

Wednesday, 17<sup>th</sup> May 2017

## Morning Round Up

### US – Trump Continues to Cause Concern

Over the last two weeks that political risk has shifted squarely back to the US. Following on from the admission to sharing classified intelligence with the Russian Foreign Minister, another controversy is brewing for Mr Trump. The New York Times carried a story overnight that Mr Trump asked James Comey, then head of the FBI, to halt an investigation into Michael Flynn, the former national security advisor. The NYT stated that Mr Comey put details of this request into a memo which he then forwarded to senior FBI associates. The latest revelation will further erode Mr Trump's support within his own party and will reduce the likelihood of passing tax and banking reforms. We had favoured European equities over US equities due to valuations, potential policy disappointment and weakening US economic data. The continuing Trump debacle is one more factor to take into account when considering US exposure in the short-term.

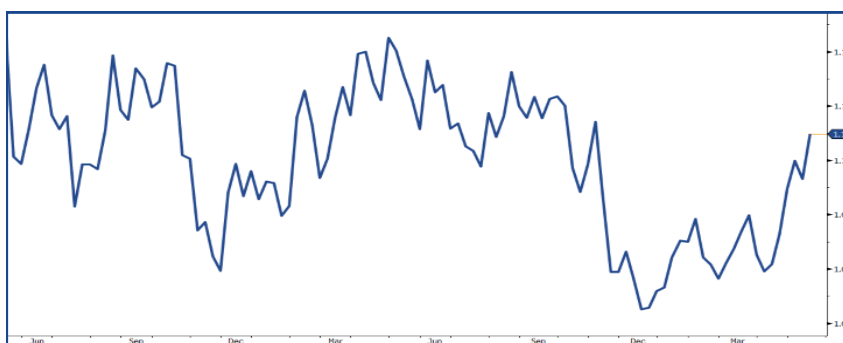
### US Housing Market – Signs of Fraying

US housing market data was released and continued the trend of slowing economic data. The rate of new home construction, as well as permits to begin building new homes, both fell last month. Housing starts dropped 2.6% in April to a rate of 1.17m units, missing expectations of 3.7% rise. New build permits fell 2.5% to 1.23m which also missed estimates of 0.2% uptick. The decline in housing starts comes as supply remains tight, pushing up prices. The weak housing data is on the back of other downside surprises including weak CPI and consumer sentiment readings. It wasn't all bad news. The 2.6% decline in housing starts was an improvement on last month where starts fell by 6.6%. However, this data is worrying for any stocks with exposure to US construction sector, including CRH, as the market has all but ruled out any Trump infrastructure program this year.

### Europe – Economic Data Remains Solid

The 2nd estimates for Eurozone GDP came in yesterday and were in-line with market expectations. Quarterly GDP expanded by 0.5% in the three months to the end of March. Annual growth came in at 1.7%. Latvia topped the Eurozone's Q1 growth table, expanding 1.5 per cent, followed by Lithuania (1.4 per cent) and an impressive 1 per cent acceleration in Portugal. Germany's economy also picked up pace – expanding 0.6 per cent – while Italy disappointed at 0.2 per cent. Yesterday the Eurozone ZEW Economic Sentiment Index, a good indicator of business optimism or pessimism, came in at 35.1 versus expectations of 29.5. This strong European economic data, allied with weakening US data and Trump consternation, helped pushed the euro onto new highs versus the US dollar at \$1.11.

### EURUSD - price chart



### Key Upcoming Events

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

### Market View

Asian markets followed their US counterparts and finished down overnight. Investors were spooked by weakening US economic data and heightened political risk stemming from the latest Trump controversy. The Euro strengthened against most major currencies as economic data continues to come in strong. US Treasuries, gold, Swiss Franc and Yen all got bid up as safe haven assets were sought by investors. Market focus today will be on the continuing Trump saga and Eurozone inflation data.

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	20980	-2.19	-0.01%	6.16%
S&P	2401	-1.65	-0.07%	7.23%
Nasdaq	6170	20.20	0.33%	14.62%

Nikkei	19,815	-104.94	-0.53%	3.66%
Hang Seng	25,292	-43.78	-0.17%	14.96%

Brent Oil	51.36	-0.29	-0.56%	-9.61%
WTI Oil	48.29	-0.37	-0.76%	-10.11%
Gold	1244	6.48	0.52%	8.39%

€/\$	1.1092	0.0009	0.08%	5.47%
€/£	0.8591	0.0012	0.14%	0.65%
£/\$	1.2911	-0.0006	-0.05%	4.63%

	Yield	Change
German 10 Year	0.41%	-0.030%
UK 10 Year	1.10%	-0.031%
US 10 Year	2.29%	-0.039%

Irish 10 Year	0.87%	-0.028%
Spain 10 Year	1.61%	-0.019%
Italy 10 Year	2.22%	-0.018%

**Lloyds** (Outperform) - Back in full private ownership

Previous Close: £0.82

**News**

News reports suggest the last remaining UK Government ownership stake in Lloyds has been finally sold as of this morning. After a £20.3bn capital injection in the banking Group post the financial crisis, the UK Government took a 43% ownership in the Bank. The UK Government steady sale of its position has acted as a headwind to the stock in recent months and years. Some estimates suggest this sale programme had accounted for roughly 15% of the average daily traded volume in recent years and its removal has been taken positively by the market this morning. Sentiment in the stock has also been bolstered in recent days by reports that one of the UK's premier fund managers Neil Woodford, who has historically avoided financial stocks has invested £200m in Lloyds.

**Comment**

In recent months, Lloyds has positively surprised the market when it released FY16 and Q1/17 results. In Q1/17 it reported a Net Interest Margin of 2.80% and management raised its guidance for 2017 to 280bps, an upgrade from 270bps. It has a very strong balance sheet with a capital position of 14.5% as of March 2017. Management remains committed to paying out capital in excess of 13% and it forecast to generate c. 200bps of organic capital in 2017, and currently offers investors a dividend yield of 5.4%. In our opinion, Lloyds is now a more simplified, low risk, UK focused bank and its asset quality remains very strong despite Brexit risks. The stock currently trades at 1.13x FY17e Price/ Book and its 12 month target price is GBp 72.45. The next key resistance level we see is its pre-Brexit closing level of GBp 72.15. Our near term target for the Group over the next 12 months is GBp 78 – GBp 80.

Stephen Hall, CFA | Investment Analyst

**ICG** (Outperform) - reports strong trading update

Previous Close: €5.39

**News**

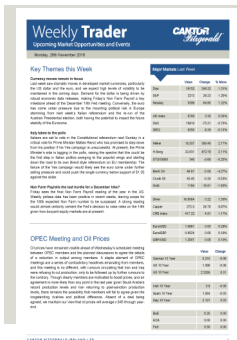
This morning, Irish Continental Group (ICG) released a trading update covering the first 4 months of 2017. The market is looking for a 2% decline in revenue and EPS growth in 2017, however it reported a 4% growth in revenues in the first 4 months of 2017 to €95.1m, which is a positive surprise. Management reiterated that revenues and operating profits are more heavily weighted towards the second half of each financial year as tourism numbers between Ireland and the UK picks up in the summer months. Revenues in ICG's Ferry Division rose 3.9% YoY to €53.6m, while revenues in its terminal division rose 4.3% to €44.1m. Overall cars carried up to the 13th May 2017 declined marginally by 0.7% to 103,200, RoRo freight declined by 1.7% to 100,300, container freight rose by 4.5% to 119,500 and terminal lifts were virtually unchanged at 107,600.

**Comment**

ICG's balance sheet continues to strengthen and it reported a €13.4m decline in its net debt position which stood at €24.5m at April 2017. ICG announced it has entered a Memorandum of Agreement (MoA) to sell its passenger ferry Kaitaki to the New Zealand ferry operator KiwiRial for €45m. ICG acquired this ferry in 1995 and became excess surplus once it took the delivery of its Ulysses ferry in 2001 and has been on charter since. This ferry has been depreciated over the years, and had a net book value of €16.1m at December 2016. Meaning ICG will report a profit on its disposal of €28.9m, highlighting the strength of its management team in our opinion. Once this transaction is complete on the 8th June 2017, ICG should have a net cash position of €15.5m, leaving it in a very strong financial position. ICG management said its new ferry which is currently being built by German ferry manufacturer, FSG remains on schedule to be delivered in June 2018. Overall, ICG reported solid set of results in our opinion, and we remain positive on the underlying fundamentals of ICG's business which is supported by a very capable and experienced management team. Its balance sheet is very strong and the delivery of its new ferry next year should support EBITDA growth for several years to come. It currently trades at 17.5x FY17e earnings and offers a 2.2% dividend yield.

Stephen Hall, CFA | 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

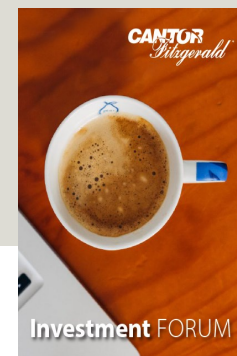
[Click Here](#)



## 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.

[Click Here](#)



## 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)

**ICG:** Irish Continental Group plc markets holiday packages and provides passenger transport, roll-on and roll-off freight transport, and container lift on and lift-off freight services between Ireland, the United Kingdom and Continental Europe.

**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.

### Historical Recommendation

**ICG:** We have been positive on ICG's outlook, since 07/03/13 and no change has been made to our recommendation since then.

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

[http://www.cantorfitzgerald.ie/research\\_disclosures.php](http://www.cantorfitzgerald.ie/research_disclosures.php)

This material is approved for distribution in Ireland by Cantor Fitzgerald Ireland Ltd. It is intended for Irish retail clients only and is not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to local law or regulation. Cantor Fitzgerald Ireland Ltd ("CFIL") is regulated by the Central Bank of Ireland. Cantor Fitzgerald Ireland Ltd is a member firm of the Irish Stock Exchange and the London Stock Exchange.

Where CFIL wishes to make this and other Cantor Fitzgerald research available to Retail clients, such information is provided without liability and in accordance with our terms and conditions that are available on the CFIL website.

No report is intended to and does not constitute a personal recommendation or investment advice nor does it provide the sole basis for any evaluation of the securities that may be the subject matter of the report. Specifically, the information contained in this report should not be taken as an offer or solicitation of investment advice, or to encourage the purchase or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor either from your CFIL investment adviser or another investment adviser.

CFIL takes all responsibility to ensure that reasonable efforts are made to present accurate information but CFIL gives no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. This is entirely at the risk of the recipient of the report. Nor shall CFIL, its subsidiaries, affiliates or parent company or any of their employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this research note constitute CANTOR IRELAND's judgment as of the date of the note but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this research note has not been disclosed to the covered issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. The income you get from your investment may go down as well as up. Figures quoted are estimates only; they are not a reliable guide to the future performance of this investment.

### [Conflicts of Interest & Share Ownership Policy](#)

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other CANTOR IRELAND business units including Fund Management and Stock broking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, CANTOR IRELAND is satisfied that the objectivity of views and recommendations contained in this note has not been compromised. Nonetheless CANTOR IRELAND is satisfied that the impartiality of research, views and recommendations remains assured.

### Analyst Certification

Each research analyst responsible for the content of this research note, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research note.



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

email : [ireland@cantor.com](mailto:ireland@cantor.com) web : [www.cantorfitzgerald.ie](http://www.cantorfitzgerald.ie)



Twitter : @cantorireland



LinkedIn : Cantor Fitzgerald Ireland