

Friday, 19<sup>th</sup> May 2017

## Morning Round Up

### Michael Noonan ignores Labour's vote to postpone AIB sale

Yesterday, the Labour Party in Ireland won a vote in the Dáil to delay the proposed IPO of AIB until fiscal rules are amended. However, this was a Private Members motion which is not legally binding on the Government. Speculation is mounting that Minister for Finance, Michael Noonan could signal his intention to sell a 25% stake in AIB as early as next week, before he officially steps down from government. Retail investors will have the opportunity to participate in the upcoming AIB floatation with a minimum investment of €10,000. Once the decision is made publically available, we will issue an in-depth note on the Bank.

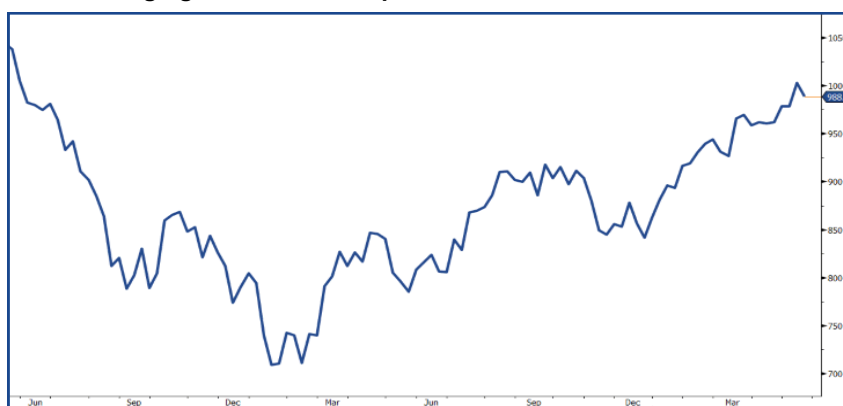
### UK Election - Tory Manifesto Gets Cold Shoulder

Theresa May launched her manifesto for the upcoming general election and signalled a shift by the Conservatives away from the right and back to the centre. She rejected the notion of Thatcherite individualism promising "mainstream government for mainstream Britain". Key points include scrapping the promise to freeze income tax, national insurance and VAT. The pensions triple lock is to go as well as the planned cap on the limit people will have to spend on social care. The last two policies are certain not to go down to well with the average older voter. She also stated her intention for a hard Brexit and budget deficit to be eliminated by the middle of 2020's. This is an attempt by Mrs May to convince Labour voters to change to the Conservatives as their party has moved more left. However, Mrs May needs to be careful that she doesn't alienate her own core voter base. Two polls in the aftermath of the manifesto showed the Tory lead substantially reduced, falling from 18 points to 13 points.

### Brazil Crisis – Contained for Now

Brazil's President Michel Temer has refused to resign despite allegations that he consented to paying bribes to a former coalition ally. Mr Temer instead demanded a full investigation into the affair after the Supreme Court authorised the opening of a criminal inquiry. Mr Temer gained power following the impeachment of his leftist predecessor Dilma Rousseff on budgetary violations last year. That period had seen substantial volatility for the Brazilian and EM markets. Mr Temer, who was widely reputed to be equally controversial, did manage to bring some stability to Brazil and the EM rout was stopped. In fact EM equities have been one of the best performing asset classes over the last year. It remains to be seen if this scandal is big enough to knock the recovery off its perch.

### MSCI Emerging Markets Index - price chart



## Key Upcoming Events

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

## Market View

US equities stabilised overnight with technology and consumer discretionary stocks leading the recovery which is helping European equities post a modest rebound this morning, after two consecutive down days in markets over concerns relating to FBI investigations into Trump. 10 year Treasury yields recovered from a low of 2.19% to 2.24% this morning, however the US Dollar remains soft, with EURUSD at \$1.1143. In our May investment journal we revised upwards our EURUSD range from \$1.05 - \$1.10 to \$1.08 to \$1.13 into 2017 yearend. Key market focus today is Eurozone current account data.

## Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	20663	56.09	0.27%	4.56%
S&P	2366	8.69	0.37%	5.67%
Nasdaq	6055	43.89	0.73%	12.48%

Nikkei	19,591	36.90	0.19%	2.49%
Hang Seng	25,212	75.62	0.30%	14.60%

Brent Oil	52.8	0.29	0.55%	-7.07%
WTI Oil	49.43	0.28	0.57%	-7.99%
Gold	1251	4.00	0.32%	9.03%

€/£	1.1128	0.0025	0.23%	5.81%
€/€	0.8590	0.0010	0.11%	0.64%
£/\$	1.2954	0.0016	0.12%	4.98%

	Yield	Change
German 10 Year	0.37%	0.022%
UK 10 Year	1.08%	0.023%
US 10 Year	2.24%	0.010%

Irish 10 Year	0.83%	0.006%
Spain 10 Year	1.56%	-0.012%
Italy 10 Year	2.13%	-0.022%

**Glanbia** (Outperform) - Co-Op approves Dairy Ireland JV - Stock 1

Previous Close: €17.77

**News**

Yesterday, Glanbia co-operative society's shareholders approved its intension to establish a new Joint-Venture called Glanbia Ireland, alongside Glanbia Plc. 93.1% of the Co-Ops shareholders agreed to the deal and now the final hurdle for this deal to complete is approval from Glanbia's shareholders on Monday, 22nd of May at an Extraordinary General Meeting. The Co-Op will hold a 60% stake in Glanbia Ireland while Glanbia Plc will hold a 40% stake and will be viewed as a JV on its income statement and no longer under the wholly owned category. The Co-Op will have to sell roughly 8 million Glanbia Plc shares (3% of Glanbia Plc's outstanding shares) to fund its acquisition, which will likely be a private placement to institutional shareholders to avoid a major disturbance to its share price. The Co-Op ownership within the Plc will fall from 36.5% to 33.5% once the transaction completes.

**Comment**

Post the eventual spinoff of Dairy Ireland, Glanbia's two remains divisions, GPN and GN are high margin with strong organic growth prospects. Assuming no further acquisitions in 2017, Glanbia should have a Net Debt/ EBITDA ratio below 1.2x by 2017 year-end. This means the company has significant financial capacity to support earnings growth through additional bolt-on acquisitions. The company continues to innovative in new product categories under its Optimum Nutrition and thinkThin brands in the US to support growth too. In prior years, Glanbia was very reliant earnings growth from its GPN division, however future growth should be more evenly split between Glanbia's two core divisions GPN & GN which is a positive. Glanbia's share price had a very positive start to 2017, following a strong set of FY16 results which were released in February and 2 further bolt-on acquisitions. However, it has weakened in recent weeks and is approaching 1st key support at €17.55, which we view as an attractive level to all parties. We are fundamentally positive on the long term prospects of the business and view the 12 month consensus target price at €20.07, as an achievable target. Glanbia currently trades at 19.2x FY17e earnings.

Stephen Hall, CFA | Investment Analyst

**One51** (Outperform) - Macro Plastics acquisition continues US expansion

Previous Close: €1.80

**News**

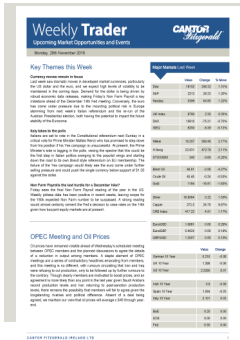
This morning One51 announced the takeover of US based plastics manufacturer Macro Plastic for a total enterprise value of \$150m. Macro is the largest manufacturer of rigid plastic bulk bins worldwide and is a market leader in providing these bulk bins to the agricultural and automotive sectors in the US. Macro operates three manufacturing facilities in California, Washington and Kentucky along with a well-established sales network. It is estimated that Macro's revenue for 2017 will amount to \$95m, up from \$76m in 2016 while EBITDA is expected to come in at \$19m, up from \$16m last year. The acquisition is expected to complete by mid-2016. Yesterday, One51 also announced the sale of Dermot Desmond's stake to Canadian asset management firm Caisse de depot et Placement du Quebec (CDPQ)

**Comment**

The acquisition of Macro continues managements' strategy of investing in the plastics business while divesting other non-core business. At first glance Macro makes sense from a strategic perspective. It gives One51 a presence on the West Coast of America following on from recent acquisitions in other parts of the States. At the same time Macro's product portfolio is complementary to the portfolios of One5's other US interests, namely IPL and OPG. It will further enhance its sales and distribution network and provide exposure to a new market in South America. Year on year revenue growth of 25% and EBITDA growth of 19% indicates the company is in a healthy state and should be earnings accretive from this year onwards. We believe this acquisition is line with management's stated strategy of creating a global plastics business that is a market leader with niche products that are number one in their relevant sectors. In our opinion the sale of Dermot Desmond's stake to CDPQ is also welcome. Mr Desmond had previously raised concerns about the mooted flotation in 2016. With his stake now sold, a possible flotation is back on the agenda. We believe that the company is currently in acquisitive mode so talk regarding the flotation may be pushed down the list of priorities. However, with the acquisition of Macro we believe One51 stands poised to deliver on its growth strategy. We maintain our Outperform.

Will Heffernan | Investment Analyst

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## Regulatory Information

### Issuer Descriptions: (Source: Bloomberg)

**One51:** The One51 Group comprises two operating divisions focused on Plastics and Environmental Services

**Glanbia:** Glanbia plc is an international dairy, consumer foods, and nutritional products company. The Company conducts operations primarily in Ireland, the United Kingdom, and the United States

### Historical Recommendation

**One51:** We have an Outperform on rating on One51 since 17/7/15 changing to Outperform from Not Rated.

**Glanbia:** We have been positive on Glanbia's outlook since 13/03/13 and no changes have been made to the recommendation since then.

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