%
Nikkei	19,920	49.97	0.25%	4.21%
Hang Seng	25,326	-45.11	-0.18%	15.12%
Brent Oil	52.02	0.20	0.39%	-8.45%
WTI Oil	48.88	0.03	0.06%	-9.01%
Gold	1235	3.84	0.31%	7.60%
€/$	1.1024	0.0049	0.45%	4.82%
€/£	0.8527	0.0017	0.20%	-0.10%
£/$	1.2929	0.0033	0.26%	4.77%

	Yield	Change
German 10 Year	0.43%	0.013%
UK 10 Year	1.16%	0.018%
US 10 Year	2.34%	-0.002%
Irish 10 Year	0.91%	0.012%
Spain 10 Year	1.64%	0.008%
Italy 10 Year	2.27%	-0.007%

DCC (Outperform) - Solid results with very strong cash flow generation Previous Close: £73.65

News

DCC released 2017 full year results this morning which were good solid from an overall perspective. Top-line revenue came in ahead at £12.27bn vs estimates of £12.06bn. Operating profit for the year was £363.6mn vs estimates of £360.4mn and was 21% ahead from a year on year perspective. EBITDA was £455.56mn vs street estimates of £450.66m. The free cash flow generation was very strong at £415.5mn vs estimates of £291mn. That was up 42.7% on last year and represents a conversion rate of 114%. EPS was 303.7p which was ahead of consensus. The final dividend was increased by 15% overall, the 23rd year of consecutive dividend growth.

Comment

This set of results continues DCC's recent trend of solid results and expectations beats. Operating profit growth was driven by the strong performance of the LPG business, despite rising product prices. In the Technology division, UK and Ireland achieved good organic growth while Europe was more of a mixed bag. Healthcare's growth was main driven by Health and Beauty with Vital contributing despite pharma margins being impacted. Management tone was optimistic for the remainder of the year stating "we expect that the coming year will be another year of profit growth and development for DCC". DCC's balance sheet remains very healthy with a net debt/EBITDA position of 0.35x. This combined with the strong cash flow situation leaves it well placed with enough financial headroom to make further acquisitions in the second half of the year. The lack of an acquisition or M&A talk in these results may be received badly by markets. We had also been guiding for active investors to take profits recently due to the extended nature of the rally so there may be some softness in the share price in the short term. However from a 12 month perspective we maintain our Outperform as we believe DCC will continue to grow both organically and through acquisitions. We would be happy to buy in at the £69.10 - £71.85 range.

Will Heffernan | Investment Analyst

Vodafone (Outperform) - Results bode well for the future Previous Close: £2.11

News

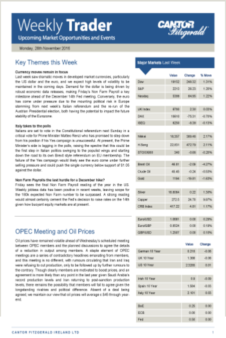
Vodafone had 2H17 results out this morning that were generally in-line with expectations but presented a much more optimistic growth picture for the future. Organic service revenue was in-line at €10.3bn with 1.5% growth in the second half of the year and 1.9% growth for the full year overall. EBITDA for H2/17 came in 5.2% ahead of consensus at €7.059bn. Operating margin came in at 29.9% which was ahead of expectations. Some of the top line numbers did come in below expectations, the most notable being total revenue for the year at €47.6bn vs estimates €53.98bn. However, management has pledged to increase free cash flow by 23% this year which should ally some recent concerns about the dividend.

Comment

Analysts were cognizant of the fact that write-downs stemming from the recently announced joint venture for Vodafone's India operations would bring down some of the top-line numbers. The main focus was on dividend cover and the trajectory for future growth. On both of these points this release was a strong result. Management upgraded guidance for 2018 EBITDA with an implied 4-8% organic EBITDA growth. The increase in FCF guidance to approx. €5bn should ensure there is no problem covering the €3.9bn dividend. The removal of the loss making operations in India, which is also expected to add synergies of approx. €10bn, have improved estimates across the board. CEO Vittorio Colao stated "We are getting into a space where we are balanced between our investment needs, rewarding shareholders and paying for spectrum, the broad direction is that these three things are becoming compatible". We would expect management to continue to follow this strategy and expect more deal announcements for some of Vodafone's other loss making operations in Emerging Markets. We maintain our Outperform

Will Heffernan | Investment Analyst

Cantor Publications & Resources



Weekly Trader

On Mondays, we release our Weekly note in which we provide a view on Equity markets for the coming days, and highlight a number of Equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meet on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments

[Click Here]

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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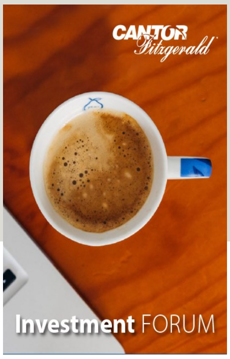

Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

[Click here]

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

DCC: DCC is a sales, marketing, distribution and business support services Group. The Group operates in the following sectors, energy, IT entertainment products, healthcare, and environmental services. DCC's strategy is to grow a sustainable, diversified business.

Vodafone: Vodafone Group PLC is a mobile telecommunications company providing a range of services, including voice and data communications

Historical Recommendation

Vodafone: We have been positive on Vodafone‟s outlook since 04/02/14 and no changes have been made to this recommendation in the last 12 months

DCC: We have an Outperform on DCC as of 17/8/15 changing to Outperform from Not Rated.

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