

Friday, 5<sup>th</sup> May 2017

## Morning Round Up

### Trump - Healthcare Bill Passed

Republicans gave Mr Trump his first legislative victory yesterday by narrowly passing a healthcare bill aimed at undoing Obamacare. The 217-213 vote marks Mr Trump's first triumph in attempting to keep promises made during the campaign. The bill was much changed from its original format with more provisions made for people with pre-existing illness. The bill now faces an uphill battle in the Senate and it may be difficult to get passed. But this improves the picture somewhat with regards to any proposed tax plan later on in the year which ultimately will benefit US equities.

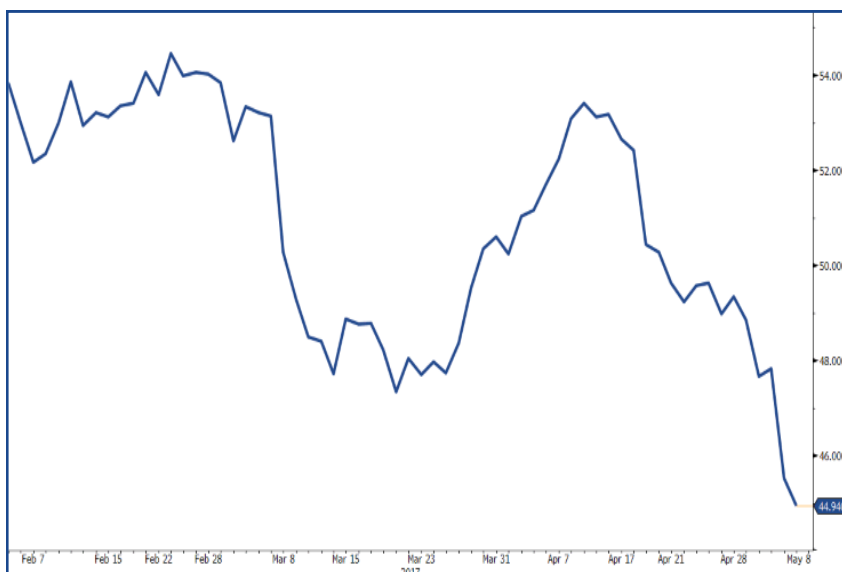
### French Election - Final Run In

Following on from her poor performance in Wednesday's TV debate, Marine Le Pen has fell behind in the polls to Emmanuel Macron who has increased his lead to 22%. This makes it very difficult to envisage a Le Pen victory on Sunday. The spread between the German and French 10 year yield has declined to 0.44%, the lowest since the start of the year. If Macron wins European equities should continue their outperformance relative to the US and the euro should rally. A low turnout favours Ms Le Pen as her core voter base is more resilient. Mr Macron needs a high turnout in order to ensure victory.

### Commodities Rout - Set to Continue

Iron ore's tough week has opened up a pathway for benchmark prices to drop back into the \$50s a metric tonne, or possibly even lower as investors concern mounts about rising supplies. What has also not helped is the current tightening by the People's Bank of China which is reducing demand for commodities across the board. Oil has also felt the effect, dropping below \$45 a barrel. This comes at a time when US shale producers are offsetting any effects of OPEC supply cuts by increasing production. OPEC are expected to extend these cuts beyond June at their next meeting. However they had not anticipated the drop in Chinese demand. If that were to continue any tinkering with the supply end may not have the desired effect of higher prices for the remainder of 2017.

### WTI Crude - Price Chart



### Key Upcoming Events

07/05/17 - French Election Second Round  
 08/06/17 - UK General Election  
 13/06/17 - Fed Meeting

### Market View

Asian markets finished down as the Chinese market rounded out its 4th straight down week. This is being driven by PBOC tightening to curb speculation and leverage. All commodities including oil are also feeling the effects of slowing Chinese demand. Elsewhere, investors are likely to take heart from the passing of the healthcare bill. Market focus today will be on European retail data and primarily on the US Non-Farm Payrolls number where consensus expectations are for 190k additional jobs. Heading into the weekend the other major event is the French election which should dictate where European markets go from here.

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	20951	-6.43	-0.03%	6.02%
S&P	2390	1.39	0.06%	6.73%
Nasdaq	6075	2.79	0.05%	12.86%

Nikkei	19,446	135.18	0.70%	1.73%
Hang Seng	24,468	-216.04	-0.88%	11.21%

Brent Oil	47.94	-0.44	-0.91%	-15.63%
WTI Oil	44.92	-0.60	-1.32%	-16.38%
Gold	1232	3.93	0.32%	7.37%

€/\$	1.0968	-0.0017	-0.15%	4.29%
€/£	0.8481	-0.0019	-0.22%	-0.64%
£/\$	1.2933	0.0010	0.08%	4.81%

	Yield	Change
German 10 Year	0.38%	-0.006
UK 10 Year	1.10%	-0.012
US 10 Year	2.35%	-0.002

Irish 10 Year	0.84%	-0.015
Spain 10 Year	1.60%	-0.004
Italy 10 Year	2.22%	-0.025

**Smurfit** (Outperform) - Solid Q1/17 results

Previous Close: €25.46

**News**

Smurfit released a very solid set of results this morning, despite facing a margin squeeze from higher fibre raw material costs. It reported Q1/17 revenues of €2.13bn, a 6% increase YoY and 4% ahead of analyst's consensus expectations. Q1/17 EBITDA declined marginally by 1% to €278m, but still 4% ahead of analyst's expectations. EBITDA margins in Q1/17 were squeezed to 13% from 14% in Q1/16 and 15.1% in 2016 overall, which was well anticipated by the markets. Fibre cost inflation was €30m higher YoY. Its net debt position reduced by €100m to €2,931m, meaning its Net Debt/ EBITDA ratio stood at 2.4x, and management anticipates this ratio staying in a range of 2.0x – 3.0x over the medium term to maintain a BB+ credit rating. The Group recorded a ROCE of 15% in Q1/17.

**Comment**

Overall, corrugated volumes grew by 3% YoY and management said there is solid demand, and tight inventories are a positive backdrop for necessary box price increase which will be progressively implemented during 2017. Management feels it is well positioned to capitalise on a positive pricing environment in 2017. In Europe, demand was very strong with 4% volume growth YoY. The Group successfully implemented a €60 per tonne increase in the first quarter with additional increases announced for April. Demand for Kraftliner remains very strong. The Group successfully implemented a €50 per tonne increase in Q1/17 and an additional €50 per tonne has been announced for May across all European markets. The global supply of Kraftliner remains extremely tight, and is supportive of the implementation of price increases in Europe. In the US, EBITDA was impacted by slower recovery of fibre cost increases. However, price increases are underway to recover this margin compression in 2017. We think Smurfit's share price can break through first key resistance at €26.40 in the near term, and the current supportive backdrop for European cyclical stocks should allow for a positive re-rating in the stock. It is currently trading at 12.3x FY17e earnings and offers investors a 3.3% dividend yield. We remain bullish on the underlying fundamentals of Smurfit's business given its high quality asset base, the highly cash generative nature of its business, excellent management team and manageable level of debt on the balance sheet.

[Stephen Hall, CFA | Investment Analyst](#)

**FBD** (Outperform) - Continuing progress in profitability

Previous Close: €8.10

**News**

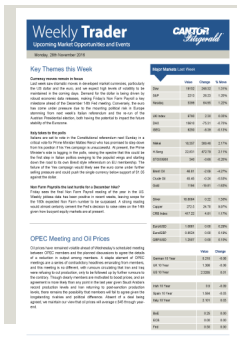
FBD released a very qualitative statement this morning. Management said "FBD continues to make progress in improving profitability helped by strong underwriting actions and favourable weather year to date. We have maintained excellent levels of retention of key customer groups through our strong customer relationships and the level of service we provide." FBD continues to benefit from hardening of insurance rates in 2017. The Group continues to focus on underwriting discipline and profitability.

**Comment**

Management said "The injury claims environment remains uncertain and FBD welcomes the increased attention and action this is receiving from Government. FBD believes that sustained public policy action is needed to improve the claims environment in Ireland. We note the progress to date on the recommendations from the Cost of Insurance Working Group." The Group continues to see steady improvements in key performance ratios, Combined Operating Ratio, towards the target range of mid to high nineties." Its investment portfolio has a very conservative risk allocation and its return has performed in line with management's expectations. We remain positive on the outlook for FBD for the remainder of 2017.

[Stephen Hall, CFA | Investment Analyst](#)

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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

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## Regulatory Information

**Issuer Descriptions: (Source: Bloomberg)**

**Smurfit Kappa Group:** Smurfit Kappa Group PLC manufactures containerboards, solid boards, graphic boards, corrugated and solid board packaging products.

**FBD:** FBD Holdings plc is primarily involved in insurance underwriting

### Historical Recommendation

**Smurfit Kappa Group:** We have added Smurfit Kappa to our core portfolio on the 01/01/2016 and we have upgraded our recommendation from Market Perform to Outperform

**FBD:** We moved FBD from Market Perform to Outperform on the 6th December 2016.

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